Research Journal in Business and Economics
ISSN: 3078-381X
DOI: https://doi.org/10.61424/rjbe.v4i3.951
Journal Homepage: https://bluemarkpublishers.com/index.php/RJBE

RJBE
BLUEMARK PUBLISHERS

| RESEARCH ARTICLE

Auditors' Independence and Quality of Financial Reporting of Listed Manufacturing Firms in Lagos State, Nigeria

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| ABSTRACT
This study examines the effect of auditor independence on the quality of financial reporting among listed manufacturing firms in Lagos State, Nigeria. The study addresses key threats to auditor independence, specifically self-interest and familiarity, which can compromise the reliability of financial statements. Using a cross-sectional survey design, data were collected from staff in the accounting, auditing, and finance departments of five listed manufacturing firms: Cadbury Plc, Nestle Plc, UAC Plc, PZ Cussons Plc, and Unilever Plc. Out of 115 questionnaires administered, 110 valid responses (96% return rate) were analysed using descriptive statistics and linear regression via SPSS. The findings reveal that auditor incentives, audit report lag, auditor tenure, status of the audit firm, and audit client size each significantly influence the quality of financial reporting. All five null hypotheses were rejected at the 5% level of significance, confirming that auditor independence is a statistically significant determinant of financial reporting quality. The study concludes that maintaining robust auditor independence is essential for ensuring transparency, comparability, and credibility in financial reporting. Practical recommendations are offered for regulatory bodies, audit firms, and corporate management.

| KEYWORDS

Auditor independence, financial reporting quality, audit tenure, audit report lag, audit firm status, Lagos State, Nigeria

| ARTICLE INFORMATION

ACCEPTED: June 07, 2026 **PUBLISHED:** July 17, 2026 **DOI:** https://doi.org/10.61424/rjbe.v4i3.951

1. Introduction

The integrity of financial reporting lies at the heart of functional capital markets, sound investment decisions, and effective corporate governance. Auditor independence, defined as the unbiased, objective state of mind that external auditors must maintain throughout the audit process, constitutes the foundational pillar upon which public trust in financial statements rests (DeAngelo, 2021; Oyetunji et al., 2022). When auditors are genuinely independent, both in fact and in appearance, they serve as credible gatekeepers who assure investors, creditors, and regulators that financial disclosures faithfully represent the economic reality of the reporting entity (Yakubu & Williams, 2020).

Despite its acknowledged importance, auditor independence has been repeatedly undermined by structural and relational forces, including audit fee dependence, long-tenured client relationships, provision of non-audit services, and management pressure that create or magnify conflicts of interest (Kinney et al., 2018; Larcker & Richardson, 2018). The spectacular corporate failures associated with compromised auditing from the Enron scandal of 2001 and Parmalat in 2003 to the Cadbury Nigeria Plc affair of 2006 and the Afribank Nigeria Plc crisis of 2009 have demonstrated, with devastating clarity, that lapses in auditor independence carry systemic consequences for financial markets, investor confidence, and economic stability (Oyetunji et al., 2022; Gabriel et al., 2023).

In the Nigerian context, concerns about audit independence and financial reporting quality have intensified as listed manufacturing firms attract both domestic and foreign investment whose confidence depends critically on the credibility of audited accounts. The manufacturing sector, which encompasses firms such as Cadbury, Nestle, UAC, PZ Cussons, and Unilever, all listed on the Nigerian Exchange Group (NGX), is among the most economically significant and investor-visible segments of the Nigerian economy. Yet, creative accounting, weak internal controls, and compromised auditor conduct continue to threaten the integrity of financial reporting in this sector (Elewa & Rasha, 2019; David & Ahmed, 2020).

This study is motivated by the persistent gap in empirical research that specifically addresses the relationship between auditor independence and financial reporting quality among listed manufacturing firms in Lagos State. While prior studies have examined this relationship in the banking sector (Oladejo, 2022; Oyetunji et al., 2022) and across general corporate populations, systematic primary-data evidence from the manufacturing sector remains comparatively sparse. This study addresses that gap by operationalising auditor independence through five dimensions auditor incentives, audit report lag, audit tenure, audit firm status, and audit client size and empirically testing their individual effects on financial reporting quality.

The remainder of this article is structured as follows. Section 2 presents the theoretical and conceptual framework. Section 3 reviews relevant empirical literature. Section 4 describes the research methodology. Section 5 presents and discusses the findings. Section 6 concludes with recommendations and directions for future research.

