



AUDIT FIRM ATTRIBUTES AND FINANCIAL REPORTING QUALITY OF LISTED DEPOSIT MONEY BANKS IN NIGERIA

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Abstract

This study examines audit firm attributes and financial reporting quality of listed Deposit Money Banks (DMBs) in Nigeria for the period of thirteen years, 2011-2023. The study adopted correlation research design and a census sample of 13 listed deposit money banks (DMBs) on the floor of Nigerian Exchange Group as at 31st December, 2023. Secondary data from the firms' annual audited financial reports of the sampled banks was used. The data was analyzed using the multiple regression model. From the use of a Panel Corrected Standard Errors (PCSEs) the results reveal that, audit firm tenure was significantly positive on financial reporting quality of listed DMBs in Nigeria at 10% significance threshold. Whereas, audit firm compensation and audit firm size were insignificantly positively on financial reporting quality of listed DMBs in Nigeria. Based on the findings, the study recommended that, listed DMBs in Nigeria should reduce the period of rotation of audit firms. In addition, banks should not pay unnecessarily high fees to audit firms with the expectation that it will result to high quality financial report.

Keywords: audit firm attributes, financial reporting quality, listed deposit money banks, Nigeria

1. Introduction

The lack of quality in financial reporting negatively impacts its credibility, leading to poor investment decisions, corporate failures, and jeopardizing the accounting profession. It hinders trust and confidence in using financial reporting information (Yayangida, et al., 2023). Financial reporting quality is of great important and concern to all stakeholders of banks around the globe. According to Kantudu and Alhassan (2022), financial reporting is a principal means of communicating the results of transactions and events which transpired within the organization to the outsiders which enables them to use such information in assessing the economic performance and condition of a business as well as a guide them towards making informed economic decisions.

Prior studies have shown that audit quality prevents earnings management activities in firms. However, recent audit failures have occurred after such audits were carried out, including the big-4 audit firms, casting doubt on whether audit quality measured by audit firm size leads to FRQ. Apart from the Enron, Worldcom and Xeron cases in the last two decade, there are more recent cases of accounting scandals and audit failures which have brought the issue to forefront. For instance, Wirecard, a German company, faced its debacle in 2020. It was reported that €1.9 million which apparently never existed, were found missing. The CEO was arrested and the firm filed for insolvency. Carillion went into liquidation in 2018 having divested an investment worth 2 billion pounds. Of major concern to stakeholders was the role of KPMG as the auditor, for failing to spot the grey areas that indicated that the going concern of the company was in doubt (Yeng & Oppong, 2024). Similarly, Deloitte another big-4 auditor was fined a record \$19M by the Financial Reporting Council in UK over



serious and serial failures in its audits of software firm Autonomy (Yayangida, et al. 2023).

The fundamental aim of financial reporting quality (FRQ) is to assist stakeholders in investment decision making that yields the highest possible returns with a considerable level of risks. This is done through proper evaluation of investment opportunities to examine the quality and authenticity of an entity's current and future performance which provides a platform for effective prediction of expected yields in owner's funds and assets increase. According to Zukbee and Williamson (2024), quality financial reporting improves the investment climate and fosters competitive business development it is also a key device in protecting the interest of the public. However, inefficiencies on the part of management and the fact that financial statements do not show the true situation and financial position of the organization have been jeopardizing the decisions of prospective investors (Imafidon et al., 2023). This is one serious challenge facing organizations, because sanctity of financial statement as well as the confidence of stakeholders, rest on the auditors, who are saddled with responsibilities of addressing these issues through efficient and effective execution of their audit assignment, to promote quality of financial reports.

In this regard, Chu Dai and Zhang (2018) asserted that the more auditor's tenure increases, they gain more client-specific knowledge, the accuracy of earnings projections improves and lower the estimated costs of any misstatement, especially overstatement. Hiring the same audit firm for a long time is beneficial. Longer audit tenure enables the audit firm to become more familiar with the client's business and environment, thus making the audit process seamless. (Kim, et al., 2023). With regards to audit firm tenure, the studies of Olaoye and Akintayo (2021) and Adeyemi et al. (2023) proves that audit firm tenure is capable of positively influencing the financial reporting quality of firms. However, the study of Atokpe and Jeroh (2024) reported that audit tenure does not significantly influence financial reporting quality of firms.

Another variable for this study is audit fees. Notably, audit fees and financial reporting quality have dynamic relationship within the realm of corporate governance and financial transparency. Prior researches findings have suggested that efforts at raising audit fees decreases accounting manipulations and improves financial reporting quality (Bala et al., 2018; Bhuiyan, et al., 2020). Opposed to these arguments, Karsemeijer (2012) believes that higher audit fees increase the level of economic bonding between auditors and their clients, thus, reducing the level of auditors' professional independence and quality. Lower fees sometimes increase clients' loyalty to auditors since the amounts charged as fees may be below the average market rates. Such loyalty may culminate into auditors tolerating managements' misstatements or possible aggressive accounting practices that may have negative effect on financial reporting quality.

