

Audi CharacteristicsAnd Financial Reporting Quality Of Listed Pharmaceutical Firms In Nigeria

AgbogunSarafa Adewumi,
Department of Management and Accounting, Obafemi Awolowo University, Ile-Ife, Nigeria
sarafaagbogun@yahoo.com

Adejuwom Bolatito Sekinah
Department of Accounting & Finance, Ajayi Crowther University, Nigeria
sekinahadejuwon@gmail.com

Ojeboola Oseni Olawale,
Department of Management and Accounting, Lead City University, Ibadan Nigeria
ojeboolaoseni@gmail.com

ABSTRACT

The Audited Financial Reports place value and credibility on financial statements before the interested users. This paper, therefore, investigates the effect of audit characteristics on the financial reporting quality of listed pharmaceutical firms in Nigeria. Samples were obtained for a period of 10 years (2012-2021) from listed pharmaceutical firms in Nigeria. The study employed, auditor's independence, audit fees, audit firm size, and auditor's tenure to measure the audit characteristics as an independent variable while financial reporting quality was measured in line with IFRS disclosure checklist. The purposive sampling technique was used to select 7 listed pharmaceutical companies on the Nigerian Exchange Group (NEG) market. Data for the study was extracted from the annual reports and accounts of the sampled companies from 2012 to 2021 and analyzed using descriptive and regression analysis. Specifically, to examine the cause-effect relationships between the dependent variables and independent variables as well as to test the formulated hypotheses, the study used a panel hierarchical regression analysis. The study concludes that an increase in the engagement of an auditor on only audit services by the listed pharmaceutical firms will insignificantly decrease financial reporting quality during the period under study. It also concludes that an increase in the amount paid to the auditor for audit engagement will significantly decrease financial reporting quality during the period under study. At the same time, engaging the services of big4 auditors will significantly decrease financial reporting quality during the period under study. Finally, it was concluded that engaging the services of auditors for over 5 years will significantly decrease financial reporting quality during the period under study. Based on the findings of this study, it was carefully recommended that considering the competition among Nigerian audit firms, managers and partners of audit firms can form specialized teams to increase the quality of financial reporting. Investors concerned about the quality of financial reporting are advised to consider the audit characteristics when making a decision.

Keywords: Audit, Characteristics, FinancialReporting Quality, Pharmaceutical, Pharmaceutical Firm

INTRODUCTION

Accounting information is relevant to the extent that it is capable of influencing a decision-maker by helping him/her to predict the outcomes of a present event or to confirm or correct prior expectations (Cataldo, 2023). For information to be relevant, it must be timely, and it must have predictive or feedback value or both (Reichert, 2022). Financial statements should always provide reliable information to assist users in decision-making. The statement should contain relevant, reliable, comparable, and understandable information (Monteiro, Vale, Leite, Lis, and Kurowska-Pysz, 2022). Reliability has to do with the quality of financial information which is reasonably free from error and bias and faithfully represents what it is intended to stand for.

The main purpose of financial reporting entails the provision of high-quality financial information about economic entities that is useful for economic decision-making. According to International Accounting Standard Board (IASB), (2008), high-quality financial reporting is very relevant to investors and other stakeholders in the light of making good investment decisions. An important variable of financial reporting that is mostly used as a measure of financial reporting quality is accounting earnings, as it is reported in the published financial report of firms is expected to provide timely and reliable input to potential investors, shareholders, creditors, employees, management, financial analysts, regulators, and other stakeholders for efficient economic decisions. However, the impact of auditors or audit firms in providing high audit quality that will go a long in producing high financial reporting quality is subject to certain audit characteristics, some of which are; independence, audit compensation, audit firm type and size, and joint audit services (Dare, Efuntade, Alli- Momoh and Efuntade 2021). Alzeban (2022) states that auditor independence improves the quality of financial disclosures. The issue of quality financial reports is of great concern not only for the final users but the entire economy as it affects economic decisions which may have a significant impact. However, managerial opportunistic behaviors, as well as unethical accounting practices, are seen as a major setback to the quality of financial reporting (Gana et al 2020). According to Liu (2017) high-quality financial reporting could be achieved through full disclosure and a very good degree of transparency, and corporate transparency is the widespread availability of relevant and reliable information about periodic performance which is free from errors and misstatements. It is noteworthy that the quality of financial reporting is to promote transparency and deliver high-quality Annual Reports by way of detailed comprehensive disclosure. Therefore, the regulators and financial statements analysts as well as auditors should ensure that financial statement information is true, fair, and free from material misstatements, which tend to destroy the financial reporting quality.

It is because of the importance of quality financial reporting that the International Federation of Accountants (IFAC) and International Auditing and Assurance Standards Board ((IAASB), emerged, to serve the public interest by contributing to the development of high-quality standards and guidance; facilitating its adoption and implementation; contributing to the development of strong professional accountancy organizations and accounting firms, and also to promote high-quality practices among professional accountants, and enhance their values worldwide to restore public confidence in accounting and audit services. The focus of Auditors is to find a way to enhance financial reporting quality and ensure accounting information by

applying accounting and auditing standards. Many empirical studies on audit services show that auditor characteristics as expertise and tenure, are positively associated with the quality of financial reporting (Yuan, Cheng, and Ye; Sari, 2016), (Mashaykhi, Omrani, and Akhouni, 2018). Pharmaceutical Firms are an important sector in the economy, they are the bedrock of any economy. The Nigerian Pharmaceutical sector is a multi-billion-dollar industry that contributes massively to economic development as well as improves the quality of lives of the citizens because health is wealth.

