

Effect of Auditor Independence on Financial Reporting Quality of Listed Conglomerate Firms in Nigeria

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Abstract—This study examined the effect of auditor independence, proxied by audit fee, audit tenure and audit firm age, on the financial reporting quality of listed conglomerate firms in Nigeria over the period 2015–2024. The study was motivated by persistent concerns over earnings management in Nigerian firms and the inconclusive empirical evidence regarding the influence of auditor independence on financial reporting quality, particularly the limited attention given to audit firm age and the paucity of evidence from the conglomerate sector. The study adopted a census research design covering all six conglomerate firms listed on the Nigerian Exchange Group (NGX) as at 31 December 2024. Secondary data were obtained from the audited annual reports of the sampled firms. Financial reporting quality was measured using discretionary accruals as an inverse proxy, while panel regression analysis was employed to estimate the relationships. The results reveal that audit fee exerts a positive and statistically significant effect on discretionary accruals ($\beta = 13.093$, $p < 0.001$), indicating that higher audit fees reduce financial reporting quality. Audit tenure also exhibits a positive and significant effect ($\beta = 1.193$, $p = 0.048$), suggesting that prolonged auditor–client relationships impair financial reporting quality. Conversely, audit firm age has a negative and statistically significant effect on discretionary accruals ($\beta = -0.084$, $p < 0.001$), implying that more established audit firms enhance financial reporting quality. The control variable, firm leverage, demonstrates a positive and statistically significant relationship with discretionary accruals ($\beta = 88.109$, $p < 0.001$), indicating that highly leveraged firms are more likely to engage in earnings management. The study concludes that auditor independence remains a critical determinant of financial reporting quality among listed conglomerate firms in Nigeria, with audit firm age enhancing reporting quality, whereas higher audit fees and prolonged audit tenure diminish it. The study contributes to the auditing literature by providing contemporary empirical evidence from the Nigerian conglomerate sector and by highlighting audit firm age as an important organisational dimension of auditor independence alongside audit fee and audit tenure. The study recommends strengthening oversight of audit fee arrangements, enforcing periodic audit firm rotation, and encouraging the engagement of reputable and experienced audit firms to enhance the credibility and quality of corporate financial reporting.

Index Terms—Auditor Independence, Audit Fee, Audit Tenure, Audit Firm Age, Financial Reporting Quality, Discretionary Accruals, Panel Regression.

1. Introduction

The credibility of corporate financial reporting has become a major concern for regulators, investors and other capital market participants following a series of high-profile corporate failures that exposed significant weaknesses in external auditing and corporate governance (Solomon, 2020). The collapses of Enron, WorldCom, Wirecard, Steinhoff International and, more recently, Luckin Coffee demonstrated that compromised auditor independence can undermine the credibility of audited financial statements and erode investor confidence (Alao et al 2024). Beyond the substantial financial losses suffered by investors, these corporate failures undermined confidence in financial reporting and intensified global calls for stronger audit quality and greater auditor independence (Celestin, 2020; Kassem, 2023; Sawaya et al., 2025; DeAngelo, 1981).

Financial reporting quality is fundamental to efficient capital markets because it provides reliable information for investment, lending and other economic decisions while reducing information asymmetry between corporate managers and stakeholders. The credibility of such information depends not only on compliance with accounting standards but also on the independence of external auditors responsible for providing assurance on the fairness of financial statements. This assurance role depends fundamentally on auditor independence, which enables auditors to exercise professional scepticism and issue unbiased audit opinions (IAASB, 2022; IFAC, 2023; DeAngelo, 1981). However, preserving auditor independence has become increasingly challenging within a competitive audit environment characterised by prolonged auditor–client relationships, increasing audit complexity and economic dependence arising from clients' audit fees. Consequently, considerable scholarly attention has focused on whether key dimensions of auditor independence, including audit fees, audit tenure and audit firm age, influence the quality of corporate financial reporting (Frankel et al., 2002; Larcker & Richardson, 2004; Mardessi, 2021).

In response to these concerns, regulators across major jurisdictions introduced comprehensive reforms to strengthen auditor independence and improve audit quality. These reforms included stricter ethical requirements, enhanced oversight of

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audit firms, restrictions on the provision of non-audit services, and mandatory audit partner or firm rotation for public interest entities (IAASB, 2022; IFAC, 2023). While these initiatives have strengthened the institutional framework governing external auditing, questions remain regarding their effectiveness, particularly within emerging economies where regulatory enforcement, corporate governance practices and legal institutions are still evolving. Under such conditions, economic dependence on audit clients and governance deficiencies may reduce auditors' willingness to challenge aggressive financial reporting practices, thereby limiting the effectiveness of regulatory reforms in improving financial reporting quality (World Bank, 2020; Kassem, 2023).

Nigeria's financial reporting environment illustrates that regulatory reforms alone may not be sufficient to preserve auditor independence. The establishment of the Financial Reporting Council of Nigeria (FRCN), the adoption of International Financial Reporting Standards (IFRS), the implementation of the Nigerian Code of Corporate Governance and the introduction of mandatory audit firm rotation for public interest entities have strengthened the country's regulatory framework. Nevertheless, accounting irregularities involving Cadbury Nigeria Plc and several distressed financial institutions indicate that governance weaknesses and economic incentives continue to threaten auditor independence (FRCN, 2018; Ezejiofor *et al.*, 2023).

These concerns are particularly relevant for listed conglomerate firms because of the complexity of their organisational structures, diversified operations and extensive consolidation requirements. Unlike firms operating within a single industry, conglomerates manage multiple subsidiaries and business segments, increasing reliance on accounting estimates, management judgement and inter-company transactions. Such organisational complexity heightens audit risk and increases the importance of independent external auditing in ensuring the credibility of financial reports. Nevertheless, listed conglomerate firms have received comparatively limited empirical attention relative to banking, manufacturing and insurance companies. Accordingly, the sector provides an important context for examining whether auditor independence continues to enhance financial reporting quality within an increasingly complex corporate reporting environment.

Despite the recognised importance of auditor independence in promoting credible financial reporting, whether independent auditors effectively constrain opportunistic financial reporting remains an unresolved empirical issue. In practice, auditors' ability to perform their monitoring responsibilities objectively may be constrained by economic dependence on audit clients, prolonged auditor-client relationships and firm-specific characteristics that potentially impair objectivity. Consequently, empirical evidence on the relationship between auditor independence and financial reporting quality remains inconsistent.

Previous studies have reported conflicting findings regarding the influence of key dimensions of auditor independence on financial reporting quality. While some studies argue that

higher audit fees improve audit quality by enabling auditors to devote greater expertise and resources to audit engagements, others contend that excessive audit fees create economic dependence capable of weakening auditor objectivity (Frankel *et al.*, 2002; Ashbaugh *et al.*, 2003). Evidence regarding audit tenure is equally inconclusive. Some researchers maintain that longer auditor-client relationships improve audit effectiveness through greater client-specific knowledge, whereas others argue that prolonged engagements create familiarity threats that compromise auditor independence (Al-Thuneibat *et al.*, 2011; Mgbame *et al.*, 2012). Likewise, findings relating to audit firm characteristics have remained mixed across different institutional settings (Setiawan *et al.*, 2019; Ruwanti *et al.*, 2023). These inconsistencies suggest that the effectiveness of auditor independence is likely to depend on contextual, institutional and firm-specific factors.

