Key Audit Matters Disclosure (KAMD), Audit Quality and Financial Reporting Quality of Quoted Non-financial Firms in Nigeria

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Abstract
This study examined the influence of key audit matters disclosure and auditor quality on financial reporting quality of quoted non-financial firms in Nigeria. The study adopted an ex-post facto research design. The data were gathered from a final sample size of forty-five (45) quoted non-financial firms representing 43% of the total population for 10 years, from 2014 to 2023. Both descriptive and inferential statistics were adopted for data analyses. The results showed that key audit matters disclosure and audit quality have a negative and statistically significant influence on discretionary accruals (a proxy for financial reporting quality), thereby improving financial reporting quality of quoted non-financial firms in Nigeria. Control variables, namely, firm size and leverage, though positive, have a non-significant influence on financial reporting quality. The findings concluded that key audit matters disclosure and audit quality are a strong pointer to critical audit issues. Its disclosure enhances transparency and improves financial reporting quality. Consequently, this study provides empirical evidence in support of key audit matters disclosure and recommended the continuity of key audit matters disclosure, as well as audit quality in enhancing financial reporting quality.

Keywords: Audit quality, firm size, financial reporting quality, key audit matters disclosure (KAMD), leverage

JEL Codes: M14; L25

Introduction
Financial Reporting as it is known to be the process of disclosing an organization’s financial information to external stakeholders, has a standardized and comprehensive manner in such a way that it provides insights into the financial health, performance and position of a company, helping investors, creditors, regulators and other interested parties to make informed decisions. The duo of Yaghoobi & Khansalar (2016) perceived the quality of financial reporting as the degree to which

financial statements give information that is relevant and reliable regarding an enterprise's financial status and performance. According to Czajkowska et al. (2024), transparent reporting provides more quality and relevant information to the capital market. The financial reports are considered to be a useful method of communicating financial information to potential users. The essential components of financial reports are statements of financial position, income and cash flows. The quality of financial reports has been bench-marked by several factors, including compliance with accounting standards, consistency, transparency, accuracy, completeness, timeliness, fair presentation, disclosure quality, auditor's independence and competence, among others. The majority of these factors have been tested over time in several research studies and have been practically proven as effective determinants of the quality of financial reporting. It is essential to provide high-quality financial reporting to influence users in making investment decisions and to enhance market efficiency. The higher the quality of financial reporting, the more significant the benefits to be gained by investors and users of the financial reports.

To protect the interest of stakeholders and enable them to have reliable financial reporting information that helps in their decision-making, auditing professionals engage in the service of assessing and forming an opinion on the true and fair view of the financial report, as well as attesting to the quality of the financial report. External auditors play a crucial role in determining the quality of financial reports. Audit quality enhances financial reporting quality by improving the investors' trust. DeFond et al. (2016) and Gaynor et al. (2016) have provided empirical evidence that audit quality also upgrades financial reporting quality by boosting the credibility of financial reports. According to DeFond et al. (2016), audit quality is an ongoing construct and that financial reporting quality is one major role of audit quality. This indicates that audit quality and financial reporting quality are collaboratively measurable results. A few proxies of audit quality include audit fees, auditor size, auditor independence, auditor experience, among others. Either individually or jointly, these factors have somehow been linked, in a way, to audit quality.

In a bid to enhance the quality of audit, the International Auditing and Assurance Standards Board (IAASB) in 2015 released International Standard on Auditing (ISA) No. 701 titled 'Communicating Key Audit Matters (KAMs) in the Independent Auditor's Report. KAMs are those issues that, in the auditor's professional opinion, are of material effect and concern that stood out during the audit process of the current period's financial accounts. KAMs must be communicated in audit reports, under ISA 701. The communication quality and educational value of audit reports are anticipated to increase, with the implementation of KAMs disclosure. This is so that auditors may present their findings in a more open and enlightening manner. KAMs reporting is expected to give investors and other stakeholders more information about the significant areas of risk in the financial statements. Key Audit Matters (KAMs) are no different from the usual risk areas, that in the auditors' professional scepticism and due care might constitute material misstatement individually or in the aggregate, or perhaps areas worth drawing the attention of stakeholders to inform of disclosures to the account (Zeng, et. al., 2021).

