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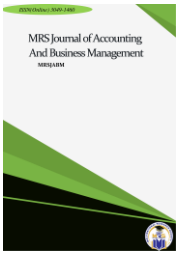

Audit Risk and Faithful Representation of Financial Reports of Quoted Manufacturing Firms in Nigeria

Stella Ekwutosi Obiosa[1*], Professor E.A.L. Ibanichuka[2], Dr. J.E.O. Oshi[3]

[*1-2-3] Department of Accounting, University of Port Harcourt, Business School

Corresponding Author Stella Ekwutosi Obiosa

Department of Accounting, University of Port Harcourt, Business School

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Abstract: *This study investigates the effect of audit risk on the faithful representation of financial reports in quoted manufacturing firms in Nigeria, utilizing a quasi-experimental survey design. The research focused on firms listed under the Consumer Goods and Industrial Goods sectors of the Nigerian Exchange Group (NGX), encompassing 21 firms. Data were collected via structured questionnaires assessing three components of audit risk- Inherent Risk, Control Risk, and Detection Risk along with faithful representations of financial report. Descriptive and inferential statistics were used to analyze the data. The results show that while Inherent Risk had no significant impact, Control Risk negatively affected faithful representation, and Detection Risk had a positive and significant influence. The study highlights the importance of effective internal controls and rigorous audit procedures in enhancing the reliability of financial reports. It recommends improvements in internal control systems, audit procedures, and regulatory oversight to ensure the accuracy and credibility of financial statements in the Nigerian manufacturing sector.*

Keywords: *Audit Risk, Faithful Representation, Financial Reporting Quality, Control Risk, Detection Risk.*

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Introduction

Financial reporting is the foundation of transparency, accountability, and proper decision-making in any economy, particularly in the case of quoted manufacturing firms where financial transactions and business complexity are high (IASB, 2018; Ahmed & Mohammed, 2023). To stakeholders such as investors, creditors, regulators, and management, good and reliable financial reports are important to evaluate company performance and compliance with regulations (Okonkwo & Adebayo, 2024). In Nigeria, whose manufacturing sector is at the forefront of economic growth, employment creation, and GDP contribution, the integrity of financial reports published by quoted manufacturing firms has far-reaching consequences for market stability and investor confidence (Eze & Okoro, 2023). However, the integrity of such reports is presently under increasingly growing threat from audit risks most specifically, detection risk.

Detection risk is the probability that auditors won't detect material misstatements in financial reports even when they use routine audit procedures (Johnson & Smith, 2024). Detection risk is a significant issue in manufacturing because financial reports there remain susceptible to inherent complexities regarding inventory valuation, revenue recognition, and capital expenditure management (Rahman & Abdullah, 2023). These intricacies need rigorous audit processes to ensure proper representation of financial data. Nonetheless, constraints such as inadequate audit sampling, insufficient technological incorporation, inadequate auditor experience, and inadequate internal control systems continue to pose detection risks, with the possibility of misreporting (Ahmed & Hassan, 2023; Lee & Park, 2024). Despite measures by the regulators like the adoption of IFRS and oversight by institutions like the Financial Reporting Council of Nigeria (FRCN) and the Securities and Exchange Commission (SEC), the constant occurrence of financial misstatements indicates persistent audit effectiveness gaps (Mohammed et al., 2024).

The problem is compounded by new issues in the economic and regulatory climate of Nigeria. Infrastructural deficiencies, exchange rate volatility, and post-COVID-19 business disruptions have created new levels of audit complexity, particularly in the manufacturing sector (Adeleke & Babatunde, 2024). These problems have extremely serious implications with regard to the auditor's ability to detect errors or fraudulent reporting and provide faithful representation of financial data. Furthermore, when there is high detection risk, the integrity of financial statements is in jeopardy, compromising stakeholders' confidence and decision precision (Nguyen et al., 2024). Inability to identify material misstatements may confuse investors, manipulate firm valuation,

and inhibit capital access, all of which destroy financial market integrity (Uche & Ajayi, 2023; Mohammed & Ibrahim, 2024).

Despite its importance, there remains a shortage of focused empirical evaluations of the link between detection risk and accurate representation of financial reports in Nigeria's manufacturing industry. Although audit risk has been examined in the abstract in other contexts, the specific contribution of detection risk to the reliability and credibility of financial disclosures by listed manufacturing firms in Nigeria has received minimal attention from scholars (Thompson & Williams, 2023). This gap in literature necessitates a critical analysis to investigate how detection risk erodes the honest representation of financial reports, identify the inherent audit difficulties, and determine the effectiveness of existing audit practice in fighting such risk (Olayinka & Babatunde, 2023). Therefore, this study seeks to examine the effect of detection risk on the proper reflection of financial reports in quoted manufacturing firms in Nigeria. It seeks to determine the extent to which detection risk compromises the quality of financial reporting and to shed light on how audit quality can be improved to enhance transparency, investor protection, and the long-term reputation of Nigeria's financial reporting environment.

