Journal of Management and Science

12(3) 2022 34-42

OPEN ACCESS

RESEARCH ARTICLE

DOI: https://doi.org/10.26524/jms.12.44

Audit Quality And Financial Reporting Of Quoted Natural Resources Firms In Nigeria

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Abstract

This paper assessed the impact of Audit fees and Audit tenure on the Financial Reporting of quoted natural resource firms in Nigeria. Five (5) cited natural resource firms in Nigeria were selected to achieve this objective. The study used secondary data which is from the annual reports of the established sampled natural resource firms for ten (10) financial years (2010-2019). Financial reporting is used as the study's dependent variable and was regressed using audit fees alongside Audit tenure. In contrast, the firm size is an independent variable using the standard least regression method (OLS) to test the hypothesis. The study's outcomes indicated that audit fee has a positive and significant relationship with financial reporting quality, while audit tenure also has a positive but insignificant relationship with financial reporting quality, Firm size, is only significantly associated with financial reporting quality. The study found that the higher audit fees have the likelihood of compromising auditors' independence, thereby leading to lower financial reporting quality. The study recommend that regulators of the audit practice to establish measures that can be used to regulates and monitor the pricing process of the audit so that to ensure a balance that would eliminate over-charging and or under-charging of the audit fees which evidence reveals could impair the independence of the auditor, thereby impact financial reporting quality of an entity.

Keywords: Audit Fees, Audit Tenure, Audit Quality, Financial Reporting

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How to cite this article: Sani Abdulrahman Bala, Aliyu Bawa Yeldu. Audit Quality And Financial Reporting Of Quoted Natural Resources Firms In Nigeria, Journal of Management and Science, 12(3) 2022 34-42. Retrieved from https://jmseleyon.com/index.php/jms/article/view/579
Received: 3 February 2022 **Revised:** 4 March 2021 **Accepted:** 4 April 2022

1.0 INTRODUCTION

The audit has many different components meaning from various scholars' perspectives. The word "audit" is a Latin word 'audire' meaning "to hear". The need to verify and obtain an expert opinion constitutes the primary purpose of auditing, which is human .nature. Auditing history can be traced back to the history of accounting, which all began as a result of the separation of managers' duties from owners of the business i.e investors or shareholders. Owners of the business provide the fund while the agents run the business (Agency theory) and prepare reports on how the capital is used (which is accounting) to the auditor who verifies the genuity of such reports and express his opinion before such is presented to the principal who are the owners of the fund or capital in the business entity.

The significant aspect of auditing historically is the role and functions played by auditors. Saleem [1] stated that auditors' roles have not been well-defined since inception. It can also be observed by Iuliana [2], who opined that audit evolved in answering to the challenges in the environment and modifying its objectives starting the middle age, passing through the industrial revolution up to the 21st century. The wider gap between management and action has made it necessary to establish a series of measures to administer the business most efficiently and effectively.

Porter [3] states that before the twentieth century, the principal objective of auditors was to detect fraud; he explained that auditors have the responsibility to report to the shareholders all dishonest acts that occurred within an entity and which affected the propriety of the contents of the financial statements. In the 1930s, Vanasco [4] confirmed that it became imperative that the primary objective of the audit was the verification of accounts and the profession took the position that fraud detection and prevention was immediate management's responsibility since the administration has the responsibility to judiciously ensure application of internal control system in order to prevent fraud in their organizations. He also describes that auditors could not uncover fraud that involved improper recorded transactions, theft and other irregularities.

Financial reporting is essential to assist shareholders and analysts to expressly as well as deeply understand a firm's profitability and risk and to use that information to predict future profitability and risk and ultimately value the firm, enabling intelligent investment decisions making. This process lies at the heart of accounting, financial reporting, investments, portfolio management, capital markets and corporate management in the world economy. However, recent financial crises in our capital markets revealed that financial statement analysis and valuation can be conducted below standard. Without dedication, it can create numerous value losses in our capital markets and trigger a deep recession in even the most powerful economies worldwide. The risks are high. In addition, the game is changing.

The world is moving toward a new advanced approach to financial reporting, and expectations for high quality and high integrity financial analysis and valuation are increasing among investors and securities regulators. Many of the world's most powerful economies, including Japan, Canada, and European Union, have already moved forward to International Financial Reporting Standards (IFRS). The United States. Securities and Exchange Commission (SEC) already begun to accept financial statement filings based on IFRS from non-U.S. registrants, and is seriously considering whether to converge financial reporting from United States Generally Acceptable Accounting Principles (GAAP) to IFRS for U.S. registrants. Given the pace and breadth of economic reform legislation, it is clear that it is no longer "business as usual" on Wall Street and worldwide for financial statement analysis and valuation.

