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Auditor's Independence and Quality of Financial Reporting in Listed Real Estate and Construction Firms in Nigeria

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Abstract

This study investigates the impact of auditor's independence on audit quality of listed real estate/construction companies on the Nigerian Exchange Group from 2012 to 2021. The study made use of ex-post facto research design and since the entire population was below ten firms, census sample approach was adopted. Secondary data of the firms were sourced from audited financial statements of the nine companies used for the study. Data were analyzed using descriptive statistics, correlation matrix and panel regression technique. The findings showed that there was a significant negative relationship between audit firm tenure and audit quality while the relationship between audit firm rotation and audit quality was positive and statistically insignificant. Company size showed a strong positive relationship with audit quality. Thus the study recommends that real estate/construction firms in Nigeria should make use of the services of audit firms with unquestionable track records of audit quality and reputation. In addition, real estate/construction firms in Nigeria should continually employ the services of one of the big audit firms whose character and integrity are beyond reproach. Lastly, the study recommends that management of quoted real estate/construction firms in Nigeria should consider increasing audit fees as benefits accruable to the firms far outweigh relevant costs.

Key words: *Audit client size, Auditor independence, Audit quality, Audit tenure, Audit opinion*

1. Introduction

Financial reporting quality forms a veritable basis in making prudent business decisions by users of accounting information. Therefore, its importance and usefulness cannot be overemphasized. Recent studies on financial reporting quality (Enofe, Mgbame, Otuya & Ovie, 2013; Igbekoyi & Agbaje, 2018; Ilaboya & Ohiokha, 2014; Manukaji, 2018; Odia, 2015; Oyewole & Adegoke, 2018) springs mainly from the fact that corporate entities audited by independent auditors suddenly failed almost immediately after such audits with associated negative consequences on the economy.

The failure of these corporate entities threatens the credibility of the accounting profession, such that the users of financial statements have almost lost confidence in the profession. Financial reporting quality provides a medium through which corporate entities reveal their performance to the public for evaluation (Osho & Akinola, 2018). These financial reports must be of high quality to command the trust of the investors, shareholders, regulators and every other person interested in the accounting information (Daferighe & George, 2020). The importance of quality financial reports has been stressed in the accounting and auditing profession globally because it is the cornerstone of financial accounting. The lack of quality in financial reports prepared by companies eventually led to the collapse of corporate entities. However, it should be emphasized that high-quality financial reporting aids investors and other stakeholders to make prudent business decisions (Akinola, Adegoke, Efuntade & Efuntade, 2021)

Some corporate giants in industries and commerce globally have collapsed consequent upon the lack of quality in financial reporting of these entities. Such entities include Tyco (2002); Worldcom (2002); Enron (2002); Adelpha (2005); Cadbury Nigeria Plc (2006); Thomas-Cook (2019) etc. When accounting standards are adhered to strictly by preparers of financial statements, financial reporting quality tends to increase. In order to achieve quality in the financial reports of quoted companies in the construction/real estate sector of Nigerian economy, accounting regulatory and supervisory bodies have been set up to assist in monitoring the operations of these companies to ensure their total compliance with the reporting benchmarks.

Auditor's independence is paramount because of the belief that professional accountant is needed to give validity as well as reliability to annual report and accounts prepared by management of corporate entity. The auditor's opinion lends credibility to the financial statements especially in situations of no significant misstatements. An auditor's independence is reflected in his capacity to uphold an objective as well as impartial mental perception during the course of an audit. It also encompasses objective analysis and verification of resources deployed during the year under review as reflected in the annual accounts. Thus, it is expected that auditors should be able to exercise neutral actions, personal look and behaviour (Albesh, 2017).

Akin to this, auditors should possess such expert knowledge and technical know-how, professional aptitude, capability, as well as attitude of healthy skepticism which are considered paramount factors or indices which will affect the quality of the auditor's professional work, albeit, the audit report. Recent researches on financial crises and corporate failures (Enofe, Mgbame, Otuya & Ovie, 2013; Igbekoyi & Agbaje, 2018; Ilaboya & Ohiokha, 2014; Manukaji, 2018; Odia, 2015; Oyewole & Adegoke, 2018) have raised public concerns regarding independence of auditors. Studies such as (Awa, 2015; Enofe, Mgbame, Otuya & Ovie, 2013; Ndubuisi & Ezechukwu, 2017) have asked pertinent questions about the effectiveness of financial statements to perform their function as a guide to informed decision making and a tool for appraisal of corporate performance. These studies reveal that a number of the corporate failures in Nigeria (and globally too) have had a link to external auditors' vulnerability in displaying independence required of them. Auditor independence, which is a necessity to achieve financial reporting quality, seems to have been compromised in recent times as companies given a clean bill of health with unqualified reports had experienced financial problems shortly after release of audit reports with shocking revelations of financial misstatements (Adeyemi, Okpala & Dabor, 2012; Enofe, Mgbame & Okunega, 2013; Ilaboya & Ohiokha, (2014).