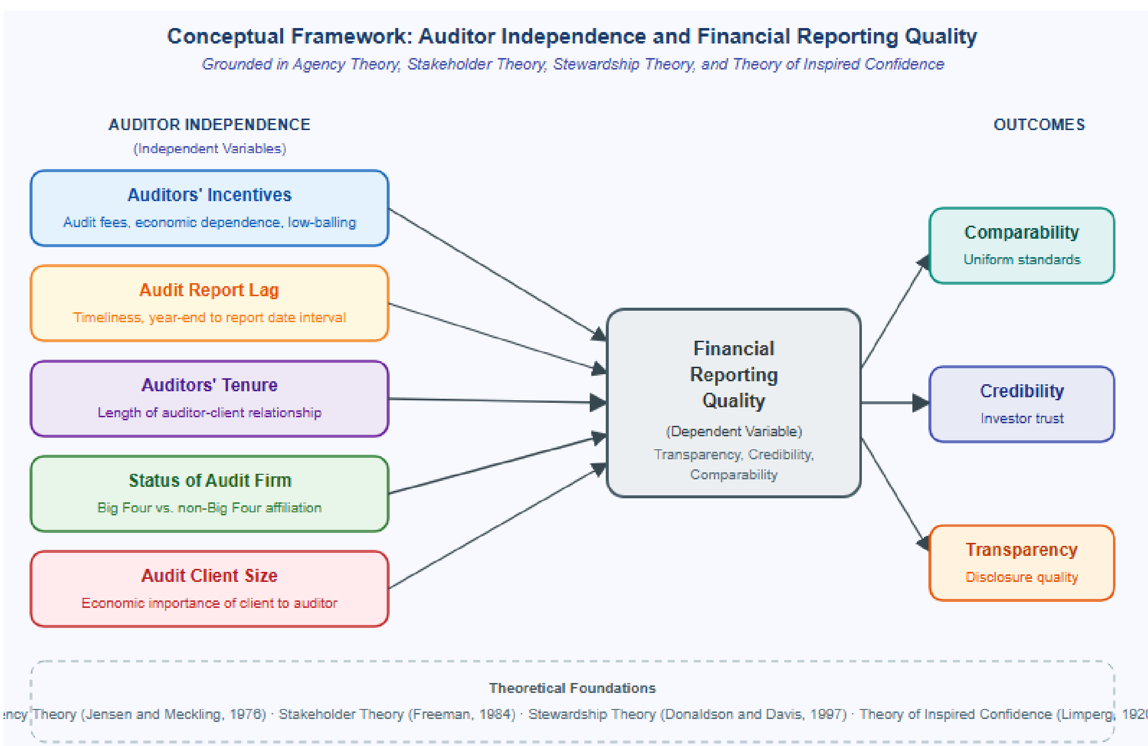

Figure 1. Conceptual framework illustrating the five dimensions of auditor independence and their pathways to financial reporting quality outcomes.

2. Theoretical Framework

Four theoretical perspectives underpin this study and collectively explain why auditor independence is both necessary and contested in practice.

2.1 Agency Theory

Agency theory, first proposed by Ross and Mitnick (1973) and developed by Jensen and Meckling (1976), provides the primary lens through which auditor independence is understood. The theory posits that the separation of ownership and control in modern corporations creates information asymmetries between principals (shareholders) and agents (managers), giving rise to potential conflicts of interest. External auditors serve as independent third parties who verify the accuracy of agents' financial disclosures, thereby reducing information asymmetry and aligning managerial behaviour with shareholder interests. For agency theory to fulfil its purpose, auditor independence is non-negotiable: an auditor whose objectivity is compromised by financial ties to management, fee dependence, or relational familiarity cannot perform the monitoring function that justifies the audit (Jensen & Meckling, 1976; Oyetunji et al., 2022).

2.2 Stakeholder Theory

Stakeholder theory, propounded by Freeman (1984), broadens the accountability perspective beyond shareholders to encompass all parties with a legitimate interest in the firm, including employees, creditors, government agencies, and the public. The theory is relevant to this study because audited financial statements are not prepared solely for shareholders; they serve a wide community of users whose decisions depend on the credibility, comparability, and transparency of the information disclosed. Auditor independence thus becomes a public interest obligation, not merely a contractual one (Yakubu & Williams, 2020; Lambe et al., 2021).

2.3 Stewardship Theory

Stewardship theory, developed by Schoorman and Donaldson (1997), assumes that managers are inherently trustworthy stewards of organisational resources and act in shareholders' best interests. Under this perspective, auditing affirms and validates the stewardship relationship rather than policing it. The theory supports the view that long-tenured audit relationships can enhance understanding and improve reporting quality, providing a theoretical counterpoint to the independence-threat argument of prolonged tenure (Odia, 2020; Oladejo, 2022).