However, few similar studies are carried out in Nigeria on the relationship between audit fees and financial reporting. Many of these empirical researches are those commonly conducted by Oladipupo and Monye-Emina [5] which carry out study on the effect of abnormal audit fees on audit quality in Nigeria audit market and the one carried out by Olarinoye and Ahmad, [6] which investigated whether audit fees impair the auditors' independence in Nigeria and effect of corporate governance performance on the financial reporting quality. All the two studies appeared to be too generous because they are not meant for a specific industry.

Accordingly Abdul-Rahman, Benjamin and Olayinka, [7] who studied the effect of audit fees on audit Quality: evidence from cement manufacturing companies in Nigeria also in a related study by Mohammed and Ibrahim [8] who carried out study on the impact of audit fees on audit quality: evidence from listed Nigerian conglomerates companies which are almost similar to this study although the present study focused on quoted natural resource companies in Nigeria. Also, the time frames for the three studies were short (6 years and seven years respectively), while the present study covered ten years (2010-2019).

However, the agency theory, accounting theory and auditing theory are intertwined. This study is however, built on agency theory of Fama and Jensen of 1983, which is largely concern with resolving two problems that can occur in agency relationship.

This study is carried out into five different sections viz-a-viz: section one is the introduction, section two review of related literature related to the topic, section three is the methodology which clearly spelt out the methods applied by the researcher, section four deals with results and discussions and section five is the conclusion. Objective of this study is primarily to find out the impact of audit quality on the financial reporting of quoted natural resource firms in Nigeria. Other specific goals are to analzsed the influence of:

Audit fees on financial reporting quality of quoted natural resource firms in Nigeria.

Audit tenure on financial reporting quality of quoted natural resource firms in Nigeria.

Firm size on financial reporting quality of quoted natural resource firms in Nigeria.

The following hypotheses are postulated to guide the study's outcome.

H01: Audit fees have no significant impact on the financial reporting quality of quoted natural resource firms in Nigeria.

H02: Audit tenure has no significant effect on the audit quality of quoted natural resource firms in Nigeria.

H03: Firm size has no significant impact on the audit quality of mentioned natural resource companies in Nigeria.

2.0 LITERATURE REVIEW

This section reviews conceptual, empirical and theoretical literature on the impact of audit quality on financial reporting of quoted natural resource firms in Nigeria.

2.1.1 Concept of Financial Reporting

Nzekwu [9] opines that financial reporting provides a critical quantitative account of individual firms that hold up to a large variety of contractual associations and boost the information atmosphere to a large extent while its value also influences companies' cash flows and also impacts the rate of capital on which the cash flows are reduced. Dealings and procedures being accounted for might contain both financial and non-financial consequences i.e. might have financial and non-financial information. The literature review would only think about the economic viewpoint of financial reporting. Such ultimate reports are determined to make available information to satisfy the wishes of external users who cannot demand, or contract for, the preparation of extraordinary details to meet their precise information needs. Oladipupo and Izedomi [10] posit that corporate financial reporting is a means through which the corporate executive accomplishes their stewardship accountability to the shareholders. Financial reporting requires presentation, publication, auditing, and compilation of audited yearly information and financial records to the stakeholders/ shareholders at the annual general meeting. Modugu, Eragbhe and Ikhatua [11] maintain that financial reporting users need timely and accurate information for knowledgeable decision making. Timeliness which according to Modugu, et al [12,13,14] requires that financial information ought to be made accessible to accounting information users as quickly as possible, as acknowledged by the financial analysts, investors and managers, professional body, regulatory authorities, and the academics as the most essential characteristics of audit report which is a compulsory provision to be satisfied if audit report are to be valuable. Quality of financial reporting have been widely discussed, but the level of understanding is insignificant; and in spite of the diversity of the concept, agreement on how to define it is still very little, let alone measure, quality of financial reporting. Perception of quality of financial reporting can rely mainly on who one is looking up to. Regulators, auditors, stakeholders and other users in the financial reporting procedure might possess extremely another observation as what inform quality of financial reporting, which influences the kind of pointers that can be utilized to measure quality of financial reporting.