The divergence in empirical findings is further reinforced by methodological differences across existing studies. Previous research has employed different proxies for both auditor independence and financial reporting quality, as well as varying sample periods, estimation techniques and model specifications, making meaningful comparison of empirical findings difficult (Dechow *et al.*, 1995; Kothari *et al.*, 2005). These methodological differences have contributed to inconsistent empirical findings across jurisdictions. Within Nigeria, empirical evidence has focused predominantly on banking, manufacturing, insurance and other non-financial firms (Augustin *et al.*, 2021; Dijeh, 2022; Oladejo, 2022; Abubakar, 2023; Jacinta, 2023; Ebubechukwu, 2023; Monday and Waseela, 2024).

Consequently, whether evidence obtained from these sectors is generalisable to listed conglomerate firms remains uncertain because listed conglomerates present unique auditing challenges arising from their diversified operations, complex organisational structures and extensive consolidation requirements. Furthermore, relatively few studies have examined auditor independence within Nigeria's post-reform regulatory environment while explicitly controlling for firm leverage, an important firm-specific characteristic that may independently influence managers' financial reporting behaviour. Taken together, these empirical, methodological and contextual limitations indicate that the relationship between auditor independence and financial reporting quality remains insufficiently understood within Nigeria's conglomerate sector.

To address these gaps, this study investigates the effect of auditor independence, proxied by audit fees, audit tenure and audit firm age, on the financial reporting quality of listed conglomerate firms in Nigeria while controlling for firm leverage. Accordingly, this study makes three principal contributions to the auditing literature. First, it extends existing evidence by examining listed conglomerate firms, a relatively under-researched sector within the Nigerian capital market. Second, it provides contemporary evidence from Nigeria's post-reform regulatory environment using recent panel data. Third, by incorporating firm leverage as a theoretically relevant control variable, the study provides a more robust assessment of the relationship between auditor independence and financial

reporting quality. The findings are expected to provide useful insights for regulators, audit practitioners, corporate boards and investors seeking to strengthen auditor independence and enhance the credibility of corporate financial reporting in Nigeria.

2. Literature Review

A. Financial Reporting Quality

Financial reporting quality (FRQ) refers to the extent to which financial statements faithfully represent a firm's underlying economic activities and provide reliable, relevant and transparent information for stakeholders' decision-making. High-quality financial reporting reduces information asymmetry between managers and investors, enhances market confidence and improves the efficiency of capital allocation (IASB, 2018; FASB, 2024). Consequently, financial reporting quality is regarded as a fundamental objective of financial reporting because it enables investors, creditors and regulators to make informed economic decisions based on credible accounting information.

Despite its importance, financial reporting quality has no universally accepted definition because it is a multidimensional concept that cannot be observed directly. Rather, it is commonly evaluated through the qualitative characteristics of financial information, including relevance, faithful representation, comparability, verifiability, timeliness and understandability (IASB, 2018). Within the accounting literature, however, financial reporting quality is often viewed from an earnings management perspective, where higher-quality financial reports are those that are less influenced by managerial discretion and more accurately reflect a firm's economic performance (Dechow *et al.*, 2010). Accordingly, the quality of financial reporting depends not only on compliance with accounting standards but also on the extent to which managers refrain from opportunistic accounting practices.

Because financial reporting quality cannot be measured directly, previous studies have employed several proxies, including earnings persistence, accrual quality, accounting conservatism, value relevance and discretionary accruals (Francis *et al.*, 2004; Dechow *et al.*, 2010). Among these measures, discretionary accruals remain the most widely used proxy in auditing and corporate governance research because they capture the degree of managerial discretion embedded in reported earnings. Accrual accounting requires managers to exercise judgement when estimating provisions, depreciation, impairment losses and revenue recognition. Although such judgement is necessary for financial reporting, it may also create opportunities for earnings management where managers deliberately manipulate accounting estimates to achieve personal or organisational objectives (Healy and Wahlen, 1999).

Several models have been developed to estimate discretionary accruals, including the Jones (1991) Model, the Modified Jones Model (Dechow *et al.*, 1995) and the performance-adjusted model proposed by Kothari *et al.* (2005). Among these, the Modified Jones Model has become the most

widely applied because it provides a more reliable distinction between discretionary and non-discretionary accruals. Lower discretionary accruals are generally interpreted as indicating higher financial reporting quality because they suggest that reported earnings are less affected by managerial manipulation and more faithfully represent underlying economic performance.

Given the complex organisational structures, diversified operations and extensive consolidation processes of listed conglomerate firms, managerial discretion in financial reporting is likely to be greater than in less complex organisations. Consequently, effective external monitoring through independent auditing becomes essential in constraining opportunistic earnings management and improving the credibility of financial reports. Consistent with this perspective, this study measures financial reporting quality using discretionary accruals, with lower discretionary accruals indicating higher financial reporting quality.

B. Auditor Independence

Auditor independence is a fundamental principle of the auditing profession and a prerequisite for credible financial reporting. It refers to the auditor's ability to perform audit responsibilities objectively and impartially without being influenced by personal interests, management pressure or economic relationships with the client (IAASB, 2022; IFAC, 2023). Independence enables auditors to exercise professional scepticism, evaluate audit evidence objectively and express unbiased opinions on whether financial statements present a true and fair view of an entity's financial position. Consequently, auditor independence enhances the credibility of audited financial statements and strengthens investors' confidence in corporate reporting.

The auditing literature distinguishes between independence in fact and independence in appearance. Independence in fact refers to the auditor's actual state of mind, allowing professional judgement to be exercised free from bias or undue influence. Independence in appearance, on the other hand, concerns stakeholders' perception that the auditor is objective and free from circumstances that could impair professional judgement (DeAngelo, 1981; IFAC, 2023). Both dimensions are equally important because public confidence in the auditing profession depends not only on auditors being independent but also on being perceived as independent.

Maintaining auditor independence has become increasingly challenging in modern auditing environments. Economic dependence arising from audit fees, prolonged auditor-client relationships, familiarity threats and increasing audit complexity may impair auditors' objectivity and reduce their willingness to challenge aggressive financial reporting practices (Mardessi, 2021; Kassem, 2023). These concerns have attracted considerable attention following major corporate failures, including Enron, WorldCom and Wirecard, where auditors were criticised for failing to detect or report material financial misstatements. In response, regulators have strengthened ethical requirements, restricted the provision of certain non-audit services and introduced mandatory audit

partner or firm rotation to reinforce auditor independence (IAASB, 2022; IFAC, 2023).

Because auditor independence is an abstract concept that cannot be observed directly, empirical studies typically measure it using observable proxies. Common measures include audit fees, audit tenure, non-audit services, audit firm size, audit firm age and audit rotation (Frankel et al., 2002;

Larcker & Richardson, 2004; Monday & Waseela, 2024). Among these proxies, audit fees reflect the degree of economic dependence on audit clients, audit tenure captures the potential effects of long-term auditor-client relationships, while audit firm age represents organisational maturity, accumulated experience and reputational capital that may strengthen auditors' ability to resist managerial pressure. However, empirical evidence regarding the influence of these proxies on financial reporting quality remains mixed, suggesting that auditor independence is shaped by institutional, regulatory and firm-specific factors.

