Auditing Systems and Financial Reporting Quality in Selected Ministries in Delta State, Nigeria

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ABSTRACT

This study examined the relationship between auditing systems and financial reporting quality in selected ministries in Delta State, Nigeria. The study was motivated by persistent concerns regarding the credibility, transparency, and accountability of financial reporting within public sector institutions despite the implementation of various public financial management reforms in Nigeria. Specifically, the study investigated the effects of audit queries, audit monitoring quality, revenue performance, expenditure performance, International Public Sector Accounting Standards (IPSAS) compliance, and internal control weaknesses on financial reporting quality. An ex-post facto research design was adopted using secondary data obtained from audited financial statements, audit reports, budget performance reports, and other official government records from ten selected ministries covering the period 2019–2025. The balanced panel dataset comprised seventy ministry-year observations and was analysed using descriptive statistics and panel regression techniques in STATA Version 13. Diagnostic tests confirmed the absence of serious multicollinearity and first-order autocorrelation, while heteroskedasticity was addressed through robust estimation. The Hausman specification test supported the Random Effects Model, and the Robust Random Effects Generalized Least Squares (GLS) estimator was used for hypothesis testing. The findings revealed that audit queries and IPSAS compliance exerted significant positive effects on financial reporting quality, whereas internal control weaknesses had a significant negative effect. Audit monitoring quality, revenue performance, and expenditure performance did not significantly influence financial reporting quality. The study concludes that strengthening auditing systems remains essential for enhancing transparency, accountability, and the credibility of public sector financial reporting. It recommends strengthening audit review mechanisms, improving compliance with IPSAS, reinforcing internal control systems, and ensuring the timely implementation of audit recommendations across government ministries. These findings provide empirical evidence that can support ongoing public financial management reforms in Delta State and other sub-national governments in Nigeria.

Keywords: *Auditing Systems; Financial Reporting Quality; Audit Queries; Audit Monitoring Quality; IPSAS Compliance; Internal Control Weaknesses; Public Sector Accounting; Delta State.*

1. INTRODUCTION

Financial reporting quality has become a critical issue in contemporary public financial management because it underpins transparency, accountability, and the efficient stewardship of public resources. Governments rely on financial reports to communicate how public funds are generated, allocated, managed, and utilised, while citizens, oversight institutions, policymakers, and development partners depend on such reports to assess financial performance and accountability. High-quality financial reporting therefore provides relevant, reliable, timely, comparable, and faithfully represented information for decision-making and public accountability (International Public Sector Accounting Standards Board [IPSASB], 2023; International Federation of Accountants [IFAC], 2022).

Governments have implemented public financial management reforms aimed at strengthening fiscal accountability, improving transparency, reducing corruption, and enhancing the efficiency of public service delivery. These reforms include the adoption of internationally recognised accounting standards, integrated financial management information systems, strengthened auditing practices, and enhanced institutional oversight. The effectiveness of such reforms depends substantially on the capacity of public institutions to generate reliable financial information and maintain effective financial management systems (World Bank, 2022; International Monetary Fund [IMF], 2023).

Auditing systems comprise the institutional structures, policies, procedures, standards, and monitoring mechanisms established to ensure that financial transactions are properly authorised, accurately recorded, adequately documented, and reported in accordance with applicable laws and recognised accounting standards. Modern auditing extends beyond traditional verification to include compliance auditing, performance auditing, internal control evaluation, risk-based auditing, and continuous monitoring. These functions support the detection of financial irregularities, regulatory compliance, safeguarding of public resources, and the reliability of financial information (Alles, 2021).

Nigeria has undertaken several public financial management reforms, including the Treasury Single Account (TSA), Government Integrated Financial Management Information System (GIFMIS), Integrated Payroll and Personnel Information System (IPPIS), and adoption of International Public Sector Accounting Standards (IPSAS). These reforms are intended to strengthen fiscal transparency, accountability, financial controls, and the reliability of public sector financial reports (Federal Ministry of Finance, 2024; IMF, 2023). Nevertheless, oversight reports continue to identify concerns relating to unresolved audit observations, weak internal controls, poor documentation, and non-compliance with financial regulations (Office of the Auditor-General for the Federation, 2023).

