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**INTERACTIVE EFFECT OF AUDIT FIRM AND AUDIT COMMITTEE MEDIATED
BY AUDIT PROCESS ON FRAUDULENT FINANCIAL REPORTING RISKS OF
LISTED FIRMS IN NIGERIA**

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Abstract

*The study examines the Interactive Effect of Audit Firm and Audit Committee Mediated by Audit Process on Fraudulent Financial Reporting Risks of Listed Firms in Nigeria. The population of staff working in audit firms in Nigeria is unknown. Therefore, sample size of unknown population for this survey study is calculated using g*power which minimum sample size is 384 respondents. A model of questionnaire is adopted from research conducted and 500 copies of adopted questionnaire which contains 31 items were administered to audit staff and 391 copies were returned. The questionnaire was the main instrument for data collection and adopted a nine-point scale. The study is multivariate in nature so structural equation modelling is employed and smartpls 3 is used for the analysis. However, the result shows that Audit Firm and Audit committee have significant positive effect on Fraudulent Financial Reporting of Listed Firms in Nigeria. In addition, Audit Firm has significant positive effect on audit process of Listed Firms in Nigeria. Similarly, Audit process has significant mediating effect on the relationship between Audit committee and Fraudulent Financial Reporting of Listed Firms in Nigeria. And Audit committee has significant positive moderating effect on the relationship between audit firm and fraudulent financial reporting risks of Listed Firms in Nigeria. However, Audit committee has significant negative effect on audit process of Listed Firms in Nigeria. In addition, Audit process has significant negative mediating effect on the relationship between Audit Firm and Fraudulent Financial Reporting of Listed Firms in Nigeria. Similarly, Audit committee has significant negative moderating effect on the relationship between audit firm and audit process of Listed Firms in Nigeria. Base on the conclusion, the study recommends that both the audit committee and external auditors should focus their attention on improving the audit process which in turn will significantly curb the fraudulent financial reporting risks of listed Firms in Nigeria.*

Key words: *Audit Firm, Audit Committee, Audit Process, Fraudulent Financial Reporting Risks and Listed Firms*

1. Introduction

Fraud has become a central issue in the 21st century global economy, for both professionals and scholars to research. Fraud is an intentional deception committed by an individual or group of people to gain advantage over other. However, a survey established that about one third of organizations operating globally were victims of fraud (PricewaterhouseCoopers, 2010). The survey conducted in 2018 on 49 percent of global organizations reported that they had been a victim of fraud and economic crime (PricewaterhouseCoopers 2018). Similarly, The Association of Certified Fraud Examiners (ACFE) projected that annual fraud losses are almost 5% of the yearly revenues of organizations which translates to about \$4 trillion (ACFE, 2018).

Moreover, fraud tends to adversely affect a very broad range of stakeholders including audit committee, auditors, creditors, shareholders, among others (Dyck, Morse & Zingales, 2010; Kaplan et al., 2010). Despite the effort made by regulatory and professional bodies (PCAOB 2010) when issuing standards outlining the responsibilities of auditors to detect fraud after corporate failures and scandals of some world giant corporate bodies like Enron, WorldCom, Global Crossing, Pamalat, Tyco among others, in the last decade; external auditors' fraud detection remains as low as 4% and even declining (ACFE 2018).

Furthermore, financial reporting fraud include deliberate misstatements, such as omissions of numbers or disclosures in financial statements, with the purpose of deceiving financial statement users (Elder, Beasley & Arens 2011). In addition, it is more likely to be committed by management (Goel &Gangolly, 2012). However, fraud committed by management requires the efforts of board of directors, the audit committee, top management, internal auditors, and external auditors to be detected (Dorminey, Fleming, Kranacher& Riley 2012). External auditors are also likely to be blamed if a case of financial reporting fraud goes uncovered. (Cooper & Fargher, 2011; Kassem & Higson, 2016).

Furthermore, while external auditors are not directly accountable for detecting fraud, they are expected to play a substantial part in it. This is due to the fact that external audit serves a key role in creating and strengthening trust in financial information supplied by businesses. (The Institute of Chartered Accountants in England & Wales, 2005; Chen, Cumming, Hou & Lee 2013). However, the capacity of auditors or audit firms to deliver high audit quality capable of providing high financial reporting quality is related to specific audit firm characteristics, which include auditor independence, audit compensation, audit firm type and size, and joint audit services. (DeAngelo, 1981).

In the agency relationship and in reaction to management excesses, the audit committee plays a significant role in supervising financial policy execution and auditing firms. (Bédard & Gendron, 2010; Ghafran & O'Sullivan, 2013; Dezoort, 1998; Hayes, 2014; Spira, 1998; 1999). In the process of supervising financial reporting and auditing, the audit committee effectively holds auditors accountable for their judgment and decision-making procedures addressing important accounting matters. (PriceWaterHouse Coopers 2013).

Audit process could be expressed as any methods or techniques used by the auditors in the process of performing their duties as auditors as expressed by Asare, Wright and Zimbelman (2015). These processes or techniques include and are not limited to: Understanding the business of the client, the assessment of the risk associated with the fraud, the designation as well as the execution of audit tests, the solving of issues surrounding the audit, and finally, the consultations of experts which include forensic auditors. These are key elements of fraud detection found in the literature thus, they are seen as very paramount in auditors' detection of fraud (Asare, Wright & Zimbelman 2015).