2.1.2 Conceptual definition on Audit Fees

Audit fees refer to the remuneration received by auditor for the audit assignment offered to client for the discharge of audit service. It is the amount charged by the auditor for the audit assignment offered to client in a firm. Hoitash etal. [15], asserted that the aggregate of audit fees is the sum of all costs covered for auditor. Lyon and Maher, [16] stated that there is difference in the amount of the audit fees charged by audit firm and this is largely determined by the auditee size and complexity involved in the auditing process. This goes in line with Turley and Willikens [17]view that there are three composite factors that contribute to the establishment of audit fees, which include complexity nature of audit, Client size, and associated risk in auditing work. Audit fee is the fees paid to the auditors of an organization which reflects the cost of the service conducted by the public editors and litigation risks. [18]

Audit fees as an essential factor of audit quality are interchangeable in many studies, particularly in determining the link between audit quality and size.[19,20,21] Higher audit fees are also associated with the choice of qualified auditors.[22] Despite more significant audit fees, some clients are interestingly in use of large audit firms. Clients are more confident that large audit firms have more excellent monitoring and bonding to execute a higher audit quality.[23] In terms of auditor competence and specialization, including technical information and continuing education, large audit firms employ better professionals in comparison to small audit firms. So, the larger the size of audit firm the higher the auditor's specialization (and audit quality) and therefore higher audit fees is expected to be achieved.[24] However, several authors suggest that audit fee influences audit quality and hence they tend to use audit fee as a proxy for audit quality.

Yassin and Nelson [25] viewed that higher audit fees meant that auditors render more efficient audit services to the firms compared to lower audit fees. Since the auditing market is closely regulated, wherein the opportunities to earn rent is restricted, efforts of auditor are more likely reflected by audit fees.[26] However, more audit hours and audit staff is required; thus, higher audit fees would be expected.[27] Hence, it is experienced that higher audit fees directly indicates a higher quality audit service , as more audit work is needed to ensure that the financial statements are free from material misstatement.

2.1.3 Concept of Auditor Tenure

Tenure is the engaged durational period that an audit is allowed to carry out a function in a consecutive series in a firm. In view of Nuratama and Hartadi [28,29], audit tenure refers to the agreed period between the client and auditor. literatully, it is believed that an audit contract with maximum number of period.[30,31,32,33] There are two divergents views on the effects of auditor tenure on audit quality. One is of the opinion that the auditor–customer relationship lengthens the auditor may develop a close relationship with the client and become more likely to act in favour of management, thus reducing audit quality. This view supports mandatory audit associate rotation. The other theory is that auditor tenure lengthens; auditors increase their understanding of their business client and develop their expertise during the audit, resulting into higher audit quality. The literature on auditor tenure has concluded that long auditor tenure does not impair audit quality.

Abu Bakar and Ahmad [34] opined that an audit firm tenure, also known as the duration of period auditor has been discharging his duty of audit requirements to a particular firm, have been widely talk about as maintaining the stand on the danger of misplacing auditor's independence. A good number of authors, who argue the association relating audit tenure and independence of an auditor holdup the assertion that a long relationship among company and audit firm might show the way to that familiar recognition of audit firm including the concern of its auditee's executive that sincere self-governing act by the audit firm turn out to be difficult. Audit tenure has been viewed as short and long audit tenure. In this regard, several studies have mentioned that the shorter auditor's tenure the lesser auditor client knowledge esulting to lower audit quality. In contrast, longer audit tenure can bring about poor professional care, and therefore reducing the audit quality. in order the other hand, with larger audit tenure it is more likely to discover misstatement using technical abilities and higher levels of the knowledge. But the relationship between an auditor and a client may reduce independence and can reduce the probability of report misstatement. So, in short, audit tenure may involve the auditors with the risk of less technical knowledge and abilities. Therefore, the audit report quality can also be affected by audit tenure. In terms of client's perspective, maintaining auditor for next period can depend on the issuing of a clean audit report. Therefore, if auditors know that clients are considering switching them, it can influence the type of audit report.[35] Furthermore, an audit quality decreases as the auditor-client relationship lengthens.[36]

Corroborating these findings, Carey and Simnett [37] also found that long audit partner tenure in Australia is connected to lower propensity to issue a going-concern report. However, the study involving going-concern information in the US suggest that audit reporting failures are significantly higher in the first few years of the auditor-client relationship.[38] According to Chen,[39] audit firm tenure and audit partner tenure affect financial reporting quality. Furthermore, audit quality decreases as the auditor-client relationship lengthen.[40] Carey and Simnett [41] also find that long audit partner tenure is associated with lower propensity to issue a going-concern report in Australia. However, the study involving going-concern account in the United States suggest that audit reporting failure is significantly higher in the first few years of an auditor-client relationship, audit firm tenure as well as audit partner tenure, affects financial reporting quality.