Literature Review

Theoretical Review

Agency theory sheds light on the divide between ownership and control in corporations, pointing out that managers might prioritize their own interests over those of shareholders (Jensen & Ahmed, 2024; Thompson & Williams, 2023; Oladipo & Hassan, 2024). In the context of Nigerian manufacturing firms, this problem is exacerbated by concentrated ownership and insufficient investor protections (Kumar & Patel, 2024; Chen et al., 2023). Independent auditors play a crucial role in bridging the information gap and keeping an eye on management actions to ensure the quality of financial reporting (Mohammed & Ibrahim, 2024; Adeleke & Babatunde, 2024). Legitimacy theory suggests that companies need to align with societal expectations to keep their operational license (Thompson et al., 2023; Ibrahim & Mohammed, 2024). In Nigeria, businesses are under pressure from stakeholders to demonstrate transparency through accurate reporting and high audit quality (Rahman & Abdullah, 2023; Chen & Liu, 2024). Audit assurance builds trust and reinforces legitimacy across regulatory, social, and market aspects (Kumar & Patel, 2024; Johnson & Smith, 2024).

Stakeholder theory highlights the importance of addressing the varied expectations of all stakeholders through reliable financial reporting. Companies must strike a balance between delivering returns to shareholders and adhering to regulations, supporting employee welfare, and contributing to community development, all of which impact audit practices (Adeleke & Babatunde, 2024). High-quality audits boost the credibility of financial reporting, satisfy stakeholder expectations, and reduce audit risks, ultimately fostering trust and paving the way for long-term success. Signaling theory explains how companies utilize financial reports to communicate their quality in the face of information asymmetry (Spence, 1973). Quality audits enhance the reliability of these signals by lowering audit risks and increasing transparency. Compliance with regulations further bolsters positive perceptions among stakeholders (Adeleke & Babatunde, 2024; Linsley & Shrives, 2006). In Nigeria, accurate reporting signals operational stability and draws in investment by alleviating uncertainty.

Conceptual Review

Detection Risk

Detection risk is the risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, individually or when aggregated with other misstatements (PCAOB, 2022). Lennox and Wu (2023) emphasize that detection risk is directly influenced by the auditor's chosen procedures and their application. They argue that as inherent and control risks increase, auditors should decrease detection risk by performing more extensive audit procedures to maintain an acceptably low level of audit risk. Also, detection risk is the risk that an auditor will not identify a material misstatement during the audit process. This risk is influenced by the effectiveness of audit procedures and the sampling methods employed by auditors. In a complex environment like manufacturing, where large volumes of transactions and intricate accounting practices exist, detection risk can be particularly challenging to manage. If auditors do not apply adequate procedures or are unable to effectively sample transactions, significant misstatements may go undetected, resulting in the issuance of misleading audit opinions. Recent studies, including those by Nwachukwu and Okereke (2023), highlight the importance of employing advanced auditing techniques, such as data analytics and substantive testing, to reduce detection risk and enhance the quality of financial reporting.

Faithful Representation

Faithful representation is a critical aspect of financial reporting, ensuring that financial statements accurately reflect the economic reality of a company's transactions. It emphasizes completeness, neutrality, and the absence of material errors, which enables stakeholders to make informed decisions (Barth et al., 2008; IASB, 2018). Adhering to IFRS standards helps improve transparency and reduces the risk of misinterpretation caused by bias or omissions (Dichev et al., 2013). Reliable financial reporting is closely tied to faithful representation, as accurate financial statements reduce information asymmetry and improve investor confidence, lowering the cost of capital (Lambert et al., 2012). High inherent, control, or detection risks can undermine faithful representation, but strong internal controls and effective audit techniques help mitigate these risks (Okoro & Ogbonna, 2022; Udo & Okorafor, 2023). For instance, proper inventory valuation and revenue recognition are essential to ensure reliability and avoid misstatements (Knechel & Salterio, 2016). Studies highlight that firms with robust internal controls and effective auditing practices tend to produce more reliable financial statements, which fosters trust among stakeholders and enhances long-term financial sustainability (Okoro & Ogbonna, 2022; Christensen et al., 2015).