Over the years, there have been persistent arguments on the relevance of auditors to satisfy the true and fair view of the financial report. According to Emmanuel and Enem (2020), the argument is based on the collapse of companies that are declared fit and solvent by auditors before their sudden downfall. For example, in the United States of America (USA), organizations like Enron, WorldCom, Bernie Madoff scandals, Tyco International Ltd, Lehman Brothers, and Adelphia Communications Corporation collapsed because of poor audit practices. HIH Insurance Ltd in Australia and the Parmalat crises in Italy were as results of fraudulent activities that could not be disclosed by the auditors. The United Kingdom (UK) has its share of corporate fraud as well; Bank of Credit and Commerce International (BCCI) and Polly Peck in the UK have seriously affected many investors.

In Nigeria, failures of City Express Bank Limited, Lead Bank Plc, Societe Generale Bank of Nigeria Plc, Trade Bank Plc, Metropolitan Bank Limited, Hallmark Bank Plc., Intercontinental Bank Plc, Oceanic Bank Ltd, Bank PHB, etc. whose licenses were revoked by the Central Bank of Nigeria (CBN) in 2006 except for the licenses of Intercontinental Bank Plc, Oceanic Bank Ltd, Bank PHB that were revoked in 2011 seem to be connected to fraudulent activities. The collapse of these banks also resulted from factors of poor audit characteristics (Asiriwa, Aronmwan, Uwuigbe, and Uwuigbe 2018) It should be noted that issues regarding financial management efficiency have been of critical review and concern for two decades now, especially as a result of various national and international financial scandals that have been recorded. These include World Com, Enron, Parmalat, and Cadbury Nigeria Plc. To make matters worse, financial crimes are increasing at a very alarming rate and Auditors have been failing in their responsibilities in that regard.

The credibility of financial information is very essential to the growth and development of an economy. Auditors are expected to be independent and objective while discharging their required duties (Zhang and Shailer, 2021), as their opinions in various financial reports are seen as providing some reasonable levels of assurances and protection of the shareholders' interests (AlMulla and Bradbury, 2021). Alawaqleh and Ali Almasria, (2021) opined that, one of the very persistent challenges in the financial world these days, is the emphasis placed on ensuring the independence of external auditors is unshakable and also the alarming rate of corporate Scandals. Beatties and Gana et al (2020) believe that after the collapse of Enron, it was generally perceived that the rendering of non-audit services compromised the independence of external auditors. In the real sense, the consequences of the collapse of business entities are usually suicidal. The eminent function of the auditor is questionable when an entity whose financial statement once reflected perfect condition and no single signal of failure, the independence of the auditor in such a situation would be doubtful.

Many studies like Akinkoye and Agbogun, (2021) Ahmad and Mohd Yussoff, (2017), John and Tom Abio(2018), Dare et al,(2021), Omid et al, (2021), Paradisa and Yustrida(2019), Oyedokun et al, (2019), Hasan and Bello(2013) and Mwangi,(2018) Emmanuel and Emem, (2020) have been conducted on the relationship between audit firm characteristics and quality of financial reporting. The studies, though cover Financial and Non-Financial listing firms in Nigeria, while some are based on European, Asian, and British data, thus reflecting the advanced economies environment. Although, certain levels of research have been made on the relationship between audit characteristics and firms' financial reporting quality in developing markets, much has not been conducted in Nigeria especially, using data on pharmaceutical firms. It is therefore pertinent to conduct a study that will fill this gap. Furthermore, this study will use four audit characteristics to investigate their effects on the financial reporting quality of pharmaceutical firms listed on the Nigerian Exchange Group market. Hence gap will be filled by concentrating on listed pharmaceutical firms in Nigeria.

To provide confidence and credibility to financial reporting, auditors should have abilities, qualities, and characteristics that enable them to render professional audit services. The failure to have these audit characteristics by the auditors leads to incomplete financial reporting for decision-making and erroneous information since the financial information presented by management is to be evaluated by the auditors whether they are free from material misstatements in all material respects and also from biases. The absence of essential audit characteristics of auditors as required by the audit standards, will lead to the failure of audit services and auditors' liability (Niyonzima and Soetan, 2018). This study seeks to address these challenges in the auditing services of pharmaceutical firms in Nigeria.

Objectives of the Study

The main objective of this study is to examine the effect of audit characteristics on the financial reporting quality of listed pharmaceutical firms in Nigeria.

Specific objectives

The specific objectives of the study are to:

examine the effect of auditor's independence on the financial reporting quality of listed pharmaceutical firms in Nigeria

ascertain the effect of auditor's fee, on the financial reporting quality of listed pharmaceutical firms in Nigeria

evaluate the effect of auditor's tenure on the financial reporting quality of listed pharmaceutical firms in Nigeria.

Hypothesis of the study are:

H01: Auditor's independence has no significant effect on the financial reporting quality of listed pharmaceutical firms in Nigeria.

H02: Auditor's fee has no significant effect on the financial reporting quality of listed pharmaceutical firms in Nigeria.

H03: Auditor's firm size has no significant effect on the financial reporting quality of listed pharmaceutical firms in Nigeria.

H04: The auditor's tenure has no significant effect on the financial reporting quality of listed pharmaceutical firms in Nigeria.

This study is an important area of research in providing empirical evidence that will enhance the credibility and integrity of the accounting and auditing profession and also tends to improve the healthy financial and capital market in Nigeria. The study will offer solid inputs to serve as a strong base for the regulators and professional accounting bodies to establish policies relating to the type of audit firm characteristics, audit fees, non-audit services, and joint audits. In addition, it will be a response to the current expectations of the IAASB's Framework for Audit Quality, including showcasing awareness and information about the key elements of audit quality.