Although numerous empirical studies have examined auditing and financial reporting, much of the literature has concentrated on private-sector organisations, listed companies, financial institutions, or federal government institutions. Comparatively limited evidence exists on state government ministries, particularly within Delta State. Moreover, previous studies have frequently examined individual auditing dimensions rather than considering audit queries, audit monitoring quality, revenue performance, expenditure performance, IPSAS compliance, and internal control weaknesses within one empirical framework. This contextual and methodological gap provides justification for the present study. Against this background, this study examines the effect of auditing systems on financial reporting quality in selected ministries in Delta State, Nigeria, using a balanced panel dataset covering 2019–2025. Specifically, it investigates the influence of audit queries, audit monitoring quality, revenue performance, expenditure performance, IPSAS compliance, and internal control weaknesses on financial reporting quality.

2. LITERATURE REVIEW

Conceptual Review

Auditing Systems

Auditing systems constitute an essential component of public financial management by providing the institutional framework through which financial transactions are examined,

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verified, monitored, and evaluated to ensure accountability, transparency, and compliance with applicable financial regulations. Within the public sector, auditing systems encompass internal and external audit mechanisms, audit policies, risk assessment procedures, internal control evaluations, compliance reviews, audit monitoring activities, and the application of recognised auditing standards. Their primary purpose is to strengthen financial integrity by ensuring that public resources are properly managed and financial information is credible and adequately supported (Alles, 2021; Aikins, 2011).

The role of auditing has evolved from a traditional emphasis on detecting errors and fraud to a broader governance function involving accountability, operational efficiency, compliance, risk management, and continuous monitoring. Technology-supported audit practices can also improve the processing and analysis of financial information and facilitate timely identification of irregularities (Vasarhelyi et al., 2010; Janvrin et al., 2008). In Nigeria, public financial management reforms have strengthened the institutional framework for accountability through initiatives such as TSA, GIFMIS, IPPIS, and IPSAS. However, persistent weaknesses in audit follow-up, internal controls, documentation, and compliance indicate that the effectiveness of auditing systems depends not only on the existence of reforms but also on their implementation and monitoring (Federal Ministry of Finance, 2024; Office of the Auditor-General for the Federation, 2023).

Accordingly, this study conceptualises auditing systems through six interrelated dimensions: audit queries, audit monitoring quality, revenue performance, expenditure performance, IPSAS compliance, and internal control weaknesses. These dimensions provide a comprehensive framework for evaluating how auditing systems influence financial reporting quality within public sector institutions.

Financial Reporting Quality

Financial reporting quality refers to the extent to which financial statements provide information that is accurate, relevant, reliable, understandable, comparable, timely, and faithfully represented for decision-making purposes (Uford, 2017; Charles & Uford, 2023). In the public sector, these attributes support transparency, accountability, and responsible stewardship of public resources (IPSASB, 2023; IFAC, 2022). High-quality financial reporting extends beyond mechanical compliance with accounting standards. It also reflects the effectiveness of governance structures, auditing processes, and internal control systems that support the integrity of financial information. Effective internal controls and audit processes reduce the likelihood of errors, irregularities, and unreliable reporting (COSO, 2017; Aikins, 2011).

The adoption of IPSAS has been associated with improvements in consistency, transparency, comparability, accountability, and the usefulness of public sector financial information. Evidence from public-sector accounting reforms indicates that effective implementation of IPSAS can strengthen the credibility of government financial reports (Christiaens et al., 2010; Brusca & Montesinos, 2016; IFAC, 2018).

Theoretical Framework

This study is anchored on Agency Theory, originally developed by Jensen & Meckling (1976). Agency Theory explains the relationship between principals, who delegate authority, and agents, who are entrusted with managing resources on behalf of the principals. Within the public sector, citizens and the wider public constitute the principals, while elected officials and public servants act as agents responsible for managing public resources.

