

Auditor's independence and the quality of financial reporting on listed FMCG in Nigeria

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ABSTRACT: This study examines the relationship between auditor independence and the quality of financial reporting among listed fast-moving consumer goods (FMCG) companies in Nigeria. The study adopted a survey research design and primary data from surveys among audit professionals who are engaged in audit services of the listed FMCG companies in Nigeria, the study explores how factors such as audit tenure, audit fees and non-audit service influence the financial reporting quality which is measured by timeliness. Auditors' independence which is the independent variable in this study is represented by audit tenure, audit fees and non-audit services. On the other hand, financial reporting quality which is the dependent variable is represented by timeliness in the production of audited financial reports. The result of the study shows that audit fees and non-audit services do not have a significant influence on the quality of financial reporting of listed FMCG firms in Nigeria. In addition, the result further shows that audit tenure significantly influences the quality of financial reporting. It is concluded that audit independence has a significant influence on the quality of financial reporting of listed FMCG firms in Nigeria. Therefore, it is recommended that audit tenure should be maintained for the appointment of auditors to listed FMCG firms in Nigeria.

Keywords: Auditor's fee, audit tenure, fast moving consumer goods, non-audit service, timeliness.

INTRODUCTION

The relationship between auditor independence and financial reporting quality has been a concern of interest groups for some time, especially since the Enron affair it is impossible to overestimate the significance of auditor independence and high-quality financial reporting in the context of investor decision-making and company governance, (DeAngelo, 1981; Jensen and Meckling, 1976). There is growing concern that auditor independence in Nigeria may be compromised due to various factors, including long-term relationships between auditors and clients leading to familiarity threats, and the provision of non-audit services creating potential conflicts of interest (Babatolu, 2016). The reliability and accuracy of financial reports from listed FMCG companies in Nigeria have been questioned, with instances of financial misstatements and fraudulent reporting eroding investor confidence and raising doubts about the effectiveness of

current auditing practices (Adeyemi and Okolie, 2017; Audu, 2019).

Despite the establishment of the Financial Reporting Council (FRC) and the adoption of International Financial Reporting Standards (IFRS), concerns persist about the level of compliance with these regulations among FMCG companies and their auditors, (Owolabi and Oladipo, 2020). The competitive nature of the audit market in Nigeria may create economic pressures on audit firms to retain clients, potentially influencing their willingness to maintain strict independence (Yakubu and Williams, 2020). Furthermore, the FMCG sector in Nigeria faces unique challenges, including rapid market changes, intense competition, and complex supply chains, which may create additional pressures on financial reporting and auditing processes.

While there have been studies on auditor independence

and financial reporting quality in Nigeria, there appears to be a lack of sector-specific research focusing on the FMCG industry. This gap in the literature limits our understanding of how these issues manifest in this crucial economic sector. Given these problems, this study aims to examine the current state of auditor independence among firms auditing listed FMCG companies in Nigeria, assess the quality of financial reporting in the Nigerian FMCG sector and its relationship to auditor independence, and investigate the impact of regulatory measures on these aspects. This study seeks to fill this gap by examining auditors' independence and how they influence the quality of financial reporting of listed FMCG in Nigeria.

While financial reporting quality is necessary for informed investment choices and stakeholders' trust, auditor independence is a critical component in guaranteeing the dependability and credibility of financial statements (Watts and Zimmerman, 1983; Healy and Palepu, 2001). The FMCG industry in Nigeria makes a substantial economic contribution to the nation National Bureau of Statistics, (2020). Nonetheless, the literature has expressed concerns over the independence of auditors and the caliber of financial reporting (Adeyemi and Okolie, 2017; Owolabi and Oladipo, 2020).

The quality of financial reporting and the independence of auditors have been the subject of increasing concern in the global financial landscape, particularly in emerging markets like Nigeria. This concern is especially relevant for the Fast-Moving Consumer Goods (FMCG) sector, which plays a crucial role in Nigeria's economy.

Babatolu (2016) believes that auditors' tenure is one of the most important factors affecting auditors' independence, which also negatively affects the quality of financial reporting. The provision of non-audit services has a greater impact on the autonomy of the auditor, because if the auditor includes both audits and non-audit services for a particular client; this can lead to a conflict of interest and undermine the autonomy of the auditor, which affects the quality of reporting. Therefore, the above fact led to the fact that auditors cannot give an impartial and professional opinion on the audited work, which does not allow the public to trust the correctness of the results and the honesty of the accounting profession.