In view of this development, this study attempts to examine the nexus between auditor's independence and quality of financial statements presented by quoted construction and real estate firms in Nigeria.

2. Literature Review

2.1 Conceptual Review

2.1.1 Audit fees

Audit fees are funds expended on audit engagement by the company's management. These monies are agreed upon between the client company's management and the auditors appointed by the Board of Directors or the company. These fees are given to the auditors on completion of their engagement. It is the totality of the cost of activities carried out during the audit to ensure audit quality is factored in the fee (Daferighe & George, 2020). It was further argued that monies paid to auditors dampen the auditor's independence and bring about a compromise, and can eventually erode the value of financial statements.

2.1.2 Audit Tenure

This is the total duration or number of consecutive years that the audit firm has audited the client (Johnson, et al, 2002). Audit tenure has two aspects: the tenure of each individual engaged in the audit, particularly the engagement partner, and the tenure of the audit firm. Empirical evidence regarding the effect of auditor tenure on audit quality supports both arguments, with studies finding that the audit quality both increases and decreases as audit firm tenure increases (Johnson, et al, 2002, Myers, Rigsby and Boone, 2003, Mansi, Maxwell and Miller, 2004, Ghosh and Moon, 2005). Some studies on audit partner tenure find a positive association between audit partner tenure and audit quality measured by discretionary accruals (Chi, Huang, Liao and Xie, 2009, Chen, Huang, Liao and Xie, 2010). Hence, the imposed mandatory partner rotation, which limits auditor partner tenure, can result in decreased audit quality. On the other hand, other studies find a negative association between audit quality and long audit quality and long audit partner tenure (Carey and Simnett, 2006, Hamilton, Rudddock, Stokes and Taylor, 2005). Hence, the effects of audit partner rotation on audit quality are still inconclusive.

2.1.3 Audit Client Size

Auditors charge fees for rendering audit services. The implication is that auditors have clients that are more economically important or bigger than others. Those clients whom the audit firm deems economically important carry greater portfolio weight in an auditor's client list. The wider implication is that an external auditor is likely to have greater inducement to succumb to management pressure of such bigger clients thereby compromising independence. Studies on client size and quality of financial reporting have produced divergent results. Reynolds and Francis (2001) in their study found that big four auditors are susceptible to indulging in earnings management so as to retain their clients. Studies by Hunt and Lusleged (2007) and Shamma,

Shamma and Ananthanarayanan (2011) find that smaller audit firms are more conventional towards their big and more important clients. But, Chung and Kallapur (2003) find no link between audit client size and unusual accruals. Nevertheless, Gaver & Paterson (2007) find audit client size is negatively linked to earnings management. There is therefore conflicting evidence suggesting that auditor's client size/importance influences financial reporting quality.

2.1.4 Auditor's Independence

Independence of the auditor implies the capacity of an auditor to sustain a dispassionate and neutral mental attitude in the process of carrying out an audit assignment. DeAngelo (1981) defines auditor independence as the balanced mental assertiveness of an auditor in making judgments in the course out an audit and disclosing the outcome of such audit. Whenever independence of the auditor is under any threat, there is likelihood of an auditor being seen as lacking objectivity. The implication is that the auditor will be viewed as not having the independence to report any discovered breach. Arens, Elder and Beasley (2014) explain that independence entails an attitude of a sense of obligation distinct from the client's interest. Independence encourages the external auditor to display a position of healthy professional incredulity. According to Sucher and Maclullich (2004), independence of the auditor facilitates sound audit opinion being the final product of an audit engagement. This in turn lends credibility to financial reporting and enhances confidence on the information presented to stakeholders of the business. Saputra (2015) maintains the quality of an audit report is influenced by how independent minded the auditor is as it enables him to conduct the assignment in agreement with generally acceptable auditing standards. Independence makes it possible for an external auditor to report any material misstatements, either due to error or fraud, in the company's books and records when detected.