The theory assumes that information asymmetry and conflicts of interest may create opportunities for agents to pursue objectives that do not fully correspond with those of principals. Consequently, monitoring and accountability mechanisms are required to reduce opportunistic behaviour and information asymmetry. Auditing systems perform this monitoring role by examining financial records, evaluating compliance, assessing internal controls, and identifying financial irregularities (Jensen & Meckling, 1976; Eisenhardt, 1989). Agency Theory is appropriate to this study because effective auditing systems can strengthen accountability and transparency while reducing information asymmetry in public financial management. Unresolved audit queries, weak internal controls, poor audit follow-up, and weak compliance may increase the risk of financial mismanagement and reduce the credibility of government financial reports. The theory therefore provides a logical explanation for the expected relationship between the dimensions of auditing systems and financial reporting quality.

Empirical Review

Audit Queries and Financial Reporting Quality

Vasarhelyi, et al. (2010) examined continuous auditing and reported that timely identification of financial irregularities and improved monitoring can strengthen the reliability of financial information. Janvrin, et al. (2008) similarly found that technology-supported audit procedures improve the identification of audit issues, compliance, and reporting quality. In the Nigerian context, Adebisi and Gbegi (2015) reported that effective public-sector audit procedures strengthened accountability, internal controls, and compliance with financial regulations. These findings suggest that audit queries can contribute to financial reporting quality when they are promptly communicated, investigated, and resolved. However, much of the prior evidence is based on survey, conceptual, or non-state-government settings, leaving limited panel evidence from state ministries.

Audit Monitoring Quality and Financial Reporting Quality

Janvrin et al. (2008) found that effective technology-supported monitoring strengthened compliance and reporting outcomes. Eulerich, Kremin, and Wood (2019) reported that effective internal-audit monitoring strengthened internal controls, transparency, and compliance. Alzeban and Gwilliam (2014) also found that effective internal-audit functions were associated with stronger compliance and accountability, while Cohen and Sayag (2010) linked internal-audit effectiveness with organisational performance and reporting quality. Aikins (2011) further showed that effective audit monitoring and follow-up improve compliance and accountability in public-sector organisations. Although the direction of evidence is generally positive, the literature provides limited panel-data evidence from Nigerian state ministries.

Revenue Performance and Financial Reporting Quality

Diamond and Khemani (2006) showed that effective revenue administration can strengthen fiscal discipline and accountability, particularly where auditing and internal controls are strong. Aikins (2011) similarly argued that revenue performance alone does not guarantee improved financial reporting unless supported by governance and internal controls. Chan (2008) and Oulasvirta (2014) also emphasised that revenue administration contributes to transparency when integrated with sound accounting, auditing, and monitoring systems. In Nigeria, Ofoegbu and Nweze (2017) reported that improved revenue administration enhanced transparency and accountability, while stressing the importance of effective financial oversight. The literature therefore suggests that revenue performance may support reporting quality, but its effect can depend on broader institutional controls, as in most cases enterprise effectiveness rest on its resources (Akpoyibo, 2024a)

Expenditure Performance and Financial Reporting Quality

Diamond and Khemani (2006) found that prudent expenditure management can improve transparency, fiscal discipline, and reporting reliability when supported by effective auditing and internal controls. Chan (2008) likewise linked effective expenditure management with reporting accuracy and accountability but noted that expenditure performance alone is insufficient. Aikins (2011) found that effective expenditure monitoring can improve financial disclosure and accountability. Brusca and Montesinos (2016) also associated public-sector accounting reforms and expenditure accountability with improved reporting practices. Nigerian evidence from Adebisi and Gbegi (2015) indicates that effective expenditure control can strengthen compliance and reporting credibility. Overall, the literature supports a positive relationship, but also suggests that expenditure performance requires strong governance and control systems.