2.4 Theory of Inspired Confidence

The Theory of Inspired Confidence, developed by Dutch Professor Theodore Limperg in the late 1920s, asserts that auditors derive their social function from the confidence placed in them by the public. Auditors must not only be independent but must be seen to be independent, conducting their work with due diligence in a manner that minimises the risk of undetected material misstatements. This theory directly links audit quality to market-based performance and supports the finding that audit firm status, particularly Big Four affiliation, signals quality and credibility to financial markets (Boskou et al., 2019; Amahalu et al., 2019).

3. Review of Related Literature

3.1 Auditor Independence: Conceptual Dimensions

Auditor independence encompasses two distinct but complementary dimensions: independence in fact, which refers to the auditor's actual state of mind and objectivity, and independence in appearance, which concerns how the auditor's independence is perceived by third parties (DeAngelo, 2021; Ivy, 2023). Both dimensions are essential: independence in fact without independence in appearance undermines public trust, while independence in appearance without independence in fact produces a false assurance that is potentially more damaging than no assurance at all (Yakubu & Williams, 2020).

Threats to auditor independence are well-documented in the literature and include self-interest threats (arising from financial or other interests in the client), familiarity threats (from long-standing client relationships), advocacy threats (from championing the client's position), self-review threats (from auditing one's own prior work), and intimidation threats (from management pressure) (Campbell & Keith, 2022; Ivy, 2023). Safeguards against these threats include ethical codes, mandatory partner rotation, prohibition of certain non-audit services, and audit committee oversight (Ejeagbasi et al., 2020).

3.2 Auditor Incentives and Audit Quality

The relationship between auditor incentives, particularly audit fees and audit quality, is theoretically and empirically contested. On one hand, higher fees can reflect more thorough audit work and greater auditor effort, suggesting a positive association between fee levels and quality (Gaeremynck et al., 2021). On the other hand, fee dependence on a single client creates economic pressure that can compromise objectivity, particularly when audit clients are large and economically important to the audit firm (Larcker & Richardson, 2018; Kinney et al., 2018). Low-balling, the practice of offering below-cost audit fees to secure client engagements, raises additional concerns, as it creates an implicit expectation of cross-subsidisation through non-audit services that can compromise independence (Francis, 2018; Francis & Wilson, 2018).

3.3 Audit Report Lag and Financial Reporting Quality

Audit report lag (ARL), the interval between the fiscal year-end and the audit report date, is a widely used proxy for audit quality and timeliness of financial information. Bamber et al. (2023) found a positive correlation between lag period and audit work required, suggesting that longer reporting lags reflect more thorough audit effort. However, Blankley et al. (2018) found that undue delays in audit report submission are positively associated with the probability of future financial statement restatements, suggesting that extended lags may signal underlying audit or reporting problems rather than thoroughness. The dual interpretation of ARL as either thoroughness or delay reflects the complexity of operationalising audit quality (Knechel & Payne, 2021; Egbunike & Abiahu, 2017).

3.4 Audit Tenure and Financial Reporting Quality

The debate on audit tenure centres on two competing hypotheses. The independence hypothesis argues that longer auditor-client relationships breed excessive familiarity that erodes professional scepticism and honest neutrality (Vanstraelen, 2020; Carey & Simnett, 2022). In contrast, the expertise hypothesis posits that extended tenure enables auditors to develop deeper firm-specific knowledge, reducing information asymmetry and improving reporting quality over time (Geiger & Raghunandan, 2022; Odia, 2020). Empirical evidence is mixed: Ghosh and Moon (2020) and Chen et al. (2018) find positive associations between tenure and quality, while Manry et al. (2018) report a negative association for small clients. This study contributes empirical evidence from the Nigerian manufacturing context.

3.5 Status of Audit Firm and Financial Reporting Quality

Audit firm status, typically dichotomised as Big Four (Deloitte, PwC, EY, KPMG) versus non-Big Four, is one of the most widely used proxies for audit quality. Big Four firms possess superior technical capability, access to modern audit technology, internationally mobile expertise, and reputational capital that creates strong incentives to preserve quality (Francis, 2018; Ndubuisi & Ezechukwu, 2020). However, the paradox of major corporate scandals facilitated by Big Four auditors, including Arthur Andersen's role in Enron, complicates the assumption that Big Four status guarantees independence (Oyetunji et al., 2022). Shakhatreh et al. (2020) found that audit firm size positively and significantly influences financial statement quality, a finding this study seeks to test in the Nigerian manufacturing context.

3.6 Audit Client Size and Financial Reporting Quality

Audit client size introduces a structural tension in the auditor-client relationship: larger clients represent greater economic importance to audit firms, creating inducements to accommodate management preferences in order to retain the engagement (Lambe et al., 2021). Reynolds and Francis (2021) found evidence that large clients receive more favourable reporting decisions from Big Four auditors. Conversely, Chung and Kallapur (2023) found no significant link between client size and abnormal accruals, while Knechel et al. (2019) reported a negative association between client size and earnings management. The divergent findings underscore the importance of context-specific empirical investigation.