On a practical perspective, however, corporate giants' failures and scandals are widespread due to fraudulent financial reporting, affecting not only advanced nations but developing nations as well (Omoyele, 2010; Fodio, Ibikunle & Oba, 2013; Ogbonna & Ebimobowei, 2012). However, fraudulent financial reporting in Africa is among the worst cases of fraud in the world. In Sub-Saharan Africa, Association of Certified Fraud Examiners (2016 & 2018) shows from 2014 to 2018, South Africa, Nigeria and Kenya had 174, 125, and 75 cases of fraudulent financial reporting in listed firms respectively. In addition, fraud committed by owner/executive increased from \$400,000.00 to \$2,716,000 from 2016 to 2018 (Association of Certified Fraud Examiners, 2016 & 2018). In Nigeria, there were 73 listed firms that were delisted by Nigerian Stock Exchange from 2010 to 2019 (Nigerian Stock Exchange, 2019). Most or 53 cases out of 73 were alleged to be fraudulent financial reporting. Such as Intercontinental bank and Oceanic bank Plc and issues of Syke bank Plc and Diamond bank Plc before merger that happened in 2018 and 2019 respectively. Moreover, some stated circumstances of fraudulent financial reporting such as Cadbury (Nig) Plc, African Petroleum (Nig) Plc Lever Brother Nigeria plc, Stanbic IBTC bank were among well-known fraud cases (Ogbonna & Ebimobowei, 2011; Okoye & Gbegi, 2013). Likewise, fraudulent financial reporting appears to adversely affect a very wide range of stakeholders including audit committee, auditors, among others (Dyck et al., 2010; Kaplan et al., 2010). In an ideal situation, external auditors through audit process and audit committee should reduce fraudulent financial reporting to a minimum level, but the Association of Certified Fraud Examiners (ACFE) report shows that fraudulent financial reporting is on the rise (Association of Certified Fraud Examiners, 2018).

On a theoretical perspective, several previous researchers, Wilks & Zimbelman, (2004), Cohen, Ding, Lesage & Stolowy, (2010), Trompeter, Carpenter, Desai, Jones & Riley, (2013), Favere-Marchesi, (2013), Morales, Gendron & Guénin-Paracini (2014), Trompeter, Carpenter, Jones & Riley (2014), Mui and Mailley, (2015), Andon, Free & Scard, (2015), Lokanan, (2015), Schechter & Levi, (2015), Rodgers, Söderbom & Guiral (2015), Haefele & Stiegeler, (2016), Chen, Cumming, Hou & Lee (2016), Reinstein and Taylor, (2017) and Machado & Gartner, (2017) used fraud triangle to study fraudulent financial reporting. Other researchers from Nigeria, such as Everette (2012), Odunayo (2014) investigated financial statement fraud related to earnings control, cash flow change and unexpected substantial sales resulting from false income, secret expenditures, third-party related transactions and inappropriate asset valuation. Everette (2012), Odunayo (2014) presented empirical analyses of finding the 'red flag' as effective strategies for detecting any financial statement anomalies. But little or no attention has been paid to interaction of Audit Firm and Audit Committee to prevent, deter, and detect fraudulent financial reporting.

Hence, the main question designed to be answered by this study is: Do the interaction of Audit Firm and Audit Committee has significant effect on Fraudulent Financial Reporting which is transmitted through audit process of Listed Firms in Nigeria?

2. Literature Review and Theoretical Framework

International Standard on Auditing (ISA) 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements (Fraudulent financial reporting) as a deliberate action by single or many persons among management, those responsible for governance, staff, or third parties, involving the use of deceit to achieve an unfair or illegal advantage. Financial statement deception (false financial reporting) is the malicious distortion of an enterprise's financial status by the intentional misstatement or deletion of sums or disclosures of financial records in order to mislead financial statement users. Likewise, A intentional misrepresentation of data with the intent to mislead information consumers, reap expected profits, cover up inefficiency, or cover up other frauds such as wealth misappropriation and unethical schemes is known as fraudulent financial reporting. That is the intentional misrepresentation of amounts, either by the recording of fraudulent accounting entries or the application of accounting laws incorrectly (ACFE 2010). Fraudulent financial reporting happens when management use accounting procedures that do not adhere to GAAP to adjust financial records to either deceive other creditors about the company's underlying economic success or to manipulate contractual results that depend on published accounting numbers (Perols and Lougee, 2011).

2.1 Audit Firm and Fraudulent Financial Reporting

Asare, Wright & Zimbelman (2015) conducted study on Challenges Facing Auditors in Detecting Financial Statement Fraud: Insights from Fraud Investigations. The thesis performed an experimental survey in which we gathered responses from 65 fraud examiners on their involvement in the latest fraud investigation. For analysis, a sample T test was used. This research makes four contributions. First, create a system that defines four general factors and elements within each factor that can hinder the detection of fraud by the auditor. The four considerations are: (1) the audit process, (2) the institutional forces, (3) incentives for auditors and (4) the KTE auditor. The audit process is the technique used to investigate and prevent fraud. The feasibility of the approach depends on the three other considerations in our context. However, the thesis did not have a theory that was aligned with the research.

Zagera, Malisa, & Novaka, (2016) conducted study on The Role and Responsibility of Auditors in Prevention and Detection of Fraudulent Financial Reporting in Croatian companies. A questionnaire survey was administered to external auditors and descriptive statistics was used for analysis. The respondents, external auditors, assessed how frequently they face situations that indicate the risk of fraud. In compliance with the research carried out, the most prevalent method used for false financial statements concerned overstatement of assets. However, the questionnaire is not available to public and no theory was aligned to the research.

Al-Sorihi (2018) conducted study on the Relationship between Auditor's Independence and Financial Reporting Fraud Risk Assessment (FRFRA) in the Yemeni Context. A quantitative instrument was used to measure Financial Reporting Fraud Risk Assessment and external auditor's independence factors and multiple regression analysis was employed for analysis. This

review was attended by 254 external auditors. Results have shown that social ties and the hiring and changing of auditors are positively and substantially related to FRFRFA, whereas economic relations and audit fees are negligible.

Mukhlisin (2018) conducted study on Auditor Tenure and Auditor Industry Specialization as a Signal to Detect Fraudulent Financial Reporting in companies listed on the Indonesia Stock Exchange for the period 2012 to 2015. Logistic regression with paired sampling methods was used to demonstrate the study goals. The survey consisted of 46 dishonest companies and 46 non-fraudulent companies. The findings of the test have not shown that longer-term audits will weaken the discretion of the firm such that it becomes exhaustion for the company to conduct financial reporting fraud. In the meantime, the audit of the specialization sector has been successfully proven in this report. Industry specialization auditors are in a position to spot false financial statements.