Within Nigeria, the importance of auditor independence has increased following the adoption of International Financial Reporting Standards (IFRS), the strengthening of the Financial Reporting Council of Nigeria (FRCN), and the implementation of the Nigerian Code of Corporate Governance. These reforms seek to improve audit quality and restore confidence in corporate financial reporting. Nevertheless, concerns regarding earnings management and financial reporting irregularities indicate that maintaining auditor independence remains a significant governance challenge, particularly among firms characterised by complex organisational structures and diversified operations.

Consistent with this perspective, this study conceptualises auditor independence as the ability of external auditors to perform their assurance responsibilities objectively and without undue influence from client-related economic or relational factors. Auditor independence is operationalised using audit fees, audit tenure and audit firm age, as these dimensions capture the principal economic and organisational characteristics through which auditor objectivity may influence the quality of financial reporting.

C. Audit Fee

Audit fee refers to the remuneration paid by a client to an external auditor for providing statutory audit services and expressing an independent opinion on the fairness of the client's financial statements. The amount of the audit fee is generally determined by the scope of the audit engagement, the complexity of the client's operations, audit risk, the level of professional expertise required and the time devoted to the audit (Turley & Willekens, 2018; Daferighe and George, 2020). Consequently, audit fees represent the economic value of audit services rendered and are often viewed as an indicator of audit effort and resource commitment.

Within the auditing literature, the relationship between audit fees and auditor independence remains contentious. One perspective argues that higher audit fees enhance audit quality because they enable auditors to devote greater professional expertise, specialised personnel and audit procedures to

complex engagements, thereby improving the likelihood of detecting material misstatements (Larcker and Richardson, 2004; Mardessi, 2021). Under this view, higher audit fees reflect greater audit effort rather than impaired independence and are therefore associated with improved financial reporting quality.

Conversely, another perspective suggests that excessive dependence on audit fees may impair auditor independence by creating economic incentives for auditors to retain important clients. Where audit firms derive substantial revenue from a particular client, auditors may become reluctant to challenge aggressive accounting practices or issue unfavourable audit opinions for fear of losing future engagements (DeAngelo, 1981; Frankel et al., 2002). This economic bonding may weaken professional scepticism and increase the likelihood of earnings management, thereby reducing financial reporting quality. Consequently, the effect of audit fees on auditor independence depends on whether the fees primarily reflect legitimate audit effort or economic dependence on the client.

Empirical evidence on the relationship between audit fees and financial reporting quality remains inconclusive. While some studies report that higher audit fees improve financial reporting quality through increased audit effort, others find that excessive audit fees reduce auditor independence because of client-related economic dependence. Several studies also report insignificant relationships, suggesting that institutional, regulatory and firm-specific factors influence the effectiveness of audit fees as a mechanism for promoting auditor independence.

Given the complexity of listed conglomerate firms, characterised by diversified operations, multiple subsidiaries and extensive consolidation requirements, audit engagements often require greater professional expertise and audit resources, resulting in relatively higher audit fees. However, larger audit fees may simultaneously increase auditors' economic dependence on important clients, creating competing incentives that could either strengthen or weaken auditor independence. Consistent with this perspective, this study conceptualises audit fee as an important economic dimension of auditor independence and examines its effect on the financial reporting quality of listed conglomerate firms in Nigeria.

D. Audit Tenure

Audit tenure refers to the length of the continuous professional relationship between an external auditor (or audit firm) and a client, usually measured by the number of consecutive years the auditor has audited the client's financial statements (Al-Nimer, 2015; Jadyappa et al., 2021). Audit tenure has attracted considerable attention in auditing research because it reflects the balance between the benefits of accumulated client-specific knowledge and the potential threats arising from prolonged auditor-client relationships. Consequently, it is widely regarded as an important proxy for auditor independence and audit quality.

The auditing literature presents two competing perspectives regarding the effect of audit tenure on financial reporting quality. The first argues that longer audit tenure enhances audit

quality because auditors develop a deeper understanding of the client's operations, internal control systems, accounting policies and industry-specific risks over time. Such knowledge improves audit planning, facilitates the identification of material misstatements and strengthens the auditor's ability to detect earnings management, thereby enhancing financial reporting quality (Alardah, 2023; Jadyappa et al., 2021).

Conversely, the familiarity threat perspective suggests that prolonged auditor-client relationships may impair auditor independence. Long audit tenure may create close personal and professional relationships between auditors and management, reducing professional scepticism and increasing auditors' reluctance to challenge aggressive accounting practices or issue modified audit opinions. This concern has prompted regulators in many jurisdictions to introduce mandatory audit partner or audit firm rotation for public interest entities as a means of preserving auditor independence and maintaining public confidence in the auditing profession (IAASB, 2022; IFAC, 2023).

Empirical evidence on the relationship between audit tenure and financial reporting quality remains inconclusive. While several studies report that longer audit tenure improves audit quality through enhanced client-specific knowledge, others find that extended engagements weaken auditor independence because of familiarity and economic dependence. Some studies also report insignificant relationships, suggesting that the effect of audit tenure depends on institutional environments, regulatory frameworks and firm-specific characteristics.

For listed conglomerate firms, the complexity of organisational structures, diversified business operations and extensive consolidation processes requires auditors to acquire substantial client-specific knowledge to conduct effective audits. Although longer audit tenure may improve auditors' understanding of these complex reporting environments, prolonged engagements may simultaneously increase familiarity threats that compromise auditor objectivity. Consistent with this perspective, this study conceptualises audit tenure as an important relational dimension of auditor independence and examines its effect on the financial reporting quality of listed conglomerate firms in Nigeria.

E. Audit Firm Age

Audit firm age refers to the number of years an audit firm has been in continuous operation since its establishment or registration as an independent auditing practice. It reflects the firm's organisational maturity, accumulated professional experience and reputational capital developed over time (Setiawan et al., 2019; Ruwanti et al., 2023). Unlike audit tenure, which measures the duration of the relationship between an auditor and a specific client, audit firm age captures the overall experience and institutional development of the audit firm across its entire client portfolio.

The relevance of audit firm age to auditor independence is primarily explained by the reputation hypothesis. Older audit firms are generally considered to possess greater technical expertise, well-established quality control systems and stronger professional reputations that have been built over many years

of practice. Because such firms have significant reputational capital to protect, they are expected to be less willing to compromise their professional objectivity or issue inappropriate audit opinions that could damage their credibility and long-term market position (DeAngelo, 1981; Knechel et al., 2025). Consequently, organisational maturity may strengthen auditor independence by reducing incentives to accommodate aggressive financial reporting practices.

However, organisational longevity does not automatically guarantee auditor independence. An audit firm's effectiveness continues to depend on factors such as ethical culture, professional competence, regulatory oversight and compliance with auditing standards. Older firms may still face economic pressures arising from client retention and competitive market conditions, while younger firms may demonstrate high levels of independence through strict adherence to professional ethics and rigorous quality control procedures. Therefore, audit firm age should not be interpreted as an independent determinant of audit quality but rather as a characteristic that may influence an audit firm's capacity to maintain professional objectivity.