2.1.5 Financial Reporting Quality

Quality of financial reporting implies how well an audit is able to detect and document any material misstatements in corporate financial reports. The competence of the auditor mirrors this detection capability while the ability to disclose such material misstatement reflects audit ethics or auditor's integrity which forms auditor independence (Arens, Elder & Beasley, 2014). In other words, financial reporting quality entails reliability of opinion expressed by the auditor on the financial reports. Prior studies have adopted a number of proxies as a measure of quality of financial reporting. Otuya, Donwa and Egware (2017), Francis and Wang (2008), Carey and Simnett (2006) and Francis and Krishman (1999) used Discretionary Accruals (DACC). DeFond and Park (2001) also adopted abnormal working capital accrual as a measure of audit quality. Other studies used proxies such as audit fees and hours, NSE President's Merit award, earnings response coefficients and tendency to issue a modified audit opinion to represent audit quality/financial reporting quality (Deis & Giroux, 1996; Caramanis & Lennox, 2008; Ghosh & Moon, 2005 and Adeyemi, Okpala & Dabor, 2012). This study adopts Discretionary Accruals (DACC) as measure of quality of financial reporting. DACC has been adjudged as a superior technique to determine level of earnings management and by extension audit quality (Dechow, Sloan & Sweeney, 1995; DeAngelo, 1986; Jones, 1995). Based on the DACC view, high income smoothing/earnings management reduces the quality of financial reports. The implication is that higher DACC creates a greater distance between the true state of affairs (financial performance) and results shown in the financial statements.

2.2 Theoretical Review

2.2.1 Agency Theory

This study is predicated on agency theory. According to De Angelo (1981), Jensen and Meckling (1976), José and Almeida (2014) and Panda and Leepsa (2017) cited in Wakil, Alifiah and Tijjan (2019), agency theory suggests that information asymmetries and conflict of interest between the agents and the principals should theoretically be able to regulate behavior in an organization through directing and rewarding system. This theory postulates that information asymmetry influences objective scrutiny of financial statements as well as agency problems. The principal-agent relationship is explained in agency theory which assumes that the principals lack reasons to believe their agents as a result of information asymmetries and conflicting interest. Thus, information asymmetry during decision making occurs when one party is more informed than the other party. The agency theory provides the theoretical underpinnings to support the position of auditors' independence in bridging information asymmetry gap between principal and agent. Similarly, contradictory aspects such as financial rewards, market opportunities, and associations with other parties that are not directly related to principals can drive agents to be more optimistic about the economic performance of an entity rather than the performance of the whole organization. Information asymmetries and opposing motivations decrease dependability of information, which result in the principals' lack of trust on their agents. Consequently, Colbert and Jahera (2017) suggest that as a third party, auditors should try to align the interests of agents with principals. They should also endeavor to let principals to measure and control the behavior of their agents and to increase the principals' confidence on agents that may negatively influence auditor's independence. The agency theory suggests that the auditor is appointed in the interests of both the third parties as and the management. A company is perceived as a web of contracts. Several groups (suppliers, bankers, customers, employees etc.) make some kind of contribution to the company for a given price. The task of the management is to coordinate these groups and contracts and try to optimize them.

2.2.2 The Policeman Theory

This theory was propounded in the late 1920s by the Dutch Professor Theodore Limperg (Hayes et al., 1999:36). The theory claims that the auditor is responsible for searching, discovering and preventing fraud. In the early 20th century, this was certainly the case. However, more recently the main concern of auditors has been to provide reasonable assurance and verify the truth and fairness of the financial statements. However, the detection of fraud is still a hot topic in the debate on the auditor's responsibilities. Typically after the events where financial statement frauds have been revealed, the pressure increases on increasing the responsibilities of auditors in detecting fraud.

2.2.3 The Lending Credibility Theory

Limperg, a Dutch Professor in the late 1920s propounded this theory. The theory suggests that the primary function of the audit is to add credibility to the financial statements. In this view, the service that the auditors are selling to the clients is credibility. People see audited financial statements as having some elements that increase the financial statement users' confidence in the figures presented by the management in the financial statement. The users are perceived to benefit from the increased credibility. Part of these benefits includes that the quality of investment decisions improves when they are based on reliable information. Audited financial statements are used by management to increase the principal's faith in the agent's stewardship and reduce the information asymmetry.

2.2.4 The Theory of Inspired Confidence

This is also referred to as the theory of rational expectations. Limperg (1932) addresses both the demand and the supply for audit services. The demand for audit services is the direct consequence of the participation of interested parties of a company in the company. These parties demand accountability from the management, in return for their investments in the company. Accountability is realized through the issuance of periodic financial reports. However, since this information provided by the management may be biased, and outside parties have no direct means of monitoring the company's transactions, an audit is needed to ensure the reliability of this information. Concerning the supply of audit assurance, Limperg (1932) opines that the auditor should always make effort to meet the public expectations.

