



AUDITOR CHARACTERISTICS AND EARNINGS QUALITY OF QUOTED DEPOSIT MONEY BANKS IN NIGERIA

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Abstract

This study investigates the effect of auditor characteristics on the earnings quality of listed deposit money banks in Nigeria. Specifically, auditor characteristics were proxied using audit fees, auditor tenure, audit firm size, and auditor industry specialization. Employing a longitudinal research design, the study utilized panel data drawn from the published annual financial statements of all fourteen (14) commercial banks quoted on the Nigerian Exchange (NXG) Group as of January 1, 2023. A census sampling approach was adopted, covering a ten-year period from 2014 to 2023. Data were analyzed using multiple regression techniques with the aid of STATA Version 16 to test the formulated hypotheses. The empirical results indicate that audit firm size negative but significant effect on earnings quality. Auditor fees exert a positive and statistically significant influence on earnings quality, while auditor tenure and auditor industry specialization exhibit a negative and insignificant effect. Based on these findings, the study concludes that the selection of an audit firm and the magnitude of audit fees play critical roles in determining the credibility and quality of reported earnings in the Nigerian banking sector. Consequently, it is recommended that banks prioritize the reputation, sector-specific expertise, and historical performance of audit firms over firm size when engaging audit services. Emphasis should be placed on the auditors' technical competence and their capacity to uphold accurate and transparent financial reporting.

Keywords: audit size, auditor tenure, audit firm size, auditor industry specialization, earnings quality

1. Introduction

Publicly listed firms, regardless of whether they operate in developed, emerging, or developing economies, are both legally and ethically obligated to prepare and disclose financial reports. These reports serve as critical tools for investors, creditors, and other stakeholders to make informed decisions regarding resource allocation, investment, and credit assessments. However, firms often manipulate earnings to avoid reporting losses, exceed prior earnings, or meet analysts' forecasts, thereby compromising the integrity of financial statements. Despite regulatory efforts, including in advanced economies, such practices persist, raising concerns over the reliability of financial disclosures (Soyaniski, 2020). This challenge is partly attributed to managerial discretion permitted by International Financial Reporting Standards (IFRS), which allows for varying interpretations and applications of accounting methods (Toumeh & Yahya, 2019). As a result, stakeholders especially investors, creditors, and customers remain vulnerable to misrepresented earnings data (Al-Ta'amneh, 2019).

AUDITOR CHARACTERISTICS AND EARNINGS QUALITY OF QUOTED DEPOSIT MONEY BANKS IN NIGERIA

Earnings quality (EQ), a core measure of accounting information reliability, underpins investor confidence, effective capital allocation, and economic stability (Lee & Jeong, 2022). However, a rise in earnings manipulation continues to plague global markets. High-profile scandals such as those involving Hertz Global Holdings (US\$7.4 billion), Steinhoff (US\$235 million), and FTE Networks (108% revenue inflation) illustrate the magnitude of this issue which has been highlighted in several reports and regulatory updates (PricewaterhouseCoopers [PwC], 2019; Securities and Exchange Commission [SEC], 2019; 2021). Similarly, in Nigeria several cases, including Cadbury Nigeria Plc, Intercontinental Bank Plc, Afribank Nigeria Plc, and Oando Plc, have undermined public trust in corporate reporting (Lannai et al., 2021).

External audit remains one of the most important monitoring mechanisms within the corporate governance structure, promoting accountability and curbing earnings manipulation (Almasria, 2022). Auditor-related attributes such as audit firm size, fees, tenure, and industry specialization play a crucial role in determining the quality of reported earnings. Larger audit firms are generally perceived to offer higher audit quality due to their ability to attract and retain skilled professionals and to withstand litigation risks (Francis, 2011; Abozaid et al., 2020). However, contrary perspectives suggest that firm size does not necessarily equate to better supervision of earnings management, as highlighted by the Arthur Andersen case (Zhou, 2015).

Audit fees are another critical attribute, influencing auditor independence. Excessive dependence on client fees particularly from non-audit services can compromise objectivity, thereby increasing the risk of earnings manipulation. Similarly, the length of auditor tenure can affect auditor independence; prolonged relationships may lead to auditor complacency or bias, although recent literature suggests that tenure can enhance audit quality due to accumulated client-specific knowledge (Yusuf, 2020; Okoughenu & Odunsi, 2023). Auditor industry specialization is also gaining recognition in literature, as specialists are believed to deliver more effective and higher-quality audits due to their domain-specific expertise and reputational incentives (Kaoje et al., 2023).