Empirical evidence regarding the relationship between audit firm age and financial reporting quality remains limited and inconclusive. While some studies suggest that older audit firms are associated with higher audit quality because of greater experience and accumulated expertise, others report weak or insignificant relationships, indicating that organisational age alone may not adequately explain differences in auditor independence. These mixed findings imply that the influence of audit firm age is likely to depend on institutional environments, regulatory effectiveness and firm-specific characteristics.

Within the Nigerian context, where listed conglomerate firms operate through diversified business segments and complex organisational structures, audit firms require substantial technical competence and industry experience to evaluate sophisticated financial reporting issues effectively. Consequently, audit firm age may reflect the accumulated expertise and reputational incentives necessary to perform independent and high-quality audits. Consistent with this perspective, this study conceptualises audit firm age as an organisational dimension of auditor independence and examines its effect on the financial reporting quality of listed conglomerate firms in Nigeria.

F. Firm Leverage

Firm leverage refers to the extent to which a company finances its assets through debt relative to equity. It reflects a firm's capital structure and is commonly measured as the ratio of total debt to total assets or total equity (Brigham and Ehrhardt, 2022). Leverage is an important firm-specific characteristic because it influences managers' financing decisions, risk exposure and financial reporting incentives.

The accounting literature suggests that highly leveraged firms are subject to greater pressure to comply with debt covenants and satisfy creditors' expectations. Such pressure may encourage managers to adopt aggressive accounting practices or engage in earnings management to present a more favourable financial position and avoid potential violations of

contractual obligations (Watts & Zimmerman, 1983; Dechow et al., 2010). Consequently, higher leverage has often been associated with lower financial reporting quality due to increased incentives for opportunistic financial reporting.

Conversely, another perspective argues that leverage may improve financial reporting quality because creditors impose stricter monitoring and demand more transparent financial disclosures before extending credit facilities. This external monitoring can constrain managerial opportunism and encourage more reliable financial reporting. Therefore, the relationship between leverage and financial reporting quality is theoretically ambiguous and depends on whether debt primarily creates reporting pressure or strengthens external monitoring.

Because leverage may independently influence financial reporting behaviour, many studies include it as a control variable when examining the determinants of financial reporting quality. Controlling for firm leverage enables researchers to isolate the effect of auditor independence by accounting for variations in financial reporting practices attributable to differences in firms' debt financing. Consistent with this perspective, firm leverage is included as a control variable in this study to provide a more robust assessment of the relationship between auditor independence and the financial reporting quality of listed conglomerate firms in Nigeria.

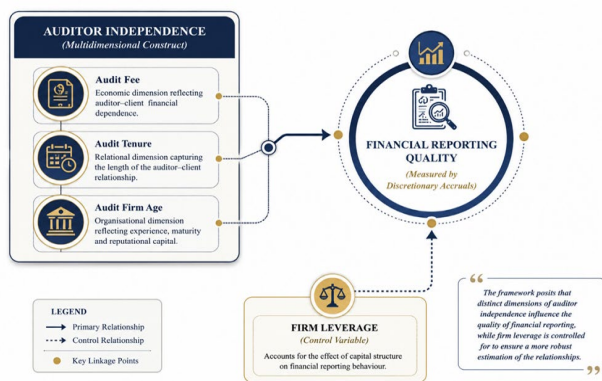


Fig. 1.

Source: Researcher's Compilation, 2026

3. Theoretical Framework

A. Agency Theory

Agency Theory was developed by Michael C. Jensen and William H. Meckling (1976) to explain the contractual relationship between principals (shareholders) and agents (managers). The theory posits that the separation of ownership from control creates agency conflicts because managers may pursue personal interests that are inconsistent with shareholders' wealth maximisation. Since managers possess superior information regarding a firm's operations and financial performance, information asymmetry arises, limiting shareholders' ability to observe managerial actions directly. This informational advantage creates opportunities for managers to engage in opportunistic financial reporting, including earnings management and the manipulation of accounting estimates, thereby reducing the credibility of

financial statements.

Agency Theory identifies external auditing as one of the principal governance mechanisms for mitigating agency conflicts. Independent auditors reduce information asymmetry by examining whether financial statements fairly represent the economic activities of the firm and comply with applicable accounting standards. Through objective verification of financial information, auditors enhance the credibility of financial reports and provide assurance that managers have not materially distorted reported financial performance. Consequently, auditor independence is fundamental to the effectiveness of external auditing because any impairment of auditor objectivity reduces the auditor's ability to monitor managerial behaviour and constrain opportunistic financial reporting.

Within the context of this study, Agency Theory provides a strong explanation for the expected relationship between auditor independence and financial reporting quality. Audit fees, audit tenure and audit firm age represent important economic, relational and organisational characteristics that may influence auditors' ability to perform their monitoring role objectively. Where auditors remain independent of management influence, they are expected to exercise greater professional scepticism, detect material misstatements and discourage earnings management, resulting in higher financial reporting quality. Conversely, compromised auditor independence may weaken external monitoring and allow greater managerial discretion in financial reporting. Accordingly, Agency Theory serves as the primary theoretical foundation for explaining how auditor independence influences the financial reporting quality of listed conglomerate firms in Nigeria.

B. Lending Credibility Theory

Lending Credibility Theory was developed by Theodorus Limperg during the early twentieth century and explains the economic value of external auditing in enhancing the credibility of financial statements. The theory argues that the primary purpose of an independent audit is to increase users' confidence in financial reports by providing objective assurance regarding the fairness and reliability of the information presented. Because investors, creditors and other stakeholders rely on audited financial statements when making economic decisions, the credibility attached to the auditor's opinion becomes an essential component of an efficient financial reporting system.

According to the theory, auditors enhance the credibility of financial reporting by independently verifying accounting information and expressing a professional opinion on whether financial statements provide a true and fair view of an entity's financial position and performance. This assurance function reduces uncertainty faced by users of financial statements and strengthens confidence in corporate disclosures. However, the credibility conferred by an audit opinion depends fundamentally on auditor independence. Where auditors become economically dependent on clients or develop relationships that impair professional objectivity, users may question the reliability of audited financial statements

regardless of technical compliance with auditing standards.

The relevance of Lending Credibility Theory to this study lies in its emphasis on the assurance role of independent auditors. Since financial reporting quality is measured using discretionary accruals, the theory suggests that auditors who maintain greater independence are more likely to constrain opportunistic earnings management and improve the credibility of reported accounting information. Consequently, the theory complements Agency Theory by explaining the assurance function through which auditor independence contributes to higher-quality financial reporting.

C. Justification for the Adoption of the Theories

This study is primarily anchored on Agency Theory because it provides the most comprehensive explanation of the relationship between auditor independence and financial reporting quality. The theory explains why independent external auditing is necessary to reduce information asymmetry, monitor managerial behaviour and mitigate agency conflicts arising from the separation of ownership and control. Since the study examines whether audit fees, audit tenure and audit firm age influence the quality of financial reporting, Agency Theory provides an appropriate framework for explaining the governance mechanisms through which auditor independence constrains earnings management and enhances the reliability of financial statements.

Lending Credibility Theory complements Agency Theory by focusing on the assurance function of external auditing. While Agency Theory explains the demand for independent audits as a mechanism for reducing agency conflicts, Lending Credibility Theory explains how independent auditors enhance stakeholders' confidence in financial statements by lending credibility to reported accounting information. The combined application of the two theories therefore provides a comprehensive theoretical foundation for understanding both the governance role and the assurance role of auditor independence in promoting high-quality financial reporting among listed conglomerate firms in Nigeria.