Auditor independence is a cornerstone of the auditing profession. It refers to the auditor's ability to maintain objectivity and impartiality in conducting audits and reporting findings. The independence of auditors is crucial for ensuring the reliability and credibility of financial statements. However, various factors can compromise this independence, including long-term relationships with clients, provision of non-audit services, and economic dependence on specific clients. The general objective of this study is to examine the effect of auditors' independence on the quality of financial reporting in listed FMCG companies in Nigeria.

Therefore, the general objective of this study is to

examine the effect of auditors' independence on quality of financial reporting in listed FMCG companies in Nigeria. To meet the general objective of this study, the following specific objectives as stated below were achieved

1. To examine the effect of auditor tenure on the quality of financial reporting in listed FMCG companies in Nigeria.
2. To assess the impact of non-audit services provision on the quality of financial reporting in listed FMCG companies in Nigeria.
3. To investigate the effect of audit fee on the quality of financial reporting in listed FMCG companies in Nigeria.

To achieve the objectives of this study, the following research questions are answered:

1. To what extent does auditor tenure affect the quality of financial reporting in listed FMCG companies in Nigeria?
2. How does the provision of non-audit services impact the quality of financial reporting in listed FMCG companies in Nigeria?
3. What is the effect of audit fee on the quality of financial reporting in listed FMCG companies in Nigeria?

To answer the research questions in this study, the following hypotheses stated in the null form are evaluated in this study:

H₀₁: Auditor tenure does not significantly affect the quality of financial reporting in listed FMCG companies in Nigeria.

H₀₂: The provision of non-audit services does not significantly impact the quality of financial reporting in listed FMCG companies in Nigeria.

H₀₃: Audit fee does not significantly affect the quality of financial reporting in listed FMCG companies in Nigeria.

The remaining part of this study is made up of the literature review which will show the review of the concepts, theories and existing literature, methodology, result of the analysis, conclusion and recommendations.

LITERATURE REVIEW

This study reviewed theories that are relevant to this study. Empirical review was also adequately done for justification of this study.

Conceptual review

The major concepts in this study are auditor's independence and the quality of financial reporting.

Auditor's independence

Auditor independence is defined as the absence of relationships that might bias the auditor's judgment. It ensures that the auditor can provide an objective and impartial opinion on the financial statements. Factors that affect auditor independence include audit tenure, audit fees, non-audit services, and auditor-client relationships, auditor's independence can be seen as an auditor's unprejudiced mental frame of mind in making decisions as regards to the processes that lead to the preparation of financial statement and the audit Tobi *et al.* (2016) stated that decisions regarding the processes leading to the preparation of financial statements and audits are crucial.

Susanti and Leny (2018) described an auditor's independence as the ability to surmount unfairness and desire. Singh and Singh (2019) opined that for an auditor to be independent, the auditor must not be under any form of control or coercion that will substantially weaken the quality of the audit report.

Elliott *et al.* (2018) took a different view, asserting that an auditor's independence involves the ability of the auditor to ensure that the financial statement is free from material misstatement, making it more reliable.

Tobi *et al.* (2016) noted two major qualities of an independent auditor. First, an auditor must be independent "in fact," implying that the auditor should not be swayed during the conduct of an audit assignment and should make decisions without influence or bias. Second, independence "in appearance" implies that the auditor must avoid associations and gifts from the client. Despite these qualities, users of financial statements have always questioned auditor's independence, resulting in doubts about the reliability of audited financial statements.

Ebo (2016) alludes that auditor's independence is all about public trust. The auditor should ensure the audit is conducted in an atmosphere free from any threat to independence, and auditors should be seen as independent in both deeds and daily actions.

In summary, for the purpose of this study, audit independence is mirrored by audit tenure, the provision of non-audit services by auditors and the audit fee.

Quality of financial reporting

This refers to the extent and transparency of information provided in financial reports. High-quality disclosures provide stakeholders with comprehensive, clear, and useful information, which enhances the decision-making process. Beyer *et al.* (2010) provided a comprehensive review of the corporate disclosure literature, highlighting its importance for financial reporting quality. They argued that high-quality disclosures reduce information asymmetry between the company's management and its stakeholders, thereby lowering the cost of capital and

improving market efficiency. Umoren *et al.* (2016) examined factors influencing disclosure quality among listed companies. They found that firm size, ownership structure, and regulatory environment significantly affect the extent and quality of corporate disclosures. Better disclosure practices lead to greater transparency and accountability, thus enhancing overall financial reporting quality.