2.3 Review of Empirical Studies

Krishnan and Schauer (2000) examined the association between auditor size and audit quality for a sample of not-for-profit entities. The audit quality measure was based on the entity's compliance with GAAP reporting requirements. Auditors were divided into three classes: Big Six, large non-Big Six and small non-Big Six. The study found that compliance increased as one moved from the small non-Big Six to large non-Big Six and from the large non-Big six to Big Six. The study of this work found that there is a positive relationship between audit firm size and audit quality. In addition, Fitriany and Hoitash, Markelevich and Barragato (2007) examined the relationship between fees paid to auditors and audit quality for the period of 2000 to 2003 in the United States America; the study constructed a measure of auditor profitability that is used as a proxy for auditor independence. This approach was employed on the ground that auditor independence is influenced by effort and risk-adjusted fees rather than the level of payments received from clients. Since risks and efforts are unobservable, the paper used proxies based on client size, complexity and risk to estimate abnormal fees. Abnormal fees are derived using a fee estimation model drawn from prior literature.

Two measures of audit quality were used: the standard deviation of residuals from regressions relating current accruals to cash flows and the absolute value of performance-adjusted discretionary accruals. The OLS regression results documented a statistically significant negative association between total fees and audit quality proxies.

Choi, Kim, and Zang (2010) employed a multiple regression technique to examine whether and how audit quality proxy by the magnitude of absolute discretionary accruals is associated with the abnormal audit fees, that is, the difference between actual audit fees uncommon level of the audit fee. The results of various regressions revealed that the association between the two is asymmetric, depending on the sign of the abnormal audit fee. For observations with negative abnormal audit fees, there is insignificant association between audit quality and abnormal audit fee. In contrast, abnormal audit fees are negatively associated with audit quality for observations with positive abnormal audit fees.

According to Yuniarti (2011), the determinant factor of audit quality by proposing the hypothesis that the audit firm size (size of public accounting firm) and audit fees (audit fees) have an effect on the audit quality. The unit of analysis was external auditor who has worked in Certified Public Accountant (CPA firm); the author takes the CPA Firm in Bandung, West Java, Indonesia. This type of research is descriptive research, because it describes the variables and observes the correlation of these variables from the hypothesis that has been made systematically through statistical testing. The statistical test use path analysis and the examination of the hypothesis in this research using two ways: simultaneous test and individual test (partial), using t-test and f-test. Empirical test result that the CPA firm size does not significantly affect audit quality in public accounting firm in Bandung, whereas the amount of audit fee significantly affect the quality of audit and simultaneously CPA firm size and audit fees do not significantly affect the quality of audit in public accounting firm in Bandung.

On the other hand, Dehkordi and Makarem (2011), investigated the influence of the audit firm size (Big auditors vs. non-Big auditors) and auditor type (governmental vs. private auditors) on audit quality. A sample of 224 firms was studied from the Tehran Stock Exchange (TSE) companies for the period 2002-2007. Discretionary accruals (DAC) were also employed as representative of audit quality. A modified cross-sectional version of Jones' model was applied to measure DAC.The study results showed that the size of nongovernmental audit firm do not affect their audit quality and changes within private audit firm does not lead to changes in the level of discretionary accruals. Chijioke, Emmanuel and Nosakhare (2012) examined the association between the audit partner tenure and the audit quality. They used a Binary Logit Model estimation technique in studying the relationship between the auditor tenure and audit quality though the variable was not significant. The explanatory variables (ROA, Board Independence, Director Ownership and Board size) considered alongside auditor tenure were found to be inversely related to audit quality aside from Returns on Assets which exhibited a positive effect. Similarly, Eshleman and Guo (2013) examined the impact of abnormal audit fees on the audit quality of U.S firms from 2000-2011. Audit fee and auditor data is obtained from Audit Analytics, financial statement data obtained from Compustat, and analyst forecast data is obtained from the I/B/E/S database. Descriptive statistics and regression analysis was used as techniques for data analysis. The study documented a positive relationship between abnormal audit fees and audit quality.