Within the framework of agency theory, the relationship between managers (agents) and shareholders (principals) is inherently conflictual, as both parties seek to maximize their respective interests. This misalignment of incentives often leads to opportunistic behavior by managers, especially in environments characterized by weak corporate governance and ineffective investor protection conditions prevalent in emerging markets such as Nigeria. In such settings, creative accounting practices aimed at earnings management are common, culminating in the presentation of poor-quality earnings.

Given the prevalence of low-quality earnings and the critical role of external auditors in curbing this practice, there is a compelling need to investigate the influence of auditor characteristics on earnings quality in Nigeria's banking sector. While prior studies such as Sixpence and Adeyeye, (2018), Indarti and Widiatmoko (2021), Hsu and Liao (2023), Kyriakou et al. (2024), Lazarus et al., (2024) have explored earnings management, they often overlook the consequent implications on reported earnings quality. This study addresses this gap by focusing on four key auditor characteristics; audit firm size, audit fees, auditor tenure, and industry specialization and examines their effects on earnings quality. The study spans a ten-year period (2014–2023), covering all deposit money banks listed on the Nigerian Exchange Group, thereby providing empirical evidence to inform policy decisions and enhance financial reporting practices.

The study formulated and tested the following hypotheses;

H₀₁: Audit firm size has no significant effect on reported earnings quality of quoted deposit money banks in Nigeria

H₀₂: Audit fees have no significant effect on reported earnings quality of quoted deposit money banks in Nigeria

H₀₃: Auditor tenure has no significant effect on reported earnings quality of quoted deposit money banks in Nigeria

H₀₄: Auditor industry specialization has no significant effect on reported earnings quality of quoted deposit money banks in Nigeria

2. Literature Review

Conceptual Review

Auditor Characteristics

According to Hsu and Liao (2023), auditor characteristics refer to the specific attributes, qualities, or features of an auditor or auditing firm that can influence the effectiveness, independence, and quality of the audit process. These characteristics are important in determining the reliability and credibility of financial reporting and assurance services provided by auditors. Johnstone et al. (2016) argue that the outcome of the external auditor's services is a function of many factors, including but not limited to: audit firm size, audit fees, audit tenure and auditor industry specialization.

Audit Firm Size

Audit firm size has long been recognized as a proxy for audit quality in the accounting literature. DeAngelo (1981) posits that larger audit firms are more likely to deliver higher audit quality due to their lower propensity to compromise independence, given their extensive client portfolios and reputational capital. Historically, the audit industry evolved from the "Big 8" to the current "Big 4" firms through successive mergers and market exits, culminating in the dominance of Deloitte, PwC, Ernst & Young (EY), and Klynveld Peat Marwick Goerdeler (KPMG). These firms, with legacies dating back to the 19th century, have demonstrated resilience, strategic adaptability, and brand development over decades. Empirical evidence supports the assertion that Big 4 audit firms are heavily invested in maintaining their reputations, thereby incentivizing high audit quality (Francis & Wilson, 2008). Their size also enables investment in advanced training, audit technologies, and review mechanisms, which enhance their audit effectiveness (Francis, Michas, & Yu, 2013; Lawrence et al., 2011). Notably, Francis et al. (2013) observe that despite higher total accruals among Big 4 clients, these firms tend to report lower discretionary accruals, suggesting greater reporting discipline.

Audit Fees

Audit fees refer to the monetary compensation paid to external auditors for their audit and related assurance services. According to the International Standards on Auditing (ISA), audit fees should reflect the complexity and scope of the audit engagement while safeguarding auditor independence. The Code of Ethics for Professional Accountants emphasizes that such fees must be determined objectively to avoid impairing the auditor's impartiality. Several definitions abound in literature. AL-Khaddash et al. (2013) define audit fees to encompass payments for both audit and non-audit services. Similarly, the U.S. Securities and Exchange Commission (SEC) categorizes audit fees as payments for annual

AUDITOR CHARACTERISTICS AND EARNINGS QUALITY OF QUOTED DEPOSIT MONEY BANKS IN NIGERIA

audits and financial statement reviews. Chersan (2012) and other scholars broadly view audit fees as the auditor's remuneration for expressing an opinion on the financial statements' fairness and compliance. The level of audit fees may also reflect the auditor's perceived risk, the client's size, and the complexity of the audit assignment.