Detection risk is the risk that an auditor's procedures will fail to detect a material misstatement in the financial statements (Bedard & Johnstone, 2004). High detection risk occurs when audit procedures are inadequate or improperly executed, resulting in an undetected misstatement that can mislead users of the financial statements. Reliable financial reporting depends on low detection risk; when auditors thoroughly examine accounts and transactions, they can identify and address potential misstatements, thereby

bolstering reliability (Knechel, 2007). Conversely, when detection risk is high, the auditor may issue an incorrect opinion on unreliable financial statements, undermining the users' trust in the reported figures. Thus, high levels of inherent, control, or detection risk can negatively impact the reliability of financial reporting by increasing the likelihood of undetected misstatements. As evidenced in prior research, these audit risk components collectively determine the level of audit assurance and confidence in the financial statements, which are critical to maintaining reliable reporting that stakeholders can depend upon for decision-making (Martínez-Ferrero, 2014; Hogan & Wilkins, 2008). This underscores the importance of robust audit processes and strong internal controls in supporting the overall quality and reliability of financial reports.

Empirical Review

The relationship between audit risk and financial reporting quality in Nigerian manufacturing has been a subject of increasing interest over the past decade. Several studies have explored various aspects of this relationship, focusing on factors that influence audit risk and their impact on the quality of financial reporting. Adebayo (2011) analyzed the impact of auditor independence on the credibility of financial statements in Nigeria. His findings indicated a positive relationship between auditor independence and financial statement credibility, emphasizing that maintaining independence is crucial for reducing manipulations. The study recommended the rotation of auditors and restricting them from providing non-audit services to enhance independence. Amake & Okafor (2012) carried out a cross-sectional survey of 50 audit firms operating in Edo and Lagos States, Nigeria. Their findings indicated that neither auditor tenure nor audit firm size significantly compromised auditor independence. Nonetheless, they recommended limiting audit tenure to a maximum of five years to safeguard the integrity of financial reporting, suggesting that longer tenures might risk compromising the objectivity and effectiveness of the audit process. Kaklar, et al. (2012) conducted a panel correlation analysis involving 91 firms listed on the Tehran Stock Exchange, concluding that there is a weak inverse association between audit firm size and financial reporting quality. Additionally, their analysis revealed no significant relationship between auditor rotation and financial reporting quality.

Eze and Appah (2013) focused on audit risk assessment and the detection of misstatements in annual reports. Their research revealed that the application of the audit risk model significantly influences the detection of misstatements, thereby reducing fraudulent financial reporting through effective audit procedures. Fagbem et al. (2013) assessed audit approaches and quality in Nigeria, underscoring the importance of ethical compliance for sustaining investor confidence. Their findings highlighted the impact of factors such as size, complexity, and client business risks on the audit approach, recommending a more tailored auditing process to restore confidence among users of financial statements. Abdossamad et al. (2013) explored the relationship between earnings quality and firm size among companies listed on the Tehran Securities Exchange. In this study, earnings quality served as the independent variable, with firm size as the primary dependent variable. Additionally, audit firm size was included as a control variable to examine its potential effect on earnings quality. The sample comprised 99 companies listed on Tehran Securities Exchange over the years 1384 to 1389 in the Iranian calendar. The analysis concluded that there was no significant relationship between audit firm size and earnings quality among the selected companies in Tehran. Given that the study was conducted within the specific economic and political context of Tehran, the authors note that the findings may have limited applicability to different environments, such as Nigeria, where economic activities and political frameworks differ.

Dangana (2014) focused on the influence of audit firm attributes on the financial reporting quality of quoted building materials firms in Nigeria. Employing a correlational research design, the study analyzed a sample of four listed firms over a ten-year period from 2002 to 2011. The analysis utilized Ordinary Least Squares (OLS) and multiple regression techniques to examine the panel data collected. The results revealed that audit firm rotation has a significant positive impact on the financial reporting quality of these quoted firms. Specifically, the findings indicated that both audit rotation and the provision of non-audit services contributed to enhancing the quality of financial reporting among the sampled building materials firms during the study period. While this study concentrated on building material firms in Nigeria, the present research extends its focus to industrial goods companies in Nigeria, covering a more recent period up to 2019.

Barri et al. (2014) examined the effect of audit partner rotation on financial reporting quality in the United States. Utilizing a novel methodology to analyze audit partner rotation, the study discovered evidence of decreased financial reporting quality following a change in audit partners. Specifically, it noted lower financial reporting quality during the initial two years with a new audit partner compared to the final two years with the outgoing partner. Conducted in a developed economy like the United States, this study's findings contrast with the current research focused on Nigeria, a developing economy. Furthermore, while the U.S. study employed an innovative approach to measure audit partner rotation, the present study utilizes a dummy variable to assess audit rotation among listed industrial goods companies in Nigeria. Dangana (2014) conducted a comprehensive analysis of the relationship between audit firm attributes and financial reporting quality among building material firms quoted on the Nigerian Stock Exchange. Using a correlation research design, the study sampled four listed building material firms over a ten-year period from 2002 to 2011. Dangana applied Ordinary Least Squares (OLS) and multiple regression techniques to the panel data collected, aiming to uncover how audit firm rotation, audit tenure, and the provision of non-audit services influenced financial reporting quality. The findings revealed a significant positive impact of audit firm rotation on financial reporting quality. The results suggested that audit rotation, along with the provision of non-audit services, contributed to an improvement in the quality of financial reporting for these firms. However, this study's scope was limited to building material firms, whereas the current study examines industrial goods companies in Nigeria and extends the period up to 2019 to capture more recent trends and dynamics in the audit landscape.