The findings from the research work tend to educate both existing and prospective shareholders of listed pharmaceutical firms in Nigeria on the audit features that will enhance the financial reporting quality. The study is very germane to researchers, by way of giving empirical proof on the relationships between audit firm characteristics and the financial reporting quality of listed pharmaceutical firms in Nigeria.

LITERATURE REVIEW

For this study, the Agency Theory, the Theory of Inspired Confidence, and the Economic Bonding theory were adopted.

Empirical Review

The studies carried Out in Developed and Developing Countries

Liu, (2017) carried out an Empirical Study on Auditors' Characteristics and Audit Fees in China from 2010 to 2015 using a regression model. This study found that age, gender, educational background, industry specialization, position, and business all have significant correlations with audit fees. The study concluded that in addition to the factors of audit client level and accounting firm level, the auditor's characteristics also influence audit fees. Also, more disclosure of individual auditors' information will reduce the search costs of audit clients and help clients select appropriate audit services more efficiently.

Abdullah, (2021) assessed financial reporting quality and its determining factors, this study examined a randomly selected sample from the food and allied sector of the Dhaka Stock Exchange in Bangladesh. The study used secondary data from a documentary analysis of the available audited financial statements and annual reports of randomly selected sample companies for six consecutive years (2015 to 2020). The study used correlation studies, and regression analyses to find the statistical significance of the explanatory variables of this research. This research finds firm size, firm age, foreign ownership, and leverage positively significantly determine financial reporting quality while growth and board independence are negatively significantly influential. The findings recommended managers emphasize their attention on the significant factors to improve their financial reporting quality.

Abdaiwali et al. (2022) examined the extent to which the characteristics of the audit committee chair enhance the quality of financial reporting in Jordan. The study used a sample of 460 firms both service and industrial companies listed on the Amman stock exchange for the years 2017-2020. This study used the MAO as a proxy for Financial Reporting Quality. The study adopted Regression analysis. The result of this study showed that the characteristics of the chair of the audit committee have significant and clean impacts on the quality and efficiency of financial reporting.

Soni, (2020) examined determinants of financial reporting quality in Indonesia. The data were obtained from the annual reports of the manufacturing companies listed at the Indonesia Stock Exchange during 2015-2018. The research sample consists of 287 public companies, with moderated regression analysis used to examine the hypotheses. The result showed that the risk of investor distrust affects financial reporting quality, while the legal expertise of the audit committee is a moderating variable that strengthens the relationship between the risk of investor distrust and financial reporting quality.

Enofe, et al (2013) analyzed the determinants of audit quality in the Nigerian business environment. The determinants studied include engagement and firm-related characteristics such as audit tenure, audit firm size, board independence, and ownership structure. A Likert scale questionnaire was developed and used to collect data from a sample of 100 respondents from the South-South geopolitical zone of Nigeria. A multiple regression model developed was analyzed using the OLS regression technique. From the results, audit firm size, board independence and ownership structure were found to be positively related to audit quality; however, only board independence exhibited a significant relationship with audit quality. Audit tenure exhibited a negative relationship with audit quality which was also not significant. Shehu Usman Hassan and Ahmad Bello (2013) Published accounting information in financial statements are required to provide various users - shareholders, employees, suppliers, creditors, financial analysts, stockbrokers, and government agencies – with timely and reliable information useful for making prudent, effective and efficient decisions. The widespread failure in the financial information quality has created the need to improve the financial information quality and to strengthen the control of managers by setting up good firm structures. This paper investigates firms' characteristics from the perspective of structure, monitoring, and performance elements and the quality of financial reporting measured by the modified model of Dechow and Dechev (2002) of listed manufacturing firms in Nigeria. The study adopted a correlational research design with pooled balanced panel data of 24 firms that served as a sample of the study using multiple regression as a tool of analysis. The result shows that bigger and also more leveraged firms in the manufacturing sector in Nigeria do not tend to manage earnings effectively. Sales increment and Institutional Investors would be a measure to prevent managers from adopting any opportunistic and deceptive behavior to manage earnings. The studies also reveal that the independence of the Directors and Profitability have a positive relationship with earnings quality while liquidity is inversely related to financial reporting quality. In summary, firm characteristics of listed manufacturing firms in Nigeria have a significant influence on the quality of financial reporting. Hence, they recommended that the shareholders of listed manufacturing firms in Nigeria should endeavor to improve on the firm characteristics, as suggested in the study to reduce or eradicate

creative and manipulative accounting and enhance the financial reporting quality. However, the study made use of Economic Theory.

In a similar study, it was observed that financial reporting quality, audit quality, and earnings power have positive effects on the performance of the companies. Also, financial reporting and audit quality make the financial statements to be more reliable and also reduce information asymmetry. The study covered the period of 2013-2017 in 6 Arabian GCC Countries; the kingdom of Saudi Arabia, Bahrain, Oman, Qatar, Kuwait, and UAE. The study adopted EGLS Panel Data Regression Analysis and also used the agency theory. Alsmady (2022). Wakil et al (2020), focused on establishing a relationship between Auditor Independence and Audit Quality in Nigeria's Public Sector. It was opined that when the independence of the Auditor is not jeopardized, it will yield a very solid and authentic audit report and the stakeholders relying on the Auditors' report will be able to make good decisions.

Akinkoye and Agbogun (2021) The study was conducted using secondary data to test the impact of some audit features on the quality of financial reporting on both listed and non-listed companies on the Nigeria Exchange Group (NEG). This research is also targeted toward adding value to the reports issued by the Auditors and at the same time enhancing the quality of financial reporting. This study covered the periods of 2008 to 2018, spanning eleven (11) years, and extracted data from Annual reports of selected firms. It adopted Regression Analysis and Inferential Statistics. It was observed that a strong relationship exists between Audit Characteristics and Financial Reporting Quality, and it is a positive and significant one.