The International Accounting Standard Board (IASB) described the quality of financial reporting as existing in two forms which are the fundamental and the enhancing features. The fundamental features of the quality financial reporting include faithful representation and relevance. On the other hand, the enhancing features include timeliness, comparability, verifiability and understandability.

For this study, quality of financial reporting is discussed from the timeliness of financial report production by listed FMCG in Nigeria. The timeliness of financial reporting is crucial for its usefulness to stakeholders. More timely reporting is associated with higher quality financial reporting, as it provides stakeholders with up-to-date information necessary for decision-making. Timely financial reports can enhance the credibility of a company and ensure compliance with regulatory requirements, thereby maintaining investor confidence and supporting efficient market operations.

Timeliness can be influenced by various factors, including the complexity of financial transactions, the efficiency of internal reporting systems, and the level of coordination between different departments involved in the financial reporting process. Delays in financial reporting can result from operational inefficiencies, inadequate internal controls, or external factors such as economic uncertainties or changes in regulatory requirements.

Owusu and Ansah (2000) studied the timeliness of annual report releases in emerging markets and found that company size, profitability, and audit firm size significantly influenced reporting timeliness. Larger companies, which typically have more resources and more sophisticated internal controls, tend to report more promptly than smaller companies. Similarly, more profitable companies are often timelier in their financial reporting, possibly due to better internal processes and a greater focus on maintaining investor relations. Additionally, companies audited by larger audit firms tend to report more promptly, likely due to the greater capacity and stringent standards maintained by these firms.

Theoretical framework

This study is built on the foundation of two theories which are agency theory and stakeholder theory.

Agency theory

Agency theory, introduced by Jensen and Meckling

(1976), is a key theoretical framework for understanding the dynamics between principals (shareholders) and agents (management) within a company. The theory highlights the inherent conflicts of interest that arise when the goals of the principals and agents diverge. This section delves into the assumptions behind agency theory, its criticisms, and its application to auditor independence and the quality of financial reporting. Agency theory explains the relationship between principals (shareholders) and agents (company management), focusing on conflicts of interest that arise when agents prioritize personal goals over shareholders' interests (Jensen and Meckling, 1976). In this context, auditors act as intermediaries to ensure that management's actions align with shareholders' expectations by providing independent and objective assessments of financial statements.

The assumptions behind the theory

Separation of Ownership and Control: Agency theory assumes that there is a clear separation between the owners (shareholders) and the controllers (management) of a company. Shareholders delegate decision-making authority to managers who run the day-to-day operations (Jensen and Meckling, 1976).

Goal Conflict: The theory posits that managers (agents) may pursue personal goals that are not aligned with the interests of the shareholders (principals), such as maximizing personal wealth, job security, or power within the organization, (Jensen and Meckling, 1976).

Information Asymmetry: Managers typically have more information about the company's operations and financial status than the shareholders. This information asymmetry can lead to opportunistic behaviors by managers, such as earnings management or financial misreporting (Eisenhardt, 1989).

Rational Behavior: Both principals and agents are assumed to act rationally and in their self-interest. Principals seek to maximize their returns, while agents seek to maximize their personal benefits (Jensen and Meckling, 1976).

Monitoring and Incentives: To mitigate the agency problem, principals employ monitoring mechanisms and incentive schemes. These include hiring independent auditors to review financial statements and aligning management compensation with company performance (Jensen and Meckling, 1976).

Criticisms against the theory

Overemphasis on Conflicts: Critics argue that agency

theory overemphasizes conflicts of interest and assumes that agents are inherently opportunistic. This view may neglect the potential for cooperative and mutually beneficial relationships between principals and agents (Perrow, 1986).

Simplistic Assumptions: The theory's assumptions about rational behaviour and information asymmetry are seen as too simplistic. In reality, human behaviour is often influenced by a variety of factors, including ethical considerations, organizational culture, and social norms (Ghoshal, 2005).

Neglect of Trust and Loyalty: Agency theory tends to overlook the role of trust, loyalty, and intrinsic motivations in the principal-agent relationship. Not all agents act purely out of self-interest; many are driven by a sense of duty and commitment to their organizations (Davis *et al.*, 1997).

Limited Scope: The theory primarily focuses on financial incentives and monitoring mechanisms, potentially ignoring other important aspects of governance, such as leadership, strategic decision-making, and stakeholder engagement (Donaldson and Davis, 1991).

Application to auditor independence and the quality of financial reporting

Agency theory is highly relevant to the discussion of auditor independence and financial reporting quality. Independent auditors serve as a key monitoring mechanism, assuring shareholders that the financial statements prepared by management are accurate and reliable.