Kamolsakulchai (2015) reported a positive relationship between audit committee effectiveness and financial reporting

quality in firms listed on the stock exchange of Thailand. This suggests that audit committees that perform their functions effectively can lead to improved financial reporting standards, thereby enhancing the credibility of the firms involved. Ching et al. (2015) investigated the impact of audit quality on earnings management within Malaysian manufacturing companies producing industrial and consumer products. Their findings indicated that audit quality does not necessarily constrain earnings management, suggesting that it may not directly affect the financial reporting quality in this sector. However, they noted that higher audit quality could enhance financial performance due to increased investor confidence in audits performed by reputable firms. Kamolsakulchai (2015) examined the impact of audit quality on financial reporting among listed companies on the Thailand Stock Exchange from 2008 to 2012. Using a panel fixed effect model, the study found a significant positive relationship, demonstrating that financial accounting reports adhered to generally accepted accounting standards when audit quality was high.

Khang (2015) investigated the impact of audit firm rotation on the financial reporting quality of Dutch public companies listed on the AEX, AMX, or ASCX indices between 2002 and 2015. The study utilized two distinct measures of financial reporting quality: accrual-based earnings management and real earnings management. The findings indicated that while audit firm rotation does not immediately influence financial reporting quality, shorter audit tenures defined as three years or less tend to have a positive effect when compared to medium audit tenures ranging from four to eight years. This suggests that over time, audit firm rotation may lead to improvements in financial reporting quality. Additionally, the research found that firms undergoing audit firm rotation did not exhibit increased instances of earnings management. Moreover, there was no evidence to suggest that longer audit tenures, defined as nine years or more, had any significant effect on financial reporting quality. However, when the cutoff for long tenure was adjusted to ten years, there was a notable indication of increased real earnings management. These findings support the case for mandatory audit firm rotation. Abbott et al. (2016) emphasized the role of internal auditors in determining financial reporting quality, indicating that effective internal audit practices contribute significantly to the overall reliability of financial statements. Demartini and Trucco (2016) investigated the interplay between audit risk and corporate governance, focusing on Italian auditors' perceptions in the aftermath of the Global Financial Crisis. This study aimed to analyze the critical factors influencing auditors when estimating the audit risk of their client companies and determining appropriate fees. Specifically, the research examined the financial performance of newly acquired client firms following the 2007-2008 financial crisis.

Methodology

The study adopted a quasi-experimental survey design to examine the effect of audit risk on the faithful representation of financial report of quoted manufacturing firms in Nigeria. This design enabled a detailed assessment of the causal relationship between audit risk and faithful representation of financial report, recognizing the limitations of full experimental control in organizational settings. The population comprised all manufacturing firms listed under the Consumer Goods and Industrial Goods sectors of the Nigerian Exchange Group (NGX). A census approach was employed due to the relatively small population size, covering 21 firms across subsectors such as food and beverages, building materials, chemicals, and household goods. These firms were selected for their significant contribution to Nigeria's manufacturing sector and the relevance of their financial reporting practices. Data were collected using structured questionnaires designed to capture both subjective and objective indicators of audit risk and financial reporting quality. Audit risk was assessed across three components: inherent risk (e.g., complexity of transactions and fraud susceptibility), control risk (e.g., effectiveness of internal controls and managerial oversight), and detection risk (e.g., audit procedures and misstatement identification). Financial reporting quality was evaluated through measures of comparability, faithful representation, and timeliness.