The audit firm size is a cautious indicator of audit quality. According to El Guindy and Trabelsi (2020), audit quality might rise in tandem with audit company size since it is assumed that the larger the audit firm, the more resources accessible them to undertake the audit service. Audit firm size is a concept that describes the magnitude or scale of identifiable audit firms which in most cases are measured with factors like annual revenue, the number of employees or audit professionals, market share, number of clients, resources at the disposal of the audit firms or their geographical presence. Audit firm size is synonymous to audit firm's reputation as the big audit firms (Deloitte, KPMG, Ernst and Young and PwC) are considered in the audit market as reputable.

Banks plays a financial intermediation role between the surplus sector and the deficit sector of an economy, especially in emerging economies like Nigeria. In the recent past, deposit money banks (DMBs) in Nigeria have undergone restructuring. The various restructuring has resulted in the takeovers and mergers of some of the deposit money banks due to their operational and financial performance problems. The operational and financial performance of banks is usually reported in the



audited financial reports. This argument connotes that audit procedures in generating audited financial statements should meet the required standards. Thus, the need to ensure that banks' audit procedure is correctly done to avoid misappropriation and incidence of fraud.

Financial reporting quality is a critical component in ensuring the integrity and stability of financial institutions (Emanuel- Daferighe 2020). The recent failure of major corporations because of fraud and dubious financial reporting practices have highlighted the critical importance of credible, high-quality financial reporting (Slyvia, 2021). Financial reporting practices in Nigeria have been shaped by significant reforms, including the adoption of International Financial Reporting Standards (IFRS) in 2012, several key regulatory and practical challenges, economic conditions, policy adjustments, technological shifts, regulatory adjustments and digital transformation which introduces an open banking framework in 2023 that encouraged secure data sharing between banks and fintech firms, spurring innovation in financial services. Other recent developments in the banking sector in Nigeria included macroeconomic pressures, resulting to persistently high inflation and limited foreign exchange availability, which impacted loan repayment capabilities and constrained international banking operations.

Furthermore, the studies of Kajola, et al., (2023) covering a period from 2007-2018; Oladejo (2022) covering a period from 2008-2018; Oyebamiji (2022) covering a period from 2008-2018; Jerry and Saidu (2020) covering a period from 2008-2015; Kajola, et al., (2020) covering a period from 2007-2018 and Yiosese (2020) covering a period of 2013-2018 had different time scope with the current study which covers a period up to 2023. Most of the existing literature fails to capture these recent developments in the banking sector. The dynamic nature of Nigeria's banking environment underscores the need for a more up-to-date and comprehensive analysis. This study addresses these gaps by investigating the relationship between audit firm attributes and financial reporting quality, using data from 2011 to 2023. By incorporating a more recent and extended time frame, it aims to provide fresh insights into the interplay of audit attributes in enhancing FRQ in the Nigerian banking sector. The findings will contribute to practical recommendations on audit practices in developing economies.

Also, some accounting researchers have tried to examine the effect of variety of audit attributes on financial reporting quality of DMBs. These studies examined the direct interaction between audit attributes and financial reporting quality producing results that are inconsistent. While others found audit firm attributes to have positive effect on bank's financial reporting quality, others found a negative impact. Based on this lack of consensus on their findings motivated the need for further research.

2. Literature Review

This section discusses, reviewed and developed concept of financial reporting quality, as the dependent variable and audit firm attributes (audit firm tenure, audit firm compensation and audit firm size) as the independent variables. Empirical reviews were also made and theories underpinning the study also discussed and presented.

Conceptual Issues

Concept of Financial Reporting Quality

The conceptual definition of financial reporting quality is the precision with which financial reporting provides useful information about a firm's performance and its expected cash flows for investor decisions (Shuraki et al., 2020). Atokpe and Jeroh (2024) define financial reporting quality as to the extent to which financial information accurately and reliably represents the underlying economic reality of reporting entities. The quality of financial reporting refers to the quality of the information contained in the financial reports, including the notes (George & Raphael, 2023). Aroyewun and



Gwamna (2022) defined financial reporting quality as the presentation of financial statement in such a way that it is free of misstatement, presenting the true and fair financial performance of an organizations to enable stakeholders make a sound business decision. Shan and Troshani (2021) described financial reporting quality as financial reports that are impartial, error free, comprehensive, and comparable, with high degree of predictive and confirmatory value. Financial reporting quality is a report on a company's financial condition, which may decrease due to the funder's understanding of accounting (Irwandi & Pamungkas, 2020). The proxy for financial reporting quality for this study is loan loss provision measured in line with (Chang et al 2008).