Ohaka and Imaerele (2018), study has similarities with the findings of Aderibigbe (2005), who observed that Independence, integrity, and freedom go hand in hand and tell on the unbiasedness of Audit Reports. It established that a solid relationship exists between independence and reliability and in the long run, positively affect the quality of financial reports.

Fitriany and Anggraita (2016) investigated the economic bonding between auditor and client by examining the association between abnormal audit fees and audit quality in Germany. The study used the multiple regression model. The result showed fees are negatively associated with audit quality and imply that the audit fee premium is a significant indicator of compromised auditor independence due to economic auditor-client bonding.

Krau, Quosigk, and Zülch (2014) examined the presence and magnitude of initial audit engagement fee-cutting and its potential effect on audit quality in Germany using a sample of 992 firm-year observations from 2005 to 2011. The results showed a systematic fee cutting for initial audit engagement years in Germany. The study concluded that despite significant audit fee differences between initial and subsequent audit engagement years, there were no differences in audit quality.

According to Bernawati (2019) the study investigates the role of the Audit Committee on the quality of audits. The Audit Committee features include the size of the audit committee, number of meetings, qualifications, and experience, while the quality of the audit is measured in terms of Audit fees. The study was conducted in Indonesia on some of the listed manufacturing firms listed on the stock exchange between 2016 and 2018, using OLS regression. The study

concluded that the educational qualifications of Auditors do not connote capabilities. All in all, the effectiveness of the audit committee does not have any significant relationship with the quality of the audit.

Krauß, Pronobis, and Zülch (2015) examined the association between abnormal audit fee pricing and audit quality for the institutional setting of German IFRS firms by using a sample of 2,334 firm-year observations for the period from 2005 to 2010. The findings showed that positive abnormal audit fees are negatively associated with audit quality and imply that the audit fee premium is a significant indicator of compromised auditor independence due to economic auditor–client bonding. The study concluded that audit fee discounts generally do not lead to a reduced audit effort, or respectively, audit quality is not impaired when client bargaining power is strong. The association of positive abnormal audit fees and audit quality is robust to different audit quality surrogates such as absolute discretionary accruals, financial restatements, and meeting or beating analysts' earnings forecasts.

Rahmina and Agoes (2014) aimed to determine the effect of auditor independence, audit tenure, and audit fees both partially and simultaneously on audit quality. This research uses primary data collected through the distribution of questionnaires in audit firms listed in the Capital Market Accountant Forum – FAPM in Indonesia. The population of research are senior auditors, supervisors, managers, and partners positions and worked on the audit firm member of FAPM. The results of this research showed that in general auditor independence, audit tenure, and audit fee have a positive influence on audit quality. The test Coefficient of Determination result of 21.4% indicates that the audit quality can be explained by variations in auditor independence, audit tenure, and audit fee, while the remaining 78,6% is explained by other variables that are not used in this research, such as auditor's size, auditor's industry specialization, and audit risk.

Studies Carried Out in Developing Countries

Mesbah and Ramadan (2022) investigated the impact of audit quality on financial reporting quality in Egypt. Secondary data was obtained from the financial statements of 152 companies listed on the Egyptian stock exchange between 2016 and 2020. The findings showed that, on the one hand, audit firm size, and audit firm fees were positively correlated with financial reporting quality. Results, however, indicated a negative correlation between the audit firm tenure and the quality of the financial reporting. These findings demonstrate that users of financial statements can put higher trust in financial reports audited by Big 4 audit firms than those reviewed by non-Big 4 audit firms. The study concluded that these findings have implications for policymakers as they are enjoined to create more concerns about the quality of audits conducted by non-big4 Auditing Firms. This also poses challenges for policymakers, causing them to concentrate more on the level of audit quality provided by non-Big 4 audit companies. The findings also had consequences for standard makers, who should limit the audit firm tenure to no more than three years to preserve the high quality of financial reporting.

Kamau, (2014) investigated internal auditor independence motives in Kenya. A four-point Likert scale was used to analyze the 21 questionnaires, and Cronbach's alpha was used to test the reliability of the instrument. Regression analysis techniques were used for the hypothesis testing. The study found that the level of involvement by internal auditors in management

activities significantly affects their professional independence. The study concluded that the audit committee's effectiveness plays a significant role in enhancing auditor independence and that a causal relationship existed between internal auditor's skills and auditors' independence.

Ogweno (2018) examined the factors affecting the expectation gap in listed companies in Nairobi Stock Exchange (NSE), Kenya. The study made use of a descriptive research design. A population of 62 listed companies at NSE was selected. A questionnaire was administered to a purposively selected respondent from a sample of 58. The data was analyzed using multiple regression and correlation analysis to test the relationships. The study found that the independence of an auditor affects the expectation gap. The study concluded that the independence of the auditor should be strengthened by drafting legal laws promoting the independence of the auditors in Kenya.

Haliti Rudhani, Ismajli, and Mustafa, (2017) examined the importance of the audited financial statement in attracting foreign investors in the private sector in Kosovo. The study used a mixture of qualitative and quantitative methods for gathering information. The qualitative aspect was implemented through a review of secondary data, while the quantitative component was implemented through a structured questionnaire. The study revealed that there is a significant positive relationship between audited financial statements and investment decisions. The study concluded that audited financial statements are very important for private companies in Kosovo, so that they have easier access to bank loans, can provide reliable information to different contractors, provide reliable information to potential investors, and be comparable with the companies that belong to the same company.