4. Empirical Review

A. Audit Fee and Financial Reporting Quality

The relationship between audit fees and financial reporting quality has attracted considerable empirical attention, yet the evidence remains inconclusive. One stream of the literature argues that higher audit fees improve financial reporting quality because they reflect greater audit effort, increased professional expertise and more comprehensive audit procedures. Studies conducted in both developed and emerging economies generally report a positive association between audit fees and financial reporting quality, suggesting that adequately compensated auditors are more likely to detect material misstatements and constrain earnings management (Frankel *et al.*, 2002; Larcker & Richardson, 2004; Imafidon *et al.*, 2023). Conversely, another body of evidence argues that excessive audit fees may impair auditor independence by increasing auditors' economic dependence on important clients. Under this

perspective, auditors may become reluctant to challenge aggressive accounting practices or issue unfavourable audit opinions for fear of losing economically significant engagements. Consistent with this argument, Augustin *et al.* (2021) and Dijeh (2022) reported that audit fees negatively affected financial reporting quality among listed insurance companies in Nigeria, indicating that fee dependence may weaken auditor objectivity.

Other studies report no statistically significant relationship between audit fees and financial reporting quality, implying that audit fees alone may not adequately explain variations in reporting quality. For example, Jacinta (2023) and Ebubechukwu (2023) found positive but insignificant effects of audit fees on accrual quality among Nigerian listed non-financial firms, while Abubakar (2023) observed that audit fees became significant only when moderated by audit committee independence. These findings suggest that institutional governance mechanisms may influence the effectiveness of audit fees in promoting auditor independence.

Overall, existing evidence remains inconsistent because previous studies differ in institutional settings, sample composition, estimation techniques, measurement of financial reporting quality and governance environments. Furthermore, empirical evidence focusing specifically on listed conglomerate firms remains scarce, creating the need for further investigation.

B. Audit Tenure and Financial Reporting Quality

The relationship between audit tenure and financial reporting quality has remained one of the most debated issues in the auditing literature. Audit tenure reflects the duration of the continuous professional relationship between an auditor and a client and has been widely examined because of its potential implications for auditor independence and audit quality. However, empirical evidence remains inconclusive, reflecting two competing theoretical perspectives. The knowledge-based perspective argues that longer audit tenure enhances audit quality by enabling auditors to acquire a deeper understanding of the client's business operations, accounting systems, internal controls and industry-specific risks. Such accumulated client-specific knowledge improves audit planning, strengthens auditors' ability to identify material misstatements and ultimately enhances financial reporting quality (Alardah, 2023; Jادیappa *et al.*, 2021).

Consistent with this perspective, several empirical studies report that longer audit tenure improves financial reporting quality. For example, Sunday (2019) found that audit tenure positively and significantly influenced the quality of financial reporting among listed manufacturing companies in Nigeria. Similarly, Oladejo (2022) reported a significant positive relationship between audit tenure and financial reporting quality in Nigerian Deposit Money Banks, suggesting that extended auditor-client relationships improve auditors' effectiveness through accumulated institutional knowledge and greater familiarity with clients' financial reporting systems. Likewise, Oyerogba *et al.* (2022) observed that longer audit tenure enhanced the financial reporting quality of listed Deposit Money Banks in Nigeria, reinforcing the argument that client-

specific experience contributes to more effective audit performance.

Conversely, the familiarity threat perspective argues that prolonged auditor-client relationships may impair auditor independence by creating close personal and professional relationships between auditors and management. As audit tenure increases, auditors may become less willing to challenge aggressive accounting practices or issue qualified audit opinions because of concerns about maintaining long-standing client relationships. This view has influenced regulatory reforms in several jurisdictions, including mandatory audit partner and audit firm rotation for public interest entities, aimed at preserving auditor independence and strengthening confidence in financial reporting (IAASB, 2022; IFAC, 2023).

Empirical findings supporting the familiarity threat perspective remain evident in several studies. Mgbame *et al.* (2012) reported that extended audit tenure weakened auditor independence and adversely affected financial reporting quality, while Al-Thuneibat *et al.* (2011) similarly concluded that prolonged auditor-client relationships reduced audit effectiveness by increasing familiarity threats. These findings suggest that although auditors accumulate valuable client-specific knowledge over time, excessive tenure may compromise professional scepticism and reduce auditors' willingness to detect or report material financial misstatements.

A third stream of the literature reports no statistically significant relationship between audit tenure and financial reporting quality. Jacinta (2023) and Ebubechukwu (2023), for instance, found that audit tenure exerted a positive but statistically insignificant influence on accrual quality among listed non-financial firms in Nigeria. Similarly, Imafidon *et al.* (2023) reported that audit tenure had no significant effect on the financial statement quality of listed commercial banks despite its positive coefficient. These findings imply that audit tenure alone may be insufficient to explain variations in financial reporting quality and that its effectiveness may depend on other governance mechanisms, regulatory oversight and institutional characteristics.

Overall, the empirical literature provides no consensus regarding the effect of audit tenure on financial reporting quality. While some studies support the knowledge effect associated with longer auditor-client relationships, others emphasise the familiarity threats that may impair auditor independence, whereas several report insignificant relationships. These inconsistencies may be attributed to differences in institutional settings, regulatory environments, measurement of financial reporting quality, estimation techniques and sample composition. Furthermore, existing Nigerian evidence has focused predominantly on banking, manufacturing and other non-financial sectors, with limited attention devoted to listed conglomerate firms despite their complex organisational structures and reporting environments. This study therefore extends the literature by examining whether audit tenure influences the financial reporting quality of listed conglomerate firms in Nigeria within the country's evolving regulatory framework.

C. Audit Firm Age and Financial Reporting Quality

Compared with audit fees and audit tenure, the relationship between audit firm age and financial reporting quality has received relatively limited empirical attention. Existing studies generally argue that older audit firms possess greater organisational maturity, accumulated technical expertise and stronger reputational capital, all of which may enhance auditor independence and improve audit quality. The underlying argument is that well-established audit firms have greater incentives to protect their professional reputation and are therefore less likely to compromise audit quality or accommodate aggressive financial reporting practices. Consequently, older audit firms are expected to exercise greater professional scepticism, detect material misstatements more effectively and enhance the credibility of financial reporting (Setiawan *et al.*, 2019; Knechel *et al.*, 2025).

Empirical evidence supporting this perspective suggests that audit firm age contributes positively to financial reporting quality through the accumulation of professional experience and institutional knowledge. Setiawan *et al.* (2019) found that more established audit firms were associated with improved audit quality because organisational maturity enhanced auditors' technical competence and strengthened quality control systems. Similarly, recent evidence reported by Ruwanti *et al.* (2023) indicates that audit firms with longer operational histories were more effective in maintaining audit quality, largely because of their accumulated expertise, professional reputation and greater compliance with auditing standards. These findings suggest that organisational experience may strengthen auditors' ability to resist managerial pressure and provide objective assurance on financial statements. However, other studies caution that organisational longevity alone does not necessarily guarantee auditor independence or high-quality financial reporting. The effectiveness of an audit firm depends not only on its years of operation but also on factors such as ethical culture, professional competence, regulatory oversight and internal quality control mechanisms. Consequently, younger audit firms may also deliver high-quality audits where they maintain strict compliance with professional standards, while older firms may still experience threats to independence arising from client dependence or commercial pressures. This perspective suggests that audit firm age should be interpreted as one of several organisational characteristics capable of influencing audit quality rather than a sufficient determinant of auditor independence.