Concept of Audit Firm Tenure

Atokpe and Jeroh (2024) audit tenure is the period or consecutive years of engagement of audit firms by identifiable companies for the conduct of statutory audits. According to George, et al. (2023), audit tenure is the length of the audit client relationship, measured in years. Audit firm tenure is defined by Aroyewun and Gwamna (2022) as total the length an auditor is appointed by a firm to audit its financial report over a given period of time. The audit period is the time of the audit relationship between the audit firm and the client, which is related to previously agreed audit services, and can also be interpreted as the length of the audit relationship being the length of the relationship between the auditor and the client or the length of the auditor relationship. Enyinna, et al. (2023) affirms that longer auditor-client relationships improve audit quality because the auditor gets to know more of his client over a period of time. This implies that there is low audit quality during the early period of the auditor-client relationship and as the period of relationship increases, the audit quality also tends to increase and this is also as a result of the decrease in information gap between the client and the auditor. This study therefore, conceptualized audit firm tenure as the duration upon which an audit firm stays with a client in an engagement. Audit firm tenure is also measured in this study as dichotomous variable, assigning 1 to entities that rotate audit firm and value 0 for entities that did not rotate audit firm in a given period.

Concept of Audit Firm Compensation

According to Atokpe and Jeroh (2024) audit compensation is the totality of charges for professional services rendered by independent and registered accounting firms for the statutory audit of, and/or review of comparative interim financial statements of companies. Izevbekhai and Momodu (2024) defines audit compensation as the amount the auditor charges for completing an audit assignment. Audit compensation is the total cost of audit paid to external auditors or audit firms as a remuneration for the audit services provided to business firms by those auditors or audit firms (Aroyewun & Gwamna, 2022). Daferighe and George (2020) defined audit compensation as monies expended on audit engagement by the management of a company. In another definition, Erasmus and Micah (2021) define audit fees as a direct payment made to the auditor that relates directly to the audit function, non-audit fee is concerned with payments for other non-audit services rendered by the auditor. This study defined audit compensation as the total compensation paid to external auditors or an audit firm as a remuneration for all services provided to a client. Audit firm compensation as a variable in this study is measured as the total compensation given to an audit firm for all services rendered in a period.

Concept of Audit Firm Size

Atokpe and Jeroh (2024) sees audit firm size as a concept that describes the magnitude or scale of identifiable audit firms which in most cases are measured with factors like annual revenue, the number of employees or audit professionals, market share, number of clients, resources at the disposal of the audit firms or their geographical presence. Audit firms can be broadly classified into two groups



based on area of coverage, number of employees, level of financial and material resources, presence in different nations of the world. The classification is namely; the big 4 firms (Deloitte, KPMG, Ernst and Young and PwC) and the non-big 4 firms (others): Big 4 auditors are considered reputable due to their size and non-Big 4 auditors considered also small and non-reputable (Boulila et al., 2014). Big 4 auditors are argued to provide better quality audits than non-Big 4 auditors (Boulila et al., 2014). Audit firm size is defined in this study as big 4, representing reputable firms with huge material resources, professional skills and competence that earned them respect and preference in the audit market and the non-big 4 firms as others. Audit firm size is measured in this study as dichotomous variable that is, using unit 1 to represent entities that are audited by the Big-Four audit firms, and 0 to represent entities that are audited by a non-Big-Four auditing firms.

Review of Related Empirical Studies

Atokpe and Jeroh (2024) examined the influence of audit firm attributes on the quality of financial reporting among consumer goods companies in Nigeria by obtaining empirical evidence from a ten-year period (2013-2022). Relevant data were sourced from sampled firms published annual reports. Panel logistic regression analysis was used for the analysis of the data. Overall, the analytical outcome indicated that apart from joint audit, audit firm size, fees and tenure are not significant determinants of the nature of the quality of financial reports of listed consumer goods firms in Nigeria. It was recommended that auditee firms should institute stringent but well-regulated engagement policies for auditors that will regulate the pricing, tenure and the nature/type of auditors that would be engaged from time to time. Also, since the amount of audit fees does not guarantee high reporting quality, auditee firms should be discouraged from paying very high fees for audit service.

Zukbee and Williamson (2024) study examined the relationship between audit quality and the relevance of financial reporting in Nigerian consumer goods manufacturing companies that are publicly listed. The research adopted a correlation research approach, assessing a sample of thirteen publicly listed manufacturing companies operating in the consumer goods sector over a span of seven years (2012-2018). Ordinary Least Square regression technique was used to analyze a pool of panel data extracted from the published annual reports of the sampled organizations. The findings showed a weak association between audit quality measured by audit fee and value relevance of the sampled organizations' financial reports. The implication is that audit fee does not necessarily guarantee the relevance of financial statements numbers. Based on the results obtained, the study recommended that audit fee should be adequate enough to guarantee the auditor's independence and objectivity which are integral quality of external auditor.