Juan, (2019) investigated factors affecting auditor independence in Vietnam. The study used a combination of qualitative and quantitative research methods. The study covered the period 2016-2017. The study showed that the observed factors that are related to the independent auditor's working environment and that affect the auditor independence are: corporate governance, audit tenure, auditing fee, non-audit service, the auditor-client relationship, and size of audit companies. The study concluded that auditing firms need to focus on corporate governance that will promote other factors.

Inneh (2022) investigated the impact of audit characteristics on the timeliness of financial reporting in the Nigerian listed non-financial institution, the body adds to the body of knowledge. 450 firm-year observations from 2011 to 2020 were selected using a purposive sampling technique and estimate the model using the Ordinary Least Square Method (OLS). The findings showed that audit price and audit firm size have a positive impact on timely financial reporting, while audit tenure has a marginally negative impact. The research shows that when auditors charge higher fees, it takes longer to deliver the financial report to the users, reflecting an increase in the workload of auditors brought on by more audit risk and procedure. The study concluded that to ensure audit independence and lower the risk of litigation resulting from the audit assignment, large audit firms also take a long time to communicate financial reports.

Eyenubo et al (2017) examined if any relationship exists between the size of the Audit Committee and the Quality of Financial Reporting. The empirical work was carried out obtaining a sample of 189 firms and 664-year observations between 2011 and 2015. Enhancing financial

reporting quality to support efficient and effective resource allocation for economic decision-making by business management is one of the desired characteristics of corporate governance. Data panel regression was adopted, and a positive and significant correlation between audit committee size and financial reporting quality was observed. The findings revealed the significance of the corporate governance guideline as a means of enhancing the audit committee's monitoring and oversight function in the financial reporting process. In the end, the study provided suggestions for improving financial reporting quality disclosure.

Ilaboya and Ohiokha (2014) examined the impact of audit firms' characteristics on audit quality. The study proxied audit quality using the usual dichotomous variable of 1 if big 4 audit firms and 0 if otherwise. A sample of 18 food and beverage companies listed on the Nigerian Stock Exchange market between 2007-2012 was used for the study. A multivariate regression technique with emphasis on the Logit and Probit methods was used to estimate the model for the study. The findings indicated that there is a positive relationship between firm size, board independence, and audit quality whereas there is a negative relationship between auditor's independence, audit firm size, audit tenure, and audit quality.

Oladipupo and Monye-Emina (2016) examined the effect of abnormal audit fees on audit quality in the audit market in Nigeria. The study thus employed audit quality as a dependent variable while the explanatory variables were audit tenure, board independence, audit committee activeness, firm size, and leverage. Using a probit binary regression technique on 350 firm observations data obtained from companies quoted on the Nigeria Stock Exchange. The study showed that both positive and negative abnormal audit fees had insignificant positive impacts on audit quality. This shows that abnormal audit fees do not matter to audit quality. Contrary to expectation, board independence and firm size had negative impacts on audit quality. The study concluded that only the impact of board independence was statistically significant. Of the auditor tenure, audit committee activeness, and leverage that have positive impacts on audit quality, only the leverage had a significant impact on audit quality.

Onaolapo, et al (2017) examined 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. The explanatory variables were audit fee, audit tenure, client size, and leverage ratio while audit quality was the dependent variable. The ordinary Least Square Model estimation technique was used for the data analyses. Secondary data derived from the published annual reports of the selected companies for six years (2010-2015) was used for the study. The Findings of the study showed that audit fee, audit tenure, client size, and leverage ratio exhibit a joint significant relationship with audit quality. Further results show that audit fee in particular has a significant positive impact on audit quality.

Mohammed, Joshua and Ahmed (2018) examined the relationship between audit fees and audit quality of listed companies in the downstream sector of the Nigerian petroleum industry. To achieve this objective, a total of nine (9) listed companies in the downstream sector of the Nigerian Petroleum Industry were selected. Secondary data used for the study was extracted from the annual reports of the selected companies for eight (8) financial years (2007-2014). Audit quality which is the dependent variable was regressed on audit fees alongside leverage and

age as control variables using the binary logit regression method. The Finding showed that audit fee has a negative significant relationship with audit quality, while leverage also has an inverse relationship but was not significant. Firm age, on its part, had a positive sign and was significantly associated with audit quality. It was therefore concluded that high audit fees have the likelihood of compromising auditors' independence, thereby, resulting in lower audit quality. The study recommends that regulators of the auditing practice should adopt measures that would regulate and monitor the audit pricing process to strike a balance that would curtail over-charging and or undercharging which evidence shows could impair the independence of the auditor, thereby affecting audit quality.

Aliu, Okpanachi, and Mohammed, (2018) examined the effect of auditor's independence on the audit quality of listed oil and gas companies in Nigeria over a period of ten (10) years (from 2007 to 2016). The sample size comprises of nine (9) out of the fourteen (14) companies listed in the downstream sector of the Nigeria Stock Exchange selected using a purposive sampling technique. The study used secondary data which were sourced from the audited annual financial statements of the sampled companies. The panel data were analyzed using descriptive statistics, correlation matrix, and binary logit regression techniques. The findings showed that there is a significant positive relationship between an auditor's independence and audit quality, while the control variable of company size and leverage showed a positive and negative relationship with audit quality respectively. The study recommended that the entire components of audit fee pricing and calculation should be regulated and disclosed to provide public insight into the financial dependence of an auditor on a client.