Auditor Independence: Maintaining auditor independence is crucial to mitigating the agency's problem. Independent auditors can provide unbiased opinions on the financial statements, reducing the likelihood of earnings management and financial misstatements. Factors influencing auditor independence include audit tenure, audit fees, non-audit services, and economic pressures (DeAngelo, 1981). Auditor independence is crucial for ensuring the reliability and credibility of financial reporting. It involves both independence in fact (an auditor's actual impartiality and objectivity) and independence in appearance (the perception of the auditor's independence by outsiders (DeAngelo, 1981). Independent auditors can provide unbiased and accurate evaluations of a company's financial statements, thereby enhancing the quality of financial reporting.

Audit Tenure: Prolonged audit tenure can lead to familiarity threats, potentially compromising auditor

independence. However, familiarity with the client can also enhance audit quality through a better understanding of the client's business (Carey and Simnett, 2006). Finding a balance between tenure and independence is essential for maintaining audit quality.

Non-Audit Services (NAS): The provision of NAS by auditors to their clients can create conflicts of interest, potentially impairing auditor independence. Regulators often impose restrictions on the extent of NAS that auditors can provide to mitigate these risks (Ashbaugh *et al.*, 2003).

Economic Pressures: Auditors facing significant economic pressures, such as competitive audit fees and market conditions, may be more likely to compromise their independence to retain clients or attract new ones. This study investigates how these pressures affect auditor independence and, consequently, the quality of financial reporting (DeAngelo, 1981).

Quality of financial reporting

Quality of financial reporting refers to the accuracy, completeness, and reliability of the financial information provided by companies. High-quality financial reporting is essential for investors, regulators, and other stakeholders to make informed decisions (Beest *et al.*, 2009). It ensures transparency and reduces information asymmetry between management and stakeholders.

Applying agency theory to auditor independence and financial reporting quality

Principal-Agent Relationship: Shareholders (principals) rely on management (agents) to run the company profitably. However, due to differing interests, management might engage in activities that benefit them at the expense of shareholders.

Role of Auditors: Auditors act as third parties to mitigate these conflicts by providing independent verification of financial reports, ensuring that management's representations are accurate and fair (Watts and Zimmerman, 1983).

Independence and Objectivity: Auditor independence is crucial for the integrity of this process. If auditors are influenced by management or have conflicts of interest, their ability to provide objective assessments is compromised, reducing the quality of financial reporting (Mautz and Sharaf, 1961).

Enhancing Reporting Quality: Independent auditors help enhance the quality of financial reporting by detecting and

preventing misstatements, fraud, and other irregularities. This, in turn, builds trust among investors and other stakeholders.

Stakeholder theory

Stakeholder theory, developed by Freeman (1984), broadens the focus from shareholders to include all parties who have a stake in the company's operations. This theory posits that the success of an organization depends on its ability to manage relationships with a diverse set of stakeholders, including employees, customers, suppliers, communities, and shareholders. This section explores the assumptions behind stakeholder theory, its criticisms, and its application to auditor independence and the quality of financial reporting.

The assumptions behind the theory

Interconnected Relationships: Stakeholder theory assumes that a firm's performance and sustainability depend on its ability to manage and balance the interests of various stakeholders who are interconnected through the organization's activities (Freeman, 1984).

Broad Definition of Stakeholders: It broadens the definition of stakeholders to include any group or individual who can affect or is affected by the achievement of the organization's objectives. This includes not only shareholders but also employees, customers, suppliers, communities, and regulatory bodies (Freeman, 1984).

Ethical Considerations: The theory emphasizes the ethical obligation of managers to consider the interests of all stakeholders, not just shareholders. This implies a moral duty to act in ways that are fair and beneficial to all parties involved (Donaldson and Preston, 1995).

Long-term Value Creation: Stakeholder theory posits that focusing on the interests of all stakeholders leads to long-term value creation and sustainability. This contrasts with the short-term profit maximization focus of traditional shareholder theory (Freeman *et al.*, 2004).

Criticisms against the theory

Vagueness and Ambiguity: Critics argue that stakeholder theory is vague and lacks a clear definition of who qualifies as a stakeholder and how to prioritize their interests. This ambiguity can make practical applications challenging (Jensen, 2002).

Potential Conflicts: Managing the interests of diverse stakeholders can lead to conflicts and trade-offs, as the

needs and goals of different stakeholders may be incompatible. Critics argue that the theory does not provide clear guidance on how to resolve these conflicts (Phillips *et al.*, 2003).