There is so much pressure and clamour for enhanced financial reporting quality through audit quality, likewise, a highly geared request for improved audit quality through implementation of key audit matters (KAMs) reporting. Several studies have examined financial reporting quality, key audit matters disclosure and audit quality individually (Ecim & Maroun, 2023; Herath, 2017) while there are a few on the effect of implementing key audit matters on financial reporting quality (Espahbodi, et. al., 2023; Rahaman, et. al., 2023), as well as, the impact of key audit matters on audit quality (Matta & Feghali, 2021; Espahbodi et al., 2023; Teucher & Ratzinger-Sakel 2024;). These studies offer conflicting results regarding how KAMs reporting affects audit quality (Kittiwong & Sarapaivanich, 2020; Reid et al., 2019; Segal, 2017; Almulla & Bradbury, 2018; Li et al., 2018). While the majority of research discovered a favourable correlation between KAMs reporting and audit quality (Li et al., 2018; Klueber et al., 2018; Reid et al., 2019), Majid & Ismail (2008) and Takhtaei & Mousavi (2012) found a negative relation between firm size and financial reporting quality FRQ. As a result of this trend and sequel to the demand for enhanced financial reporting quality by stakeholders in an emerging country like Nigeria, this study aims to investigate a combined effect of key audit matters disclosure and audit quality on the financial reporting quality of quoted non-financial firms in Nigeria. This research is motivated by the evolving regulatory environment in Nigeria, the dynamic and complexity of financial records of quoted non-financial firms in Nigeria, as well as the global shift towards increased transparency and accountability in financial reporting.

Conceptual Review

Financial Reporting Quality

According to the International Accounting Standard Board (IASB), financial reports must possess fundamental and enhancing qualitative characteristics for quality assurance (IASB, 2015). Financial reporting quality refers to the accuracy, reliability, and transparency of financial reports (Defond & Lennox, 2017). While the Board describes fundamental qualitative characteristics as relevance and faithful representation of the financial statements' information, enhancing qualitative characteristics include comparability, verifiability, timeliness, and understandability of financial statements. According to the Companies and Allied Matters Act (CAMA) 2020, financial statements consist of accounts used to convey quantitative statements of a financial nature about a business to investors, creditors, and others interested in the reporting company’s financial condition and results of operations, to users and sources of funds. Amahalu (2020) describes financial statement quality as a statement which conveys to management and interested outsiders a concise picture of the profitability and financial position of a business. Further, Herath & Albarqi (2017) caution that the financial reporting concept is a broad concept that goes beyond financial-related measures but also includes non-financial disclosures capable of influencing decision making.

Studies abound on measures of financial reporting quality in the literature. These include corporate governance dimensions (soyemi, 2020a), firms’ attributes (Soyemi & Olawale, 2019) accounting standards (Gajevszky, 2015), earnings management (soyemi et. al., 2020b), accounting conservatism (soyemi, et. al., 2018) including audit dimensions, such as audit misstatements (Herath & Albarqi, 2017), internal control mechanisms (Herath & Albarqi, 2017), among others. The first notion of assessing an entity’s performance and prospect is through the window of financial reporting quality. Besides studies on determinants and measures of financial reporting quality, there are a few studies (Lonkani, 2018) that emphasise external market response, which in turn is consequent upon the value of the entity. Apart from external stakeholders’ association or users of the financial reports, including shareholders, creditors, debenture holders, etc, to an entity, Lonkani (2018) posits apparent relationship to be considered in any valuation process, as well.

Audit Quality

There is no consensus definition of audit quality in accounting literature. According to Baah & Fogarty (2018), audit quality refers to the extent to which an auditor's independence, integrity, and objectivity impact auditors' opinions on the quality of financial statements. Audit quality has been regarded as a complex subject with no universal definition or analysis. Conceptually, audit quality can be measured through the three basic aspects of inputs, outputs and environmental factors. Except for auditing standards, there are other inputs for the auditing quality. One such input is the unique and prominent features of the auditor such as his or her experience, moral values and propensities. One of the other important factors is the auditing process (Rahimi & Amini, 2015). This process includes auditing methodology, the amount of the effects of the applied auditing methods and the amount of access to the required auditing documents and pieces of evidence. Riley (2001), cited in Soyemi et al. (2020) suggests that audit consumers must assess the quality by using surrogates or the overall reputation of an auditor. Rahimi & Amini (2015) argue that audit quality underscores the extent to which the output of the process serves the decision-useful function of the accounting information system.