The previous studies cover Financial and Non-Financial listing firms in Nigeria, while some are based on European, Asian, and British data, thus reflecting the advanced economies environment. Although, certain levels of research have been made on the relationship between audit characteristics and firms' financial reporting quality in developing markets, much has not been conducted in Nigeria especially, using data on pharmaceutical firms. It is therefore pertinent to conduct a study that will fill this literature gap. Furthermore, this study used four audit characteristics to investigate their effects on the financial reporting quality of pharmaceutical firms listed on the Nigeria Exchange Group. Hence gap was filled by concentrating on listed pharmaceutical firms in Nigeria.

METHODOLOGY

This study was carried out in Nigeria, located in the West African continent. This study adopted an ex post facto research design. The population for this study consisted of 10 pharmaceutical companies in Nigeria. The purposive sampling technique was used to select 6 listed pharmaceutical companies on the Nigerian Exchange Group (NEG) market, based on data availability. Data for the study was extracted from the annual reports and accounts of the sampled companies from 2012 to 2021 and analyzed using descriptive and regression statistics.

Data Analysis and Discussion of Findings

The study investigated the effect of audit characteristics on financial reporting quality by employing samples from listed pharmaceutical firms in Nigeria between the periods of 2012

2021. In this study, auditor's independence, audit fees, audit firm size, and auditor's tenure are the audit characteristics employed in this study. Financial reporting quality is measured in line with IFRS disclosure checklist. In this section of the study, the pre-regression test was conducted which included descriptive statistics and normality tests. It also tests for the association between the variables using the Spearman correlation. This is followed by regression analyses and the test of hypotheses as well as the discussion of findings.

Data Presentation

The dataset for this study is presented in Appendix B. However, the study performs preliminary pre-regression analysis such as descriptive statistics, correlation matrix, and normality test, the results are analyzed as follows.

Descriptive Analysis

In this section, the study examines the descriptive statistics for both the explanatory and dependent variables of interest. Each variable was examined based on the mean, standard deviation, maximum, and minimum. Table 1 below displays the descriptive statistics for the study.

Table1: Descriptive Statistics

VARIABLE S	MEAN	SD	MIN	MAX	NO OBS
FRQT	0.79	0.16	1.11	2.50	70
AUDI	0.53	0.12	0	1	70
AUFE	3.85	1.36	2.89	4.77	70
AUFS	0.73	0.53	1	0	70
AUDT	0.67	0.52	0	1	70

Source: authors computation (2024)

The table above shows the descriptive statistics of the study. From the table, it is observed that the mean of financial reporting (FRQT) as proxied by IFRS checklist was 0.79 with a standard deviation of 0.16. Indicating that about 79% of the firms under study disclose information related to financial report quality. In the case of the independent variables, the study finds that auditor's independence (AUDI) has a mean of 0.53 with a standard deviation of 0.12. The result implies that about 53% of the auditors of the firms under study were independent in terms of offering audit services alone. Furthermore, it was observed that the mean of audit fee (AUFE) was 3.85 with a standard deviation of 1.36. Our study shows that the mean of audit firm size (AUFS) was 0.73 with a standard deviation of 0.53 indicating that, on average, about 73% of the firm's accounts were audited by big4 auditors. Finally, it was also realized that the mean of auditor's tenure was 0.67 with a standard deviation of 0.52 indicating that on average, about 67% of the external auditors of the firms under study audited the books of their clients for over 5 years.

Data Analyses

To test the effect of audit characteristics on the financial reporting quality of listed pharmaceutical firms in Nigeria, the study conducted pool least square regression before

proceeding to check for inconsistencies with the basic assumptions of the OLS regression. However, the study first tests for the association between the independent variables and the dependent variables employed in the study using the Spearman rank correlation since the dataset is not normally distributed. The result is shown in the table below.

Correlation Analysis

In examining the association among the variables, the study employed the Pearson Correlation Coefficient (correlation matrix), and the results are presented in the table below.

Table 2 Correlation analysis

	FRQT	AUDI	AUFE	AUFS	AUDT
FRQT	1.0000				
AUDI	-0.0482	1.0000			
AUFE	-0.0433	0.0678	1.0000		
AUFS	0.0453	0.1130	0.0732	1.0000	
AUDT	-0.9224	0.0880	0.0182	-0.0624	1.0000

Source: authors computation (2024)

In the case of the correlation between audit characteristics and financial reporting quality, the above results show that there exists a negative and weak association between financial reporting and auditor independence (-0.0482). There also exists a negative and weak association between financial reporting and auditor's fees (-0.0433). However, there is a positive association between financial reporting and audit firm size (0.0453). Finally, it was observed that the auditor's tenure (-0.9224) has a negative association with financial reporting quality during the period under study. However, to test the hypotheses regression results will be needed since a correlation test does not capture a cause-effect relationship.

Specifically, to examine the cause-effect relationships between the dependent variables and independent variables as well as to test the formulated hypotheses, a panel regression analysis was used since there are variances in the error term. The OLS pooled results and panel regression results obtained are presented and discussed in Table 3 below.