Respondents included finance managers, internal and external auditors, accountants, and senior managers responsible for financial reporting and compliance. Their selection was based on their professional roles and experience in audit and financial reporting processes. The questionnaire was pilot-tested on a small sample from similar firms. Reliability was confirmed using Cronbach's Alpha, with values above 0.7 indicating internal consistency. Content and construct validity were ensured through literature review, expert consultation, and alignment with theoretical frameworks such as Resource Dependence Theory. Face validity was further confirmed through peer and industry reviews. Data analysis involved both descriptive and inferential statistics to interpret the effect of audit risk on financial reporting quality in the Nigerian manufacturing sector. The study employs multiple linear regression analysis to test the hypothesized relationships between the independent and dependent variables. The general functional form of the model is:

$$FRP = f(IHR, CNR, DTR, GOR)$$

This is specified in three separate linear regression models for one dimension of financial reporting quality which is faithful representation:

$$FRP_{it} = \alpha + \beta_1 IHR_{it} + \beta_2 CNR_{it} + \beta_3 DTR_{it} + \beta_4 GOR_{it} + \mu_i + \varepsilon_{it}$$

Where
FRP_{it} = Perceived faithful representation
IHR_{it} = Inherent risk perception score,
CNR_{it} = Control risk perception score,
DTR_{it}= Detection risk perception score,
GOR_{it}= Government Regulation perception score,
α is the intercept (constant term),
$\beta_1\ \beta_2\ \beta_3\ \beta_4$ are the regression coefficients
ε_{it}= is the error term

4. Results and Discussions

Table 1 Questionnaire Administration

Names of Company	Copies Distributed	Retrieved Copies	Used Copies
Total	**21(100%)**	**21(100%)**	**21(100 %)**

Source: Field Report, (2025)

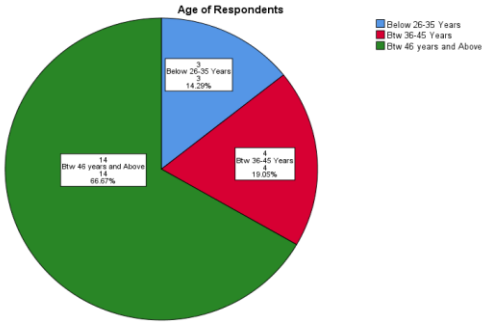
Table 1 shows the results for the questionnaire distribution to the quoted manufacturing firms in Nigeria. The evidence shows that only 21 copies were finally utilized in the study. Nonetheless,

retrieved and utilized cases account for approximately 100% of the total population and were considered adequate for the study and make generalization to the population.

Table 2 Age of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 26-35 Years	3	14.3	14.3	14.3
	Btw 36-45 Years	4	19.0	19.0	33.3
	Btw 46 years and Above	14	66.7	66.7	100.0
	Total	21	100.0	100.0	

Source: SPSS Version 26.0 Result, 2025

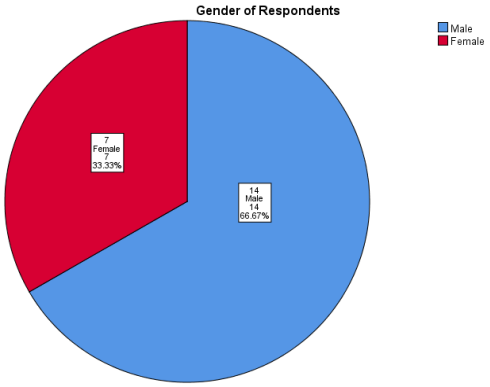


The above table 2 and figure 1 showed the age bracket of respondents to the study; out of the 21(100%) copies of questionnaire used for analysis, 3(14.29%) reported they are within the age of below 26-35 years, 4(19.5%) reported are within the age of 36-45 years, 14(66.67%) of the respondents reported were 46 years and above. The information above showed that majority of the workforce comprises of more experienced and matured workers in the quoted manufacturing firms in Nigeria. This could be as a result of transparent recruitment policies and practices in the quoted manufacturing firms in Nigeria under study.

Table 3 Gender of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	14	66.7	66.7	66.7
	Female	7	33.3	33.3	100.0
	Total	21	100.0	100.0	

Source: SPSS Version 26.0 Result, 2025



The distribution of study participants by gender is shown in figure 2 above. The findings show that, at a frequency of 14 (66.67%), a greater proportion of respondents are men, while the remainder 7 (33.3%) are women. The findings show that the majority of the target mentioned manufacturing organizations in Nigeria are male, particularly at the managerial level of the units under investigation. The implications are that either these disparities are due to patriarchal systems and prevailing inequalities that favor men over women, or perhaps changing demographics for women, such as high labor mobility and family, which result in an unstable career growth process for the majority of female workers. The findings show which gender category is the most prevalent in the organizations. As was previously mentioned, such dominance and imbalance may come from other reasons that are entirely unrelated to the organization, rather than being intentionally founded on real value systems or norms.