Table 1. Descriptive Statistics of Study Variables

Variable	Mean	Std. Deviation	N
Auditor's Incentives	2.2069	1.04680	110
Audit Report Lag	2.1310	1.27069	110
Audit Tenure	2.0138	1.21327	110
Status of Audit Firm	2.3628	1.16595	110
Audit Client Size	2.4245	1.42543	110

Note. Source: Field Survey (2025). N = 110. All variables measured on a five-point Likert scale: 5 = Strongly Agree, 4 = Agree, 3 = Undecided, 2 = Disagree, 1 = Strongly Disagree.

4. Research Methodology

4.1 Research Design

This study adopted a cross-sectional survey design, which is appropriate when the aim is to describe the characteristics of a target population or test hypothesised relationships at a single point in time (Leedy & Ormrod, 2019). Primary data were collected using structured questionnaires administered to staff in the accounting, auditing, and finance departments of five NGX-listed manufacturing firms in Lagos State: Cadbury Plc, Nestle Plc, UAC Plc, PZ Cussons Plc, and Unilever Plc. These firms were selected purposively for their accessibility, their NGX listing status, and their representation of diverse sub-sectors within Nigerian manufacturing.

4.2 Population, Sample and Sampling Technique

The study population consisted of all management staff in accounting, auditing, and finance functions across the five selected firms. A stratified random sampling technique was adopted: each firm was treated as a stratum, with 20 respondents selected per firm (2 managers and 18 management staff), yielding a total sample of 100. Of 115 questionnaires administered (to account for non-response), 110 were returned and found valid, representing a response rate of 96%, which is considered highly adequate for drawing valid inferences (Aiken & West, 1991).

4.3 Measurement of Variables

The independent variables Auditors' Incentives, Audit Report Lag, Auditors' Tenure, Status of Audit Firm, and Audit Client Size were operationalised through five questionnaire items each, measured on a five-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree). Financial reporting quality served as the dependent variable, proxied by respondents' assessments of the comparability, transparency, and credibility of the financial statements of their respective firms. The instrument was validated through expert review by two academic and two practitioner panels and demonstrated satisfactory reliability.

4.4 Method of Data Analysis

Descriptive statistics (means and standard deviations) were computed to characterise the distribution of responses across all variables. Linear regression analysis was employed to test each hypothesis, with financial reporting quality as the criterion variable and each dimension of auditor independence as the predictor. All analyses were conducted using IBM SPSS version 26.0, with statistical significance assessed at the 5% level ($p < 0.05$). The coefficient of determination (R^2) was used to assess the proportion of variance in financial reporting quality explained by each predictor.