DeAngelo (1981), cited in Soyemi et al. (2021), defines audit service quality in her seminal paper as “the market-assessed joint probability that a given auditor will both (a) discover a breach in the client's accounting system and (b) report the breach.” This definition consists of four aspects. The first aspect is the probability that the auditor finds a breach in the client’s accounting system. This relates to the competence of the auditor to find misstatements and depends on numerous factors such as the technological capabilities of the auditor, the performed audit procedures and the size of the samples (DeAngelo, 1981). The second aspect is the probability of the auditor reporting the breach. According to DeAngelo (1981), this is related to the independence of the auditor. The third aspect is the market-assessed part of the definition. It is important to note that the described definition by DeAngelo (1981) relates to audit service quality. Accounting literature often equalizes this definition with her definition of audit quality.

Key Audit Matters

Key audit matters (KAMs) are significant matters which, in the judgements of independent auditors, are considered to attract their attention in the course of the audit assignment. The requirement for the disclosure of key audit matters in audit reports is consequent upon the need to improve the quality of audit reports. Audit reports were considered to be of little value (Gutierrez et al., 2018), especially in the modern day, where information is key. Investors and the like require credible information to make decisions. This attracted global attention, and responses were evidenced in global reforms. In 2019, the United States, through the Public Company Accounting Oversight Board (PCAOB), mandated that auditors of public companies disclose Critical Audit Matters (CAMs). Earlier, the International Auditing and Assurance Standard Board (IAASB) of the International Federation of Accountants (IFAC) had issued ISA 701 in 2015, but effective from 2016, mandating independent auditors to communicate key audit matters in audit reports to enhance transparency and communicative value of their reports. However, what is contained therein is left to the discretion and judgment of auditors, as they are required to identify and describe matters of material significance that attract their attention during the audit. Besides, they must be communicated to users of financial reports, as well. This is related to the disclosure of Risk of Material Misstatements (RMM) by companies quoted on the London Stock Exchange as directed by the Financial Reporting Council since 2013 in the UK. Overall, it is expected that KAMs shall improve the quality of audit, as well as the quality of financial reports.

Theoretical Framework

Agency Theory: Agency theory was introduced by Stephen Ross in 1973, it is the theory that examines the relationship between management (agent) and shareholders (Principals), and it emphasizes the need for audit quality and key audit matters disclosure to reduce information asymmetry (Jensen & Meckling 1976 cited in Soyemi et al., 2020a). Agency theory became a popularized concept that aims to prevent as well as manage principal-agent relationships, conflicting interest and agency cost. The core idea of agency theory is that managers as agents may prioritize their interests over those of the shareholders, who are the principals. In a nutshell, if agency theory is not properly managed, it will result in a low quality of financial report.

Communication Theory: Communication theory is the study of how information is exchanged between senders and receivers (Van Ruler, 2020). The theory can be used to understand how the management of a company uses financial reports to communicate with its stakeholders, including the independent auditors. Effective communication of KAMs can improve audit quality by improving the communication of audit findings to those saddled with governance, investors and other stakeholders. Communication theory studies how information is exchanged between senders and receivers, with a communication model being a crucial concept. Key principles of communication theory include a two-way process, context, media used, and potential for distortion. Understanding these principles helps auditors improve the effectiveness of communication of KAMs, ensuring investors and stakeholders have the information they need to make informed investment decisions from the financial report. By addressing these challenges, auditors can enhance the quality of audits and help ensure that investors and stakeholders have the information they need to make informed investment decisions.

Empirical Review

Nguye et al. (2023) examined audit quality and independence concerns after audit reforms within developing countries. It explained perception on how auditors, both internal and external, responded to audit reform towards impacting audit quality. It expressed the major concerns amongst the smaller audit practitioners who are characterized by low audit quality, as well as how they can improve audit quality and independence.

De-Ricquebourg & Maroun (2023) investigated the impact of auditor rotations on key audit matters (KAMs) identification and reporting in South African audits. They found that audit partner rotation did not change reported KAMs, while audit firm rotation increased the number of KAMs. The type of KAMs changed more when audit firms rotated than when audit partners rotated.