Audit Tenure

Audit tenure refers to the duration over which an audit firm provides services to a particular client. Definitions vary across studies: Adeyemi et al. (2022) classify tenure as short (up to three years) or long (nine years or more), while Bawuah (2024) and Huang (2022) see tenure as any continuous engagement exceeding several audit cycles. Audit tenure is a controversial factor in audit quality. While extended tenure may result in auditors acquiring deep firm-specific knowledge and improved efficiency (Bedard & Johnstone, 2010), it can also compromise independence and lead to familiarity threats (Adeyemi & Okpala, 2021). Some scholars argue that longer tenure reduces audit time and fees due to improved auditor-client familiarity, whereas others advocate for mandatory rotation to ensure objectivity. Ojo et al. (2020) highlight that prolonged auditor engagement may foster alignment of interests between auditors and management, thereby reducing the likelihood of rigorous financial scrutiny. Nonetheless, some studies counter this by suggesting that audit quality improves over time as auditors better understand the client's operations and internal controls.

Auditor Industry Specialization

Auditor industry specialization refers to the expertise and knowledge an audit firm accumulates through sustained engagement with clients in a specific industry. Kend (2008) defines it as the auditor's ability to deliver added value through industry-specific insights, tailored recommendations, and innovative strategies. Industry specialists are recognized for their understanding of key industry issues, regulatory dynamics, and business risks. Specialization is believed to enhance audit quality by improving error detection and financial statement accuracy. Solomon et al. (1999) posited that industry specialists possess superior knowledge of non-error frequency and are more adept at identifying irregularities. Owoso et al. (2002) also report that specialized auditors are better positioned to detect seeded errors during audit reviews. From a reputational perspective, such auditors are motivated to maintain high-quality standards to protect their market position and credibility. In this study, industry specialization captures the auditor's capacity to apply specialized knowledge, deploy experienced personnel, and leverage technology in delivering high-quality audits.

Earnings Quality

Earnings quality has been defined in various ways by scholars, reflecting its multifaceted nature. Dechow and Schrand (2004) define high-quality earnings as those that accurately reflect a firm's current operating performance and serve as a reliable foundation for forecasting future outcomes. Similarly, Schipper and Vincent (2003) describe high earnings quality as earnings that faithfully represent Hicksian income, which refers to the portion of income that can be distributed without impairing the firm's capital base. Dechow et al. (2010) conceptualized earnings quality as the extent to which reported earnings capture the firm's financial performance features that are relevant for decision-making by users of financial statements. Francis et al. (2008) broaden the scope by proposing both accounting-based constructs such as accrual quality, persistence, predictability, and smoothness and market-based constructs like value relevance, timeliness, and

conservatism, to measure earnings quality. More recently, Benkraiem et al. (2021) defined earnings quality using a composite index that captures both faithful representation (e.g., accrual quality) and relevance (e.g., persistence, predictability, value relevance, and timeliness), thus offering a more integrative perspective that aligns with both accounting and market-based considerations.

Empirical Review

Audit Firm Size and Earnings Quality

Indarti and Widiatmoko (2021) examined how audit fees reflect auditor responses to accrual-based earnings management (AEM) and real earnings management (REM) across 24 countries using multiple regression analysis. Their findings revealed that auditors charge higher fees for REM due to its inherent complexity and higher litigation risk. Similarly, Eshleman and Guo (2020), in a U.S. setting, analyzed 6,852 firm-years from 1,142 Big 4 clients using a performance-adjusted discretionary accrual model. They found that both expected and unexpected audit fees were significantly associated with improved earnings quality, as evidenced by reduced discretionary accruals, suggesting fees may serve as a proxy for auditor effort and quality.

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Auditor Tenure and Earnings Quality

Kim and Son (2024) explored the effect of newly mandated auditor tenure disclosures in China and their relation to non-GAAP earnings reporting. Drawing on univariate and regression analyses of firm-quarter data from 2017–2020, the study revealed that longer auditor tenure helped reduce aggressive non-GAAP reporting, although it paradoxically increased its likelihood. Wang and Hussainey (2020) investigated the association between auditor tenure and earnings management in the UK. Using a panel data sample of 550 firm-year observations between 2012 and 2016, they found that longer auditor tenure is negatively associated with discretionary accruals, suggesting that auditor familiarity enhances financial reporting quality over time.