Ganesan, Shaharudin, Sadaa, Narayanan, Sharma, and Haron (2024) examines the effect of audit characteristics on financial reporting quality and the role of audit quality as a mediator. The study adopted 201 companies listed in Malaysian Bursa from 2017 to 2019 to achieve our objective. The study used STATA to analyze the data to estimate the effect proposed in the hypotheses. Findings show that only audit fees affected financial reporting quality positively. At the same time, audit fees and company size have positively influenced audit quality. On the other hand, audit quality has improved the link between audit characteristics and financial reporting quality since the results show a positive effect of audit tenure, audit fees, and audit company size on financial reporting quality through the mediator.

Izevbekhai and Momodu (2024) investigates auditor independence and financial statement quality. The secondary source of data collection was adopted in the study where the purposive sampling technique was used to select a sample size of seventy-five (75) non-financial firms listed in the Nigerian Exchange Group. The ex-post factor research design was also used due to the fact that the variables



cannot be manipulated by the researcher. Ordinary Least Square regression method was used to analyze the variables in this study using STATA. The findings revealed that audit tenure has significant effect on financial statement quality of listed non-financial firms in Nigeria and that joint audit has no significant effect on financial statement quality of listed non-financial firms in Nigeria. The study recommends among others that firms in Nigeria should endeavor to pay the right audit fee required in other to enable the engagement of audit firm that is independent from influence.

Akombende and Chukwu (2024) investigate the effect of audit characteristics on financial reporting quality of listed deposit money banks in Nigeria. The data for the study was collected from four (4) sampled deposit money banks for the period 1999 to 2021. These data were analyzed linear multiple regression. Results from the test revealed that audit fee and audit tenure have negative and significant effect on financial reporting quality; while audit firm size showed positive and significant effect on financial reporting quality of listed deposit money banks in Nigeria. The study recommended that big audit firms, adequate audit tenure and audit fees should be encouraged to improved financial reporting quality of the banks.

Yeng and Oppong (2024) examines the effects of audit independence on financial reporting quality in the Sub-Sahara African Stock Markets. Using quantitative data obtained from the annual financial reports of 106 listed firms in the 6 sub-Saharan African stock markets of ten-year period (2012 to 2021). The Ex-post factor research design was considerably suitable for the study. The result shows that audit tenure has a positive impact and is significant in explaining financial reporting quality. The results further show that audit firm size has a positive impact but is insignificant in explaining financial reporting quality. Audit fees were found to have a positive and significant impact on. It was recommended that listed firms should increase audit tenure and policies on audit tenure should be revised and recommended that firms should carefully assess the audit report of previous auditors when determining whether to appoint a new auditor.

Amponsah, et al. (2024) examines the roles of audit rotation and size of audit committee in enhancing audit quality among non-financial firms that are publicly traded on the Ghana Stock Exchange. An explanatory research design was employed and the two-step system generalized method of moments (GMM) was utilized on a sample of 19 firms. The study found that audit rotation harms audit quality. In addition, larger audit committees have a positive impact on audit quality. In addition, the study discovered that larger audit committees can moderate the negative consequence of audit rotation on audit quality. The study recommends that policymakers consider revisiting regulations regarding mandatory audit rotation to ensure that they do not harm audit quality.

Kajola, et al. (2023) examined the influence of audit firm characteristics on quality of financial reports of eleven Nigerian deposit money banks for financial years, 2007 – 2018. The study employed Random effects generalized least squares as analytical tool. Regression results revealed a negative and significant relationship between audit firm characteristics (audit fees, joint audit) and earnings management. For quality financial reports to be achieved, it is recommended that relevant regulatory bodies in Nigeria should mandate management of deposit money banks and other financial institutions to engage services of bigger audit firms with requisite skills, professional experience and reputation. Joint audit should also be encouraged because of its added advantage of objective financial reporting over that of a single firm. The study recommends that rotation of audit firm after three years of client engagement is not sufficient to guarantee reduction in earnings management.

Yayangida, et al. (2023) examines the moderating role of audit committee's independence on the effect of audit fees and the financial reporting quality of listed non-financial services firms in Nigeria. The study employed 30 non-financial services firms listed on the Nigerian Exchange Group over a period of 11 years from 2011 to 2021. The data was handpicked from the annual financial reports



of the sampled companies. Descriptive statistics and multiple regression analysis techniques were used for data analysis. Findings revealed that audit fee does not have a direct effect on financial reporting quality of listed non-financial services firms in Nigeria. However, the effect of audit fees on financial reporting quality is statistically significant when moderated by audit committee's independence. Based on the findings, the study recommended that more independent directors should be included in the audit committee of listed non-financial services firms in Nigeria. Regulators, shareholders, boards of directors, chief executive officers would benefit from the findings of this study especially in policy and decision-making purposes.