Lin & Yen (2022) examined the relationship between auditor rotation, key audit matter disclosures, and financial reporting quality. A sample of 1,000 firms was tested using a difference-in-differences approach. Results showed that auditor rotation was positively associated with key audit matter disclosures and financial reporting quality when key audit matters changed following rotation.

Mardessi (2022) examined the moderating effect of audit quality on the relationship between financial reporting quality and audit committees. The study involved 90 non-financial companies and used ordinary least squares regression. Results showed that audit quality has a positive moderating effect on the relationship between the audit committee and financial reporting quality, with the effect stronger when audit quality is high. Similarly, Gold et al. (2020), in the study investigating if key audit matters impact financial reporting behaviour, reported that financial reporting decisions can be reduced in the presence of key audit matters and that key audit matters serve as a beneficial mechanism for enhancing financial reporting quality.

Wuttichindanon & Issarawornrawanich (2020) investigated factors affecting key audit matter disclosure in Thailand. The study relied on secondary data and multiple regression analysis. They found that auditor characteristics, such as the Big 4 auditors and independent directors, corporate governance mechanisms, and firm characteristics like complexity, profitability, and industry type, positively correlate with KAM disclosures. Conversely, profitability and industry type negatively impact KAM disclosures.

The study by Velte & Issa (2019) examined the impact of key audit matter (KAM) disclosure in audit reports on stakeholders' reactions. The research focused on 49 empirical studies on KAM disclosure, examining the mediating role of stakeholder agency theory. The results showed mixed effects, with some studies finding positive impacts while others found no significant impact.

Ewert & Wagenhofer (2019) found that reporting quality can decrease, and a high-quality financial report conveys firms' underlying economic situation. The management opportunist conduct which could influence the quality of reporting may likely be moderated or reduced by an effective audit committee. Another study by Klueber et al. (2018) revealed that the presence of key audit matters in the auditors' report leads to a significant reduction of aggressive financial reporting decisions.

Evidence from Nigeria

Using descriptive research design through the use of a structured closed-ended questionnaire on staffers of Big4 professional audit firms, Kehinde et al. (2023) examined the effect of KAMs on audit report quality. The study reported a Cronbach value of 0.76 to confirm the validity of the questionnaire to collect the desired data. Correlation and regression were adopted to analyse the data collected. The results from the study did not depict any influence of KAMs on audit report quality. Similarly, Godwin & Chukwu (2021) examined the disclosure of KAMs in external auditors' reports on the audit quality of 12 quoted deposit money banks in Nigeria for 6 years from 2013-2018. The research design was ex post facto design, and the underlying theories are information and accountability theories. The study provided no empirical evidence to support any positive and significant relationship between KAMs and audit quality. Besides, there were no perceptions from users of accounting information that KAMs and audit quality were associated. Further, Soyemi & Olawale (2019), using 25 non-financial firms listed on the Nigerian Exchange Group, examined the impact of firm characteristics on the quality of financial reporting, using two-step multiple regression analysis. The results indicated that large firms tend to produce high-quality financial reports.

Christopher & Ojeaburu (2020) examined the impact of audit quality on the financial performance of quoted firms in Nigeria. They used variables such as audit firm size, tenure, and fees to measure audit quality and return on assets (ROA). The panel data approach analyzed data from 36 firms over 10 years, finding a significant positive relationship between audit quality and ROA. With a sample size of seven (7) firms from the Agriculture and Natural Resources sector of the listed non-financial firms, Echobu et al. (2017) conducted a study on the determinants of financial reporting quality. Correlation and ex-post facto research design were adopted and measured using residuals from the modified Jones model by Dechow, Sloan and Sweeny (1995) cited in Abu et al. (2023).

3. Methodology

The study adopted an *ex post facto* research design, which was informed by the secondary nature of the data as they relate to past events. The population of the study comprised one hundred and five (105) firms spread across ten (10) sectors listed on the Nigerian Exchange Limited from 2014 to 2023. The purposeful and stratified sampling technique was adopted in selecting a sample size of forty-five (45) non-financial firms. Table 1 indicates the breakdown of the total population in each sector, alongside the final sample size, using the stratified sampling technique.