Lack of Measurement: The theory is criticized for lacking specific metrics and tools to measure the impact of stakeholder management on firm performance. This makes it difficult to evaluate the effectiveness of stakeholder-oriented strategies (Jensen, 2002).

Overemphasis on Ethics: Some critics argue that stakeholder theory overemphasizes ethical considerations at the expense of economic performance. They contend that the primary responsibility of a business is to generate profits for its shareholders (Sundaram and Inkpen, 2004).

Application to auditor independence and the quality of financial reporting

Stakeholder theory is highly relevant to the discussion of auditor independence and financial reporting quality. Independent auditors play a crucial role in assuring a wide range of stakeholders that the financial statements are accurate and reliable.

Auditor Independence: From a stakeholder perspective, maintaining auditor independence is essential to ensure that the interests of all stakeholders are protected. Independent auditors provide unbiased opinions on financial statements, which helps maintain the trust and confidence of stakeholders (DeAngelo, 1981).

Regulatory and Ethical Obligations: Auditors must adhere to regulatory and ethical standards that promote independence and objectivity. This includes avoiding conflicts of interest and ensuring that non-audit services do not compromise their impartiality (Ashbaugh *et al.*, 2003).

Transparency and Accountability: High-quality financial reporting is crucial for transparency and accountability. Stakeholders rely on accurate and reliable financial information to make informed decisions. Independent auditors play a key role in enhancing the credibility of financial reports by ensuring compliance with accounting standards and ethical guidelines (Becker *et al.*, 1998).

Balancing Interests: Auditors must balance the interests of various stakeholders, including shareholders, employees, customers, and regulatory bodies. By maintaining independence and focusing on the quality of financial reporting, auditors help ensure that the financial statements reflect a true and fair view of the company's financial position (Freeman *et al.*, 2004).

Empirical review

Auditor independence and financial reporting quality

The study by Ibrahim and Ali (2018) was on audit fees and audit quality. The proxy for audit quality was discretionary accrual while for audit fee was the natural log of audit fee. They used panel data and the techniques for data analysis were OLS and random effect regressions. From the finding, it was discovered that audit fees affect audit quality.

Abdul-Rahman *et al.* (2017) assessed how audit fees affect audit quality in Nigeria. The study was on quoted cement firms. OLS was used to analyse the data; it was discovered that audit fees significantly influence audit quality. In other words, a well-remunerated audit firm will ensure that audit quality is enhanced.

An important and essential part of auditing is audit fees. Moraes and Martinez (2015) examined how audit fees relate to audit quality. The study was done in Brazil between 2009 to 2012 using 300 quoted firms. The techniques for data analysis were the third by logistic regression and ordinary least squares (OLS). Fees paid by the client to the audit firm were the proxy for audit fees while for the dependent variable, the proxy was discretionary accrual. Findings revealed that abnormal audit fees have a positive relationship with discretionary accruals. In other words, fiery earnings management occurs largely when a client firm pays an audit firm audit fee that falls below expectation.

Ogbonna and Appah (2014) examined the effect of audit committee characteristics on the quality of financial reporting in Nigerian quoted companies, including those in the FMCG sector. They found that audit independence and expertise positively influence financial reporting quality, suggesting a potential link between auditor independence and reporting quality.

In contrast to previous studies whose results were positive, Eshleman and Guo (2013) conducted a study to ascertain the relationship that exists between the fees an audit firm charge and audit quality. The proxy for dependent variable was discretionary accruals, while for audit fees the study used fees charged by the external auditor. The finding revealed that a negative relationship exists between the fees an audit firm charges and audit quality.

Adeyemi and Okpala (2011) investigated the impact of audit independence on financial reporting in Nigeria. Their study, which included companies from various sectors including FMCG, found a significant positive relationship between auditor independence and the quality of financial audit fees and audit quality client size, associated risk and complexity are among the three major determinants of audit fees and audit approach (Moraes and Martinez, 2015). Some of the associated risks are litigation risk and earnings management risk. Earnings management risk

involves the inability of an audit firm to detect discretionary accrual from the client.

Audit firm rotation and audit quality

Widyaningsih *et al.* (2019) studied how the rotation of audit firm relates with the quality of an audit opinion in Indonesia between 2010 to 2017. Discretionary accruals were used to measure audit quality, while dummy variable was used for audit firm rotation, the dummy variable allocated 1 if the client firm rotates audit firm and 0 if otherwise. OLS was used to analyse data. It was discovered from the result that, in the pre compulsory era of rotation of audit firm, the relationship that exist between the rotation of external auditor and the quality of audit opinion was not significant, while, in the post compulsory era, finding revealed that a significant relationship exists.