Table 3: Regression Analysis

	Regression Result FRQ Model (Pool OLS)	FRQ Model (Fixed Effect)	FRQ Model (Random Effect)	FRQ Model (HIR. Regression)
CONS.	-0.001 {0.979}	0.006 {0.904}	0.002 {0.979}	-0.001 {0.979}
AUD3:	-0.000 {0.974}	-0.007 {0.636}	-0.004 {0.773}	-0.052 {0.152}
AUFE	-0.005 {0.546}	-0.005 {0.562}	-0.005 {0.550}	-0.011 {0.000}***
AUFS	0.001 {0.943}	-0.004 {0.610}	-0.003 {0.744}	-0.002 {0.000}***
AUDT	-1.256 {0.000}***	-1.272 {0.000}***	-1.266 {0.000}***	-1.256 {0.000}***
F-Stat/W- Stat	331.32{0.0000 0}	303.81(0.0000)	1313.55(0.0000)	331.32(0.0000)
R-Squared	0.8977	0.8967	0.8966	0.8977
VIF Test	1.02			
Hettero Test	41.44 {0.0000}			
FE/RE	YES {2.92 YES {12.22(0.0002)} (0.0017)			
Hausman	1.26 {0.8688}			

Note: (1) bracket { } are p-values; (2) **,***, implies statistical significance at 5% and 1% levels respectively.

Source: authors computation (2024)

The table above represents the results obtained from the multivariate regression analysis for this study. The result indicates that the pool OLS regression had an R-squared value of 0.8977. This implies that the independent and control variables of the study could explain about 90% of the systematic changes in the dependent variable of the financial reporting quality of the pool pharmaceutical firms during the period under study. However, the unexplained part of financial reporting quality has been captured by the error term. The result of the F-statistics (331.32) of the pool OLS regression model for the sample pharmaceutical firms in Nigeria with their associated p-value of 0.0000 indicates that the pool OLS regression models on the overall is statistically fit at 1% level of significance and can be employed for statistical inferences.

Hausman Specification Test

The Hausman is based on the null hypothesis that the random effect model is preferred to the fixed effect model. Specifically, a look at the p-value of the Hausman test for {1.26 [0.8688]} implies a non-significance at 1% or 5% level. This implies that the study should adopt the random effect panel regression results in drawing the conclusion and recommendations. This also implies that the random effect results tend to be more appealing statistically when compared to the fixed effect. Following the above, the discussion of the random effect results became imperative in testing the hypotheses. However, random effect in itself is a problem due to the presence of unobserved variances in the variables. Hence, the study employed the Hierarchical regression to control for the unobserved variances in the variables in the random effect regression.

Hierarchical Regression

As Cohen, (2008) and Wampold and Freund, (1987) noted, hierarchical regression has been designed to test such specific, theory-based hypotheses. In hierarchical regression, the focus is on the change in predictability associated with predictor variables entered later in the analysis over and above that contributed by predictor variables entered earlier in the analysis. Changes in R^2 (ΔR^2) statistics are computed by entering predictor variables into the analysis at different steps. A predetermined, theoretically based plan for the order of predictor variable entry, held at the discretion of the researcher, is imposed on the data. Statistics associated with predictor variables entered in later steps are computed concerning predictor variables entered in earlier steps. Thus, ΔR^2 and its corresponding change in F (ΔF) and p-values are the statistics of greatest interest when using hierarchical regression (Wampold and Freund, 1987). The corresponding ΔF value for ΔR^2 would allow a researcher to determine if the ΔR^2 statistics significantly improve the model's ability to predict the effect of the independent variable on the dependent variable. With a focus on ΔR^2 , rather than on β or structure coefficients (Courville and Thompson, 2001; Thompson and Borrello, 1985), less attention is given to how predictor variables are re-evaluated based on their corresponding β s and structure coefficients when other predictors are added to the analysis, as was often done in stepwise regression. Based on this, the study employed hierarchical regression for policy interpretation.

Test of Hypotheses

Following the above, the discussion of the hierarchical regression results became imperative in testing our hypotheses. Below is a specific analysis for each of the independent variables using the hierarchical regression as it relates to the model.

Hypothesis One: Auditor's independence has no significant effect on the financial reporting quality of listed pharmaceutical firms in Nigeria.

Auditor's independence {-0.052 (0.152)} as an independent variable to financial reporting quality appears to have a negative and insignificant influence on financial reporting. This therefore means we should accept the null hypothesis {H01: Auditor's independence has no significant effect on the financial reporting quality of listed pharmaceutical firms in Nigeria}.

This implies that an increase in the engagement of an auditor on only audit services by the listed pharmaceutical firms will insignificantly decrease financial reporting during the period under study.

Hypothesis Two: The auditor's fee has no significant effect on the financial reporting of listed pharmaceutical firms in Nigeria.

Auditor's fee $\{-0.011 (0.000)\}$ as an independent variable to financial reporting appears to have a negative and significant influence on financial reporting. This therefore means we should reject the null hypothesis $\{H02: \text{Auditor's fee has no significant effect on the financial reporting quality of listed pharmaceutical firms in Nigeria}\}$. This implies that an increase in the amount paid to the auditor for audit engagement will significantly decrease financial reporting during the period under study.

Hypothesis Three: Auditors' firm size has no significant effect on the financial reporting of listed pharmaceutical firms in Nigeria.

Auditors firm size $\{-0.002 (0.000)\}$ as an independent variable to financial reporting appears to have a negative and significant influence on financial reporting. This therefore means we should reject the null hypothesis $\{H03: \text{Auditors firm size has no significant effect on the financial reporting quality of listed pharmaceutical firms in Nigeria}\}$. This implies that engaging the services of big4 auditors will significantly decrease financial reporting during the period under study.

Hypothesis Four: The auditor's tenure has no significant effect on the financial reporting of listed pharmaceutical firms in Nigeria.

Auditors' tenure $\{-1.256 (0.000)\}$ as an independent variable to financial reporting appears to have a negative and significant influence on financial reporting. This therefore means we should reject the null hypothesis $\{H04: \text{Auditors tenure has no significant effect on the financial reporting quality of listed pharmaceutical firms in Nigeria}\}$. This implies that engaging the services of auditors for over 5 years will significantly decrease financial reporting during the period under study.