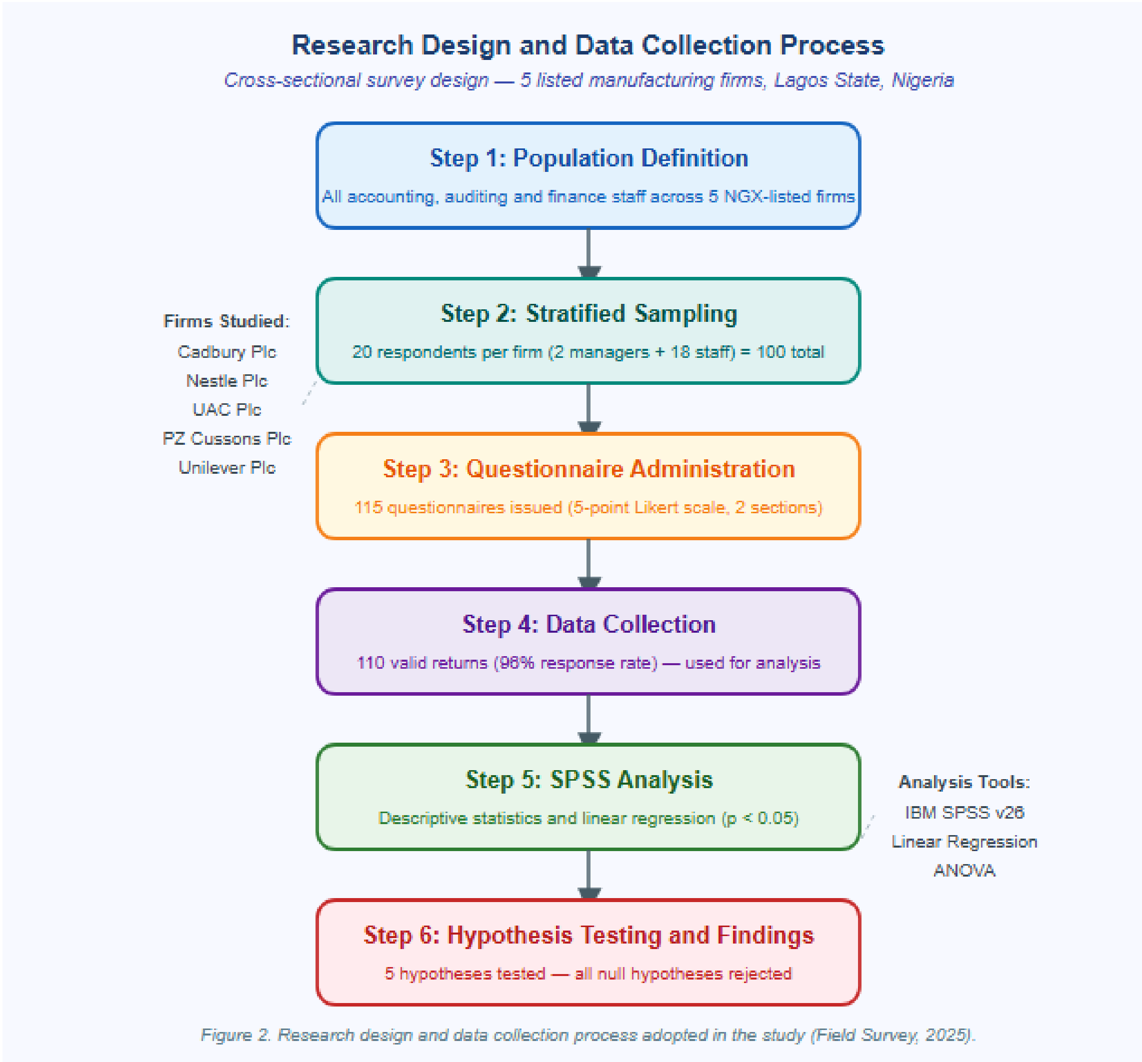

Figure 2. Research design and data collection process adopted in the study.

5. Results and Discussion

5.1 Auditors' Incentives and Financial Reporting Quality (H1)

The regression analysis for Hypothesis 1 yielded a coefficient of determination of $R^2 = 0.333$, indicating that Auditors' Incentives accounts for 33.3% of the variance in financial reporting quality. The ANOVA result was statistically significant ($F = 53.844$, $p < 0.000$), and the regression coefficient of the predictor was 7.338 ($p < 0.000$), confirming statistical significance at the 5% level. The null hypothesis (H01) was therefore rejected in favour of the alternative hypothesis: Auditors' Incentives has a significant effect on Financial Reporting Quality.

Table 2 presents the frequency distribution of responses to Q1, which probed the perceived relationship between audit incentives and audit quality. The majority of respondents (65.5%) agreed or strongly agreed that incentives influence audit quality, with only 22.7% disagreeing or strongly disagreeing. These results align with Gaeremynck et al. (2021), who found a significant positive relationship between economic incentives and audit quality, and with Ball et al. (2019), who demonstrated that incentive structures shape the quality of financial reporting by affecting both manager and auditor behaviour.

Table 2. Frequency Distribution: Auditors' Incentives Influence on Audit Quality (Q1)

Response Category (Q1: Audit Incentives Influence Audit Quality)	Frequency	Percent
Strongly Agree	52	47.3%
Agree	20	18.2%
Undecided	13	11.8%
Disagree	16	14.5%
Strongly Disagree	9	8.2%
Total	110	100.0%

Note. Source: Field Survey (2025). N = 110. Q1: "Audit incentives influence quality of audit."

5.2 Audit Report Lag and Financial Reporting Quality (H2)

The regression model for Hypothesis 2 produced the strongest explanatory power of all five hypotheses, with R^2 = 0.856, indicating that Audit Report Lag accounts for 85.6% of the variance in financial reporting quality. The ANOVA was highly significant (F = 641.762, p < 0.000), and the regression coefficient was 25.333 (p < 0.000). The null hypothesis (H02) was rejected, confirming that Audit Report Lag has a significant effect on Financial Reporting Quality.

These findings corroborate the position of Bamber et al. (2023) that there is a positive correlation between audit lag and the amount of audit work performed, supporting the interpretation that longer reporting periods may reflect greater audit diligence. However, consistent with Blankley et al. (2018), the study also found strong agreement evident in Table 3 that undue delays are perceived as problematic signals. Specifically, 69.1% of respondents agreed or strongly agreed that undue delays in report submission are associated with future financial statement restatements, suggesting that the relationship between ARL and quality is non-linear and context-dependent.