Table 1: Population and Sample Size

Sector	Population	Sample Size
Agriculture	5	2
Conglomerates	6	3
Construction/Real Estate	9	4
Consumer Goods	21	9
Healthcare	7	3
ICT	9	4
Industrial Goods	13	5
Natural Resources	4	2
Oil and Gas	9	4
Other Services	22	9
Total	105	45

Source: Authors' compilation (2024)

Description and Measurement of Variables

The variables for the study were divided into two categories: dependent factors (financial reporting quality) measured by discretionary accruals. The independent variables were KAMs disclosure and auditor quality. Both were measured as binary variables. Table 2 indicates the description and measurements of the variables used in this study.

Table 2: Description of Variables and their Measurements

Variables	Measurement	Source(s)
	Dependent Variable	
Financial reporting quality (FRQ)	Discretionary Accruals	Soyemi, et. al., (2024); Soyemi, et. al., (2020a)
	Independent Variables	
KAMs Disclosure (KAMD)	Binary variable of 1 if audit report contains a paragraph for KAMD and 0 otherwise.	Godwin and Chukwu (2021); Elif and Başak (2021); Oghuvwu and Orakwue (2019)
Auditor Size (ASIZ)	Binary variable of 1 if audited by a big4 and 0 otherwise.	Soyemi, et. al., (2024); Soyemi, et. al., (2023); Soyemi, et. al., (2021)
	Control variables	
Firm size (FSIZ)	The natural logarithm of total assets	Soyemi, et. al., (2024); Soyemi, et. al., (2023); Soyemi, et. al., (2021)
Firm Leverage (LEVR)	Debt-to-Equity Ratio	Soyemi, et. al., (2024); Soyemi, et. al., (2023); Soyemi, et. al., (2021)

Source: Authors' Compilation (2024).

Model Specification and Estimation Techniques

Various measurement models have been used in prior research for the assessment of financial reporting quality. Some of these include accrual models (Jones, 1991; Dechow et al., 1995); the value relevance model (Wahyu et al., 2016), specific elements in annual reports, and the qualitative characteristics model (Ongore et al., 2011 cited in Soyemi et al., 2020a). However, the most widely used models among the scholars are the modified Jones Model by Dechow et al. (1995), which represents the discretionary portion of accruals and potential earnings management. It is considered suitable for this study in determining the effect of key audit matters disclosure and auditor quality on financial reporting quality of quoted non-financial firms in Nigeria. Below is the econometric model to achieve the objective of the study.

$$FRQ = \beta_0 + \beta_1 KAM_{it} + \beta_2 ASIZ + \beta_3 FSIZ_{it} + \beta_4 LEVR_{it} + \varepsilon_{it}$$

Where:

β_0 = Intercept
$\beta_1 - \beta_4$ = Slope Coefficients of the independent variables
FRQ = Financial Reporting Quality
KAMD = Key Audit Matters disclosure
ASIZ = Auditor quality
FSIZ = Audit Firm size
LEV = Leverage
ε_{it} = error term

The data have been analysed using descriptive statistics, including the mean and standard deviation of each variable used in this study to indicate trends and patterns. Next is the correlation matrix to test for multicollinearity. Finally, panel multiple regression analysis was adopted to estimate the model specified to capture the influence of key audit matters disclosure and audit quality on financial reporting quality.

Empirical Results and Discussion of Findings

Descriptive Analysis

Table 3 presents the summary of the descriptive statistics for both continuous and binary variables considered in this study for all the sampled companies to examine trends and patterns of variables. The statistics cover minimum, maximum, mean, standard deviation, as well as skewness and kurtosis.

Table 3: Summary of Descriptive Statistics

Variables	Mean	Std. Dev	Min	Max	Skew	Kurt.
			CONTINUOUS VARIABLES			
DACC	0.8372	0.7289	0.003	4.075	1.627	6.043
FSIZ	7.361	0.824	5.752	9.418	0.332	2.132
LEVR	0.218	1.540	0	32.705	20.899	441.137

CATEGORY	FREQ	PERCENT	CUM. PERCENT
BINARY VARIABLES			
KAMD			
0	100	22.22	22.22
1	350	77.78	100.00
ASIZ			
0	187	41.56	41.56
1	263	58.44	100.00

Source: Fieldwork Analyses (2024)