Ogechukwuka and Frank (2023) examines the relationship between the firm attributes and financial reporting quality of listed consumer goods firms in Nigeria. The study employed secondary data from the published financial records of a sample size of 12 consumer goods firms listed in Nigeria over a period of 10 years spanning 2012 to 2021. The dataset was analyzed using the descriptive statistics, diagnostic tests and inferential statistics. The findings of the study revealed that board composition and firm growth have significant impact on financial reporting quality of listed consumer goods firms in Nigeria. Again, firm size and profitability have insignificant relationship with financial reporting quality of listed consumer goods firms in Nigeria. The findings indicated that collectively the firm attributes measures examined in this study have significant association with financial reporting quality of listed consumer goods firms in Nigeria. Thus, the study recommended that listed consumer goods firms in Nigeria pay attention to the potential negative impact of firm size and board size on financial reporting quality.

A study by Enyinna and Umogbai (2023), examines the impact of audit rotation and auditor's independence on financial reporting quality in Nigeria. Survey design was adopted and data was primarily collected from users of financial statements and accountants. Data collected was analyzed using descriptive statistics. The results revealed that external auditor's independence has a strong positive correlation with financial statements quality and audit firm rotation has a strong positive correlation with external auditor's independence. The study recommended that in order to attain high quality financial statements audit firm rotation should be codified to limit the tenure of audit firm in a single client to 2 years.

Baffa, Lasisi and Ojo (2023) assesses the value relevance of the tenure of auditors and size of audit firm by using empirical data from actively traded firms on the floor of Nigerian Exchange Group. Data for the study were obtained from the published annual reports and accounts of 124 quoted companies in Nigeria from 2012 to 2021. The Ohlson's 1995 price model quantitative approaches such as descriptive statistics, correlation, and panel corrected standard errors regression analysis were used in analyzing the data for the study. Findings of the study indicate that auditor tenure and audit firm size led to significant positive influence on market reaction in the first month after the release of annual reports and accounts of sampled firms. This means that, auditor tenure and audit firm size were found to be value relevant to users of accounting information in Nigeria. The study recommends that investors should consider the audit tenure and auditors size when making investment decisions.

George and Raphael (2023) ascertained the effect of audit tenure on the financial reporting quality of listed non-financial firms in Nigeria. Ex-Post Facto research design was deployed in the study while the sample size was 23 listed non-financial firms. Data were collected from the annual reports of the purposive sample for a ten-year period 2012 to 2021. Ordinary Least Squares were used to estimate the regression coefficients. The findings revealed that audit tenure has a positive but non-significant effect on the quality of accruals of listed non-financial firms in Nigeria. The study recommends that given that the benefits of longer audit tenure may be offset by the risks of familiarity and complacency, companies should consider limiting audit tenure to enhance independence and



objectivity. Regulators may also consider implementing mandatory audit rotation policies to reduce the risks of familiarity and bias.

Theoretical Review

The study used the agency theory and the theory of inspired confidence as the underpinning theory linking users of the financial statements such as shareholders and the management through which the financial statements are provided and audit firms that plays significant role in ensuring quality of financial reporting. Jensen and Meckling propounded the agency theory in 1976 which stipulates how Shareholders called the principal, appoints the management also referred to as the agent to manage the affairs of the entity on their behalf. According to Habbash, (2010) agency theory was designed to provide some sort of control mechanism in order to mitigate against the conflict of interest arising from agency arrangement. This means separation of ownership from management due to conflict of interest usually associated with this arrangement, accountability becomes paramount.

The theory of inspired confidence, also called the theory of rational expectations, was propounded by Limperg (1932). The theory hinges on the link between the stakeholder's requirement for a sound and credible financial report and the professional competence of the audit firm and the processes that guarantees the expected needs of users. The theory was built on the premise that the auditor, as a professional is driven by the expectation for independent assessment plus independent judgment supported by evidence. The framework explains how auditors are duty bound to conduct auditing in a manner that does not betray the confidence bestowed on them by the rational person based on public expectations. Audit provides assurances and confidence to all stakeholders on the credibility of financial reporting.

The reason for adopting agency cost theory as an under-pinning theory stem from the fact that the agency theory is related to the independent variables (audit firm attributes) and the critical needs of users motivated by the dependent variable (Financial report quality). Similarly, the adoption of the theory of inspired confidence as an under-pinning theory arises from the fact that there's huge expectations placed on the external auditor to combine certain attributes that can ensure credibility in the financial reports. The proxy for the audit firm attributes in this study includes audit firm tenure (AUDT), audit firm compensation (AUDC), and audit firm size (AUDFS) as independent variables through which the financial reporting quality could be achieved.