Table 3. Frequency Distribution: Undue Audit Report Delays Linked to Future Restatements (Q10)

Response Category (Q10: Undue Delays Linked to Future Restatements)	Frequency	Percent
Strongly Agree	17	15.5%
Agree	59	53.6%
Undecided	8	7.3%
Disagree	18	16.4%
Strongly Disagree	8	7.3%
Total	110	100.0%

Note. Source: Field Survey (2025). N = 110. Q10: "Undue delays in submitting an audit report has a connection with a future restatement."

5.3 Auditors' Tenure and Financial Reporting Quality (H3)

The regression model for Hypothesis 3 yielded R^2 = 0.866, indicating that Auditors' Tenure explains 86.6% of the variance in financial reporting quality, the highest R^2 among all predictors. The ANOVA was statistically significant (F = 699.739, p < 0.000), and the regression coefficient of 26.453 (p < 0.000) confirmed statistical significance. The null hypothesis (H03) was rejected, establishing that Auditors' Tenure has a significant effect on Financial Reporting Quality.

These findings resonate with the expertise hypothesis advanced by Geiger and Raghunandan (2022) and the positive association between tenure and quality reported by Ghosh and Moon (2020) and Chen et al. (2018). The strong R^2 suggests that within the manufacturing firm context in Lagos, the knowledge accumulation benefits of longer tenure outweigh the familiarity threat, at least as perceived by accounting and finance professionals. This may reflect the complexity of manufacturing operations, which reward sustained auditor familiarity with firm-specific operational and financial structures.

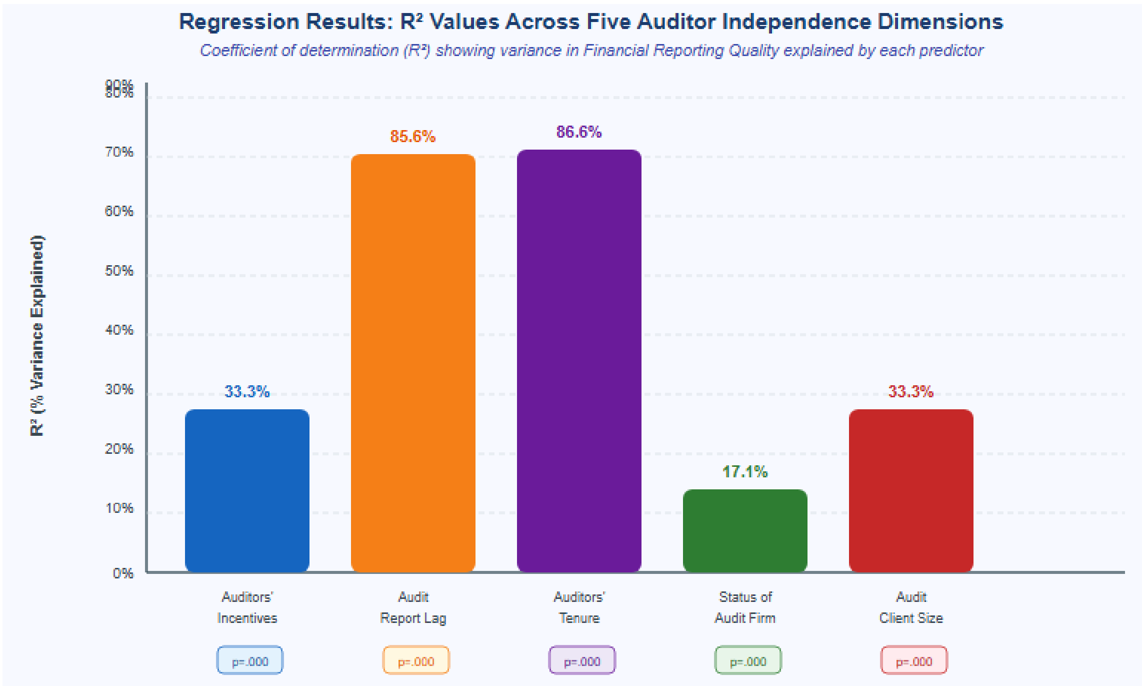

Figure 3. Coefficient of determination (R^2) across five auditor independence dimensions predicting Financial Reporting Quality. All models statistically significant at $p < 0.001$. Source: Author's computation (2025).

Figure 3. Coefficient of determination (R^2) across five auditor independence dimensions, showing relative explanatory power for financial reporting quality.

5.4 Status of Audit Firm and Financial Reporting Quality (H4)

Hypothesis 4 tested the effect of audit firm status, operationalised as the distinction between Big Four and non-Big Four affiliation on financial reporting quality. The regression produced $R^2 = 0.171$, suggesting that audit firm status accounts for 17.1% of the variance in financial reporting quality. Despite the comparatively modest R^2, the ANOVA was statistically significant ($F = 22.275$, $p < 0.000$), and the regression coefficient was 4.720 ($p < 0.000$), leading to rejection of the null hypothesis (H04).

