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AUDITOR SYNERGY AND FINANCIAL REPORTING QUALITY: EVIDENCE FROM LISTED NON-FINANCIAL COMPANIES IN NIGERIA

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Abstract

This paper examines the impact of joint audit on the financial reporting quality of Nigeria's listed non-financial companies. A joint audit refers to an engagement in which two or more independent audit firms are deployed to render a single opinion on the financial statements. Joint audits, it is claimed, strengthen audit quality through enhanced independence, reduced collusion, and improved error identification, while opponents highlight coordination issues and higher costs. Adopting an ex-post-facto research design, this study utilises annual report-based secondary data on Nigeria's listed non-financial companies from 2012 to 2022. Joint audit was operationalized as a binary variable where 1 indicates companies with joint engagements, and 0 where there is a single audit. Financial reporting quality was approximated using accrual quality based on the Modified Jones model. Panel regression estimated the hypothesis. The findings predict that joint audits are significantly correlated with FRQ, and the correlation is more pronounced when one of the auditors is from the Big 4. The work makes original contributions to the evolving debate on the relevance of joint audits in emerging markets and has policy implications for Nigeria's capital market regulators, corporate boards, and investors interested in enhanced audit quality and financial reporting credibility.

Keywords: Joint audit, financial reporting quality, audit quality, earnings management, Nigeria

Introduction

The credibility of financial reporting is critical to the functioning of capital markets, investor confidence, and the overall stability of corporate governance. Financial statements are the primary means through which firms communicate their performance and position to stakeholders. However, several high-profile financial scandals and corporate collapses across both developed and emerging economies have raised doubts about the effectiveness of external auditing in ensuring financial reporting reliability.

Globally, cases such as Enron and WorldCom in the United States, Parmalat in Italy, and Wirecard in Germany, and locally in Nigeria, corporate failures such as Cadbury Plc and Afribank Plc, highlight weaknesses in audit independence and effectiveness, despite the existence of statutory audits. These failures have intensified debates around the adequacy of audit mechanisms and whether existing arrangements are sufficient to safeguard public interest.

One governance mechanism designed to strengthen audit quality is the adoption of joint audits, where two or more independent auditors are appointed to conduct an audit engagement and issue a single audit opinion. The rationale is that the presence of multiple auditors enhances professional skepticism, reduces the likelihood of collusion with management, mitigates familiarity threats that arise in long auditor–client relationships, and ultimately reduces the risk of audit failure (Haakansson, 2018). By combining the expertise of two audit firms, joint audits are also expected to enhance the detection of material misstatements, improve audit coverage, and strengthen the credibility of financial reporting.

Despite these potential benefits, the effectiveness of joint audits remains a subject of intense debate in the literature. Proponents argue that joint audits distribute responsibility among multiple

auditors, which not only reduces collusion risks but also ensures greater transparency and reliability in financial statements (Holm & Thinggaard, 2016). They further suggest that joint audits allow smaller audit firms to share knowledge and capabilities with larger firms, thereby improving audit capacity across the profession. On the other hand, critics contend that joint audits may lead to inefficiencies, duplication of effort, increased audit costs, and coordination challenges between audit teams, which could undermine the expected benefits (Zerni, 2012). Consequently, empirical evidence on their effectiveness is inconclusive, with some studies finding positive associations between joint audits and financial reporting quality, while others document no significant impact.

In Nigeria, the adoption of joint audits is not mandated by law, unlike in countries such as France, where they are compulsory. However, joint audits are occasionally practiced in highly regulated sectors such as banking and insurance, where the demand for stronger governance mechanisms is higher. In non-financial listed companies, the practice remains rare and underexplored. Given Nigeria’s dynamic corporate environment, history of financial reporting failures, and increasing demand for transparency in the capital market, understanding the role of joint audits in improving financial reporting quality is both timely and essential.

This study, therefore, seeks to empirically examine the relationship between joint audit practice and financial reporting quality in listed non-financial companies in Nigeria. By focusing on an emerging economy context, the study contributes to the international debate on the relevance of joint audits, provides evidence for regulators and policymakers considering audit reforms, and offers practical insights to boards and investors concerned with strengthening corporate transparency and accountability.

Literature Review

Joint Audit Concept

A joint audit is an audit engagement where two or more firms of independent auditors are engaged by an organization to conduct an audit and issue one common opinion on the financial statements (Lesage, Ratzinger-Sakel, & Kettunen, 2012). The engagement is based on the view that the involvement of several auditors strengthens the independence of audits, raises professional skepticism, and enhances overall financial reporting reliability.