Table 4 Respondents Level of Education

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Ph.D Degree	4	19.0	19.0	19.0
	B.SC/HND	5	23.8	23.8	42.9
	M.SC/MBA	12	57.1	57.1	100.0
	Total	21	100.0	100.0	

Source: SPSS Version 26.0 Result, 2025

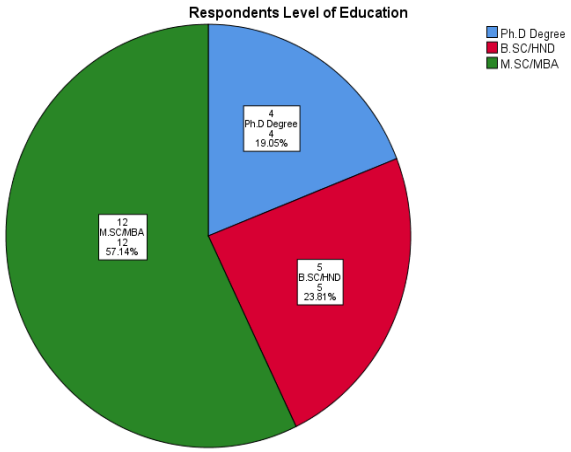


Table 4 and the bar chart in figure 3 above showed the response rate of respondents' education qualification in the study, out the 21(100%) copies returned, 5(23.8%) of the respondents reported that they had Higher National Diploma/Bachelor of Science Degree, 12(57.1%) of the respondents had Master of Science/Business Administration Degree, while 4(19.0%) respondents reported Doctor of Philosophy Degree. The result observed that the level of education as shown can be considered as substantial and could owe to the recruitment polices and the level of career growth opportunities in the quoted manufacturing firms in Nigeria firms under study.

Table 5 Respondents Years of Services

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	5-10 years below	6	28.6	28.6	28.6
	11-15 years	10	47.6	47.6	76.2
	15 years and above	5	23.8	23.8	100.0
	Total	21	100.0	100.0	

Source: SPSS Version 26.0 Result, 2025

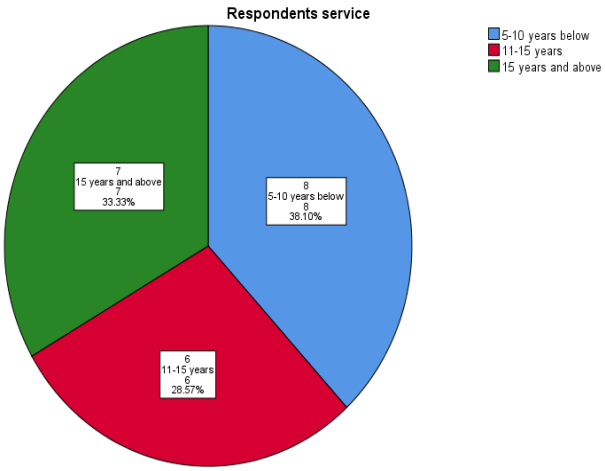
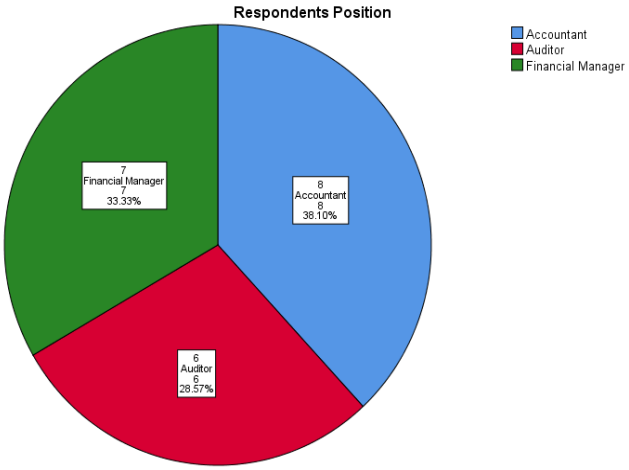


Table 5 presents the distribution of respondents by years of service in quoted manufacturing firms in Nigeria. Out of the 21 respondents (100%), 6 respondents (28.6%) had worked for 5–10 years, 10 respondents (47.6%) had worked for 11–15 years, while 5 respondents (23.8%) had served for 15 years and above. The cumulative percentages show that 76.2% of respondents had up to 15 years of experience. Figure 4 graphically illustrates this distribution pattern.

Table 6 Respondents Position in the Firms

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Accountant	8	38.1	38.1	38.1
	Auditor	6	28.6	28.6	66.7
	Financial Manager	7	33.3	33.3	100.0
	Total	21	100.0	100.0	

Source: SPSS Version 26.0 Result, 2025



The above table 6 and the pie chart in the figure 5 showed the response rate in the questionnaire items related to present position in the firms under study; out of the 21(100%) copies of questionnaire returned, 8(38.10%) of the respondents are accountant, 6(28.57%) reported are auditors, while 7(33.33%) of the respondents were financial managers that was response to the study. The result showed that majority of the respondents are accountant in the study, this could be due to the number of years the quoted manufacturing firms in Nigeria has been in operation.