Table 4 presents the consolidated regression summary. As shown, audit firm status was the weakest predictor of the five, but its statistical significance confirms the theoretical proposition that Big Four affiliation carries measurable quality implications. As documented by Ndubuisi and Ezechukwu (2020) and Francis (2018), Big Four firms possess superior technical capacity and reputational incentives that translate, on average, into better quality audit outputs. The lower R^2 may partly reflect the reality that within the Nigerian manufacturing sector, other auditor-specific and firm-specific factors, particularly tenure and report lag, exert stronger influences on perceived reporting quality than firm size alone.

Table 5 presents the frequency distribution for Q16, which asked whether the status of the audit firm influences audit quality. A substantial majority 68.2% of respondents agreed or strongly agreed, providing strong subjective validation of the regression finding.

Table 4. Summary of Linear Regression Results: Auditor Independence and Financial Reporting Quality

Independent Variable	R	R^2	t-value	Sig.	Decision
Auditors' Incentives	0.577	0.333	7.338	0.000	Significant
Audit Report Lag	0.925	0.856	25.333	0.000	Significant
Auditors' Tenure	0.931	0.866	26.453	0.000	Significant
Status of Audit Firm	0.414	0.171	4.720	0.000	Significant
Audit Client Size	0.577	0.333	7.338	0.000	Significant

Note. Source: Author's computation (2025). Dependent variable: Financial Reporting Quality. Statistical significance at $p < 0.05$. All models significant at the 0.000 level.

5.5 Audit Client Size and Financial Reporting Quality (H5)

Hypothesis 5 examined the relationship between audit client size and financial reporting quality. The regression yielded $R^2 = 0.333$, identical to the model for Auditors' Incentives, with a statistically significant ANOVA ($F = 53.844$, $p < 0.000$) and a regression coefficient of 7.338 ($p < 0.000$). The null hypothesis (H05) was rejected, confirming that Audit Client Size has a significant effect on Financial Reporting Quality.

This finding is consistent with the view that economically important clients exert disproportionate influence on auditor behaviour, potentially compromising independence (Lambe et al., 2021; Reynolds & Francis, 2021). Respondents in this study agreed broadly that auditors are more susceptible to management pressure from larger clients, a perception that reflects the real structural vulnerability created when a single client represents a significant portion of an audit firm's revenues. The implication is that portfolio diversification among audit firms, and strong audit committee oversight at listed firms, are important structural safeguards against client-size-driven independence impairment.

Table 5. Frequency Distribution: Status of Audit Firm Influences Audit Quality (Q16)

Response Category (Q16: Status of Audit Firm Influences Audit Quality)	Frequency	Percent
Strongly Agree	56	50.9%
Agree	19	17.3%
Undecided	4	3.6%
Disagree	21	19.1%
Strongly Disagree	10	9.1%
Total	110	100.0%

Note. Source: Field Survey (2025). N = 110. Q16: "Status of Audit Firm influences quality of audit."