2.2.5 Signaling Theory

Originally developed by Michael Spence in 1973, the Signaling theory refers to a situation where one party (termed the agent) credibly conveys information to another party (the principal). It was initially based on observed knowledge gaps between organizations and prospective employees but later extended to other domains. Signaling theory posits that firms with good performance are inclined to making voluntary disclosures more readily because doing so is regarded as an easy means of distinguishing themselves from others in the marketplace. Hence this study assumes that auditors' independence is positively related to reliability of financial reports. It is suggested by Scott (2009) that manipulative accounting may be used for signaling since managers will endeavor to window-dress the report in such a manner that it will transmit their desired information to users. Wallace (1980) proposed three hypotheses for explaining the role of the audit in free and regulated markets, namely the monitoring hypothesis, information hypotheses and insurance hypotheses. This work is anchored on both the signaling theory and agency theory.

2.3 Empirical Review

Several studies have been carried out on the effect of audit independence on reliability and credibility of financial report from both developed and emerging economies. Adebayo(2011) studied the independence of auditors and evaluated the importance of auditors' independence in financial statement . The relevant data collected were analyzed using simple percentages and tables and tested using chi-square. The results of the test show that auditor's independence affects the credibility of financial statement and that the improvement in the credibility of the financial statement can reduce manipulation in the financial statement. The study concludes that auditors' independence and the credibility of financial statement are to be significantly impaired when non-audit services are conducted and that there is a positive relationship between independence of an auditor and the credibility of financial statement. This implies that the independence of an auditor is fundamental to the credibility of financial statement.

Knechel, Krishnan, Pevzner, Shefchik and Velury (2012) investigated the impacts of widespread trust and community cooperation on audit fees among different countries in the world. The results of the study reveal that countries with higher trust and community cooperation have high likelihood to spend on a strong audit job to request higher auditing services. They argue that countries with greater trust and community cooperation reimburse higher audit fees to demand greater assurance. This implies that countries with higher extensive trust or greater public cooperation pay higher price on auditing services and hence are prepared to pay higher audit fees.

Okolie (2014) examined the effect of auditors' independence on earnings management. A sample of fifty seven (57) listed companies in Nigeria was adopted by the study for the period ranging between 2006 and 2011. Findings of the study show that audit fee has a negative but significant association with discretionary accruals.

Kabiru and Abdullahi (2012) carried out an empirical investigation into the quality of audited financial statements of commercial banks in Nigeria, using both primary and secondary data. From the population of 21 banks, they select a sample of 5 banks which comprised First Bank, Zenith Bank, Union Bank, United Bank for Africa and Access Bank that are all publicly quoted companies in Nigeria. The study found that independence of an auditor does significantly improve the quality of audited financial statements of commercial banks in Nigeria. In addition, compliance to auditing guidelines was found to be having positive and significant effect on the quality of audited financial statement of money deposit banks in Nigeria. Also, it was found that material misstatement significantly affects the quality of audited financial statements of money deposit banks in Nigeria. They also found that, if re-audited by other independent auditors, audited financial statements of Nigerian money deposit banks, will give the same result and conclusion.

Okezie and Egeolu (2019) examined the effect of audit independence on reliability of financial reports in the banking sector. Ex-post facto research design was used while the data were elicited from four (4) banks listed on the Nigerian Exchange Group and also operates within the African region. The data spanning across 5years from 2014-2018, were analyzed with multivariate linear regression. Findings show that audit independence had a significant effect on the value relevance of the financial reports of the banks under study. This was reflected in how the amount spent on audit fee had no significant effect on the reported earnings per share (proxy for reliance on financial reports by investors). Further findings reveal that audit independence has an insignificant effect on the timeliness of the financial reports.

Olaoye, et al (2019) investigated the impact of the independence of statutory auditor on the reliability of financial statements of the manufacturing companies in Nigeria. The study adopted a survey research design. It used data collected from structured online questionnaires which were administered to the shareholders of listed companies in Nigeria. The population of the study comprised all shareholders in Nigerian listed companies. One hundred and fifty (150) structured questionnaires were randomly distributed out of which 137 were retrieved from respondents. The gathered data were analyzed using descriptive and inferential statistics. For unwavering quality, the Cronbach alpha was used to test the dependability of the instrument. Findings show that independence of statutory auditors had a positive significant effect on reliability of financial statements. Based on the findings, the study recommended that audit firms should regulate the number and length of non-audit services rendered to companies they serve as external auditor and also undergo a frequent review on financial statements where their clients have interest so as to reduce self-review and self-interest threat.