The limited empirical evidence on audit firm age has also produced mixed findings across different institutional environments. While some studies report a positive association between organisational maturity and financial reporting quality, others observe weak or statistically insignificant relationships after controlling for other audit and firm characteristics. These inconsistencies may reflect differences in regulatory environments, measurement approaches, audit market structures and corporate governance systems across countries. Furthermore, audit firm age is considerably less examined than other proxies of auditor independence, resulting in relatively limited empirical consensus regarding its influence on financial

reporting quality.

Within the Nigerian context, empirical evidence specifically examining audit firm age remains scarce, particularly among listed conglomerate firms. Most Nigerian studies have focused on more conventional measures of auditor independence, including audit fees, audit tenure, audit rotation and non-audit services, while comparatively little attention has been devoted to organisational characteristics of audit firms. Consequently, whether the accumulated experience and reputational capital associated with older audit firms enhance the financial reporting quality of listed conglomerate firms remains largely unexplored. This study therefore contributes to the literature by examining audit firm age as an organisational dimension of auditor independence within Nigeria's post-reform regulatory environment, thereby extending existing evidence beyond the more commonly examined proxies.

D. Firm Leverage and Financial Reporting Quality

Firm leverage has frequently been examined as an important firm-specific characteristic influencing financial reporting quality because it affects managers' reporting incentives and the intensity of external monitoring. Theoretical arguments regarding the relationship between leverage and financial reporting quality remain mixed. One perspective suggests that highly leveraged firms are more likely to engage in earnings management to satisfy debt covenant requirements, maintain favourable credit ratings or avoid financial distress. Under such circumstances, managers may exercise greater accounting discretion to present a stronger financial position, thereby reducing financial reporting quality (Watts & Zimmerman, 1983; Dechow *et al.*, 2010). Consistent with this argument, several empirical studies report that higher leverage is associated with lower financial reporting quality because indebted firms possess stronger incentives to manipulate reported earnings. For example, Kasasbeh (2021) found that firms with higher leverage experienced greater financial reporting pressures, increasing the likelihood of opportunistic reporting behaviour and lower accounting quality. Similarly, Dechow *et al.* (2010) observed that highly leveraged firms exhibit stronger incentives to engage in earnings management in response to debt covenant pressures and financing constraints. Such evidence suggests that debt financing may increase pressure on managers to adopt opportunistic accounting practices in order to meet creditors' expectations and contractual obligations. Conversely, another stream of the literature argues that leverage may improve financial reporting quality because creditors impose stricter monitoring and demand more transparent financial disclosures before extending or renewing credit facilities. Enhanced scrutiny from lenders may constrain managerial opportunism and encourage more reliable financial reporting. Rajan and Zingales (1995) argued that debt providers often exert monitoring pressure that discourages opportunistic managerial behaviour and encourages greater financial transparency. Empirical evidence supporting this perspective indicates that external monitoring associated with debt financing can strengthen corporate reporting practices and reduce earnings management. Despite

these competing arguments, empirical findings remain inconclusive, with several studies reporting weak or statistically insignificant relationships between leverage and financial reporting quality. These inconsistencies may be attributed to differences in institutional environments, corporate governance structures, measurement of financial reporting quality and estimation techniques. Consequently, leverage is commonly treated as a control variable in studies examining the determinants of financial reporting quality to isolate the effects of the principal explanatory variables. Consistent with prior literature, this study includes firm leverage as a control variable to account for variations in financial reporting quality arising from differences in firms' financing structures. Controlling for leverage enables a more robust assessment of the relationship between auditor independence and the financial reporting quality of listed conglomerate firms in Nigeria.

E. Literature Gap

Although previous studies have substantially advanced understanding of the relationship between auditor independence and financial reporting quality, several gaps remain in the existing literature. Empirically, findings regarding the effects of audit fees, audit tenure and audit firm age on financial reporting quality remain inconsistent, with studies reporting positive, negative and insignificant relationships across different institutional settings. Methodologically, prior studies have employed different proxies for both auditor independence and financial reporting quality, together with varying sample periods, estimation techniques and model specifications, making comparison of findings difficult. Contextually, Nigerian evidence has focused predominantly on banking, manufacturing, insurance and other non-financial firms, while listed conglomerate firms have received comparatively limited empirical attention despite their diversified operations, complex organisational structures and extensive consolidation requirements. Furthermore, relatively few studies have examined auditor independence within Nigeria's post-reform regulatory environment while incorporating audit firm age as an organisational dimension of auditor independence and controlling for firm leverage. This study addresses these empirical, methodological and contextual gaps by examining the effect of audit fees, audit tenure and audit firm age on the financial reporting quality of listed conglomerate firms in Nigeria, with financial reporting quality measured using discretionary accruals.

5. Methodology

This study adopted an *ex post facto* research design because it examined historical data without manipulating the variables. The design is appropriate for investigating cause-and-effect relationships using existing data from published financial statements (Kerlinger and Lee, 2000). The population comprised the six (6) conglomerate firms listed on the Nigerian Exchange Limited (NGX) between 2015 and 2024. Given the small population, a census approach was adopted, with all listed firms included in the study, resulting in a balanced panel of firm-year observations. The study utilised secondary data

extracted from the audited annual reports of the sampled firms. Data on discretionary accruals, audit fees, audit tenure, audit firm age and firm leverage were obtained from the published financial statements. Panel regression analysis was employed because the data combine cross-sectional and time-series dimensions, enabling control for firm-specific heterogeneity and improving estimation efficiency (Baltagi, 2021). Descriptive statistics, correlation analysis and diagnostic tests, including multicollinearity, heteroskedasticity and the Hausman specification test, were conducted before model estimation to determine the appropriate panel regression estimator.

The following model is specified for the purpose of the study:

$$\text{DISACC}_{it} = \beta_{0it} + \beta_1 \text{ADFEE}_{it} + \beta_2 \text{AUDITTEN}_{it} + \beta_3 \text{AFAGE}_{it} + \beta_4 \text{FLEV}_{it} + \mu_{it}$$

Where:

DISACC_{it} = Discretionary Accruals,

ADFEE = Audit Fee,

AUDITTEN = Audit Tenure,

AFAGE = Audit Firm Age,

FLEV = Firm Leverage,

β_0 = Intercept,

β_1 - β_3 = Coefficients, and

μ_{it} = error term.

6. Results and Discussions

This section presents the results of the descriptive statistics, diagnostic tests, correlation analysis and panel regression analysis conducted to examine the effect of auditor independence on the financial reporting quality of listed conglomerate firms in Nigeria. The analysis is based on

balanced panel data obtained from six listed conglomerate firms over a ten-year period, comprising 60 firm-year observations.