Azibi (2018) conducted study on Joint audit and financial scandal in French context. The research analyses the stock market response of SBF 250 following the announcement of the financial scandal in the presence of a joint audit. The sample consists of 140 French listed companies. Methods of measurement are the method of case study and OLS regression. Empirical findings show that the stock market of Non-Big Four customers does not respond greatly relative to the companies audited by at least one Big Four in France. Contrarily to this result, the stock-market reactions of the companies audited by two Big Four have responded dramatically relative to those audited by one Big at least in France. These findings show that the joint audit with at least one non-big facilitated and, in particular, during the financial scandal times and resolved the problems connected with the concentration of the audit sector. However, the study was not conducted on fraudulent financial reporting and it was also not aligning with any theory.

Khersiat, (2020) conducted research on the impact of joint audit on fraud detection in financial statements from the point of view of auditors in financial industry in Jordan. The study administered questionnaire which comprised two axes; the first axis contains 69 questions and the second 16 questions. The simple linear regression analysis was employed which (R^2) amounted to (0.12) and P value derived from this relationship was (0.965). The study finds that there is no statistically significant impact of joint audit on detecting fraud in financial statements. However, the study did not include sample size and the questionnaire is not available to public.

2.2 Audit Committee and Fraudulent Financial Reporting

Kamarudin & Wan Ismail (2014) the effects of the audit committee (independence of the audit committee, financial experience, number of meetings, gender balance and ethnic composition) and the potential for misleading financial statements are both qualities. The collection includes 116 fraudulent and non-fraudulent companies listed on Bursa Malaysia from 2005 to 2010. The method of analysis used was logistic regression. The findings of this analysis show that the integrity of the audit committee is positively linked to false financial statements. The higher the number of independent or non-commissioned directors, the higher the risk of financial misconduct, and vice versa. The findings further reveal that the expertise of the audit committee members is adversely linked to corporate crime. This means that since members of the audit

committee are financially literate, they are more able to curb dishonest financial statements. However, reports on the number of meetings of the audit committee, gender and race suggest that there is no association between these factors and corporate fraud. The outcome of this analysis is stable after monitoring for other firm-specific impacts.

Marzuki1, Haji-Abdullah, Othman, AbdulWahab &Harymawan (2019) conducted study on Audit Committee Characteristics, Board Diversity, and Fraudulent Financial Reporting. Based on a paired pair of 64 findings for the years 2002–2014, the report followed two-stage least squares. The report considers little data suggesting that the features of the audit committee matter. However, the report found that there was a negative association between the number of female directors and the risk of fraud. The results show the relevance of the success of the audit committee and the relative importance of female directors in Malaysia.

Uwuigbe, Olorunshe, Uwuigbe, Ozordi, Asiriuwa, Asaolu& Erin(2019) conducted study on Corporate Governance and Financial Statement Fraud among Listed Firms in Nigeria. For the period 2012-2016, the population of 122 non-financial companies registered on Nigeria's stock exchange was reduced to 20 firms using the rule of thumb based on stratified and basic random technique. The data analysis approach is the regression of the panel. The contingent variable, deception in the financial statement, was calculated using the Beneish M-score formula, while the independent variable was measured using the independence of the audit committee, the board structure. The findings indicate that there is a negligible correlation between the discretion of the audit committee, the makeup of the board and the wrongdoing in the financial statements.

2.3 Audit Process and Fraudulent Financial Reporting

Audit process could be express as any methods or technique used by the auditors in the process of performing their duties as auditors as express by Asare, Wright and Zimbelman (2015). These process or techniques include and not limited to: Understanding the business of the client, the assessment of the risk associated with the fraud, the designation as well as the execution of audit test, the solving of issues surrounding the audit, and finally, the consultations of experts which include forensic auditors (Asare, Wright & Zimbelman 2015). These are key elements of fraud detection found in the literature thus, they are seen as very paramount in auditors' detection of fraud. Thus, this study reviewed literature on each of the said elements considering their relationship in respect of fraud detection.

Some researchers argued that understanding of client's business could have an influence on audit failure. Among those that are in some of that argument include Erickson et al. (2006) where argued that, failure to understand client business could result to prominent audit failure. This could be true as the professional standards also outline the importance of understanding an audit client's business (e.g., AICPA SAS 109 2006) this is generally explained within the audit approaches adopted by major audit firms some decades (Bell et al. 1997; Winograd et al. 2000).

According to Loebbecke et al. (1989), when fraud risk signs are present, it is difficult to diagnose them, and brainstorming can help auditors in the risk assessment process (Carpenter 2007). Auditors' judgments of fraud risk are biased (see, e.g., Hoffman and Patton 1997). Auditors struggle to respond effectively to risk variables from the other aspects of the fraud triangle

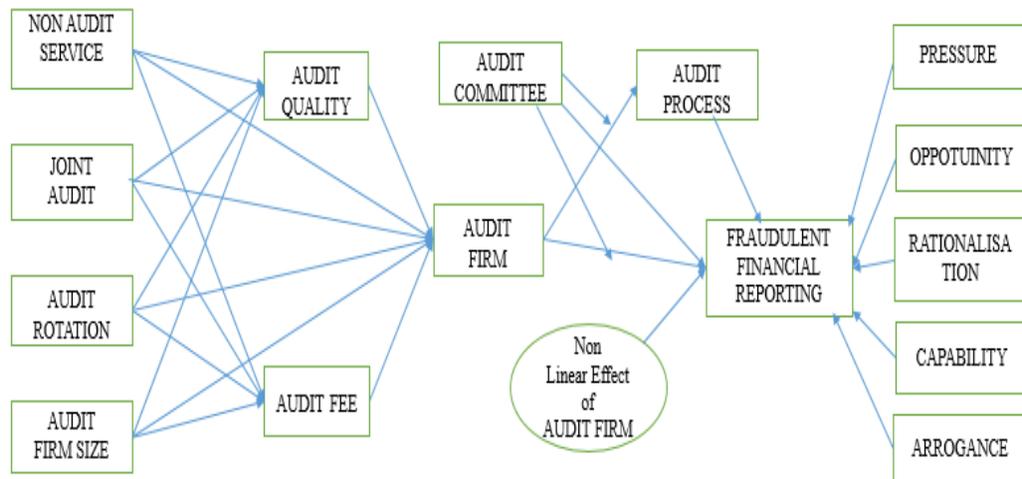
because they are preoccupied with attitude and rationalization (Wilks and Zimbelman 2004b). Risk assessment disintegration can assist auditors in being more sensitive to areas of fraud risk (Zimbelman 1997 and Wilks& Zimbelman 2004b). Furthermore, Brazel et al. (2009) show that inconsistencies between financial and non-financial performance might assist detect fraud risk when such indicators are available.