Wakil, et al (2019) reviewed auditor independence literature and the factors affecting independence in order to determine the effects of the factors on independence. The method employed for the research is a desk system of research design, in which data were collected through secondary sources such as journals, books and internet materials. The finding of the review indicates that the most mentioned threats to auditor independence are non-audit services, audit tenure, auditor-client relationship and client importance.

2.5 Gap Identified

Previous studies on this topic were concentrated on deposit money banks, insurance companies, manufacturing companies to mention but a few. Since similar studies were scanty or non-existent in construction/real estate firms listed on the Nigeria Exchange Group, this researcher decided to embark on this study on this sector of the economy. Besides, previous studies made use of 5 years as their scope of study, but this investigation is based on a 10-year period perhaps a different conclusion might be arrived at or perhaps the conclusion will provoke further studies.

3. Methodology

3.1 Research Design

This study adopted the panel data research design to carry out this research because it was found suitable for this type of assignment. It involves quantitative data which can predict trends, provide correlations and allow researchers to pursue many other forms of data analysis.

3.2 Methodology

In order to examine the influence of auditor's independence on the quality of financial reporting, the study utilized the above named research design. The choice of this is due to similar studies conducted by (Adeyemi & Okpala, 2017). The target population of this study was the 7 listed real estate and construction firms on the Nigerian Exchange Group as at 31st December, 2021. The data were obtained from the annual reports of listed real estate and construction firms between 2012 and 2021 (10 years). Since the population of the study is not large (that is less than 30), census sampling technique was adopted by using all the listed real estate and construction firms based on the variability of the data. The selection of the period is as a result of the uniformity in data collection. This study engaged a panel regression technique of data analysis for testing the hypotheses. The panel regression technique was used to find out the significant relationship between the variables

3.3 Model Specification

In this research work, a model (based on panel regression) was developed to establish the relationship between the dependent variable: quality of financial reporting and the independent variables, auditor's rotation, auditor's tenure and audit firm size. Also, the model was adopted from the work of Babatolu et al (2016). Guided by the implicit and the explicit form of the model, the following relationships exist between the variables of the study. The implicit form of the model is shown below: It takes the following form:

QFR = *f*(Auditor's Independence) ………………………...Equ (1)

Adding the two proxy variables as independent variables, we have:

QFR = *f*(Audit firm tenure, Audit firm rotation, Firm size)...Equ (2)

In econometric form, we have:

$QFRit = \beta_o + \beta_1 AUDTN_{it} + \beta_2 AUDROTN + \beta_3 ADFSIZE + e_t$...Equ (3)

Where:
β_o = Intercept;
β_{1-3} = Unknown coefficients

4. Results and Discussion

Data were utilized from the annual reports of all the quoted construction firms on audit quality, audit firm size, auditor's tenure and auditor's rotation for the period 2012-2021 (10 years). The data generated for the study from the annual reports were analyzed using panel regression analysis.

4.1 Descriptive Statistics

Descriptive statistics show brief descriptive coefficients that summarize a given data set, which can be either a representation of the entire or a sample of a population. The descriptive statistics presented in Table 1 gave a glimpse of the central tendencies, measure of dispersion, minimum and maximum values, degree of peakedness, asymmetric value and the Jarque-bera statistics of all the series used in the study.

Minimum and maximum values of auditor's rotation reported in table 4.1 stood at 0.00 and 1.00 respectively. The table reported minimum value of 0.000 for audit tenure while the maximum value stood at 1.0000. As reported in table 4.2, the minimum and maximum values for the audit firm size were 0.000 and 1.000 respectively. Quality of financial reporting showed minimum and maximum values of -.07840 and 0.8630 respectively.
From the table it was observed that all the variables except auditor's rotation (-0.228004) was skewed to the right, given the corresponding positive skewness statistics of 0.014655, 0.3940 and 3.734090 for audit tenure, audit firm size and quality of financial reporting respectively. Notably, the kurtosis statistics revealed that only quality of financial reporting was leptokurtic (i.e. positive kurtosis values are greater than 3) while auditor's rotation, audit tenure and audit firm size were platykurtic (i.e. positive kurtosis values less than 3).
The Jarque-bera statistics reveals that the normality hypothesis does not stand for quality of financial reporting while there is evidence that other variables are normally distributed given their corresponding probability values of 0.594591, 0.981080 and 0.4020 respectively. It can also be seen that all the variables have 50 observations. This can be attributed to availability of information on the variables used in the study.