The descriptive statistics show that audit fee (ADFEE) has a mean value of 8.1423 (natural logarithm of audit fees), audit tenure (AUDITTEN) has a mean of 0.60, indicating that 60% of the firm-year observations retained the same auditor for at least three years, audit firm age (AFAGE) averages 50.80 years, while firm leverage (FLEV) has a mean debt ratio of 0.6405 (64.05%). Audit fee ranges from 7.9632 to 8.4588, audit tenure from 0 to 1, audit firm age from 18 to 80 years, and firm leverage from 0.5687 to 0.6648. Among the explanatory variables, audit firm age exhibits the highest variability (SD = 27.7451), whereas firm leverage has the lowest (SD = 0.0262), indicating relatively stable leverage across the sampled firms. The skewness values fall within the acceptable range of ± 2 (Hair et al., 2022), while the kurtosis values are below the threshold of 7 (Hair et al., 2010), suggesting no serious departure from normality. Although the Jarque-Bera probability values are below 0.05, indicating some deviation from normality, this does not invalidate the panel regression analysis, as such models are generally robust to moderate departures from normality.

A. Correlation Analysis

Table 3 presents the Pearson correlation matrix for the study variables. The correlation coefficients indicate the direction and strength of the relationships between the dependent and independent variables, as well as the degree of association among the explanatory variables.

Table 4 presents the Pearson correlation matrix for the study variables. The results indicate that audit fee ($r = 0.1679$), audit tenure ($r = 0.1912$) and firm leverage ($r = 0.2180$) exhibit weak positive associations with discretionary accruals, whereas audit firm age ($r = -0.0701$) shows a very weak negative association

Table 1
Variable measurement

Variable	Proxy (ies)	Measurement	Justification
Dependent Variable:			
Financial Reporting Quality	Discretionary Accruals	Modified Jones Discretionary Model	Dechow et al., (1995), Francis et al., (2004)
Independent Variables:			
Auditor Independence	Audit Fee	Natural Log of the Audit Fees paid by each company.	Ibrahim and Ali (2018), Eshleman and Guo (2013)
Auditor Independence	Audit Tenure	Length of audit client relationship. '1' if 3 yrs and above, Zero (0) if otherwise.	Okechukwu & Ene (2021).
Auditor Independence	Audit Firm Age	No of years the audit firm has been in operation or existence.	Setiawan (2016)
Control Variable:			
Firm Leverage		Total Debt / Total Assets	Rajan and Zingales (1995); Kasasbeh (2021)

Table 2
Descriptive statistics

	DISACC	ADFEE	AUDITTEN	AFAGE	FLEV
Mean	-1.299470	8.142314	0.600000	50.80000	0.640470
Median	-0.975500	8.075336	1.000000	53.50000	0.647450
Maximum	11.30970	8.458846	1.000000	80.00000	0.664800
Minimum	-9.759600	7.963221	0.000000	18.00000	0.568700
Std. Dev.	5.222281	0.148441	0.494032	27.74509	0.026170
Skewness	0.909101	1.001061	-0.408248	-0.057573	-1.969565
Kurtosis	4.324054	2.794345	1.166667	1.082407	5.986555
Jarque-Bera	12.64744	10.12697	10.06944	9.226050	61.09065
Probability	0.001793	0.006323	0.006508	0.009922	0.000000
Sum	-77.96820	488.5388	36.00000	3048.000	38.42820
Sum Sq. Dev.	1609.061	1.300054	14.40000	45417.60	0.040407
Observations	60	60	60	60	60

Table 3
Correlation matrix

	DIS ACC	ADFEE	AUDITTEN	AFAGE	F LEV
DIS ACC	1.00000				
ADFEE	0.16785	1.00000			
AUDITTEN	0.19116	0.54530	1.00000		
AFAGE	-0.07006	0.57461	-0.08013	1.00000	
FLEV	0.21799	-0.019503	-0.36356	0.39144	1.00000

Source: EViews 9 Output (2025)

with discretionary accruals. Furthermore, none of the correlation coefficients among the explanatory variables exceeds the threshold of 0.80 recommended by Kim (2019) and Benjamin et al. (2023), indicating the absence of serious multicollinearity. Accordingly, the explanatory variables are suitable for regression analysis.

B. Variance Inflation Factor (multicollinearity test)

Table 4

below presents the results of multicollinearity test using the Variance Inflation Factors (VIF)

Variable	Coefficient	Uncentered	Centered
Variable	Variance	VIF	VIF
ADFEE	40.58600	221.8633	1.340813
AUDITTEN	46.22849	2.813574	1.031644
AFAGE	0.038449	9.727797	1.149550
FLEV	232.6204	13.49325	1.515362
C	2919.877	280.5956	NA

Source: EViews 9 Output (2025)

The centred VIF values range from 1.0316 to 1.5154, all of which are well below the threshold of 10 recommended by Kim (2019). This indicates the absence of serious multicollinearity among the explanatory variables. Therefore, the regression coefficients are unlikely to be distorted by multicollinearity, confirming the suitability of the variables for regression analysis.

C. Heteroskedasticity Test

Table 5

below presents the result of heteroskedasticity test using Breusch-Pagan-Godfrey test for heteroskedasticity.

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	0.791897	Prob. F(4,55)	0.5355
Obs*R-squared	3.267376	Prob. Chi-Square(4)	0.5141
Scaled explained SS	42.73419	Prob. Chi-Square(4)	0.0000

Source: EViews 9 Output (2025)

Table 7
Effects regression analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ADFEE	13.09337	2.404312	5.445789	0.0000
AUDITTEN	1.192998	0.601905	1.982037	0.0479
AFAGE	-0.084269	0.011437	-7.368297	0.0000
FLEV	88.10948	8.964305	9.828924	0.0000
C	-160.7762	20.27147	-7.931159	0.0000
Effects Specification				
Cross-section random			S.D.	Rho
Idiosyncratic random			0.000000	0.0000
			4.864753	1.0000
Weighted Statistics				
R-squared	0.211660	Mean dependent var	-1.299470	
Adjusted R-squared	0.206360	S.D. dependent var	5.182900	
S.E. of regression	4.617264	Sum squared resid	12684.88	
F-statistic	39.93755	Durbin-Watson stat	3.445089	
Prob(F-statistic)	0.000000			
Unweighted Statistics				
R-squared	0.211660	Mean dependent var	-1.299470	
Sum squared resid	12684.88	Durbin-Watson stat	3.445089	

Source: EViews 9 Output (2025)

The test yields an Obs*R-squared probability value of 0.5141, which exceeds the 5% significance level. Therefore, the null hypothesis of homoskedasticity cannot be rejected, indicating the absence of heteroskedasticity in the model. This suggests that the error variance is constant and the regression estimates are reliable.

D. Hausman Test

Table 6

Correlated random effects - Hausman test			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.000000	4	1.0000

Source: EViews 9 Output (2025)

Table 6 presents the results of the Hausman specification test used to determine the appropriate panel regression estimator. The test produced a Chi-square statistic of 0.0000 with a probability value of 1.0000, which exceeds the 5% significance level. Therefore, the null hypothesis cannot be rejected, indicating that the Random Effects Model is more appropriate than the Fixed Effects Model for estimating the relationship between auditor independence and financial reporting quality.