Auditors frequently fail to devise appropriate tests for identifying fraud. (e.g., Zimbelman 1997, Glover et al. 2003, Asare and Wright 2004, Hammersley et al. 2011). According to some researches, auditors appear to respond to elevated fraud risks by using more traditional audit techniques that are often regarded as ineffective in identifying concealed fraud. More recent research has looked at how approaches like strategic rationale may assist auditors respond successfully to rising fraud risk by changing the concerns underpinning audit tests by auditors (Hoffman and Zimbelman 2009).

Some studies argued that Consultation of Experts could have an influence on audit failure as argued by Asare and Wright (2004) where they indicated that auditors are usually hesitant to contact fraud experts for assistance, even when assessing high risk of fraud. However, Asare and Wright (2014) argued that audits there are high consideration of forensic specialists recently so as to address the problems of forensic expertise. Moreover, Boritz et al. (2011) sees the need for specialist on fraud detection where they argued that fraud specialist's assistance to auditors in terms of the process of audit planning is important which could likely bring positive changes to the audit plan which could also be as effective as possible than been efficient in line with the auditor's recommendation.

One of the determinants of audit fraud is resolving audit issues as argued by Brown and Wright (2008). These processes include many parties where communicating is paramount among the members of the audit team thus is in addition to the client information (Brown & Wright 2008; Gibbins et al. 2001). Thus, many studies seen lower-level auditors as the people who have inadequacy of requisite knowledge associated to fraud, consequently, they seem to fall as victims of circumstances as they are exposed to fraud (Kerr & Murthy 2004; Knapp & Knapp 2001). Furthermore, previous studies on auditing revealed the underlying forces that could exist on the team of auditors where they see it as the challenges as the senior auditors always reviewed the work their subordinate auditors (e.g. Rich et al. 1997) even though they reviewed their colleagues however, they tend to considered the process as one this is because the lower-level auditors, could in the process of the audit, attempt to persuade higher-level auditors.

The theories that underpin this study are The Fraud Triangle Theory, The Fraud Diamond Theory, Fraud Pentagon Theory and The Agency Theory



3. Methodological Analysis

The study is adopts survey research design. The population of audit staff working in audit firms in Nigeria is unknown and so the sample size of unknown population for survey study is calculated using G*power (www.gpower.com) which minimum sample size is 384 respondents. The sample size of 384 is also adequate based on 10 times rule (Barclay, Higgins, & Thompson, 1995) when using structural equation modelling for data analysis. A model of questionnaire is adopted from research conducted and 500 copies of adopted Questionnaire which contains 31 items were administered to audit staff and 391 copies were returned. The questionnaire was the main instrument for data collection and adopted a nine-point scale ranging from 1 (Disagree) to 9 (Agree). Moreover, the study examines the Interactive Effect of Audit Firm and Audit Committee Mediated by Audit Process on Fraudulent Financial Reporting Risks of Listed Firms in Nigeria. The study is multivariate in nature so structural equation modelling is employed and SmartPLS 3 is used for the analysis. The study used reflective measurement model and its mode of presentation of SEM result (Hair et al 2017).

4. Results and Discussion

This section presents the results of measurement model and structural model analysed using SmartPls 3.0 then followed by discussions

Hierarchical Component Analysis

	AG	CP	OP	PR	RT
AG1	0.863				
AG2	0.800				
AG3	0.811				
AG4	0.821				
AG5	0.548				
CP1		0.630			
CP2		0.823			
CP3		0.888			
CP4		0.915			

CP5		0.865			
OP1			0.650		
OP2			0.806		
OP3			0.878		
OP4			0.911		
OP5			0.831		
PR1				0.874	
PR2				0.901	
PR3				0.935	
PR4				0.893	
PR5				0.920	
RT1					0.883
RT2					0.934
RT3					0.846
RT4					0.777

Source: SmartPls Output, 2021

From Table 1 above, the indicators' outer loadings are higher than 0.70 except indicators AG5, CP1 and OP1 are considered and retained.

	Cronbach's	rho_A	Composite	Average Variance
	Alpha		Reliability	Extracted (AVE)
AG	0.829	0.855	0.881	0.603
CP	0.883	0.902	0.916	0.689
FFRR	0.973	0.976	0.975	0.622
OP	0.875	0.891	0.910	0.673
PR	0.944	0.946	0.958	0.819
RT	0.883	0.888	0.920	0.743

Source: SmartPls Output, 2021

An indication of high standard reliability is the coefficient of 0.70 Cronbach's alpha or higher (Hair Jr. et al., 2019). All constructs have Cronbach's alpha higher than 0.70. This study's composite reliability is above the minimum acceptable level of 0.7 as recommended (Hair Jr. et al., 2019) which implies that there is adequate internal consistence reliability of the measurement of the study. Average Variance Extracted (AVE) of each of the latent construct must not be less than 0.50 (Hair Jr. et al., 2019). The AVE found on this study is adequate enough for the analysis are all have more than 0.50.

Hierarchical Component Analysis for Audit Firm

	AF	AQ	AT	AZ	JA	NA
AF1	0.912					
AF2	0.935					

AF3	0.841					
AF4	0.878					
AQ1		0.834				
AQ2		0.911				
AQ3		0.865				
AQ4		0.680				
AT1			0.951			
AT2			0.832			
AT3			0.886			
AT4			0.927			
AZ1				0.896		
AZ2				0.864		
AZ3				0.872		
AZ4				0.758		
JA1					0.867	
JA2					0.907	
JA3					0.895	
JA4					0.867	
NA1						0.945
NA2						0.971
NA3						0.958
NA4						0.968

Source:SmartPls Output, 2021

From Table 3 above, the indicators' outer loadings all are higher than 0.70 as recommended (Hair Jr. et al., 2019).