Table 1 Results from Descriptive Statistics

	Auditor's rotation	Auditor's Tenure	Audit Firm Size	Quality of financial reporting
Mean	44.72000	0.52350	0.6000	0.084891
Maximum	1.00000	1.00000	1.0000	0.863000
Minimum	0.000000	0.000000	0.0000	-0.078400
Std. Dev.	11.23466	0.240913	0.5302	0.188631
Skewness	-0.228004	0.014655	0.3940	3.734090
Kurtosis	1.980308	0.787907	0.2044	16.07973
Jarque-Bera	1.039762	0.038202	0.1930	189.0443

Probability	0.594591	0.981080	0.4020	0.000000
Observations	70	70	70	70

Source: E-views Output, (2022)

4.2 Correlation Matrix

Table 2 Result from Correlation Matrix of Sampled Quoted Manufacturing Firms

	Quality of financial reporting	Audit Firm Size	Auditor's Tenure	Auditor' s Rotation
Quality of financial reporting	1.000000			
Audit Firm Size	0.320888	1.000000		
Auditor's Tenure	-0.030340	-0.136083	1.000000	
Auditor's rotation	0.130023	0.534522	-0.054554	1.000000

Source: E-views Output, (2022)

Table 3 Results of Unit Root Test

Variables	Level ADF-Fisher Chi-Square		
	Intercept	**Intercept and Trend**	**None**
Audit Firm Size	0.2909	0.0437**	0.3492
Auditor's Tenure	0.0314**	0.9785	0.2589
Auditor's rotation	0.3941	0.0417**	0.2291
Quality of financial reporting	0.4793	0.9350	0.0113**

**5% level of significance

Source: Extract from E-Views Output, (2022).

Table 4 Summary of Unit Root Test Results

	Augmented Dickey-Fuller(ADF)	
Variables	**Level**	**I(*d*)**
Audit Firm Size	0.0437**	I(0)
Auditor's Tenure	0.0314**	I(0)
Auditor's rotation	0.0417**	I(0)
Quality of financial reporting	0.0113**	I(0)

**5% level of significance

Source: Extract from E-Views Output, (2022).

Table 5 Results of Hausman Specification Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Period random	5.496522	3	0.1388

Period random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
Audit Firm Size	0.152065	0.157471	0.000041	0.3960
Audit Tenure	0.019037	0.003992	0.000305	0.3892
Auditor's rotation	0.054614	-0.017372	0.001273	0.0436

Source: E-views Output, (2020)

The correlation matrix table shows the correlation coefficients between the variables under study. Each cell in the table shows the relationship between two variables. This assists to assess which pairs have the highest correlation.
The table 4.2 briefly shows the relationship of variables with each other. Quality of financial reporting is positively related to audit firm size (0.3209) and auditor's rotation (0.1300). This means that an increase in these independents variables will result in the increase in financial performance in the proportions of 32.09 per cent and 13.00 per cent respectively. Only auditor's tenure shows a negative correlation (0.239) pair with quality of financial reporting, implying that one percent increases in leverage will improve financial performance by 23.9 per cent.
The table therefore shows that, in general, correlations between independent variables are not high; an indication of absence of multi-colinearity which usually associates with time series data.

4.3 Unit Root Test

A stationarity test on the variables was performed. Economic theory requires that variables be stationary before application of standard econometric techniques. This is to avoid misleading results. In performing the stationarity test, a maximum lag of 1 was used and included in the intercept. The Augmented Dickey-Fuller (ADF) unit root test was conducted on each of the series under study.

In order to investigate the order of integration among the variables such as, audit firm size, auditor's tenure, auditor's rotation and quality of financial reporting, the study used the Augmented Dickey Fuller (ADF) test. The tool of unit root test (ADF) was tested for all the variables by taking null hypothesis as 'presence of unit root test (i.e presence of non-stationarity) against the alternative hypothesis 'series is stationary'. If the absolute probability value exceeds the bench mark probability value (0.05), then, null hypothesis is accepted and it is concluded that series is stationary and vice-versa.
It is clear from the tables 3 and 4 above that the results for unit root test of ADF show that all the variables are stationary at their level form indicated as I (0). This implies that there is no form of co-integration relationship among the variables.

4.4 Analysis of Hausman Specification Test

In panel data analysis (the analysis of data over time), the Hausman test is described as a test for model specification test which helps to choose between fixed effects model and a random effects model. The null hypothesis is that the preferred model is random effects while the alternate hypothesis is that the model is fixed effects. Essentially, the tests tend to confirm if there is a correlation between the unique errors and the regressors in the model. The null hypothesis is that there is no correlation between the two. Thus, the decision rule is that, if the p-value is small (less than 0.05), reject the null hypothesis.