IPSAS Compliance and Financial Reporting Quality

Christiaens, et al. (2010) found that IPSAS adoption improved transparency, comparability, consistency, and reliability in government financial reporting. Oulasvirta (2014) similarly reported improvements in disclosure, accountability, and comparability associated with public-sector accounting reforms. Brusca and Montesinos (2016) found that IPSAS-related reforms strengthened financial disclosure and credibility, while IFAC (2018) highlighted the role of IPSAS in improving transparency, accountability, comparability, and stakeholder confidence. Nigerian evidence from Iyoha and Oyerinde (2010) and Tanko (2015) also indicates that compliance with internationally recognised public-sector accounting standards improves the transparency, consistency, credibility, and reliability of government financial reporting. The evidence therefore provides strong support for a positive relationship between IPSAS compliance and financial reporting quality.

Internal Control Weaknesses and Financial Reporting Quality

Krishnan (2005) found that organisations with weak internal controls were more likely to experience lower-quality financial reporting and reporting irregularities. Doyle, Ge, and McVay (2007) reported that material internal-control weaknesses increased accounting errors and financial misstatements. Ashbaugh-Skaife, Collins, Kinney, and LaFond (2008) similarly linked internal-control deficiencies with lower reporting quality, while Hoitash, Hoitash, and Bedard (2009) found that ineffective internal controls reduced the credibility and reliability of financial statements. Zhang, Zhou, and Zhou (2007) also reported that weak internal controls increased reporting errors and reduced transparency. COSO (2017) and IFAC (2018) emphasise that effective controls are fundamental to reliable reporting. These findings consistently suggest a negative relationship between internal control weaknesses and financial reporting quality.

Synthesis of Empirical Evidence

The empirical literature generally supports positive effects of effective audit queries, audit monitoring, IPSAS compliance, and sound revenue and expenditure management on financial reporting quality, while internal control weaknesses are consistently associated with poorer reporting outcomes. Nevertheless, the strength and significance of the relationships vary across institutional settings and methodologies. Most prior studies examined individual dimensions, relied on surveys or comparative designs, or focused on private-sector and federal institutions. The present study addresses this gap by integrating six auditing-system dimensions within one balanced panel model covering ten selected Delta State ministries over 2019-2025.

Research Gap

Despite the growing empirical literature on auditing and financial reporting, important gaps remain. Much of the existing evidence concerns private-sector organisations, listed companies, federal institutions, or foreign jurisdictions, with comparatively limited attention to state government ministries in Nigeria. In addition, previous studies have frequently examined audit queries, audit monitoring, revenue performance, expenditure performance, IPSAS compliance, or internal controls separately rather than as dimensions of one auditing-systems framework.

A second gap is conceptual. The literature provides evidence on individual auditing mechanisms, but comparatively little evidence explains their combined influence on financial reporting quality in sub-national government. The present study integrates six dimensions AQ, AMQ, REVPERF, EXPPERF, IPSAS, and ICW within a unified model.

A third gap is methodological. Many earlier studies relied on cross-sectional survey designs, whereas panel data can capture both differences among ministries and changes over time. The present study therefore uses a balanced panel of ten selected ministries over 2019-2025 and panel regression techniques to address the contextual and methodological limitations identified in the literature (Baltagi, 2021). These gaps provide the justification for examining auditing systems and financial reporting quality in selected ministries in Delta State, Nigeria. The study contributes evidence from a sub-national public-sector setting and evaluates the six auditing-system dimensions jointly.

3. METHODOLOGY

Research Design

This study adopted an ex-post facto research design to examine the effect of auditing systems on financial reporting quality in selected ministries in Delta State, Nigeria. The design was appropriate because the study uses historical financial and audit data without manipulating the study variables. Ex-post facto designs are suitable where relationships are investigated using existing documentary evidence (Kothari, 2004).

Population, Sample, and Data Source

The study focused on ten (10) selected ministries in Delta State, Nigeria, covering 2019–2025. These ministries were selected because of their strategic roles in public financial management, revenue administration, budget implementation, expenditure management, and financial reporting. The study relied exclusively on secondary data obtained from publicly available audited financial statements, audit reports, budget performance reports, and other official government financial records published by relevant authorities. The data were compiled into a balanced panel dataset comprising 70 ministry-year observations. Documentary secondary data were used to provide consistent, non-survey evidence for panel-data analysis.