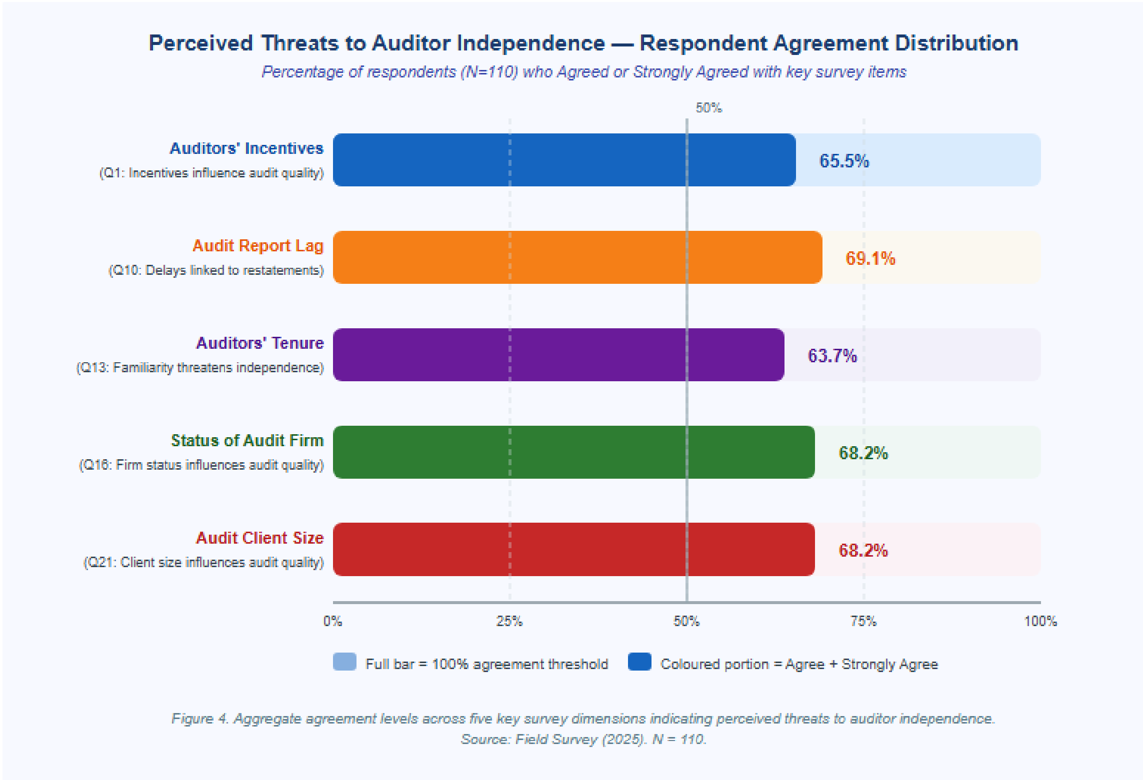

Figure 4. Aggregate agreement levels (Strongly Agree + Agree) across five key survey dimensions, indicating the relative strength of perceived threats to auditor independence.

6. Conclusion and Recommendations

6.1 Conclusion

This study set out to empirically examine the effect of auditor independence on the quality of financial reporting among listed manufacturing firms in Lagos State, Nigeria. Drawing on primary survey data from 110 respondents across five NGX-listed manufacturing firms, and anchored in agency theory, stakeholder theory, stewardship theory, and the theory of inspired confidence, the study tested five hypotheses, each operationalising a distinct dimension of auditor independence.

All five null hypotheses were rejected at the 5% level of significance. Auditors' Tenure (R^2 = 0.866) and Audit Report Lag (R^2 = 0.856) emerged as the most powerful predictors of financial reporting quality, suggesting that the duration and timeliness dimensions of audit engagements carry the strongest implications for reporting credibility within the Nigerian manufacturing sector. Auditors' Incentives and Audit Client Size each explained 33.3% of the variance in reporting quality, while Audit Firm Status, though statistically significant, contributed modestly (R^2 = 0.171), suggesting that Big Four affiliation is a necessary but not sufficient condition for quality financial reporting.

These findings confirm that auditor independence is multidimensional and that no single dimension fully captures its influence on reporting quality. Effective governance of auditor independence must therefore address incentive structures, reporting timeliness, relationship tenure, firm capability, and client economic importance simultaneously. This is especially critical in Nigeria, where corporate scandals and investor confidence deficits continue to challenge the credibility of audited financial statements.

6.2 Recommendations

Based on the findings, the following recommendations are advanced. First, the Financial Reporting Council of Nigeria (FRCN) and the Institute of Chartered Accountants of Nigeria (ICAN) should strengthen the mandatory audit partner rotation framework and enforce maximum tenure limits that balance expertise accumulation with independence preservation. Second, the Securities and Exchange Commission (SEC) should prescribe maximum acceptable audit report lag periods for listed manufacturing firms, with penalties for undue delays that are not attributable to exceptional audit complexity. Third, audit committees of listed firms should implement portfolio concentration limits for audit engagements, ensuring that no single client accounts for a disproportionate share of an audit firm's revenues. Fourth, audit firms should develop transparent, performance-based incentive structures that reward quality over compliance, mitigating the perverse effects of fee-based compensation pressures. Finally, corporate boards should actively support the issuance of unbiased, transparent audit reports, insulating the audit function from political pressure and managerial influence.

6.3 Suggestions for Future Research

Future research should extend this study's sample to include a broader range of industries and a larger number of listed firms, to enhance the generalisability of findings. Longitudinal designs that track changes in audit quality over multiple reporting cycles would provide richer insights into the dynamics of the auditor-client relationship. Comparative studies across Nigerian industry sectors, including pharmaceuticals, telecommunications, and insurance, would shed light on the extent to which sector-specific characteristics mediate the relationship between auditor independence and reporting quality. Additionally, studies that incorporate objective audit quality measures (such as discretionary accruals and audit opinion modifications) alongside subjective perceptual measures would strengthen the evidentiary base for policy recommendations.

Funding: This research received no external funding.
Conflicts of Interest: The authors declare no conflict of interest.
Publisher's Note: All claims expressed in this article are solely those of the authors and do not necessarily represent those of their affiliated organizations, or those of the publisher, the editors and the reviewers
Artificial Intelligence (AI) Use Disclosure: The authors declare that no artificial intelligence tools were used in the preparation of this manuscript.

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