3. Methodology

The research design for this study is correlational research design. This design is chosen because it provides how two or more variables are related to one another, what they share or have in common, while at the same time, predicting a particular outcome based on certain information provided (Salkind, 2012). Thirteen (13) listed Deposit Money Banks (DMBs) were selected using census sampling technique as the sample size of the study, out of the fourteen listed DMBs in the Nigerian Exchange Group (NGX) as at 31st December, 2023 (See Appendix 1). The study used only the banks that were present on the NGX throughout the study period and have available data to ensure a balanced panel data set. The study used secondary data from the audited financial statement of listed DMBs for the period of thirteen years (2011-2023). The study employed a multiple regression technique to analyze the data and to establish the relationship between the dependent and independent variables. Multiple regression model is considered appropriate because it helps in establishing relationship between variables and also shows the effect and causes of their relationships.



Variable Measurement

The formulas used in measuring the variables of this study are presented in table 2 below:

Table 1

Variable Measurement

Variables	Measurement	Sources
Dependent Variable		
Financial Reporting Quality (FRQ)	Measured by loan loss provision.	Chang et al. (2008)
Independent Variables		
Audit Firm Tenure (AUDT)	Measure using dichotomous variable, 1 if there is a change in audit firm during a year and 0 otherwise.	Usman (2014)
Audit Firm Compensation (AUDC)	Measure as a ratio of total compensation to an auditor at the end of accounting period to total assets of the firm.	Usman (2014)
Audit firms Size (AUDFS)	Measured using dichotomy 1 if audited by any of the big4 (Deloitte, PWC, Ernst & Young and KPMG) audit firm and 0 if otherwise).	Umar (2014)

Source: Researcher's Compilation, 2024

Model Specification

The study specified the model as thus:

$$FRQ_{it} = \beta_0 + \beta_1 AUDT_{it} + \beta_2 AUDC_{it} + \beta_3 AUDFS_{it} + \varepsilon_{it} \dots \dots \dots \text{Equation 1.}$$

Where: FRQ = Financial Reporting Quality, β_0 = Constant, β_1 – β_3 = Coefficient of independent variable, ε = Error Term, I = Firms, t = Period, AUDT = Audit Firm Tenure, AUDC = Audit Firm Compensation, AUDFS = Audit Firm Size

4. Result and Discussion

This section presents and interprets the results obtained from the data analysis. It begins with descriptive statistics, correlation matrix and then presents the regression results.

Descriptive Statistics

The summary of the descriptive statistics of the variables are presented in Table 2.

Table 2

Descriptive Result

Variables	Min	Max	Mean	SD	Kurtosis	Skewness
FRQ	0.0009	4.1483	0.2297	0.4713	55.2676	6.8735
AUDT	0	1	0.1183	0.3239	6.5842	2.3631
AUDC	0.0002	0.5928	0.0704	0.0887	10.1043	2.2536
AUDFS	0	1	0.9527	0.2129	19.1747	-4.2632

Source: Extracted from STATA Output



The table 2 above revealed that the average loan loss provision ratio is approximately 0.2297. This value represents the typical provision banks are setting aside for loan losses relative to their loan portfolios. The range is quite large, spanning from 0.0009 to 4.1482. This wide range suggests considerable variability among banks in how they report loan loss provisions. A standard deviation of 0.4713 is relatively high given the mean of 0.2297, further suggesting significant variability in LLP practices across banks. A positive skewness of 6.8735 suggests a highly right-skewed distribution, meaning most banks report relatively lower LLP ratios, but a few reports extremely high values. The kurtosis value is unusually high at 55.268, which suggest that, while most banks have modest LLP ratios, there are some instances of exceptionally high LLP, which could be due to banks with large anticipated loan losses or different reporting practices.

The mean result is 0.1183 indicating that about 11.83% of the banks experienced a change in audit firm during the period. This suggests that audit tenure changes are relatively uncommon among the banks observed. Minimum value is 0 and Maximum value is 1. Since the variable is dichotomous (0 or 1), a minimum of 0 means there are instances where the audit firm did not change, while a maximum of 1 means there are instances where it did. A standard deviation of 0.3239 in a dichotomous variable suggests that changes in audit firm happen infrequently and are not widespread across the sample. Kurtosis is 6.5842 which indicates that the distribution is heavily tailed. The positive skewness means the distribution leans to the right. The data is, therefore, asymmetrical, with a higher frequency of 0's than 1's.