Measurement of Variables

Financial Reporting Quality (FRQ) was employed as the dependent variable, while Auditing Systems constituted the independent variable represented by six dimensions: Audit Queries (AQ), Audit Monitoring Quality (AMQ), Revenue Performance (REVPERF), Expenditure Performance (EXPPERF), International Public Sector Accounting Standards (IPSAS) Compliance, and Internal Control Weaknesses (ICW). These variables were operationalised using indicators derived from audited financial statements, audit reports, budget performance reports, and other official government financial records.

Table 1. Measurement and Operational Definition of Study Variables

Variable	Type	Operational Measure	Expected Sign
Financial Reporting Quality (FRQ)	Dependent	Financial Reporting Quality Index	—
Audit Queries (AQ)	Independent	Number of audit queries and audit observations	+
Audit Monitoring Quality (AMQ)	Independent	Audit monitoring quality index	+
Revenue Performance (REVPERF)	Independent	Revenue performance ratio	+
Expenditure Performance (EXPPERF)	Independent	Expenditure performance ratio	+
IPSAS Compliance (IPSAS)	Independent	IPSAS compliance index	+
Internal Control Weaknesses (ICW)	Independent	Internal control weakness index	−

Note. *The expected signs indicate the hypothesised direction of association between each explanatory variable and financial reporting quality.*

Model Specification

To examine the effect of auditing systems on financial reporting quality, the following panel regression model was estimated:

$$FRQit=\beta 0+\beta 1AQit+\beta 2AMQit+\beta 3REVPERFit+\beta 4EXPPERFit+\beta 5IPSASit+\beta 6ICWit+\varepsilon it$$

Where:

- *FRQ = Financial Reporting Quality*
- *AQ = Audit Queries*
- *AMQ = Audit Monitoring Quality*
- *REVPERF = Revenue Performance*
- *EXPPERF = Expenditure Performance*
- *IPSAS = International Public Sector Accounting Standards Compliance*
- *ICW = Internal Control Weaknesses*
- β_0 *= Constant term*
- β_1–β_6 *= Regression coefficients*
- *ε = Error term*
- *i = Ministry*
- *t = Time (2019–2025)*

The model was specified to estimate the combined influence of the auditing system variables on financial reporting quality while accounting for both cross-sectional differences among ministries and variations across time.

Estimation Technique

The data were analysed using STATA Version 13. Descriptive statistics were used to summarise the variables, while correlation analysis and the Variance Inflation Factor (VIF) were used to assess associations and multicollinearity. Panel diagnostic tests, including the Breusch–Pagan/Cook–Weisberg, White, Cameron–Trivedi IM, and Wooldridge tests, were conducted before model estimation. Panel-data methods are appropriate where observations combine cross-sectional and time-series dimensions (Baltagi, 2021). Both Fixed Effects and Random Effects panel regression models were estimated, after which the Hausman Specification Test was employed to determine the most appropriate estimator. Based on the diagnostic results, the Robust Random Effects Generalized Least Squares (GLS) estimator was selected to address heteroskedasticity and produce efficient, consistent, and robust parameter estimates. Statistical significance was evaluated at the 5% significance level, with null hypotheses rejected where the corresponding *p*-value was less than 0.05.

Ethical Considerations

The study relied exclusively on publicly available and officially documented secondary data. Consequently, no human participants were involved, and no personal or confidential information was collected. The research maintained academic integrity by accurately reporting the results generated from the statistical analysis and by acknowledging all relevant sources in accordance with APA 7th edition guidelines.

4. RESULTS AND DISCUSSION

Descriptive Statistics

Table 2 presents the descriptive statistics for the variables included in the analysis. The balanced panel dataset comprises 70 ministry-year observations drawn from ten selected ministries in Delta State over the period 2019-2025. Descriptive statistics were computed to provide

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preliminary insights into the central tendency and dispersion of the variables before estimating the panel regression models.