Table 7 Showed Descriptive Statistics on Audit risk

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Inherent Risk (IHR)	21	1.00	4.00	2.1429	.94727	.843	.501	-.322	.972
Control Risk (CNR)	21	1.00	4.75	2.7143	1.03768	.423	.501	-.084	.972
Detection Risk (DTR)	21	1.00	4.75	2.9762	.96794	-.434	.501	.312	.972
Valid N (listwise)	21								

Source: SPSS Version 26.0 Result, 2025

Table 7 presents the descriptive statistics for the components of audit risk among 21 quoted manufacturing firms in Nigeria. The mean scores indicate that Detection Risk (mean = 2.98) is perceived to be the highest, followed by Control Risk (mean = 2.71) and Inherent Risk (mean = 2.14). The standard deviations, all around 0.95–1.04, show moderate variability in responses across the firms. Skewness values suggest that Inherent and Control Risks are positively skewed, indicating more responses at the lower end, while Detection Risk is negatively skewed, suggesting more responses at the higher end. Kurtosis values are close to zero, indicating a near-normal distribution for all variables.

Table 8 showed Descriptive Statistics on Faithful Representation

	N	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
1. The absence of adequate checks and balances compromises the faithful representation of financial reports	21	3.24	1.091	-.012	.501	.738	.972

2.	The effectiveness of audit procedures reduces the impact of detection risk on faithful representation	21	3.67	1.111	-1.192	.501	1.593	.972
Valid N (listwise)		21						

Source: SPSS Version 25.0 Result, 2025

The result shows that respondents moderately agree that the absence of adequate checks and balances compromises faithful representation, with a mean of 3.24 and a standard deviation of 1.091, indicating moderate variation in views. The skewness of −0.012 suggests a nearly symmetrical response pattern, while the kurtosis of 0.738 indicates a distribution slightly more peaked than normal. For the second item, respondents also moderately agree that effective audit procedures reduce the impact of detection risk on faithful representation, with a higher mean of 3.67. The skewness of −1.192 shows a left-leaning distribution, suggesting more respondents selected higher ratings, and the kurtosis of 1.593 indicates a sharper peak, showing responses clustered around the mean.

Table 9 Showed Descriptive Statistics on Government Regulation

	N	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
1. Strict government regulation enhances faithful representation in financial reporting practices	21	3.19	1.209	-.027	.501	-.467	.972
Valid N (listwise)	21						

Source: SPSS Version 25.0 Result, 2025

The result shows that respondents moderately agree that strict government regulation enhances faithful representation in financial reporting, with a mean score of 3.19. The standard deviation of 1.209 indicates moderate variability in responses. The skewness value of −0.027 suggests a nearly symmetrical distribution, while the kurtosis of −0.467 indicates a relatively flat distribution compared to normal. This implies a broad spread of opinions with no significant concentration at the extremes.

Table 10a Model Summary showed the effect of Audit risk on Faithful representation

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.976[a]	.953	.944	.23673	1.590

a. Predictors: (Constant), Detection Risk (DTR), Inherent Risk (IHR), Control Risk (CNR)

b. Dependent Variable: Faithful Representation (FRP)

Source: SPSS Version 25.0 Result, 2025

The model summary shows a strong positive relationship between audit risk components and faithful representation, with an R value of 0.976. The R Square of 0.953 indicates that 95.3% of the variation in faithful representation is explained by detection risk, inherent risk, and control risk. The adjusted R Square of 0.944 confirms the model's robustness after adjusting for the number of predictors. The standard error of the estimate (0.23673) suggests low variability around the predicted values. The Durbin-Watson statistic of 1.590 indicates no serious autocorrelation issues in the residuals.

Table 10b ANOVAa of the Regression on Predictor Variables and Faithful representation

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	19.232	3	6.411	114.396	.000[b]
	Residual	.953	17	.056		
	Total	20.185	20			

a. Dependent Variable: Faithful Representation (FRP)

b. Predictors: (Constant), Detection Risk (DTR), Inherent Risk (IHR), Control Risk (CNR)

Source: SPSS Result, 26.0 (2025)

The ANOVA table indicates that the regression model is statistically significant. The F-value of 114.396 with a significance level of 0.000 ($p < 0.05$) shows that the combined effect of detection risk, inherent risk, and control risk on faithful representation is significant. The model explains a substantial portion of the variance in the dependent variable, confirming that audit risk factors have a significant impact on the faithful representation of financial reports.