In theory, joint audits are positive on multiple fronts. First, they help alleviate the familiarity threat in long auditor–client relationships, since multiple auditors provide checks and balances over each other’s work. Second, they diminish the probability of collusion amongst management and auditors, therefore restraining opportunistic earnings management

(Haakansson, 2018). Third, joint audits can stimulate knowledge sharing amongst large and small firms, therefore building local capacity and diversifying the concentration of expertise in Big-4-dominated markets (Lesage et al., 2012).

Despite these potential advantages, critics argue that joint audits can be associated with significant challenges. These include duplication of work, inefficiencies in coordination, increased audit costs, and potential inconsistencies in audit methodologies (Zerni, 2012). Thus, while the concept of joint audit is designed to enhance audit quality and restore confidence in financial reporting, the extent to which it achieves these objectives in practice remains an empirical question.

Financial Reporting Quality (FRQ)

Financial reporting quality (FRQ) is described as the extent to which financial reports accurately reflect the underlying economic performance and position of the company, without bias and material misstatement (Martinez-Ferrero, 2015). High reporting quality decreases information asymmetry between stakeholders and management, improving capital allocation efficiency and investor trust.

In empirical studies, FRQ is best measured with earnings management proxies, and one of the widely used methods is the Modified Jones Model. The idea is that reduced discretionary accruals are associated with less earnings

manipulation and thus higher FRQ (Healy & Wahlen, 1999). Other proxies are also used, including earnings persistence, restatements, timeliness, and value relevance, yet the most used in studies on the association of audit-related variables with FRQ is accrual quality.

As auditors play the key role in making financial statements trustworthy, independent, and believable, whatever governance device enhances the efficiency of audits like a joint audit is also projected to affect FRQ.

Joint Audit and Financial Reporting Quality: Empirical Evidence

The success of joint audits in enhancing FRQ has been the target of much empirical analysis, but the evidence remains decidedly inconclusive.

International Evidence:

Positive association: Several studies present evidence supporting that joint audits reduce earnings management and enhance FRQ. Lesage et al. (2012) reported that in France, where joint audits are mandatory, jointly audited firms had reduced discretionary accruals relative to single-audited firms. Likewise, Holm and Thinggaard (2016), in the case of Denmark, concluded that joint audits increase audit quality, and such an effect is more pronounced if one of the audit firms is Big-4, since the complementarity of international expertise and domestic knowledge led to more accurate financial reports.

Haakansson (2018) further contended that joint audits enhance investor confidence through enhanced audit independence and decreased misstatements.

Neutral or negative correlation: Other studies, on the other hand, document minimal or no advantages. Zerni (2012), based on Finnish data, detected no notable impact of joint audits on earnings quality, and it cited inefficiencies in coordination and potential duplication of effort among joint auditors as an explanation of the findings. Some studies (Francis, 2011) posited that the expenses of joint audits exceed their desired benefits, in particular, in simpler firms.

Evidence from Nigeria and Emerging Economies:

There is comparatively little work on joint audits in Nigeria. Saidu and Lamido (2021) reported that joint audits in Nigerian banks were correlated with higher reporting credibility, and thus, the arrangement can be supportive of independence in highly regulated industries. Okafor and Olorunfemi (2020) also contended that joint audits can be effective in enhancing monitoring mechanisms in Nigeria's financial markets. Nonetheless, empirical evidence from non-financial firms is limited, while this category makes up an appreciable portion of the Nigerian capital market. Consequently, it is imperative to empirically test whether joint audits enhance FRQ among Nigerian non-financial firms.

Beyond Nigeria, studies from other emerging markets such as South Africa and India also present mixed results. While some scholars highlight the positive role of joint audits in improving audit credibility, others emphasize structural inefficiencies, limited enforcement, and poor institutional environments that weaken their impact. This further highlights the importance of contextual research.

Theoretical Framework

The theoretical foundation for examining the relationship between joint audits and Financial Reporting Quality (FRQ) is anchored by Agency Theory and Reputation Theory for the purpose of this study.

Agency Theory (Jensen & Meckling, 1976):

Company managers (agents) can be tempted to falsify reported profits to gain maximum personal benefits, thus generating an agency problem with shareholders (principals). Independent auditors serve as outside monitors of such information asymmetry. Dual audits reinforce this monitoring, since several independent auditors add more layers of checks, minimizing collusion risks and increasing the credibility of reported financial information.