Table 4.4: Construct Reliability and Validity				
	Cronbach's	rho_A	Composite	Average Variance
	Alpha		Reliability	Extracted (AVE)
AF	0.914	0.916	0.940	0.796
AFC	0.967	0.970	0.970	0.574
AQ_	0.843	0.868	0.895	0.684
AT	0.921	0.928	0.945	0.810
AZ	0.871	0.879	0.911	0.721
JA	0.907	0.908	0.935	0.782
NA	0.972	0.973	0.980	0.923

Source:SmartPls Output, 2021

An indication of high standard reliability is the coefficient of 0.70 Cronbach's alpha or higher (Hair Jr. et al., 2019). All constructs have Cronbach's alpha higher than 0.70. This study's composite reliability is above the minimum acceptable level of 0.7 which implies that there is

adequate internal consistence reliability of the measurement of the study. Average Variance Extracted (AVE) of each of the latent construct must not be less than 0.50 (Hair Jr. *et al.*, 2019). The AVE found on this study is adequate enough for the analysis are all have more than 0.50.

Measurement Model

Table 4.5: Outer loading

	AC	AC*AFC	AC*AFC2	AFC	AP	FFRR
AC5	0.860					
AC6	0.932					
AC7	0.914					
AC8	0.801					
AF				0.864		
AFC * AC		1.029				
AFC * AC			1.029			
AG						0.953
AP1					0.922	
AP2					0.663	
AP3					0.968	
AQ				0.841		
AT				0.935		
AZ				0.881		
CP						0.961
JA				0.877		
NA				0.743		
OP						0.960
PR						0.907
RT						0.928

Source: SmartPls Output, 2021

The indicators’ outer loadings are higher than 0.70 except indicators ACC1 to ACC5 are removed.

Internal Consistency Reliability

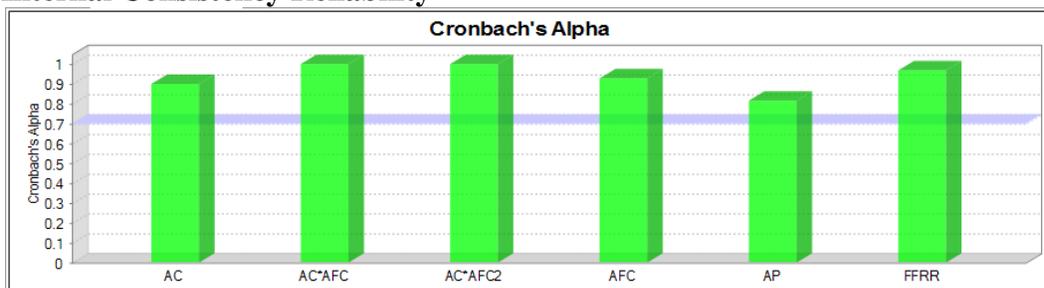
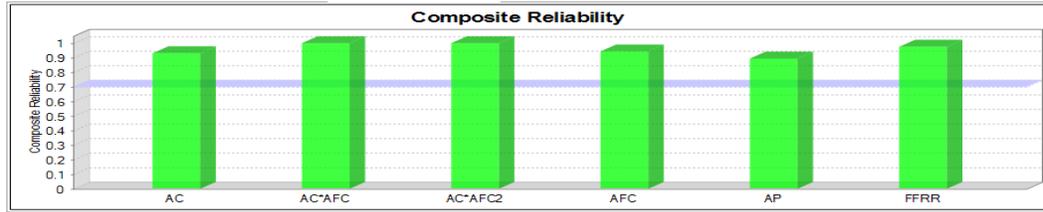


Figure 1. Source: SmartPls Output, 2021

All constructs have Cronbach's alpha higher than 0.70.



Source: SmartPLS Output, 2021

The composite reliability of this report is greater than the minimum suitable standard of 0.7, indicating that the study's measurement has satisfactory internal consistency reliability.

Convergent Validity

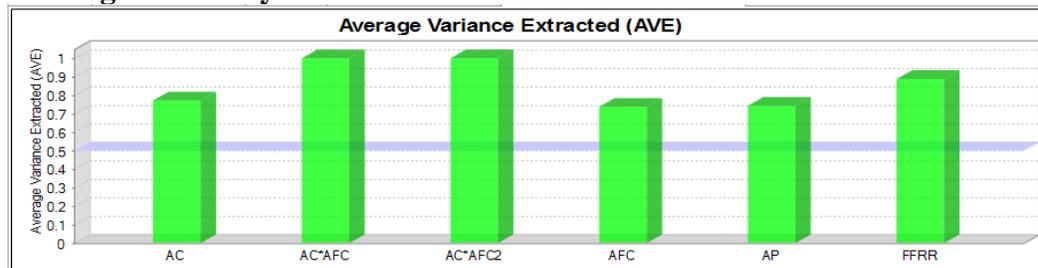


Figure 3. Source: SmartPLS Output, 2021

Average Variance Extracted (AVE) of each of the latent construct must not be less than 0.50 (Hair Jr. *et al.*, 2017). The AVE found on this study is adequate enough for the analysis are all have more than 0.50.

Discriminant Validity

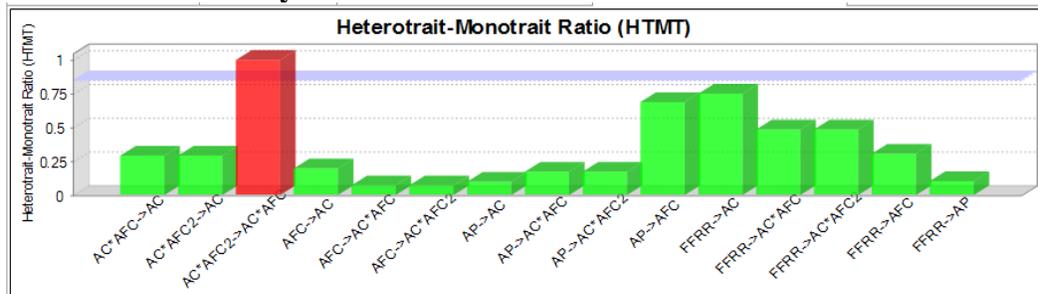


Figure 4. Source: SmartPLS Output, 2021

The HTMT statistical confidence interval should not include the value 1 for all construct combinations (Hair Jr. *et al.*, 2019). HTMT found on this study are adequate enough for the analysis as all constructs have less than 1.

However, the results of the evaluation of the reflective measurement model suggest that the reliability and validity levels of all construct measures are satisfactory. Therefore, the study can proceed with the structural model evaluation.