For audit firm compensation, the table shows a mean value of 0.0704 indicating that on average, audit fees make up about 7.04% of the bank's total assets. The minimum value of 0.0002 suggests that there are instances where audit compensation is almost negligible relative to total assets, while the maximum value of 0.5927 indicates that for some banks, audit compensation is a substantial expense compared to their total assets. The standard deviation of 0.0887 shows a moderate degree of variability in audit fees as a proportion of total assets. A kurtosis value significantly greater than 3 (the kurtosis of a normal distribution) indicates a heavy-tailed distribution. Positive skewness suggests a right-skewed distribution. This asymmetry could reflect a market trend where only a small subset of banks (likely larger or more complex ones) incurs high audit fees.

Table 3 also reveals that the mean of audit firm size has an average value of 0.9527, indicating that 95.27% of the banks in the sample are audited by a Big 4 audit firm (Deloitte, PwC, Ernst & Young, or KPMG). The minimum value of 0 indicates that some banks are audited by non-Big 4 firms, while the maximum value of 1 indicates Big 4 audits. A standard deviation of 0.2129 reflects that there is some variability, though small, in the use of Big 4 audit firms. The very high kurtosis suggests a leptokurtic distribution, where most banks cluster around the mean value of 1 (indicating Big 4 audits). The negative skewness indicates that the distribution leans heavily to the left, with most values concentrated near 1 (Big 4 audits).

Correlation Matrix

The correlation matrix explains the degree of relationship between the dependent and independent variables of the study.



Table 3
Correlation Result

	FRQ	AUDT	AUDC	AUDFS
FRQ	1.0000			
AUDT	0.1152	1.0000		
AUDC	0.1056	0.0020	1.0000	
AUDFS	0.0189	0.0817	-0.2668	1.0000
	0.8076	0.2912	0.9005	

Source: Extracted from STATA Output

In the table 3 above, the correlation coefficient of 0.1152 indicates a weak positive relationship between audit firm tenure and financial reporting quality. This suggests that as the tenure of an audit firm increases, financial reporting quality may slightly improve, but the relationship is not strong. However, the p-value of 0.1359 is greater than the common significance levels (0.1). This implies that the observed correlation is not statistically significant, and we cannot confidently conclude that a real relationship exists between these variables based on this data. The correlation coefficient of 0.1056 suggests a very weak positive relationship between audit firm fees and financial reporting quality among listed banks in Nigeria. This indicates that higher audit fees might be slightly associated with better financial reporting quality, but the relationship is not strong. The p-value of 0.1719 is well above common significance thresholds (0.1), meaning this relationship is not statistically significant. The correlation coefficient of 0.0189 indicates an almost negligible positive relationship between audit firm size and financial reporting quality of listed banks in Nigeria. This suggests that changes in audit firm size have virtually no association with financial reporting quality. The p-value of 0.8076 is far above typical significance levels (0.1), indicating that the observed correlation is not statistically significant.

Regression Analysis

Table 4 below presents the summary of regression result.

Table 4
Regression Result

Variable	Coefficient	Z-Value	P-Value
FRQ	0.0811	0.15	0.883
AUDT	0.1624	1.70	0.090
AUDC	0.6176	0.81	0.415
AUDFS	0.0902	0.16	0.870
R ²	0.0811	0.15	0.0259
Wald Chi ²			3.15
Prob. Chi ²			0.3688

Source: Extracted from STATA Output 2024



In Table 4 it was reported that the estimates from the regression analysis that was carried out by regressing audit firm attributes and financial reporting quality shows a Wald- χ^2 value of 3.15 and probability chi value of 0.3688 indicates that the model is statistically insignificant and not fitted. Additionally, the R-squared (R^2) of the regression model is 0.0259 implying that about 2.59 percent of the audit firm attributes variables are jointly explaining the variations in financial reporting quality of the listed deposit money banks in Nigeria while the remaining percentage are explain by other variables not capture in this model.

Discussion of Findings

Audit Firm Tenure and Financial Reporting Quality

Based on the regression result in Table 4, audit tenure has a coefficient value of 0.1624 and a significant p-value of 0.090 which is significant at 10% level of significance. This implies that audit firm tenure is positively and significantly influencing the financial reporting quality of listed DMBs in Nigeria. This signifies that for every increase in tenure of auditors, the quality of the banks report will also increase by 16.24%. This result shows that there is a significant relationship between audit firm tenure and financial reporting quality of listed DMBs in Nigeria. The result agreed with prior studies of Baffa, Lasisi and Ojo (2023); Oyebamiji (2022); Odubuasi, Amahi and Kainene (2022); Soroushyar (2022) and AlRajabi & Warrad (2017). Conversely, the study did not agree with the findings of Kalabeke et al. (2019); Onyabe, et al. (2018) and Qawqzeh et al. (2018).