Enofe, Mgbame, Aderin, and Ehi-Oshio (2013) studied the determinants of audit quality in Nigerian business environment. The determinants investigated include engagement and firm related characteristics such as audit tenure, audit firm size, board independence and ownership structure. Likert scale questionnaires were developed and used to collect data from a sample of one hundred respondents from the South-South geopolitical zone of Nigeria. The Ordinary Least Square regression technique analyzed a multiple regression model developed. The results showed that audit firm size, ownership structure and board independence were found to be significantly related to audit quality; however, only board independence exhibited a significant relationship with audit quality. Audit tenure showed a negative association with audit quality which was also not significant.

James and Izien (2014) examined the impact of audit firms' characteristics on audit quality in Nigeria. Data used in this study were collected from the financial statements of eighteen food and beverage firms listed on the Nigerian Stock Exchange market from 2007-2012. The Multivariate regression technique with emphasis on Logit and Probit method was used to estimate the model of the study. The selection of this method is basically influenced by the dichotomous nature of the dependent variable and the fact that data is both time series and cross-sectional. Findings indicate among others that there is a negative relationship between audit firm size and audit quality.

Ahmed (2014) investigates the professional auditors' perception of the impact of firm audit rotation on audit quality in Egypt. Primary data were collected via questionnaires and used. A sample respondent of 83 auditors is drawn using non-probabilistic sampling technique. T-test is used to analyze the data. Findings revealed that the auditors' perception indicates a negative relation between long audit tenure and audit quality. There is no relationship between client-specific knowledge and mandatory auditor rotation. There is a positive relation between auditors' independence and compulsory auditor rotation. The study focused on auditors perceptions. It ignores other interested parties such as clients, auditing profession associations, and legislation limiting generalization. The use of questionnaires and non-probabilistic sampling technique by the researcher limit validity and reliability of the findings.

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

Moreover, Kraub, Pronobis and Zulch (2015) examined abnormal audit fees and audit quality in the German audit market from 2004 to 2010 using a sample of 841 firms listed on the Frankfurt Stock Exchange. They observed that favourable abnormal audit fees are negatively associated with audit quality. In contrast, opposing weird audit fees have an insignificant or, at best, statistically weak positive effect on audit quality. They opined that audit fees premium could lead the auditor to compromise independence and economic bonding, whereas audit fees discount can impair independence or reduce audit efforts.

Further, Ilaboya and Okoye (2015) investigated the relationship between audit firm size, non-audit services and audit quality in Nigeria. The study population is the commercial banks listed in the Nigeria Stock Exchange Market, from where a sample of 18 banks was scientifically established using the purposive random sampling method. Well-structured 200 copies of the instrument (questionnaires) were administered to the respondents, and the data were estimated using the ordinary least square regression method. The study results revealed that audit firm size has a positive and significant impact on audit quality.

Similarly, Oladipupo and Monye-Emina (2016) examined the effect of abnormal audit fees on audit quality in the audit market in Nigeria. The data for study was collected from the annual reports and accounts of 50 companies quoted in Nigeria Stock Exchange (NSE) for a period of 7 years from 2005 to 2012, giving a total of 350 data firm observations. A probit binary regression technique was employed for the analysis. The study documented that positive and negative abnormal audit fees had insignificant positive impacts on audit quality.

In the same vein, Olarinoye and Ahmad (2016) confirmed whether audit fees impair the independence of auditors in Nigeria and also the effects of corporate governance mechanisms on the quality of financial reporting. The study employed the Methods of Moment estimation to control presence of unobserved heterogeneity effects and endogeneity issues in the auditors' independent model. Data was obtained from the annual reports of eighty-nine listed companies on the Nigerian Stock Exchange (NSE) from 2008 to 2013. The study's findings revealed that Nigerian auditors' abnormal audit fees do not impair their independence. Still, instead, they might reflect additional efforts undertaken during the audit. Likewise, the study found that the presence of independent non-executive foreign directors on a board improved the quality of financial reporting and an increased in the percentage of share ownership of foreign institutional shareholders also improved the quality of financial reports.

Babatolu, Aigienohuwa and Uniamikogbo (2016) examined the effect of auditor independence on audit quality of selected deposit money banks in Nigeria. Purposive sampling technique was used to select sample size of seven (7) listed deposit money banks from a population of twenty (20). Secondary data were sourced from the audited annual report of the sampled banks. Descriptive statistics, correlation and ordinary least square (OLS) regression were used to analyze the data. Findings revealed that there is a positive relationship between audit fee, audit firm rotation and audit quality. There existed negative relationship between audit firm tenure and audit quality. The correlation between audit quality and leverage was strong, negative and statistically significant. The correlation between audit quality and company size was strong, positive and statistically significant. The use of purposive sampling technique which is unscientific to determine sample size limits the validity of the findings.