Structural Model

The determination coefficient (R^2), the path coefficient (b value) and the T-statistical value, the effect size (f^2) and the model's predictive validity (Q^2) are the main criteria for the internal structural model evaluation.

Table 3: Collinearity Statistics (VIF)

	AC	AC*AFC	AC*AFC2	AFC	AP	FFRR
AC					1.110	1.209
AC*AFC						1.138
AC*AFC2					1.082	
AFC					1.031	1.780
AP						1.797
FFRR						

Source: SmartPls Output, 2021

The tolerance value of each predictor construct (VIF) should be less than 5 (Hair Jr. et al., 2017). From table 3 above all structural model predictors in this study have less than 5 colinearity statistics (VIF).

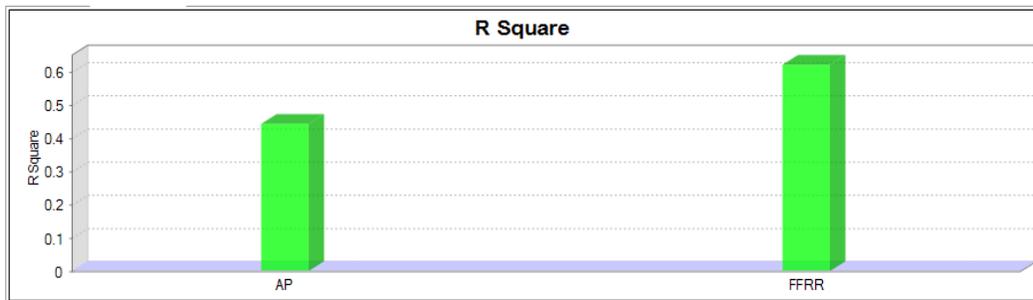


Figure 5. Source: SmartPls Output, 2021

Generally, R^2 values of 0.75, 0.50, or 0.25 can be described as substantial, moderate, and weak for the endogenous construct (Hair Jr. et al., 2017). The R^2 is (0.6....) for this study and considered moderate.

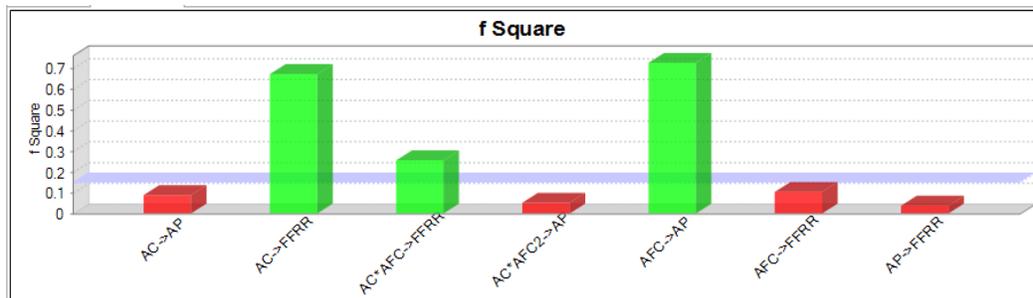


Figure 6. Source: SmartPls Output, 2021

The effect size f^2 values of 0.02, 0.15 and 0.35 reflect the low, medium or large effect of an exogenous construct on an endogenous construct respectively (Hair Jr. et al., 2017). AC to FFRR, AC*AFC to FFRR and AFC to AP have large effect and the remaining have medium effect.

Structural equation modelling for predicting

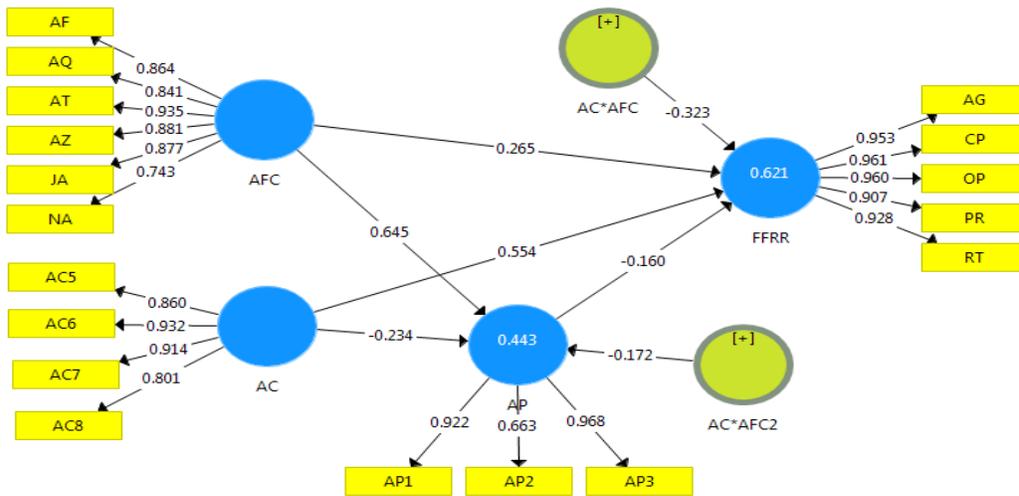
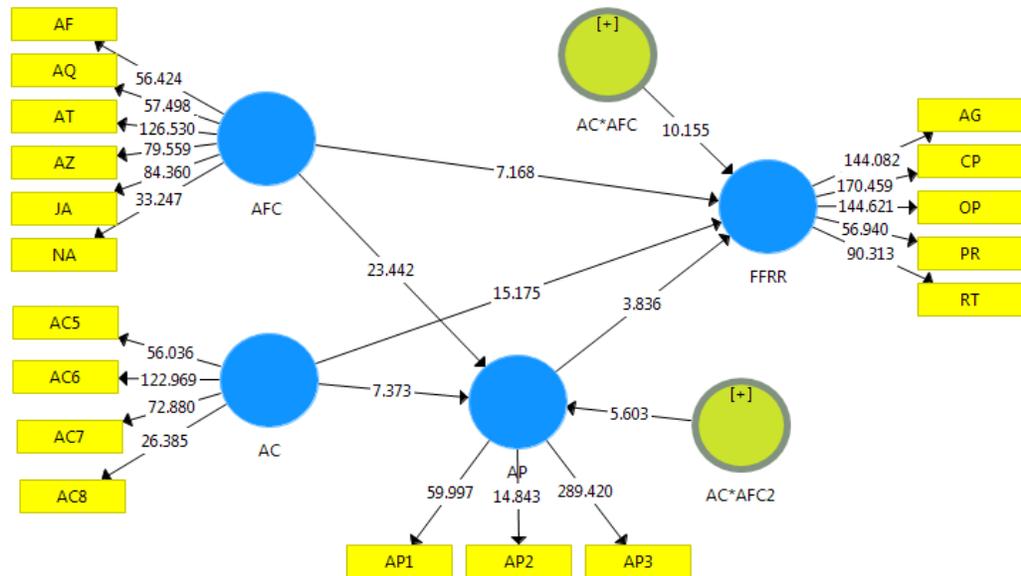