As shown in Table 3, discretionary accruals (DACC) have a mean of 0.8372, with a standard deviation of 0.7289, ranging from a minimum value of 0.003 to a maximum of 4.075. It is moderately skewed to the right by a value of 1.627, and leptokurtic that is, the kurtosis values are far away from 3, a heavy-tailed distribution is observed at 6.043. This is an indication of the fact that there is an outlier among the variables. Firm size (FSIZ) indicates a mean value of 7.361, with a standard deviation of 0.824, ranging from a minimum value of 5.752 to a maximum of 9.418. Its skewness is approximately symmetric by a value of 0.332, and its kurtosis 2.132 platykurtic; that is, kurtosis is not up to the threshold of 3, and light-tailed distribution is observed. Leverage (LEVR) has its average mean value to be 0.218, with a high variability of 1.540, and has a range within the minimum at 0, and the maximum at 32.705 kurtosis is extremely leptokurtic, heavy-tailed distribution at 441.137.

Key Audit Matters disclosure (KAMD) and Auditor Size (ASIZ) are variables that are binary, varying from 0 to 1. KAMD values imply that out of 450 audit observations, 78% (approximately) of the audit reports disclosed KAM, while 22% did not disclose. For ASIZ, out of the 450-audit engagements observed, 58% were audited by the Big4 audit firms, and 42% were audited by firms other than Big4 audit firms.

Correlation Analysis

Table 4 summarizes the results of preliminary correlation analyses among the variables.

Table 4: Correlation Matrix

Variables	DACC	KAMD	FSIZ	LEVR	ASIZ
DACC	1.000				
KAMD	-0.042	1.000			
FSIZ	-0.219	0.051	1.000		
LEVR	-0.009	0.019	-0.012	1.000	
ASIZ	-0.236	0.027	0.430	-0.068	1.000

Source: Field Work Analyses (2024) *0.01 **0.05 ***0.1

Table 4 shows the correlation coefficients between discretionary accruals, key audit matters disclosure, firm Size, leverage and auditor size. The correlation coefficient between discretionary accruals and key audit matters disclosure is -0.042, indicating a negative relationship between the two variables. However, the coefficient is not statistically significant at the 5% level. The correlation coefficient between discretionary accruals and other variables is negative; firm size is -0.219, indicating a negative relationship between the two variables. However, the coefficient is not statistically significant at the 5% level. The correlation coefficient between discretionary accruals and leverage is -0.009, indicating a non-significantly correlated relationship between the two variables. However, the coefficient is not statistically significant at the 5% level. The correlation coefficient between financial reporting quality and auditor size is -0.236, indicating a negative relationship between the two variables. However, the coefficient is not statistically significant at the 5% level. Besides, it is also evident from Table 4 that there is no multicollinearity amongst the independent variables as none of their values are higher than 0.60.

Multivariate Regression Analysis

The results of the panel multivariate OLS regressions for the panel data are shown in Table 5 for the pooled, fixed effect and the random effect, respectively. The table also contains the results of the Hausman test and L-M test for random effects.

Table 5: Regression Estimates (Pooled)

	Pooled			Random			Fixed (within estimator)		
DV: DACC	Coef.	S. E.	t-stat.	Coef.	S. E.	z-stat.	Coef.	S. E.	t-stat.
KAMD	-0.052	0.080	-0.65	-0.064	0.050	-1.27	-0.091	0.052	-1.76***
FSIZ	-0.126	0.447	-2.81**	-0.138	0.087	-1.58	0.090	0.161	0.56**
LEVR	-0.111	0.022	-0.51	0.009	0.014	0.60	0.010	0.014	0.69
ASIZ	-0.260	0.075	-3.47**	0.099	0.091	1.09	0.240	0.101	2.37
Cons	1.957	0.318	6.15	1.840	0.635	2.90	0.100	1.176	0.08
Model Summary									
F/ Wald chi^2		8.89			5.72			2.16	
p-value		0.000			0.221			0.0729	
Adj-R^2		0.066			0.021			0.137	
L-M test				640.99 (0.000)					
Hausman							9.54 (0.000)		