Oladipupo and Monye-Emina (2016) examined the effect of abnormal audit fees on audit quality in audit market in Nigeria. The study thus employed audit quality as dependent variables while the explanatory variables were audit tenure, firm size and leverage. Using a probit binary regression technique on 350 firm observation data obtained for companies quoted in Nigeria Stock Exchange Market. It is observed that both positive and negative abnormal audit fees had insignificant positive impact on audit quality of a firm.

This indicates that the abnormal audit fees do not matter to audit quality. Contrary to the expectation, board independence and firm size had insignificant impacts on the audit quality. However, only the impact of board independence was statistically significant. The audit tenure, audit committee activeness and leverage have positive impacts on audit quality, only the leverage had significant impact on audit quality.

So also, the study of Abdul-Rahman, Benjamin and Olayinka (2017) which examined effect of audit fees on audit Quality of listed cement manufacturing companies in Nigeria using secondary data derived from the annual report of the sampled companies for a period of six years (2010-2015). Ordinary least square estimation technique was used to analyze the relationship between the explanatory variable and the dependent variable. Finding from the study show that audit fee, client size, audit tenure and leverage ratio exhibit a joint significant relationship with audit quality and audit fee in particular shows a significant positive impact on audit quality. Onaolapo, Ajulo and Onifade (2017) examined the effect of audit fee on audit quality in Nigeria using sample of listed cement companies on the floor of the Nigerian Stock Exchange. The explanatory variables were audit fee, audit tenure, client size, leverage ratio while audit quality as the dependent variable. Ordinary Least Square Model estimation technique was used for the data analyses. Secondary data obtained from the annual reports of the selected companies for a six-year periods (2010-2015) was used for the study. Findings from the survey show 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.

Illechukwu, Felix Ubaka (2017) examined the effect audit fee on audit quality using the sample of selected firms from consumer goods sector on the floor of Nigerian Stock Exchange for the period of six (6) years form (2011 to 2016). The core explanatory variables employed were the audit fee and audit tenure. Added to these explanatory variables were the control for firm size profitability and leverage. The pooled data Ordinary Least Square regression technique were employed for data analyses. The results showed that audit fee and other explanatory variables determine 38% of audit quality of selected firms. Specifically, the study found that audit fee, client profitability and financial leverage have positive but insignificant effect on audit quality. Further result showed that audit tenure and client size has significant positive effect on audit quality.

Mohammed Ibrahim, Ibrahim Ali (2018) assessed the impact of audit fee on audit quality of listed conglomerates in Nigeria over the period (2004 to 2015). Data for the study was collected from the annual reports and accounts of the companies. A panel data was employed specifically using OLS and Random Effect regressions. The paper observed that both audit fees and audit size positively impact company audit quality.

2.3 Theoretical Framework

The contentions in the literature as to whether audit fee is relevant or not have been supported by divergent theoretical underpinnings. Some of the theoretical constructs that are related to variables of this study are discussed below:

2.3.1 Agency Theory

The Agency theory (Fama and Jensen, 1983; Andrew, 2013), the dominants view in audit and accounting (Beasley et al., 2009; Cohen et al., 2008; Hermanson et al., 2012; Tricker, 2012,) suggested contractual mechanisms such as corporate governance is put in place to monitor management to address the separation of owners from management. Under this theory management is viewed as self-interested actor which behaves opportunistically, favouring their own interests over those they represent even if these actions are detrimental to owners (Jensen and Meckling, 1976).Thus, two mechanisms are identified to curb this behaviour: contractual mechanisms to align management goals with the principal; and information systems introduced to reduce information asymmetry between owners and management which can also restrict opportunistic behaviour through the realization by management that they cannot deceive the monitors (Cohen et al., 2008; Eisenhardt, 1989a). The agency perspective consider independence from management and expertise as the primary and central attribute of a monitor (Cohen et al., 2008; Cohen et al., 2002; Hermanson et al., 2012). In addition, Eisenhardt (1989) stated the agency theory is concerned with resolving two problems that can occur in agency relationships. First, the agency problems occur when the principal and agent have conflict about desires or goals. This may lead to difficulty for the principal to verify what the agent is actually doing. The problem may occur when the principal cannot verify that the agent has behaved appropriately. Second, the problems of risk sharing occur when the principal (ownership) and agent (management companies) have different attitudes toward uncertainty. The obstacles here is that the principal and the agent may prefer different actions because of the different risk preferences (Eisenhardt, 1989). To conclude, agency theory is an ideal theory that refers to the principal and agent to act independently and cooperate with each other. Motivated by that, it is expected that the auditor may put a lot of audit efforts in order to reduce the audit risk seems the manipulation of accruals by managers may give effect to the audit quality. Thus, the audit risk may have significance impact to the audit quality of the firms and as auditor they might need to work with more audit procedures and audit efforts. Thus, it is expected the higher audit fees has positive association with the audit quality. Moreover, variables affecting the audit fees, specifically audit tenure, auditor size and reputation, auditor industry specialization and frequency of audit committee meetings should be incorporated into a model in order to test the relationship between them.