Figure 7. Source: SmartPls Output, 2021



Bootstrapping

Figure 8. Source: SmartPls Output, 2021

Table 5: Path Coefficients

	Original Sampl...	Sample Mean (...	Standard Devia...	T Statistics (O...	P Values
AC -> AP	-0.234	-0.236	0.032	7.373	0.000
AC -> FFRR	0.554	0.556	0.037	15.175	0.000
AC*AFC -> FFRR	-0.323	-0.321	0.032	10.155	0.000
AC*AFC2 -> AP	-0.172	-0.173	0.031	5.603	0.000
AFC -> AP	0.645	0.647	0.028	23.442	0.000
AFC -> FFRR	0.265	0.266	0.037	7.168	0.000
AP -> FFRR	-0.160	-0.161	0.042	3.836	0.000

Source: SmartPls Output, 2021

To evaluate the importance of path coefficients, the research applies bootstrapping. The number of bootstrap samples must be at least as high as the number of valid observations, but no less than 5,000. In applications, it should usually assume a 5% significance level (Hair Jr. *et al.*, 2017). From table 4 bootstrapped result which shows all path coefficient are significant at 1%.

Table 6: Total Effects

	Original Sampl...	Sample Mean (...	Standard Devia...	T Statistics (O...	P Values
AC -> AP	-0.234	-0.236	0.032	7.373	0.000
AC -> FFRR	0.592	0.594	0.032	18.427	0.000
AC*AFC -> FFRR	-0.323	-0.321	0.032	10.155	0.000
AC*AFC2 -> AP	-0.172	-0.173	0.031	5.603	0.000
AC*AFC2 -> FFRR	0.028	0.028	0.009	3.114	0.002
AFC -> AP	0.645	0.647	0.028	23.442	0.000
AFC -> FFRR	0.162	0.161	0.029	5.600	0.000
AP -> FFRR	-0.160	-0.161	0.042	3.836	0.000

Source: SmartPls Output, 2021

From the above table 6, the result of shows that all the total effects are significant at 1%, therefore, there is the need to check the mediating effects.

Table 7: Mediating Effects

	Original Sampl...	Sample Mean (...	Standard Devia...	T Statistics (O...	P Values
AC -> AP -> FFRR	0.038	0.038	0.011	3.392	0.001
AC*AFC2 -> AP -> FFRR	0.028	0.028	0.009	3.114	0.002
AFC -> AP -> FFRR	-0.103	-0.104	0.028	3.754	0.000

Source: SmartPls Output, 2021

From the above table 7, Mediating or specific effects show indirect effects, and in this study all mediating effects are significant at 1%

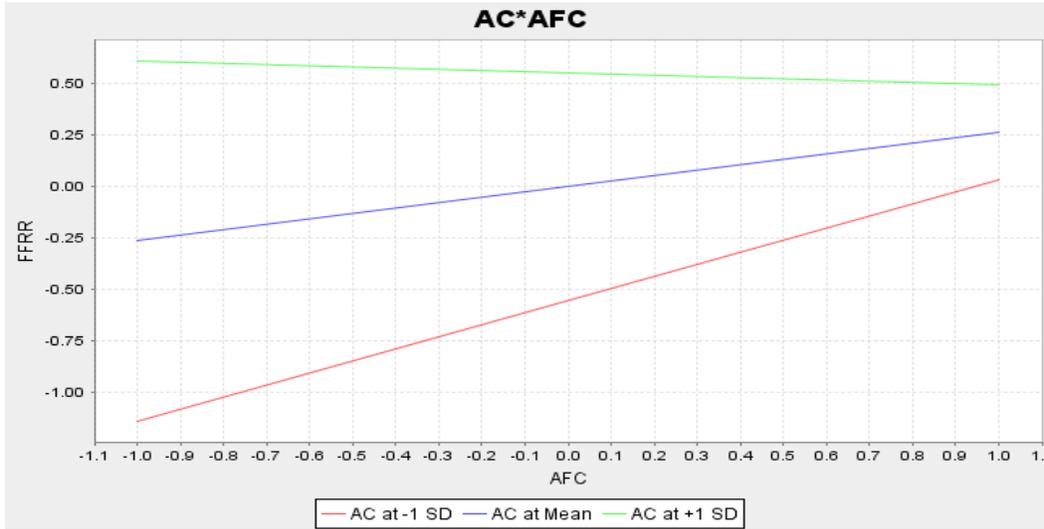


Figure 9. Source: SmartPls Output, 2021

From Figure 9 above, it shows the moderating effect of audit committee on the relationship between AFC and FFRR. The moderating effect is significant.