To choose between the fixed effect model and the random effect model of analyzing the panel data, the Hausman Specification test was carried out. Result of the test revealed that, there was no substantial difference between the estimators using either the fixed or random effect model. Furthermore, the result of statistical analysis showed a probability value of 0.1388 which is higher than the benchmark 0.05 level of significance, meaning that the result was not significant and the null hypothesis was accepted. Thus, the result meant that, random effect model was appropriate and it was adopted for the analysis of the study data.

4.5 Regression Analysis Result and Interpretation

Findings from the panel data regression analysis using random effect model for the consumer goods companies as shown in table 4.6 indicated that, the R-squared of the variables was 0.101. This is the coefficient of determination, which denotes a goodness of fit measure for linear regression models and specifies the percentage of the variance in the dependent variable that the independent variables explain collectively.

Table 6 Result of Panel Random Effect Test

Dependent Variable: QFR
Method: Panel EGLS (Cross-section random effects)
Date: 10/21/22 Time: 20:09
Sample: 2012 2021
Periods included: 10
Cross-sections included: 7
Total panel (balanced) observations: 70
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Audit Firm Size	0.070980	0.061331	1.944018	0.1666
Audit Tenure	-0.014857	0.030528	-0.486676	0.2923
Auditor's rotation	0.016677	0.038947	-1.709407	0.0188
C	0.065121	0.066011	0.986519	0.3290

Weighted Statistics

R-squared	0.101101	Mean dependent var	0.041215
Adjusted R-squared	0.042477	S.D. dependent var	0.100619
S.E. of regression	0.098458	Sum squared resid	0.445927

F-statistic	1.724566	Durbin-Watson stat	1.136440
Prob(F-statistic)	0.015106		

Source: E-views Output, (2022)

As a measure of the overall fitness of the model, the R-squared indicated that, the model was capable of explaining about 10 per cent of the systematic variation in the value of the dependent variable which could be traced to the independent variables and that about 90 per cent of the variations in financial performance of the banks were accounted for by other factors not captured by the model. This result was complimented by the adjusted R-squared of 8 per cent, which was the proportion of total variance that could be explained by the model.
Similarly, findings from the Fishers ratio (i.e. the F-Statistic) which is a proof of the validity of the estimated model presented a p-value of (0.015) less than 0.05; this invariably suggested clearly that simultaneously, the independent variables (audit firm size, audit tenure and auditor's rotation) were significantly associated with the dependent variable (quality of financial reporting). In effect, these independent variables strongly have impact on the quality of financial reporting in quoted construction companies in Nigeria.
Also, the analysis returned a Durbin-Watson statistic value of 1.136440. Durbin-Watson statistic is used to detect the presence of autocorrelation in the residuals from a statistical regression analysis. The Durbin-Watson statistic determines whether there is autocorrelation in the residuals of a time series regression. The statistic ranges from 0 to 4. A Durbin-Watson number between 0 and 2 indicates positive autocorrelation and 2 to 4 indicates negative correlation. A value of 2 indicates no auto correlation in the sample. Thus, the result (1.1364) showed that the independent variables were positively auto correlated.

4.6 Discussion of Findings

The study revealed that there was a positive insignificant relationship between audit firm size and audit quality. This was evident from the coefficient (0.0709) and P-value (0.1666) which was greater than the benchmark of 5 per cent specified for this analysis. This implies that large firms will have more clients and their total fees will be allocated among those clients. Also, large audit firms can contain the loss of a client and therefore, will provide higher quality audit. This result is in agreement with the work of Amahalu and Ezechukwu (2017). Their work examined determinants of audit quality: evidence from consumer goods companies listed on Nigeria stock exchange. Their empirical results report a positive association between audit firm size and audit quality for the three categories of audit firms. Hamed, Rohaida, Siti and Abdul, (2015) also studied the relationship between auditing quality and the firm performance. Their study showed a positive and weak relationship between the auditor size (auditor's good fame) and the profitability ratios. Their results implied that large auditors will be more accurate because they have greater wealth that is exposed to risk in case of any litigation. Furthermore, in the study of Ogbodo & Akabuogu, (2018) on audit quality and financial performance of selected banks in Nigeria, they found out that auditor size was also positive to financial performance. It is further argued that managers have incentives to manipulate the reported earnings to meet the analyst's forecasts. Therefore, if large auditing firms provide higher-quality audits than small auditing firms, we may expect that the forecast errors of big auditing firms' clients will be larger than those of small auditing firms' clients.