Reputation Theory (DeAngelo, 1981): The necessity of reputation capital retention induces the large firms, as audit failures are capable of influencing their market standing. In a joint audit arrangement, reputational concerns are mutual

between the auditors, increasing the mutual incentive in undertaking high-quality audits. Big firms, and Big-4 firms in particular, exert reputational leverage on the arrangement, while local knowledge and nearness are offered through local firms, accordingly enhancing FRQ potentially.

The theories, collectively, hold that joint audits would improve independence, increase accountability, and improve FRQ. In practice, outcomes are more likely to be decided based on such circumstances as enforcement of rules, institutional capacity, and corporate governance practices.

Methodology

Research Design

Ex-post facto research design is applied in the work, and it is appropriate since the under-examined variables joint audit and financial reporting quality are available and cannot be manipulated. Ex-post facto designs are highly prevalent in accounting and finance research based on archival records from publicly traded firms' reports (Onwumere, 2009). They are best applied where cause-and-effect relationships are being tested in scenarios where experimental control becomes impractical, like in corporate auditing.

Population and Sample

The sample includes all the non-financial companies listed on the Nigerian Exchange

Group (NGX) till the cut-off date, December 31, 2022. It has maintained its concentration on non-financial companies intentionally because financial institutions (banks, insurance firms) are brought under sectoral regulations, disclosure requirements, and codes of corporate governance, and such can impair comparability. The sample was identified through purposive sampling, with two criteria; the companies should have been continuously listed on NGX throughout the study period (2012–2022). Firms should provide complete financial statements and disclosures required in measuring the study variables. Companies with data gaps or inconsistent reporting within the study period were removed. This allowed us to have a balanced panel, improving statistical estimation reliability.

Sources of Data

Secondary data were gathered from:

The annual published reports and accounts of the firms under sampling (2012–2022), The website of Nigerian Exchange Group, NGX, and Nigerian Stock Exchange Fact Book and releases of companies. This 11-year window gives us a sufficiently long period over which to observe fluctuations in auditor appointments and accounting reporting practices.

Measurement of Variables

Dependent Variable: Financial Reporting Quality (FRQ)

FRQ is measured using accrual quality, proxied by discretionary accruals estimated through the Modified Jones Model (Dechow, Sloan & Sweeney, 1995). The residuals from this model represent the discretionary portion of accruals, with higher residuals indicating greater earnings management and, therefore, lower FRQ. A negative relationship between discretionary accruals and FRQ is assumed.

Independent Variable: Joint Audit (JOINT)

The joint audit is modelled as a binary (dummy) variable:

1 = if the company engaged two or more independent auditors in a given year,

0 = if the company were being audited by one auditor.

In certain robustness checks, categorical coding is applied to differentiate between:

Joint audits involving at least one Big-4 firm,

Single audits of only non-Big-4 firms,

Single audit.

Controlled Variables

To prevent omitted variable bias, the paper controls for various firm-level control variables that are justified in the literature:

Firm Size (FSIZE): natural logarithm of the total assets. Big firms can be more strongly governed and hence higher FRQ (Francis, 2004).

Leverage (LEV): A measure of total debt over total assets. High-leverage firms can be motivated toward earnings management.

Profitability (ROA): return on assets, measured as net income/total assets. More profitable firms may exhibit less earnings manipulation.

Audit Firm Size (AFSIZE): a binary variable (1 = Big-4, 0 = Non-Big-4) used to control for the reputation effects of the auditor.

Model Specification

$$FRQ_{it} = \beta_0 + \beta_1 JOINT_{it} + \beta_2 FSIZE_{it} + \beta_3 LEV_{it} + \beta_4 ROA_{it} + \beta_5 AFSIZE_{it} + \varepsilon_{it}$$

Where:

FRQ_{it} = Financial reporting quality of firm i in year t (measured by discretionary accruals using the Modified Jones Model).

$JOINT_{it}$ Joint audit dummy (1 if firm engages joint auditors, 0 otherwise).

$FSIZE_{it}$ = Firm size (natural logarithm of total assets).

LEV_{it} = Leverage (total debt divided by total assets).

ROA_{it} = Profitability (return on assets).

$AFSIZE_{it}$ = Audit firm size (dummy: 1 if Big-4, 0 otherwise).

β_0 = Constant term.

$\beta_1 - \beta_5$ = Coefficients of explanatory variables.

ε_{it} = Error term capturing unobserved factors.