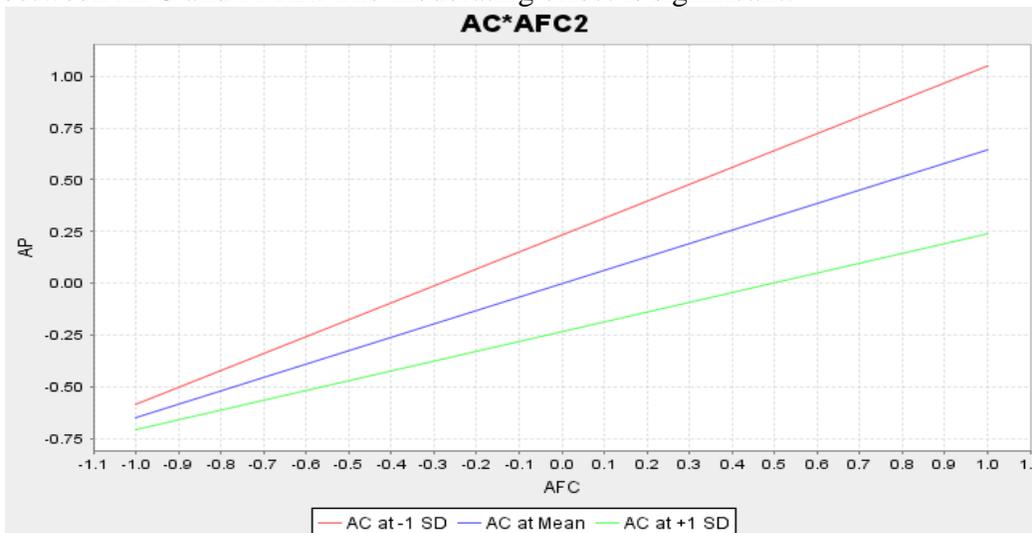


Figure 10. Source: SmartPls Output, 2021

From Figure 10 above, it shows the moderating effect of audit committee on the relationship between AFC and AP. The moderating effect is significant.

Table 9: Construct Cross validated Redundancy

	SSO	SSE	Q ² (=1-SSE/SSO)
AC	1,556.000	1,556.000	
AC*AFC	389.000	389.000	
AC*AFC2	389.000	389.000	
AFC	2,334.000	2,334.000	
AP	1,167.000	804.680	0.310
FFRR	1,945.000	946.943	0.513

Source: SmartPLS Output, 2021

Q^2 values greater than 0 show that the exogenous constructs have predictive relevance for the endogenous construct under consideration. From table 9 above, Q^2 values for Audit Process and Fraudulent Financial Reporting Risks are (0.310) and (0.513) respectively. All Q^2 value are above zero so there is predictive relevance. The study tests the hypotheses formulated for the study, in view of the robustness of the results, which can be considered as best (reflective-formative model).

However, the result shows that Audit Firm (path = 0.162, $p = 0.000$) and Audit committee (path = 0.592, $p = 0.000$) have significant positive effect on Fraudulent Financial Reporting of Listed Firms in Nigeria. In addition, Audit Firm has significant positive effect on audit process of Listed Firms in Nigeria (path = 0.645, $p = 0.000$). Similarly, Audit process has significant mediating effect on the relationship between Audit committee and Fraudulent Financial Reporting of Listed Firms in Nigeria (path = 0.038, $p = 0.001$). And Audit committee has significant positive moderating effect on the relationship between audit firm and Fraudulent financial reporting risks of Listed Firms in Nigeria (path = 0.028, $p = 0.000$).

However, Audit committee has significant negative effect on audit process of Listed Firms in Nigeria (path = -0.234, $p = 0.000$). In addition, Audit process has significant negative mediating effect on the relationship between Audit Firm and Fraudulent Financial Reporting of Listed Firms in Nigeria (path = -0.103, $p = 0.000$). Similarly, Audit committee has significant negative moderating effect on the relationship between audit firm and audit process of Listed Firms in Nigeria (path = -0.172, $p = 0.000$).

5.1 Conclusions and Recommendations

The study examines the Interactive Effect of Audit Firm and Audit Committee Mediated by Audit Process on Fraudulent Financial Reporting of Listed Firms in Nigeria. The population of audit staff working in audit firms in Nigeria is unknown and so the sample size of unknown population for this survey study is calculated using G*power which minimum sample size is 384 respondents. A model of questionnaire is adopted from a research conducted and 500 copies of adopted questionnaire which contains 31 items were administered to audit staff and 389 copies were returned. The questionnaire was the main instrument for data collection and adopted a nine-point Likert scale. The study is multivariate in nature so structural equation modelling is employed and SmartPLS 3 is used for the analysis.

The study concludes that:

- i. Audit Firm has significant effect on Fraudulent Financial Reporting of Listed Firms in Nigeria. This signifies that audit firms have influence on the fraudulent financial reporting committed by the management of listed firms in Nigeria.
- ii. Audit Firm has significant positive effect on audit process of Listed Firms in Nigeria. This signifies audit firms are in full control of audit process of Listed Firms in Nigeria.
- iii. Audit committee has significant positive effect on Fraudulent Financial Reporting of Listed Firms in Nigeria. This signifies audit committee does not assess risk of fraudulent financial reporting and they rely on other corporate governance monitoring mechanisms (internal and external audits).
- iv. Audit process has significant negative on Fraudulent Financial Reporting of Listed Firms in Nigeria. This signifies audit process is a mechanism to be used for prevention and detection of fraudulent financial reporting in Listed Firms in Nigeria.
- v. Audit process has significant negative (full) mediating effect on the relationship between Audit Firm and Fraudulent Financial Reporting of Listed Firms in Nigeria. This signifies only through audit process, audit firms can curb fraudulent financial reporting in Listed Firms in Nigeria.
- vi. Audit committee has significant (negative) moderating effect on the relationship between audit firm and Fraudulent Financial Reporting of Listed Firms in Nigeria. This signifies changes in audit committee can influence audit firm to curb Fraudulent Financial Reporting of Listed Firms in Nigeria

Base on the conclusion, the study recommends that:

- i. Audit firm should maintain an objective stance and strive for improving audit procedures to curb Fraudulent Financial Reporting of Listed Firms in Nigeria.
- ii. Audit committee should have uniform guideline for fraud risk assessment and write a report to board of directors on any potential or actual fraudulent financial reporting in Listed Firms in Nigeria.
- iii. Audit committee should focus their attention on improving the fraud risk assessment will significantly curb the fraudulent financial reporting risks of listed Firms in Nigeria.
- iv. Audit process should include adequate procedures for detection and prevention of fraudulent financial reporting in Listed Firms in Nigeria.
- v. Audit firm should include adequate fraud risk assessment and procedures put in place for detection and prevention fraud in Audit process which in turn will curb fraudulent financial reporting in Listed Firms in Nigeria.
- vi. Audit committee and external auditors should focus their attention on improving the audit process which in turn will significantly curb the fraudulent financial reporting risks of listed Firms in Nigeria.

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