Table 2. Descriptive Statistics of Study Variables

Variable	Obs.	Mean	Std. Dev.	Minimum	Maximum
FRQ	70	1.757	0.550	1.000	3.000
AQ	70	2.271	1.215	0.000	4.000
AMQ	70	12.608	7.486	1.019	24.946
REVPERF	70	107.570	27.455	62.500	164.880
EXPPERF	70	93.698	25.358	45.440	143.270
IPSAS	70	1.743	0.774	1.000	3.000
ICW	70	2.057	0.740	1.000	3.000

Note. Descriptive statistics computed using STATA Version 13.

Discussion of Findings

Diagnostic Tests

Before estimating the regression model, diagnostic tests were conducted to assess the suitability of the data and the validity of the econometric assumptions.

Multicollinearity Test

Table 3 presents the Variance Inflation Factor (VIF) results.

Table 3. Variance Inflation Factor (VIF) Test

Variable	VIF	Tolerance
AQ	5.820	0.1719
ICW	5.800	0.1724
AMQ	1.060	0.9423
EXPPERF	1.060	0.9445
IPSAS	1.040	0.9594
REVPERF	1.030	0.9690
Mean VIF	**2.640**	

Note. Tolerance = 1/VIF.

The mean VIF of 2.64 is substantially below the conventional threshold of 10, indicating that multicollinearity is not a serious concern. Consequently, the explanatory variables provide sufficiently distinct information for reliable estimation.

Panel Diagnostic Tests

Table 4. Panel Diagnostic Tests

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Diagnostic Test	Statistic	p-value	Decision
Breusch–Pagan/Cook–Weisberg	$\chi^2 = 15.32$	0.0001	Heteroskedasticity Present
White Test	$\chi^2 = 61.88$	0.0001	Heteroskedasticity Present
Cameron–Trivedi IM Test	$\chi^2 = 78.77$	0.0000	Robust Estimation Required
Wooldridge Test	F = 1.653	0.2306	No Autocorrelation

Note. Diagnostic tests computed using STATA Version 13.

The Breusch-Pagan and White tests reveal evidence of heteroskedasticity, while the IM test further supports the need for robust estimation. Conversely, the Wooldridge test indicates that first-order serial correlation is not statistically significant. Collectively, these diagnostic results justify the use of the Robust Random Effects Generalized Least Squares (GLS) estimator.

Regression Results

Following the diagnostic tests, the Robust Random Effects GLS regression model was estimated to evaluate the influence of auditing systems on financial reporting quality.

Table 5. Robust Random Effects GLS Regression Results

Variable	Coefficient	Robust Std. Error	Z-Value	p-value	95% Confidence Interval
AQ	0.163	0.066	2.48	0.013	0.034 - 0.2912
AMQ	0.000	0.004	0.06	0.956	-0.007 - 0.007
REVPERF	-0.001	0.001	-1.12	0.264	-0.003 - 0.001
EXPPERF	0.001	0.001	0.59	0.557	-0.001 - 0.003
IPSAS	0.112	0.048	2.35	0.019	0.019 - 0.206
ICW	-0.857	0.042	-20.54	0.000	-0.939 - -0.776
Constant	2.995	0.228	13.12	0.000	2.548 - 3.443

Model Fit Statistics

Statistics	Values
Number of Observations	70
Number of Groups	10
Wald $Chi^2(6)$	608.69
Prob> Chi^2	0.0000
R^2 (Within)	0.7508
R^2 (Between)	0.7859
R^2 (Overall)	0.7652
Rho	0.3953

Note. Robust standard errors are reported.

The model is statistically significant (Wald $\chi^2 = 608.69$, $p < 0.001$), indicating that the explanatory variables jointly explain variations in financial reporting quality. The overall R^2 of 0.7652 suggests that approximately 76.5% of the variation in financial reporting quality is explained by the auditing system variables included in the model.