Audit Firm Compensation and Financial Reporting Quality

Furthermore, audit firm compensation found a statistical positive but insignificant impact on financial reporting quality of listed deposit money banks in Nigeria with coefficient value of 0.6176 and a p-value of 0.415 respectively. This signifies that audit firm compensation is statistically positive and insignificantly influencing the financial reporting quality of listed DMBs in Nigeria. The study finding is in tandem with study of Mesbah and Ramadan (2022); Shiri, Mahmood, Ghadrhan & Hajar al-Sadat, (2019) and Ugwu, Aikpitanyi & Idemudia, (2019). But a contrary result was found with that of Ebubechukwu (2023); Odubuasi et al. (2022); Daferighe et al. (2020); *Ogungbade et al. (2020)*; *Bala et al. (2018)* and *Olanisebe et al. (2018)*.

Audit Firm Size and Financial Reporting Quality

The result reveals a positive and insignificant impact between audit firm size and financial reporting quality of listed DMBs in Nigeria. The audit firm size has a coefficient value of 0.0902 and p-value of 0.870. This indicates that audit firm size has a positive and insignificant impact on the financial reporting quality of listed DMBs in Nigeria. This implies that for every unit increase in the engagement of the services of BIG4 audit firms, quality of the financial report of the bank will also increase by only 9.02. This finding also agreed with the studies of Ogechukwuka and Frank (2023); Mesbah and Ramadan (2022); Sanni et al. (2021); Qawqzeh, et al. (2020) and Oyedokun et al. (2019). But a contrary result was found with that of Yayangida et al. (2023) Agbaje et al. (2021); Ugwu et al. (2020) and Soyemi & Olawale, (2019). Thus, the result validates the agency theory.

5. Conclusion and Recommendation

The study concluded that, audit firm tenure is found to have a positive and significant impact on financial reporting quality of listed DMBs in Nigeria. The study, therefore, concluded that audit tenure is a contributing factor to financial reporting quality of listed DMBs in Nigeria. Secondly, the study revealed a positive but insignificant relationship between audit firm compensation and reporting



quality of listed deposit money banks in Nigeria. Thus, the study concludes that fees paid to external auditors does not change the financial reporting quality of listed DMBs in Nigeria. Thirdly, the study reveals a positive and statistically insignificant association between audit firm size (BIG4) and financial reporting quality of listed DMBs in Nigeria. It is therefore concluded that the services of the BIG4 audit firm does not enhance the quality of financial reporting of listed DMBs in Nigeria.

Based on the findings of the study, the study recommends that DMBs in Nigeria should reduce the rate of rotation of audit firm as it has clearly show not be significantly influencing the financial reporting quality. The study shows that audit firm compensation does not determine the quality of financial reporting of listed reporting in Nigeria. Hence, it is recommended that banks should not pay unnecessarily high fees to audit firms with the belief that it would result to high quality financial report. High audit fee does not guarantee high quality of financial reports. Based on the positive insignificant impact of audit firm size on the financial reporting quality of listed MDBs in Nigeria, it is recommended that banks should consider engaging other on BIG4 audit firms also as it has proven that engaging the services of the Big 4 does not guarantee better financial reporting quality of listed DMBs in Nigeria.

Limitation of the Study and Area for Further Research

Like any other research, the result of the study is subject to some limitation as follows: This study focused on audit qualities that influences financial reporting quality of listed deposit money banks in Nigeria. As such the study is only limited to a particular sector, this made the findings and recommendations only applicable to deposit money banks in Nigeria. The low coefficient value of the R^2 suggest that the variables were not adequately chosen. There are still other audit quality components which the study did not cover. These include, non-audit fees, joint audit and Audit Client Importance among others. This study only examined the banking industry of the Nigerian economy. However, future research could evaluate other sectors of the Nigerian economy adopting similar methodology. Similarly, other variables not used in this study should be explored in future studies.

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APPENDIX 1

Population and Sample Size

SN	Bank Name	Year of Listing	Year Incorporated	Sample Size
1	Access Bank	1998	1989	Selected
2	Eco Bank	2006	1986	Selected
3	Fidelity Bank	2005	1987	Selected
4	First Bank of Nig. Plc.	1971	1894	Selected
5	First City Monument Bank Plc.	2004	1982	Selected
6	GT Bank Plc.	1996	1990	Selected
7	JAIZ Bank Plc.	2017	2011	Not Selected
8	Stanbic IBTC	2005	1989	Selected
9	Sterling Bank Plc.	1993	1960	Selected
10	Union Bank Plc.	1972	1969	Selected
11	UBA Plc.	1970	1961	Selected
12	Unity Bank Plc.	2005	1987	Selected
13	Wema Bank Plc.	1990	1945	Selected
14	Zenith Bank Plc.	2004	1990	Selected

Source: Nigerian Stock Exchange and Websites (2023)