E. Regression Analysis

Table 7 presents the results of the random effects regression analysis. The coefficient of determination (R^2) of 0.2117 indicates that approximately 21.17% of the variation in financial reporting quality, measured by discretionary accruals, is explained by audit fee, audit tenure, audit firm age and firm leverage. The remaining 78.83% of the variation is attributable to other factors not included in the model. Furthermore, the F-statistic of 39.9376 with a probability value of 0.0000 indicates that the explanatory variables are jointly statistically significant

in explaining variations in financial reporting quality. This confirms the overall statistical significance and goodness-of-fit of the estimated regression model.

Audit Fee and Financial Reporting Quality: The coefficient of audit fee is 13.0934 ($p = 0.0000$), indicating that a one-unit increase in audit fee is associated with a 13.0934-unit increase in discretionary accruals, holding other variables constant. Since discretionary accruals are an inverse proxy for financial reporting quality, the result implies that higher audit fees are associated with lower financial reporting quality. The relationship is statistically significant at the 5% level. Therefore, audit fee has a negative and statistically significant effect on the financial reporting quality of listed conglomerate firms in Nigeria.

Audit Tenure and Financial Reporting Quality: The coefficient of audit tenure is 1.1930 ($p = 0.0479$), indicating that a one-unit increase in audit tenure is associated with a 1.1930-unit increase in discretionary accruals, *ceteris paribus*. Given that higher discretionary accruals indicate lower financial reporting quality, the result suggests that longer audit tenure is associated with lower financial reporting quality. The coefficient is statistically significant at the 5% level. Therefore, audit tenure has a negative and statistically significant effect on the financial reporting quality of listed conglomerate firms in Nigeria.

Audit Firm Age and Financial Reporting Quality: The coefficient of audit firm age is -0.0843 ($p = 0.0000$), indicating that a one-unit increase in audit firm age is associated with a 0.0843-unit decrease in discretionary accruals, holding other variables constant. Since lower discretionary accruals reflect higher financial reporting quality, the result suggests that older audit firms are associated with improved financial reporting quality. The relationship is statistically significant at the 5% level. Therefore, audit firm age has a positive and statistically significant effect on the financial reporting quality of listed conglomerate firms in Nigeria.

F. Firm Leverage and Financial Reporting Quality

The coefficient of firm leverage is 88.1095 ($p = 0.0000$), indicating that a one-unit increase in firm leverage is associated with an 88.1095-unit increase in discretionary accruals, *ceteris paribus*. Since higher discretionary accruals indicate lower financial reporting quality, the result suggests that higher leverage is associated with lower financial reporting quality. The coefficient is statistically significant at the 5% level. Therefore, firm leverage has a negative and statistically significant effect on the financial reporting quality of listed conglomerate firms in Nigeria.

7. Discussion of Findings

Audit Fee and Financial Reporting Quality: The regression results reveal that audit fee has a negative and statistically significant effect on the financial reporting quality of listed conglomerate firms in Nigeria. The finding suggests that higher audit fees are associated with increased discretionary accruals, indicating lower financial reporting quality. This relationship reflects the economic bonding effect, whereby substantial audit

fees may reduce auditor independence through financial dependence on clients, thereby weakening professional scepticism and the quality of financial reporting. The finding is consistent with the predictions of Agency Theory and aligns with the findings of Augustin et al. (2021) who reported that excessive audit fees impair auditor independence through economic dependence on clients, thereby reducing financial reporting quality.

Audit Tenure and Financial Reporting Quality: The regression results indicate that audit tenure has a negative and statistically significant effect on the financial reporting quality of listed conglomerate firms in Nigeria. This implies that prolonged auditor–client relationships are associated with increased discretionary accruals and reduced financial reporting quality. The finding reflects the auditor familiarity effect, whereby extended audit engagements may weaken professional scepticism and auditor independence as auditors become increasingly familiar with management. This outcome is consistent with the auditor familiarity argument underpinning Agency Theory, which posits that prolonged auditor–client relationships can impair auditor objectivity and reduce audit effectiveness. Empirically, the finding is consistent with Mgbame et al. (2012) who reported that prolonged auditor–client relationships impair auditor independence and reduce financial reporting quality by increasing familiarity threats. However, the finding contradicts Oyerogba et al. (2022), who found that longer audit tenure enhances financial reporting quality through accumulated client-specific knowledge and improved audit effectiveness. The difference may be attributed to variations in sectoral characteristics, sample composition and regulatory environment between the two studies.

Audit Firm Age and Financial Reporting Quality: The regression results show that audit firm age has a positive and statistically significant effect on the financial reporting quality of listed conglomerate firms in Nigeria. This indicates that more experienced audit firms are associated with lower discretionary accruals and improved financial reporting quality. The finding reflects the accumulated technical expertise, industry-specific knowledge and reputational capital of older audit firms, which strengthen auditor competence, enhance audit quality and improve the credibility of financial reporting. This interpretation is consistent with Agency Theory, which emphasises the importance of auditor competence and independence in mitigating agency conflicts and improving reporting quality. Empirically, the finding is consistent with Setiawan et al. (2019), who reported that more established audit firms enhance financial reporting quality through accumulated professional expertise, stronger quality control systems and greater organisational reputation.

Firm Leverage and Financial Reporting Quality: The regression results indicate that firm leverage has a negative and statistically significant effect on the financial reporting quality of listed conglomerate firms in Nigeria. This indicates that highly leveraged firms are associated with increased discretionary accruals and lower financial reporting quality. The finding reflects the incentives faced by managers of highly leveraged firms to engage in earnings management in order to

satisfy debt covenant requirements, maintain favourable relationships with creditors and present a stronger financial position. This interpretation is consistent with the debt covenant hypothesis and Agency Theory, which posit that managers may manipulate reported earnings to reduce potential conflicts with lenders and minimise the risk of violating contractual obligations. Empirically, the finding is consistent with Kasasbeh (2021), who reported that higher leverage increases financial reporting pressures and reduces accounting quality by strengthening managers' incentives to engage in opportunistic financial reporting.

8. Conclusion and Recommendations

This study examined the effect of auditor independence, proxied by audit fee, audit tenure and audit firm age, on the financial reporting quality of listed conglomerate firms in Nigeria, while controlling for firm leverage. The findings reveal that audit fee and audit tenure significantly reduce financial reporting quality, whereas audit firm age significantly enhances financial reporting quality. In addition, firm leverage was found to adversely influence financial reporting quality, indicating that highly leveraged firms are more likely to engage in earnings management. Overall, the study concludes that auditor independence remains a critical determinant of financial reporting quality in the Nigerian conglomerate sector. Strengthening auditor independence and promoting audit quality are therefore essential for enhancing the credibility and reliability of corporate financial reporting.

Based on the findings of this study, the following recommendations are proposed.

- i. **Audit Fee:** The Financial Reporting Council of Nigeria (FRCN) should strengthen oversight of audit fee disclosures by requiring separate disclosure of audit and non-audit fees to minimise economic dependence and safeguard auditor independence.
- ii. **Audit Tenure:** The FRCN should enforce periodic audit firm rotation for listed conglomerate firms to reduce familiarity threats and reinforce auditor objectivity and professional scepticism.
- iii. **Audit Firm Age:** Listed conglomerate firms should prioritise the engagement of reputable and experienced audit firms with proven industry expertise, as their accumulated knowledge and reputational capital contribute to improved financial reporting quality.

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