2.3.2 Stewardship Theory

Stewardship theory suggested the motive of audit quality actor is aligned with objectives of the organization (Trotman, 2013) and the actor has focus on promoting value and organizational improvement (Beasley et al., 2009; Davis et al., 1997). Stewardship theory incorporates alternative behaviourial principles than agency theory by suggesting behaviour does not depart from the organizations interests (Davis et al., 1997). The behaviourial principles are based on two premises: first, that the steward is naturally honest and trustworthy motivated to do the best for the organization and not for personal interest; and second, actors behave in an entrusting manner not jeopardize their reputation (Nicholson and Kiel, 2007). Therefore, this theory challenges the agency theory perspective (Nordberg, 2011) and the distinction is that motivation under an agency perspective is extrinsic, versus intrinsic motivation under stewardship (Davis et al., 1997).

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3.0 METHODOLOGY

The research was a census study focusing on natural resource firms listed on the Nigeria Stock Exchange between 2010 and 2019. There are 5 natural firms quoted in Nigeria as at 31st September, 2021. The study was conducted in all the quoted natural firms in order to establish the impact of audit fees on financial reporting in Nigeria. This study used secondary data that is obtained from annual reports and accounts of natural resource companies listed on the floor of Nigerian Stock Exchange as at 31st September, 2021 covering the period from 2010 to 2019. A sample size of 5 natural resource firm is selected using random sampling technique in the study. Multiple regression analysis was used to establish the effect of corporate governance on earning management over the stated period. Correlation analysis was done to establish whether there was a relationship on the variable of the study. Data was presented using tables. This method of data was chosen because it helps to explain quantitative data. The study was focused on the five (5) natural resource firms quoted in Nigerian stock exchange from 2010 – 2019.

3.1 Variables Measurement and Model Specification

The concern of this study was to establish the relationship between the dependent variable, which is represented by Big04 firms (FRQ). In contrast, Audit fees, Auditor's tenure, Firm size and Leverage represents independent variables.

Table 3.1 Variable Definition and Measurements

Variables	Definition/Measurements
Dependent variable Audit Quality	Measured by Big04 audit firms, 1 for big4 audit firms and 0 if otherwise.
Independent Variables Audit Fees	Measured by natural log of audit fees i.e. total fees paid to auditor at the end of financial year
Audit Tenure	Change of audit firm by a client, measure by dichotomous variable, 1 if there is a change in audit firm during a year and 0 otherwise.

The general` multiple regression models which the study adopted are provided below:
FRQ = α+β1AUDFEES β2AUDTEN +β3FSIZE + β4LEV +μ ...
Where;
Financial Reporting Quality are represented by
FRQ= (BIG04). This financial Reporting Quality is measured by Big04 firms.
a= Constant value
β_1= Audit Fees (AUDFEES). This is measured by natural log of Audit Fees or Remuneration paid to the Auditor.
β_2= Auditor Tenure (AUDTEN). This is measured by number of years auditor has spent in a client firm.
β_3= Firm Size (FSZ). This is measured by natural log of total assets.
β_4= Leverage (LEV). This is measured by long term liability over total equity.
μ=Error Term

4.0 RESULTS AND DISCUSSION

This section provides a summary statistics of the data gathered on the dependent and explanatory variables of the study.