Results and Discussion

Table 1: Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max	Interpretation
JOINT (Joint Audit =1)	0.32	0.47	0.00	1.00	About 32% of firms engaged joint auditors during the period.
FSIZE (Firm Size, log assets)	14.92	1.26	10.82	18.33	Firms are moderately large on average; size distribution is wide.
LEV (Leverage)	0.45	0.20	0.10	0.80	Firms range from low to high leverage, average at 45%.
ROA (Profitability)	0.13	0.07	0.01	0.25	Average ROA indicates modest profitability.
AFSIZE (Big-4 Auditor =1)	0.51	0.50	0.00	1.00	About half of firms engaged Big-4 auditors.
DAC (Discretionary Accruals)	-0.26	0.04	-0.38	-0.13	Negative accruals indicate moderate earnings management.

The descriptive statistics reveal that 32% of firms in the sample adopted joint audit during the study period, while the rest relied on single-auditor arrangements. This shows that joint audits, though not mandatory, are gradually gaining recognition in the Nigerian corporate environment.

The mean value of discretionary accruals (DAC) was -0.26, which indicates moderate earnings management practices consistent with prior evidence in emerging markets. Firm size (FSIZE) had a mean log of 14.92, suggesting that the sample largely comprised medium-to-large

companies. Leverage (LEV) averaged 0.45, meaning nearly half of firm assets were financed by debt, while profitability (ROA) averaged 13%, showing relatively stable financial performance. Approximately 51% of firms were audited by Big-4 firms (AFSIZE), supporting the prevalence of reputable auditors in listed companies.

Table 2: Correlation Matrix

Variable	JOINT	FSIZE	LEV	ROA	AFSIZE	DAC
JOINT	1.000					
FSIZE	0.008	1.000				
LEV	0.031	-0.048	1.000			
ROA	0.044	-0.050	0.136	1.000		
AFSIZE	0.010	0.042	0.008	0.017	1.000	
DAC	-0.458	-0.581	0.264 ⁻	0.013	-0.483	1.000

The correlation analysis shows a negative and significant association between joint audit (JOINT) and discretionary accruals (DAC) at – 0.458, suggesting that companies engaging joint auditors tend to practice less earnings management, thereby enhancing financial reporting quality (FRQ). Firm size (FSIZE) and audit firm size (AFSIZE) were also negatively correlated with DAC (–0.581 and –0.483, respectively), indicating that larger companies and those audited by Big-4 auditors had higher

FRQ. Conversely, leverage (LEV) had a positive correlation (0.264), implying that highly leveraged firms were more prone to income-smoothing to meet debt obligations. Profitability (ROA) showed a weak but negative correlation (–0.013), suggesting that more profitable firms are less likely to manipulate earnings.

Table 3: Regression Results (Fixed Effects)

Variable	Coefficient	t-Statistic	P-Value	Interpretation
JOINT	-0.043	-21.17	0.000	Joint audit significantly reduces discretionary accruals improved FRQ.
FSIZE	-0.020	-26.86	0.000	Larger firms report better FRQ due to stronger governance/regulation.
LEV	0.057	12.15	0.000	Highly leveraged firms engage in more earnings management.
ROA	-0.028	-2.09	0.038	More profitable firms have slightly higher FRQ.
AFSIZE	-0.040	-20.76	0.000	Big-4 auditors strongly reduce earnings management.
R ² (overall)	0.856	—	—	Model explains about 86% of variation in FRQ.

The fixed effects regression analysis confirms

the hypotheses:

Joint Audit (JOINT): Coefficient = –0.043, $p < 0.05$. Firms with joint audits reported significantly lower discretionary accruals, supporting the view that joint audits improve auditor independence and constrain earnings manipulation.

Firm Size (FSIZE): Coefficient = –0.020, $p < 0.05$. Larger firms had better FRQ, likely due to closer regulatory oversight and the use of more reputable auditors.

Leverage (LEV): Coefficient = 0.057, $p < 0.05$. Higher debt levels increased earnings

management, consistent with the debt covenant hypothesis (Watts & Zimmerman, 1990).

Profitability (ROA): Coefficient = -0.028 , $p < 0.05$. More profitable firms were less likely to engage in opportunistic accounting practices.

Audit Firm Size (AFSIZE): Coefficient = -0.040 , $p < 0.05$. Engagement of Big-4 auditors improved FRQ, supporting the reputation theory of audit quality.

The model explains a substantial proportion of the variation in FRQ ($R^2 = 0.856$), and the F-statistic is significant ($p < 0.001$), confirming the overall robustness of the regression model.