Discussions of Findings

This study provides evidence of the effect of audit characteristics on the financial reporting quality of listed pharmaceutical firms in Nigeria. Since the study is an extension of existing studies, only a few findings in the literature are not in agreement with the current positions of this study. We find that auditor independence has a negative and insignificant influence on financial reporting quality. This implies that an increase in the engagement of an auditor on only audit services by the listed pharmaceutical firms will insignificantly decrease financial reporting during the period under study. The result is inconsistent with those of Gramling, Johnson, and Khurana (2001) who found a positive relation between auditor independence and the ability of client earnings to predict future cash flows and increase financial reporting quality. Furthermore,

the study is inconsistent with those of Dunn and Mayhew (2001) who found a positive relation between auditor independence and analyst (AIMR) rankings of disclosure quality in unregulated industries. These studies came to a consensus that independent auditors may constrain earnings management not only through the audit of financial statements but also through their interaction with the client's internal corporate governance mechanisms including the board of directors. However, it was observed that there was inconsistency with the studies of Balsam et al. (2003) who examined the association between auditor independence and earnings quality. They find that auditor independence is negatively associated with absolute discretionary accruals and is positively associated with earnings response coefficients.

It was shown that auditor's fees appear to have a negative and significant influence on financial reporting. This implies that an increase in the amount paid to the auditor for audit engagement will significantly decrease financial reporting during the period under study. The observation was made on the consistencies with the study of Franke, Johnson, and Nelson (2002) who revealed that audit fees have a negative significant relationship with financial reporting quality. Furthermore, it was affirmed that the study of Hoitash, Markelevich, and Barragato (2007) who apply 13,860 firm-year observations and determine the influence of audit fees and audit quality in the US. Their finding reveals a negative significant correlation between audit fees and discretionary accruals. Carmona, Momparler, and Lassala (2015) explore the relationship between audit fees and audit quality of listed firms in Spain. They show that audit fee is negatively and significantly related to discretionary accruals. This indicates that higher audit price is related to lower discretionary accruals and higher financial reporting quality. However, this study fails to support the study of Mitra, Deis, and Hossain (2009) who examine the relationship between audit fees and FRQ of Big 5 client firms in the US. They employ a sample of 6,852 firm-year observations for the period of 2000 to 2005. Their finding reveals that audit fees reduce the likelihood of abnormal accruals and thus increase earnings quality.

Furthermore, auditors' firm size appears to have a negative and significant influence on financial reporting. This implies that engaging the services of big4 auditors will significantly decrease financial reporting during the period under study. This result fails to lend credence to some of the existing studies that audit firms' size does not affect financial reporting quality (Amake and Okafor, 2012; Osamudiamé et al., 2018; Shakhathreh et al., 2020). However, this study finds consistency with Umobong and Ibanichuka (2017) who found a significant negative association between audit firm size and financial reporting quality. This finding is not in support of the notion that when a company's financial statement is being audited by big/large audit firm the financial reporting of such a firm should be of high quality and it is also in disagreement with prior studies like Herusetya (2012), Mayangsari (2004), Herusetya (2009), Pujilestari and Herusetya, (2013), Siregar et al. (2011) and Francis and Yu (2009) who found that big auditors more likely give going concern opinion on audited reports, and the clients of big4 auditors are proved to have less aggressive profit management.

Finally, it was observed that auditors' tenure as an independent variable of financial reporting appears to have a negative and significant influence on financial reporting. This implies that engaging the services of auditors for over 5 years will significantly decrease financial reporting

during the period under study. The study confirms that the main purpose of the audit is to determine whether the information presented in the financial statements reflects the results of performance and financial position fairly. Hence, there was consistency with the studies of Patterson et al., (2019) who argued that auditors can gain a great deal of experience and knowledge of the company's operations and system processes over time, thereby increasing financial reporting quality. Furthermore, there is consistency with the studies of DeFond and Zhang (2014) who reviewed the auditor tenure literature and concluded that the results of previous research indicate that long tenure can enhance financial reporting quality. However, the studies of Farhangdoust and Sayadi, (2020) find that an important factor that can diminish the financial reporting quality is auditor tenure because as auditor tenure increases, the auditor becomes more dependent on the client and financial reporting quality decreases, this was negated.

Conclusion

This study has established that there exists a relationship between audit quality reporting and financial reporting. Specifically, the study concludes that an increase in the engagement of an auditor on only audit services by the listed pharmaceutical firms will insignificantly decrease financial reporting quality. It was concluded that an increase in the amount paid to the auditor for audit engagement will significantly decrease financial reporting quality. Also, engaging the services of big4 auditors will significantly decrease financial reporting quality. Finally, it was concluded that engaging the services of auditors for over 5 years will significantly decrease financial reporting quality.

Recommendations

This study recommends that Investors are advised to consider the audit characteristics when making a decision. In addition, the Management of pharmaceutical firms in Nigeria should consider the provisions of the Nigerian Code of Corporate Governance on audit tenure because it will improve the financial reporting quality in pharmaceutical firms in Nigeria. Furthermore, regulators should ensure that policies around the recommended number of audit client engagements are implemented by the management of pharmaceutical firms to enhance financial reporting quality. Also, other audit firms (non-big4) should invest more resources in technology and staff training especially in specialized businesses like the pharmaceutical industry to strengthen auditors' work and improve the financial reporting quality of the companies. It is also recommended that regulators should endeavor to increase audit tenure particularly, as the auditor's tenure becomes longer, the tendency to know more about the operations and more detail about the accounting system is increased hence helping the auditor to detect fraud and irregularities of the client thereby the quality of the audit report.

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