Discussion of Findings

Audit Queries (AQ) exert a positive and statistically significant effect on financial reporting quality ($\beta = 0.163$, $p = 0.013$). This indicates that ministries with stronger identification, documentation, and resolution of audit observations tend to report higher-quality financial information. The finding is consistent with Vasarhelyi et al. (2010), Janvrin et al. (2008), and Adebisi and Gbegi (2015), who associated effective audit procedures and timely resolution of audit issues with stronger compliance, accountability, and reporting reliability. The result therefore supports the view that audit queries can operate as a practical accountability mechanism within public financial management.

Audit Monitoring Quality (AMQ) has no statistically significant effect on financial reporting quality ($p = 0.956$). This result differs from the generally positive evidence reported by Eulerich et al. (2019), Alzeban and Gwilliam (2014), Cohen and Sayag (2010), and Aikins (2011). A possible interpretation, within the evidence of this study, is that monitoring activities may not translate into improved reporting where follow-up actions, enforcement, or management commitment are insufficient. Thus, the existence of monitoring mechanisms may be less important than the effectiveness with which audit recommendations are implemented.

Revenue Performance (REVPERF) is not statistically significant ($\beta = -0.001$, $p = 0.264$). This finding is consistent with the caution in Diamond and Khemani (2006), Aikins (2011), and Ofoegbu and Nweze (2017) that revenue performance alone does not guarantee high-quality reporting unless supported by effective governance, auditing, and internal controls. The result suggests that the amount or performance of revenue mobilisation may not directly improve the quality of financial reports when weaknesses exist in reporting, oversight, or control systems.

IPSAS Compliance has a positive and statistically significant effect on financial reporting quality ($\beta = 0.112$, $p = 0.019$). This result is consistent with Christiaens et al. (2010), Oulasvirta (2014), Brusca and Montesinos (2016), IFAC (2018), Iyoha and Oyerinde (2010), and Tanko (2015), whose studies linked IPSAS or related public-sector accounting reforms with improved transparency, comparability, consistency, accountability, and reporting credibility. The finding indicates that stronger compliance with recognised public-sector accounting requirements is an important component of high-quality financial reporting in the selected ministries.

Internal Control Weaknesses (ICW) exert a strong negative and statistically significant effect on financial reporting quality ($\beta = -0.857$, $p < 0.001$). This finding is consistent with Krishnan (2005), Doyle et al. (2007), Ashbaugh-Skaife et al. (2008), Hoitash et al. (2009), and Zhang et al. (2007), all of whom linked internal-control deficiencies with reporting errors, misstatements, reduced reliability, and lower reporting quality. The result also accords with COSO (2017), which identifies effective internal control as fundamental to reliable financial reporting. The evidence therefore demonstrates that reducing control weaknesses is critical to improving reporting quality in the selected ministries.

Taken together, the findings provide empirical support for Agency Theory because effective monitoring, compliance, and control mechanisms can reduce information asymmetry and strengthen accountability between public officials and citizens (Jensen & Meckling, 1976; Eisenhardt, 1989). The significant effects of AQ, IPSAS, and ICW show that the quality of specific accountability and control mechanisms matters for financial reporting, while the insignificant effects of AMQ, REVPERF, and EXPPERF indicate that not every component of public financial management automatically translates into higher reporting quality.

5. CONCLUDING REMARKS

Conclusion

This study examined the effect of auditing systems on financial reporting quality in selected ministries in Delta State, Nigeria, using panel data covering the period 2019-2025. The study was motivated by persistent concerns regarding transparency, accountability, and the credibility of financial reporting within the Nigerian public sector despite ongoing public financial management reforms. Employing an ex-post facto research design and a Robust Random Effects Generalized Least Squares (GLS) estimator, the study investigated the influence of audit queries, audit monitoring quality, revenue performance, expenditure performance, IPSAS compliance, and internal control weaknesses on financial reporting quality. The empirical findings demonstrate that auditing systems remain an important determinant of financial reporting quality in the public sector. Specifically, audit queries and IPSAS compliance exert statistically significant positive effects on financial reporting quality, indicating that effective audit follow-up and compliance with internationally recognised accounting standards strengthen the credibility, transparency, and reliability of government financial reports. Conversely, internal control weaknesses significantly reduce financial reporting quality, highlighting the importance of strong internal control systems in promoting accountability and preventing financial irregularities. However, audit monitoring quality, revenue performance, and expenditure performance did not exhibit statistically significant effects during the study period.