The regression findings showed that there was a negative insignificant relationship between audit tenure and financial performance. This was evident from the P-value (i.e. 0.2923>0.05) associated with audit tenure which was higher than the benchmark of 5 per cent specified for this analysis. This is consistent with the proposition that a comparatively long relationship between the auditor and the client may represent a threat to independence as individual ties and familiarity may additionally broaden. Hence, this could result in less vigilance on the part of the auditor and even to an obliging attitude of the latter to the top managers of the corporation. In support of this finding, Soliman and Ragab, (2014) also investigated the impact of auditor tenure on audit quality and they are consistent with the hypothesis that the auditor compromises his independence most often in a long term audit contract. The financial performance was judged to be poorer and lower in the early year's relationship because the auditor is unfamiliar with the ethical norms of client companies operations, accounting policies, and internal control system. Also, the length of audit tenure is a critical factor influencing auditor's rotation, which in turn affects the audit quality. In addition, after some years, the independence of the auditor will fade, through familiarity threat arising from friendly relationship between the auditor and the client as a result of long period of services. Also this leads to restraint in audit quality which could affect the objectivity of the auditors on the overall performance of that organization. However, Okolie (2014) suggested that the quality of auditor's reporting should improve over time because of the increasing rate of auditor's knowledge of the client's specialization and the processes within the organization which eventually contribute positively to enhance performance of that company. In addition, the results of Adeyemi & Okpala (2011) indicated that risks increase early in the auditor-client relationship and then declines over time suggesting that longer audit tenure overtime smoothens out any initial challenges that may impair the quality of the auditor's performance.

Furthermore, there was a positive significant relationship between auditor's rotation and audit quality. This was evident from the coefficient (0.0166) and P-value (0.0188) associated with auditor's rotation which was higher than the benchmark of 5 per cent specified for this analysis. The positive and significant relationship between auditor's rotations is in tandem with the work of Corbella, Florio, Gotti, & Mastrolia, (2015) on audit firm rotation, audit fees and audit quality: the experience of Italian public companies. Findings of the study indicate that the effect of audit quality on financial performance is positive and significant and the greater the degree of an auditors independence, the greater the propensity of a firm making substantial net profit margins. Also, Zayol, Kukeng and Iortule, (2017) investigated the quality of financial reporting and audit quality as two concepts that work inseparably. They found out that there is a strong relationship between quality of financial reporting and audit quality. Their result also revealed four threats to quality of financial reporting, which are client importance, non-audit services, audit tenure, and client's affiliation with public firms. It is also important to note that threats to independence are often very significant and thus, undermine the auditor's effectiveness in rendering the audit services. It becomes even more challenging when the auditor overstays with a client as extended audit tenures have been found to hamper quality of financial reporting.

5. Conclusion and Recommendations

Judging by the findings of the analyses, the audit quality of publicly traded real estate/construction firms in Nigeria is significantly influenced by factors related to auditor independence. The results of this study led to the conclusion that all factors linked to auditor independence had an impact on these organizations' quality of financial reporting, both favorably and adversely. As a result, each of the auditor independence indicators examined in this study was critical to any company's quality of financial reporting. Similar to this, the panel random effect test indicates that the overall model is significant. This was demonstrated by the P-value (i.e., 0.0150) for the corporate governance variables, which was lower than the analysis's set benchmark of 5%.

In view of the conclusion reached in this study as highlighted above, the following recommendations were made as regards the study. Real estate/construction firms in Nigeria, quoted on the stock exchange should make use of the services of audit firms with unquestionable track records of audit quality and reputation. However, the management of the real estate/construction firms in Nigeria should continually employ the services of one of the big audit firms and where this is not possible, management should go for an audit firm whose character and integrity is beyond question.

Secondly, management of quoted real estate/construction firms in Nigeria can improve the financial reporting quality of their firms by relatively increasing the amount of audit fees paid to the audit firm of their respective organizations. Although, this might seem like a profit reduction decision in the short run, the benefits that will accrue to the firm far outweigh the cost. This will help ensure that all financial transactions are in order; give the users of the financial statements more trust and confidence in terms of the quality of audited reports that will eventually emerge from the auditing assignment.

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Appendix A

Listed Real Estate/Construction firms used for the study

1. Arbico PLC
2. Costain West Africa PLC
3. G. Cappa PLC
4. Julius Berger PLC
5. Roads Nigeria PLC
6. Skye Shelter Fund PLC
7. Smart Products Nigeria PLC
8. UACN Property Development Company PLC
9. Union Homes Real Estate Investment Trust PLC.