Table 10c: Multiple Regression Analysis of Audit Risk and Faithful representation

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.562	.188		2.984	.008
	Inherent Risk (IHR)	-.050	.214	-.047	-.234	.818
	Control Risk (CNR)	-1.152	.343	-1.157	-2.443	.023
	Detection Risk (DTR)	1.214	.243	1.170	4.993	.000

a. Dependent Variable: Faithful Representation (FRP)

Source: SPSS Result, 26.0 (2025)

The results of the multiple regression analysis presented in Table 10c reveal the individual effects of audit risk components on faithful representation. Inherent Risk (IHR) shows a negative but statistically insignificant effect on faithful representation, with a coefficient of -0.050 (β = -0.047, p = 0.818), indicating that changes in inherent risk do not meaningfully influence the quality of financial reports. Control Risk (CNR), on the other hand, exhibits a statistically significant negative effect, with a coefficient of -1.152 (β = -1.157, p = 0.023), suggesting that higher control risk significantly undermines faithful representation. Conversely, Detection Risk (DTR) has a strong positive and statistically significant influence on faithful representation, with a coefficient of 1.214 (β = 1.170, p = 0.000), implying that enhanced audit procedures and detection efforts contribute to improved accuracy and reliability of financial reporting. These findings highlight that while inherent risk may not substantially impact reporting quality, effective control mechanisms and detection practices are critical for ensuring faithful representation in financial statements.

Discussions of Findings

The findings from this study indicate a nuanced the effect of audit risk components on faithful representation of financial reports among quoted manufacturing firms in Nigeria. Specifically, while inherent risk exhibited an insignificant negative effect on faithful representation, control risk demonstrated a significant negative influence, and detection risk showed a strong and positive impact. These results provide important insights into how audit risk dimensions influence the quality of financial reporting, particularly in emerging economies where regulatory and control environments may vary across firms.

The insignificant impact of inherent risk aligns with the position of Izedonmi and Ibadin (2012), who found that inherent risk tends to be firm-specific and often does not independently influence financial reporting quality without the interaction of other risk components. The result also supports the argument that some inherent risks, such as industry complexity or transaction size, may be effectively managed through robust audit planning and risk assessment, thereby neutralizing their potential effects on reporting outcomes.

The significant negative effect of control risk is consistent with the findings of Oladipupo and Ajibade (2016), who established that weak internal control environments contribute to material misstatements and compromise the reliability of financial statements. The result further validates the assertions of Adeyemi and Fagbemi (2010), who emphasized the role of management oversight and the quality of internal control systems in safeguarding the integrity of financial reporting. The implication is that where control systems are deficient, auditors may fail to detect irregularities, leading to distortions in reported financial information.

Detection risk's positive and significant effect corroborates empirical evidence from Ijeoma and Aronu (2013) and Umar and Ibrahim (2020), who found that improvements in audit planning, risk assessment, and the application of appropriate audit procedures enhance the auditor's ability to identify material misstatements, thus improving faithful representation. This suggests that the skill level and diligence of the auditor, alongside the audit methodology adopted, play a pivotal role in ensuring financial information reflects the true economic condition of the firm.

Conclusions

This study examined the effect of audit risk on the faithful representation of financial reports among quoted manufacturing firms in Nigeria. The empirical findings revealed that while inherent risk had no significant effect, control risk negatively impacted the faithful representation of financial reports. Conversely, detection risk showed a strong and significant positive influence. These outcomes suggest that weaknesses in internal control systems compromise the accuracy and reliability of financial statements, while effective audit procedures significantly enhance the quality of reported financial information. The findings affirm that proper audit risk assessment and mitigation play a vital role in ensuring that financial reports present a true and fair view of the firm's operations and financial condition. The study contributes to the growing body of literature on audit risk and financial reporting quality, particularly in the context of emerging economies. It emphasizes the need for enhanced audit practices and internal control systems within manufacturing firms in Nigeria. It also underscores the importance of regulatory compliance and professional audit standards in reducing financial reporting deficiencies. Based on the conclusions, the study recommends as follows:

- Manufacturing firms should prioritize the development and continuous improvement of their internal control frameworks to reduce control risk and prevent material misstatements.
- Auditors should adopt more rigorous and risk-focused audit procedures, with emphasis on detection risk

assessment. This includes the use of modern audit technologies and continuous professional development.

- Regulators such as the Financial Reporting Council of Nigeria and the Nigerian Exchange Group should increase oversight and enforce compliance with audit and reporting standards to improve the credibility of financial reports.
- Firms should ensure that their audit committees are composed of competent and independent professionals who can provide effective oversight of the financial reporting and audit processes.
- Both internal and external auditors should undergo regular training to keep up with evolving financial reporting standards, audit methodologies, and risk assessment techniques.

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