Singh and Singh (2019) conducted research to ascertain the magnitude of how the timely rotation of external auditors will promote unbiased audit report. Unbiased audit report was measured using abnormal working capitals accrual. The tool used to analyse the data was regression. Finding disclosed an insignificant positive relationship between timely rotation of external auditor and unbiased audit report. This implies that some other determinants will enhance audit quality but not audit firm rotation in Bhutan.

Imegi and Oladutire (2018) did a study in the Nigeria financial sector. The study investigated the extent to which statutory rotation of external auditors determines qualitative audit reports. OLS was used to analyse data. Current accruals divided by cash were used to measure audit quality while for statutory rotation of external auditor, dummy number 1 and 0 were used, 1 if an audit firm should audit a client three years and above, 0 if otherwise. Finding revealed that statutory rotation of external auditor determines qualitative audit report.

There have been different studies regarding whether an audit firm should pivot the audit engagement with the client or not. The study of Kingstone *et al.* (2017) was done in Zimbabwe, the study was to ascertain if compulsory rotation of external auditor will enhance audit quality. A descriptive research design was adopted, 33 companies were selected as the sample size. Pearson regression was used to examine the data. The outcome of the study revealed that rotation of external auditors will enhance audit quality, one of the proxies which could impair auditor's independence is the rotation of audit firm.

Audit firm size and audit quality

Kamil (2020) did a study using Indonesia stock exchange, the study was to examine if audit assignment by big audit firms will always enhance quality of the audit conducted between 2016 to 2019. Descriptive research design was

used, sample of 22 companies was obtained using purposive sampling technique. Data was analyzed using logistic regression. The proxy for audit firm size was whether the client engage big audit firm or not. For audit quality, the proxy was indicators of earnings management. Finding showed that engagement of big audit firms will always enhance quality of the audit conducted.

Susanti and d Leny (2018) examined the degree to which the size of external audit firm affects audit report. The research design used was survey research design. 73 public accounting firms in Indonesia were used as the sample size. The authors used the number of branches and the existence of international affiliation to measure audit firm size. The study used some indicators such as capability in audit method, existence of audit support, external auditor's skills and professional experience to measure audit quality. From the finding, it was discovered that size of external audit firm affects audit report immensely. Similarly, Ibrahim and Ali (2018) examined the velocity in which size of the audit firm will contribute to a better audit report. Dummy variable was used to measure audit firm size. 1 if audited by the Big 4 and 0 if otherwise, while for audit quality, the proxy was discretionary accrual. OLS was used for data analysis in which random effect regression was used based on Hausman test. The outcome of the study indicated that the size of the audit firm contributes to a better audit report.

Ali and Aulia (2015) did a study in Indonesian state-owned enterprises, the aim of their study was to investigate degree of the differences on the size of external audit firm and how it enhances the audit report in the annual report. The study used nominal scale to ascertain audit firm size. The nominal scale used was the dichotomy between 1 and 0, for the quality of audit report, discretionary accrual was used to measure it. The sample size was 36 out of 115 state owned enterprises that were not involved in financial service industry between 2010 to 2012. Linear regression was used for data analysis, and it was discovered that the differences in the size of external audit firm does not enhance the audit report in the annual report.

Audit firm tenure and audit quality

Good auditor-client relationship enhances audit engagement planning and saves audit costs, (Achyarsyah and Molina, 2014). However, prolonged relationship could be detrimental to the client (Sawan and Alsaqqqa, 2013). Martani *et al.* (2021) conducted a study to ascertain whether the duration an external auditor audits a client will determine the robustness of the audit report. The proxy for robust audit report was absolute discretionary accrual while for the duration an external auditor audits a client, it was measured using the number of years of audit. The sample size was 215 quoted firms, the sampling technique was purposive in which the study period was between 2013 to 2017. The result showed an insignificant effect of

the duration an external auditor audits a client and robustness of audit report.

The study of Charles (2017) was to ascertain if the tenure of external auditors promotes qualitative audit report in Nigeria. A descriptive research design was used, dummy variable was used to measure tenure of external auditors based on the dichotomy between 1 and 0, 1 if it is greater than 5 years, and 0 if it is less than 5 years, which is the duration spent by an audit firm for a sampled bank. From the empirical result of binary logistic regression, it was discovered that the tenure of external auditors does not promote qualitative audit reports.