Table 4.1: Descriptive Statistics

Variables	Obs	Mean	Std.Dev	Min	Max
BIG4	50	0.20000	0.40406	0.0000	1.0000
AUDFEE	50	6.84000	5.37704	1.0000	18.0000
AUDTEN	50	4.90000	2.83743	1.00000	10.0000
FMSZ	50	4.11009	3.13000	4.22000	1.43000

Source: Generated by the Researcher (2021) from stata 16.0 output

From table 4.1, it can be seen that a total of 50 observations was recorded. The results show Financial reporting quality (measured as Big4 audit firms using dummy variable of 1 or 0) of the sample firms has a lower value of 0.20, with minimum and maximum values of 0.00 and 1.00 respectively. This signifies that there is weak financial reporting quality in the sampled firms as portrayed by the standard deviation of 0.40; this means that sampled natural resource firms in Nigeria are highly feeble in terms of financial reporting quality. That is to say some of the sampled firms do not employed the services of Big4 audit firms.

Also, from the analyses of result audit fee (measured as natural logarithm of audit fees) of the sampled firms has an average value of 6.84, with minimum and maximum of 1.00 and 18.00 respectively. This signifies that there is a wide dispersion in audit fees payment by the sampled firms as portrayed by the standard deviation of 5.38. This means that sampled natural resources firms in Nigeria are highly varied in terms of audit fees payment. That is some of sampled firms pay higher audit fees than other due to qualitative reports and standardization of the audit firm.

The analyses also show an average value for audit tenure 4.90 with standard deviation of 2.84 while the minimum and maximum values are 1.00 and 10.00 respectively. The mean value of firm size is 4.11 with standard deviation of 3.53 which indicate that firm size has deviate from the average value by 4.11. The minimum and maximum values are 4.22 and 1.43 respectively. Leverage has a mean value of 0.62 with standard deviation of 0.37. The minimum value stands at 0.16 while the maximum value at 1.76.

4.2 Correlation Matrix

In this section, the summary of the Pearson correlation Coefficients of the variables of the study are presented in Table 4.2 as follows;

Table 4.2 Correlation

Variables	BIG4	AUDFEE	AUDTEN	FMSZ	LEV
BIG4	1.0000				
AUDFEE	0.7195	1.0000			
AUDTEN	-0.2670	-0.1709	1.0000		
FMSZ	-0.1134	0.4167	0.1241	1.000	

Source: Generated by the Researcher (2021) from stata 16.0 output

It is clear from table 4.2 that the association between audit fees and financial reporting quality is quite higher and positive while auditor tenure and firm size is low and negative with correlation coefficient values of 0.72, -0.27, -0.11 and -0.34 respectively. The 1.0000 at the diagonal side shows that the values are normally distributed.

4.3 Multi Collinearity Test

The Variance Inflation Factor (VIF) test for multi Collinearity was conducted to check the presence of multi-Collinearity.

Table 4.3 Multi Collinearity Test

Variable	VIF	1/VIF
AUDFEE	1.36	0.732738
AUDTEN	1.19	0.838812
FMSZ	1.42	0.706006
MEAN VIF	1.35	

Source: Generated by the Researcher (2021) from stata 16.0 output

Table 4.3 shows the VIF of 1.36, 1.19, 1.42 and 1.42 respectively for each explanatory variable. This is less than rule of thumb which is 10 which indicates the absence of multicollinearity, that is the data is perfectly normal.

4.4 Ordinary Least Square Regression (OLS)

This section present and discuss the hypothesis testing as stated in chapter one. The regression results used for the test of hypothesis is presented below:

Table 4.4 Ordinary Least Square Regression

BIG4	Coef.	Std.Err.	T	P>|t|	95% Conf.	Interval
AUDFEE	0.065859	0.006531	10.03	0.000	0.052332	0.786399
AUDTEN	0.0002396	0.011567	0.02	0.984	-0.023059	0.023537
FMSZ	-6.28011	1.01011	-6.19	0.000	-8.320011	-4.230011
CONS	0.136139	0.1024119	1.33	0.190	0.701292	0.3424073

Number of Obs = 50
F (4,   45) = 33.92
Prob>   F = 0.0000
R-squared   = 0.7509
Adj R-squared = 0.7288
Root MSE = 0.21042

Table 4.4 presents OLS regression result. The result shows that Adjusted R^2 coefficient of determination is 0.7288; this means 73% of the variations in the financial reporting quality is caused by the explanatory variables, while 27% of the variation is explained by other factors not covered by the study. Also the probability of p-value of 0.0000 implied that the model is fit and significant at 5%level of significance and variables are appropriately selected.

Acknowledgement

Nill

Funding

No funding was received to carry out this study.

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