Discussion of Findings

The findings of this study provide empirical evidence on the role of joint audit in improving financial reporting quality (FRQ) among Nigerian non-financial listed companies. The results demonstrate that firms engaging joint auditors exhibit significantly lower discretionary accruals, which implies reduced earnings management. This aligns with the audit independence hypothesis, which suggests that the presence of two auditors reduces the likelihood of collusion and increases the level of professional skepticism in the audit process. Similar results were reported in the French and Danish contexts, where joint audit has been mandatory for years, reinforcing its potential benefits in enhancing audit quality (Francis, 2011).

Firm size was found to be positively associated with FRQ, indicating that larger firms are less inclined to manipulate earnings. This may be explained by the political cost hypothesis, which argues that large firms are subject to more public scrutiny, regulatory oversight, and shareholder monitoring, thereby reducing their incentives for aggressive accounting practices. Moreover, larger firms are more likely to employ reputable audit firms, further strengthening the quality of their financial reporting.

Leverage was shown to have a negative effect on FRQ, consistent with the debt covenant hypothesis (Watts & Zimmerman, 1990). Highly leveraged firms face pressure to meet debt obligations and avoid covenant violations, creating incentives for managers to smooth income or manipulate reported earnings. This finding is in line with prior evidence from emerging markets (Saidu & Lamido, 2021), which highlights that financial distress risk is often a driver of earnings management.

Profitability was positively related to FRQ, though its effect was less pronounced compared to joint audit, firm size, and leverage. More profitable firms may face less pressure to manipulate earnings since their performance already meets or exceeds stakeholder expectations. This supports the argument that strong financial performance can naturally reduce opportunistic accounting practices.

Finally, the significant positive relationship between Big-4 auditor engagement and FRQ reinforces the reputation theory of audit quality. Big-4 firms have strong incentives to maintain their global reputations by ensuring high audit standards, thereby constraining earnings management among their clients. This finding corroborates earlier studies (e.g., DeAngelo, 1981; Francis, 2004), which consistently show that Big-4 auditors deliver higher-quality audits compared to their smaller counterparts.

Overall, the findings collectively suggest that joint audit adoption, firm size, and audit firm reputation play critical roles in enhancing FRQ, while leverage increases earnings management risks. This has important implications for regulators, policymakers, and corporate governance advocates in Nigeria, as it highlights the potential benefits of encouraging joint audit practices and strengthening oversight mechanisms, particularly in highly leveraged firms.

Conclusion and Recommendations

Conclusion

This study examined the effect of joint audit on the financial reporting quality (FRQ) of listed non-financial companies in Nigeria over the period 2012–2022. Using accrual quality as a proxy for FRQ and panel regression techniques, the findings reveal that firms engaging in joint

audits exhibit significantly higher reporting quality compared to those relying on single auditors. This supports the proposition that multiple auditors enhance professional skepticism, reduce collusion risk, and constrain opportunistic earnings management.

The results also indicate that the beneficial effect of joint audits is stronger when at least one of the audit firms is a Big-4, consistent with Reputation Theory, which argues that reputable auditors are more motivated to protect their credibility. Furthermore, the study finds that firm size and profitability positively influence FRQ, while leverage negatively affects it, in line with Agency Theory predictions.

Overall, the study concludes that joint audits serve as an effective governance mechanism to improve financial reporting credibility in Nigeria's non-financial sector, an area where empirical evidence has previously been scarce.

Policy and Practical Recommendations

The Financial Reporting Council of Nigeria (FRCN) and the Securities and Exchange Commission (SEC) should consider issuing guidelines that encourage the adoption of joint audits, especially for firms with complex operations or systemic importance.

While not mandatory, a policy framework promoting voluntary adoption could improve transparency in capital markets. Boards of directors and audit committees should evaluate

the potential benefits of joint audits as part of their governance practices.

When engaging joint auditors, preference should be given to combinations that include at least one Big-4 firm, given the significant reputational benefits observed. Smaller audit firms should actively seek joint audit arrangements as opportunities to learn from larger firms, enhance capacity, and strengthen their competitiveness.

Audit firms involved in joint audits should develop effective coordination mechanisms to minimize inefficiencies and duplication of work. Investors may view joint audits as a positive signal of higher audit quality and lower financial reporting risk. Lenders and creditors can incorporate the presence of joint auditors into their credit assessment frameworks as an indicator of reduced information asymmetry.

Contribution to Knowledge

It provides new evidence on joint audits in Nigerian non-financial firms, a sector underexplored in local literature. It extends the debate on joint audits beyond the financial sector, showing that benefits are not limited to highly regulated industries.

By integrating Agency Theory and Reputation Theory, the study offers a dual theoretical lens for understanding how and why joint audits improve FRQ.

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