Source: Field Work Analyses (2024) *0.01 **0.05 ***0.1

The adjusted R^2 for the pooled regression results was 6.6%, indicating a linear composite of the independent variables entered into the regression only significantly (p-value=0.000) accounted for 7% (approx.) of the variations in audit quality proxied with discretionary accruals. However, firm size and auditor size exhibit a significant negative influence on discretionary accruals DACC. The fixed effects model controls for individual-specific effects and provides more robust estimates, the estimates for fixed effects clearly shows that there is a significant increase in the adjusted R^2 to 13.70%, indicating that 14% (approx.) of the variations in discretionary accruals was accounted for by the linear aggregate of the independent variables. This result also indicated KAMD and audit quality displaying a significant negative influence on DACC at the 5% level, implying that key audit matter disclosures, coupled with high-quality audit, can mitigate information asymmetry and reduce earnings management, thereby improving financial reporting quality. FSIZ and LEVR do not have a significant influence on DACC in the fixed effects model, but their coefficients suggest that larger firms tend to have better financial reporting quality, probably because larger audit firms have more resources to invest in better and advanced accounting systems to aid their work. The estimates from the random effect showed an adjusted R^2 of 2.10%, translating to the fact that the model significantly accounted for 2% (approx.) of the differences in discretionary accruals.

Discussion of Findings

The findings of this study are in tandem with past studies, though some inconsistencies were noticed. In a bid to further analyze the individual variable measures' consistency and divergent opinions, the findings from this study were consistent with the studies of Gold et al. (2020) and Klueber et al. (2018), among others. These studies revealed that the presence of key audit matters in the audit report led to a significant reduction of aggressive earnings manipulations, consequently improving financial reporting quality. However, contrary to this, Velte & Issa (2019) found a mixed, yet inconclusive impact of key audit matters disclosure in audited financial reports, which implies that the relationship between key audit matters disclosure and financial reporting quality is complex than expected, warranting a further investigation. Similarly, findings around audit(or) quality, measured with audit firm size, appear to be consistent with Honkamaki et. al. (2021), Monday & Nancy (2016), Gaynor et al. (2016) and Smith (2016). They found a significant and positive relationship between firm size and financial reporting quality. Also, Chu et al. (2018) considered the effect of the size of clients and audit firms on the level of competition and concluded that when the size of a client increases, some small audit firms in the market may not be potentially efficient suppliers to the client due to the high transaction costs associated with their limited production capacity.

Besides, the result from this study also demonstrated that large entities have more propensities to disclose more high-quality information because they are under more scrutiny. Conversely, Soyemi & Olawale (2019), Majid & Ismail (2008), and Takhtaei & Mousavi (2012) found a positive relationship between firm size and financial reporting quality. Al-Asiry (2017) found an insignificant relationship between firm size and FRQ. Going by the result of findings on this study, which also agrees that there is a positive significant relationship with discretionary accruals, it is evident that there is still a mixed or conflicting impact of audit firm size on financial reporting quality. This implies that larger audit firms may be more likely to allow or tolerate higher levels of discretionary accruals. However, the positive relationship might be subjected to other factors such as the complexity of the clients served by large audit firms, and it does not necessarily mean that BIG-4 or larger audit firms are less effective or of lower quality.

Conclusion and Recommendations

In conclusion, this study provides valuable insights into the reporting of financial quality through the observation of discretionary accruals, using key audit matters disclosure, firm size and auditor size of selected quoted non-financial firms in Nigeria. The trend analysis of financial reporting quality and the potential impact of predictor variables show that the fixed effects model is the most appropriate for analyzing the relationship between discretionary accruals and the predictor variables. The significant predictors, key audit matters and audit quality highlight the importance of considering key audit matters disclosure and auditor size in accounting research. The study contributes to the literature by providing insight into the factors influencing discretionary accruals and the appropriate modelling approach.

Based on the findings from this study, the study recommended that key audit matters disclosure should be enhanced to improve the quality and transparency of financial reports to better inform stakeholders but not to be overloaded in a way that misplaces its essence or makes material information more challenging to identify. The auditor should endeavor to maintain independence and objectivity to maintain a high audit quality, and also invest in having better and advanced resources to aid accounting and auditing systems much easier. Financial reporting quality should be of more concern to management and auditors as well as addressing material weakness and errors. There should be increased transparency on the part of management in financial reporting and audit processes to build stakeholders' trust. Audit quality, proxied with auditor size, should be considered in conjunction with other factors that are liable to influence discretionary accruals.

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