Abdul-Rahman *et al.* (2017) did a study to verify empirically whether the higher the duration an audit firm audits a client, the higher the ability of the audit firm in detecting errors and fraud. OLS was used to analyses the data, the result revealed that the lower the duration an audit firm audits a client, the higher the ability of the audit firm in detecting errors and fraud.

The study of Tobi *et al.* (2016) was on seven (7) banks in Nigeria, the study was done to determine how auditor's independence will enhance the quality of audit report. The sampling technique was purposive, while the data analysis techniques used was OLS regression. The result showed that as the duration an audit firm audits a client increases, the quality of audit reports decreases.

Similarly, Achyarsyah and Molina (2014) assessed the magnitude of the relationship between external auditor tenure and the qualitative outcome of the audit engagement report. Random sampling technique was used in the Indonesian Capital Market in which 63 public accounting firms where selected. The length of years an auditor audits the client was used to measure audit tenure while input, process, and output orientation were used as the measurement instrument of the outcome of the audit engagement report. It was discovered that there is no relationship between external auditor tenure and the qualitative outcome of the audit engagement report.

One of the hypotheses examined by James and Izien (2014) from their study was to ascertain whether the length of years in which an audit firm audits a client will lead to the discovery and reporting of material misstatement. The technique for data analysis was multivariate regression. It was discovered from the finding that the higher the length of years in which an audit firm audits a client, the lower the discovery and reporting of material misstatement.

Gap in the study

This research focuses on the Nigerian situation, specifically the Fast-Moving Consumer Goods (FMCG) industry, to fill a critical vacuum in the literature. The study focuses on the unique legal and operational environment of Nigerian FMCG firms, examining the influence of auditor independence on financial reporting quality. The research is tailored to the Nigerian market, revealing details and

interactions that may be missed in wider studies. The study also uses Nigerian data to fill a gap in existing literature, providing empirical evidence and insights into the relationship between auditor independence and financial reporting quality in Nigerian FMCG firms.

METHODOLOGY

The descriptive survey research design is employed in this study as it allows for hypothesis testing and the examination of relationships between variables. The population for this study comprises 35 Fast-Moving Consumer Goods (FMCG) companies listed on the Nigerian Stock Exchange (NGX) which are listed as of March 31, 2024. Using the Taro Yamane sample size technique, 33 FMCG companies are randomly selected to form the sample of this study. Primary data is collected through the conduct of a field survey to collect data with the research questionnaire from representatives of senior management, finance and internal audit departments and members of the audit committee. Physical copies of the questionnaire were distributed to the head office of the selected firms and a total of seven per firm which summed up to one hundred and ninety-eight copies of the questionnaire that was distributed. A hundred per cent response rate was recorded on retrieval of copies of the questionnaire. The research model for this study is a multiple regression model which is specified below:

$$FRQ_{it} = \beta_0 + \beta_1 AT_{it} + \beta_2 NS_{it} + \beta_3 AF_{it} + \mu_{it} \dots\dots (i)$$

Where: FRQ = Financial Reporting Quality, AT = Audit Tenure, NS = Non-audit Services, AF = Audit Fee.

RESULT OF THE ANALYSIS

Table 1 reveals that the R square with the value of 0.331 indicates that 33% variation in Auditor Independence is caused by the explanatory variables which include auditor tenure, audit fee and non-audit services. Also, the adjusted R square indicates that after adjusting the degree of freedom, the explanatory variables can still explain a 30% variation in auditor independence.

Table 2 shows the overall significance of the model, the probability value of 0.000 which is below the level of significance indicates that we reject the null hypothesis and conclude that the auditor's independence has impact on the quality of financial reporting on listed FMCG in Nigeria.

Regression

Table 3 reveals the relationship between the variables which shows that auditor tenure, audit fee, and non-audit

Table 1. Model Summary.

Model	R	R square	Adjusted R square	Std. error of the estimate
1	0.575 ^a	0.331	0.305	1.96518

a. Predictors: (Constant), AT, AF.

b. Dependent Variable: AI.

Table 2. ANOVA^a

Model		Sum of squares	Df	Mean square	F	Sig.
1	Regression	145.244	3	48.415	12.536	0.000 ^b
	Residual	293.506	76	3.862		
	Total	438.750	79			

a. Dependent Variable: Auditor Independence.

b. Predictors: (Constant), Auditor Tenure, Audit Fee and Non-Audit services.

Source: Extracted from SPSS, Version 23.

Table 3. Coefficients^a.