Overall, the findings support the proposition of Agency Theory that effective monitoring mechanisms reduce information asymmetry between public officials and citizens by strengthening accountability and improving financial reporting practices. Just as individual requires knowledge to thrive in life (Akpoyibo, 2025c), firms equally need a strong auditing system that foster financial reporting quality that align with it goals to remain competitive. The study therefore concludes that improvements in public sector financial reporting require not only sound accounting standards but also effective auditing systems, strengthened internal controls, and sustained institutional commitment to implementing audit recommendations.

Policy Implications and Recommendations

The findings have important implications for public financial management, audit practice, and government policy.

First, government ministries should strengthen mechanisms for the timely resolution of audit queries. Prompt implementation of audit recommendations can improve accountability and reduce recurring audit observations, consistent with the evidence of Aikins (2011) and Janvrin et al. (2008). Second, policymakers should intensify efforts to improve compliance with International Public Sector Accounting Standards (IPSAS). Continuous professional training, regular compliance assessments, and institutional support should be provided to ensure consistent application of IPSAS, in line with the importance attached to IPSAS compliance by Christiaens et al. (2010), Brusca and Montesinos (2016), and IFAC (2018). Third, government institutions should strengthen internal control systems through improved segregation of duties, enhanced supervisory mechanisms, regular internal audits, and periodic risk assessments. This recommendation follows the study’s significant negative ICW result and the broader evidence of Krishnan (2005), Doyle et al. (2007), and COSO (2017). Fourth, although audit monitoring quality was not statistically significant, government ministries should strengthen follow-up mechanisms to ensure that audit recommendations are fully implemented. Monitoring activities should be supported by effective enforcement mechanisms and stronger institutional accountability. Finally, continuous investment in audit capacity, effective audit monitoring, professional development, and strengthened internal control systems will improve the effectiveness of public sector auditing and contribute to more transparent and reliable financial reporting.

Limitations of the Study

Despite its contributions, the study is subject to certain limitations.

The analysis was limited to ten selected ministries in Delta State and covered the period 2019–2025. Consequently, the findings should be interpreted within the institutional context of the selected ministries. In addition, the study relied exclusively on secondary data obtained from official government records, thereby excluding behavioural and organisational factors that may also influence financial reporting quality. These limitations, however, do not diminish the validity of the findings but rather provide opportunities for future research.

Suggestions for Future Research

Future research may extend this study in several directions.

First, future studies should broaden the scope of the investigation by including ministries in other states, federal ministries, government agencies, and other public sector institutions. Such studies would provide a wider basis for comparison and enhance the generalisability of the findings. Second, future researchers should examine additional factors that may influence financial reporting quality, including forensic auditing, audit committee effectiveness, auditors' independence, internal audit effectiveness, and organisational governance. Incorporating these variables may provide a more comprehensive understanding of the determinants of financial reporting quality in the public sector. Third, future studies should employ alternative analytical techniques, such as the Generalised Method of Moments (GMM), Dynamic Panel Regression, or Structural Equation Modelling (SEM), to provide further empirical evidence, address potential methodological limitations, and validate the findings of the present study.

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Conflict of Interest

The author declares that there are no financial, professional, institutional, or personal conflicts of interest that could have influenced the design, data collection, analysis, interpretation, or reporting of this research. The manuscript is the original work of the author and has not been published previously nor is it under consideration for publication in any other journal. All sources of information have been appropriately acknowledged in accordance with accepted academic and ethical standards.

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Data Availability Statement

The data supporting the findings of this study are derived entirely from publicly accessible online government documents, including audited financial statements, audit reports, budget performance reports, and related official publications issued by relevant government authorities in Delta State, Nigeria. As these materials are available in the public domain, no restrictions apply to their use for academic research. The compiled dataset used for the analysis is available from the corresponding author upon reasonable request.

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