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.159	1.568		2.014	0.048
	Auditor Tenure	0.453	0.148	0.390	3.055	0.003
	Audit Fee	0.076	0.146	0.070	0.518	0.606
	Non-Audit services	0.216	0.133	0.197	1.621	0.109

a. Dependent Variable: Auditor Independence

Source: Extracted from SPSS, Version 23

services have a positive relationship with auditor Independence with 0.453, 0.076 and 0.216 respectively. Table 3 further reveals the significance of the explanatory variables, which were used to test the study's hypotheses. However, the T statistic rules state that once the probability value of the variable is greater than 0.05, which is the significance level, we accept the null hypothesis.

Table 3 reveals that audit fee and non-audit services were not significant with quality of financial reporting which indicates the P value of 0.606 and 0.109 respectively, which is greater than 0.05 level of significance ($p > 0.05$). Auditor tenure is significant with auditor independence which indicates the P value of 0.003, which is lesser than 0.05 level of significance ($p < 0.05$).

DISCUSSION

Research Question One: To what extent does auditor tenure affect the quality of financial reporting in listed FMCG companies in Nigeria?

The finding from Table 3 shows that auditor tenure has a

significant positive relationship with auditor independence contradicts the common perception that long auditor-client tenure leads to threats to independence. This suggests that in the context of listed FMCG firms in Nigeria, familiarity with the client's operations and financial reporting processes over time may enhance the auditor's ability to provide objective and independent assurance. This finding is in tandem with the position of Achyarsyah and Molina (2014) who opined that auditor tenure can bring about a good auditor-client relationship which increases the quality of audit engagement planning and saves audit costs. However, Sawan and Alsaqqa (2014) disagree with this position as they showed empirically that auditor tenure can negatively influence the quality of financial reporting. Charles (2017) also stated that long audit tenure could hamper the quality of financial reporting. However, based on the findings from the study, which show audit tenure will not necessarily breed familiarity threat that will negatively influence the quality of financial reporting show that regulations put in place by the Financial Reporting Council of Nigeria (FRCN) on audit partner rotation might have been the influence that has reduced the potential negative influence of long audit tenure.

Research Question Two: How does the provision of non-audit services impact the quality of financial reporting in listed FMCG companies in Nigeria?

Table 3 reveals that there is no significant relationship between non-audit services and quality of financial reporting in listed FMCG companies in Nigeria. This position is in contrast with the position of Babatolu (2016) who pointed out that non-audit service has a significant negative influence on the quality of financial reporting. This study however shows that non-audit service has a positive non-significant influence on the quality of financial reporting. This could be because the provision of other non-audit services can enhance the quality of the audit but not significantly. Contrary to Babatolu (2016) position, the finding from this study suggests that non-audit service potential negative influence might have been curtailed as a result of existing regulations on non-audit service. Hence, this study confirms the effectiveness of such existing regulations on non-audit service.

Research Question Three: What is the effect of audit fee on the quality of financial reporting in listed FMCG companies in Nigeria?

Table 3 shows that there is no significant relationship between audit fees and the quality of financial reporting in listed FMCG companies in Nigeria. This indicates that audit fees when considered alone may not be the primary driver of independence concerns in this setting. The finding of this study is in tandem with the position of Adeyemi and Okpala (2011) & Moraes and Martinez (2015) who showed that audit fees along with other audit features can significantly influence the quality of financial reporting. However, this study further shows that audit fees alone cannot significantly influence the quality of financial reporting. This means that primarily audit fees alone cannot significantly cause a significant bias among auditors operating in the FMCG industry in Nigeria. Possible reasons for this position include the possibility of competitive audit fees in the industry and the possibility of the Institute of Chartered Accountants of Nigeria (ICAN) scale of fees which tries standardizing the fee of auditors based on the level of staff engaged and time utilized among other factors.

Conclusion and Recommendations

This study has examined the impact of auditor independence on the quality of financial reporting in listed Fast-Moving Consumer Goods (FMCG) companies in Nigeria. It is concluded from the study that auditor independence has a significant influence on the quality of financial reporting in the Nigerian FMCG sector. It is therefore recommended that:

1. Companies should rotate auditors periodically or to add extra measures to ensure the integrity of the audit process.
2. Regulatory authorities should persist in overseeing and enforcing rules that prevent any conflicts of interest.
3. FMCG companies should prioritize the qualifications and experience of auditors over the cost when choosing audit firms. It is important to ensure that audit fees are sufficient to allow audit firms to dedicate the necessary resources for delivering high-quality audits.

CONFLICTS OF INTEREST

The authors declare that they have no conflict of interest.

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