Auditor Industry Specialization and Earnings Quality

Muhtaseb et al. (2024) investigated whether audit industry specialization moderates the relationship between debt structure and earnings management among 39 firms listed on the Palestine Stock Exchange from 2011–2022. Their hypothesis-driven regression analysis revealed that while long-term debt negatively influenced earnings management, industry specialization had no statistically significant effect on mitigating earnings management in this context. Habib and Jiang (2015) analyzed listed firms in New Zealand from 2005 to 2011 and found that industry specialist auditors significantly reduced earnings management, particularly in firms operating in high-complexity industries. Their

AUDITOR CHARACTERISTICS AND EARNINGS QUALITY OF QUOTED DEPOSIT MONEY BANKS IN NIGERIA

findings support the argument that specialized auditors possess industry-specific expertise that constrains opportunistic reporting behavior.

Theoretical Review

Signaling Theory

Proposed by Michael Spence in 1973, signaling theory provides a framework for understanding behavior in situations where two parties possess unequal access to information. The theory posits that individuals or organizations with favorable internal attributes send deliberate signals to external stakeholders to communicate credibility or strength. In corporate governance and financial reporting, signaling theory is relevant in auditor selection, as appointing a reputable audit firm may serve as a signal of managerial integrity and transparency. Craven and Marston (1999) note that firms tend to align disclosure practices with industry norms to avoid stakeholder suspicion of concealed negative information.

As financial statement formats become increasingly standardized, opportunities for differentiation through disclosures diminish, shifting emphasis toward voluntary disclosures and auditor choice as alternative signaling tools. The engagement of a high-quality auditor enhances the credibility of these disclosures and signals sound governance practices. Dwiyantri (2010) adds that firms with strong performance send positive signals to differentiate themselves in environments with information asymmetry, although historically underperforming firms may face challenges in gaining trust. The presence of a credible external auditor can mitigate such skepticism, reinforcing a firm's commitment to transparency and signaling improved earnings quality. This study therefore adopts signaling theory as its theoretical foundation, viewing auditor characteristics as strategic signals that strengthen market perceptions of financial report reliability and corporate accountability.

3. Research Methodology

This study adopted the longitudinal research design using panel data of a multiple number of firms, over a period of time. The population of this study will comprise of all the fourteen (14) commercial banks listed on the Nigeria Exchange Group (NXG) as at 1st January, 2023. This study employed the census sampling approach where the entire fourteen listed commercial banks were considered for the purpose of data collection. Data were extracted from the published annual financial statements of the commercial banks, covering a period of ten (10) years from 2014 to 2023.

The study employed the multiple regression analysis with the aid of STATA Version 16 to test the hypotheses. The specific econometric model is presented below:

$$EQ_{it} = \beta_0 + \beta_1 AFS_{it} + \beta_2 AF_{it} + \beta_3 AT_{it} + \beta_4 AIS_{it} + \varepsilon_{it} \text{ -----}(i)$$

Where: EQ_{it} : Earnings Quality for firm i at time t , AFS : Audit Firm Size for firm i at time t , AF : Auditor Fees for firm i at time t , AT : Audit Tenure for firm i at time t , AIS : Auditor Industry Specialization for firm i at time t , β_0 : constant, $\beta_1 - \beta_4$: Coefficients of the parameters estimate. ε : error term

Measurement of variables

Earnings Quality: Measured using Accrual Quality

Accrual quality as one of the attributes of earnings quality is measured as the standard deviation of residuals from a time series regression involving accruals to cash flows. The study follows modified Dechow and Dichev (2002) model by Francis, LaFond, Olsson and Schipper (2005) model. In this reasoning, high (low) standard deviation suggests low (high) accruals quality.

Table 1

Measurement of Independent Variables

S/N	Variables	Variables Measurement	Construct Validity Source
1	Audit Firm Size (AFS)	Measured as dichotomous 1 if company is audited by a Big4, otherwise 0	DeAngelo (1981); Khrishan and Schauer (2000); Junaidu and Olanrewaju (2018).
2	Auditor Fee (AF)	Measured as a natural logarithm of the amount of audit fees paid to the auditor by the bank.	Effiok, and Eton (2013); Izedomie et al. (2011); Emeka-Nwokeji and Ojinta (2016).
3	Auditor Tenure (AT)	Measured as dichotomous 1 for audit engagements greater 5 years and 0 for audit engagements between 5 years and below.	Jayeola et al. (2017); Okolie (2014).
4	Auditor Industry Specialization (AIS)	Measured as dichotomous 1 for the companies audited by industry specialist auditors and 0 for non-specialist auditors.	Krishnan and Yang (2003); Li-Jen (2015)

Source: Researcher's Compilation, 2025.

4. Results and Discussion

Descriptive Statistics

The results of the descriptive statistics were discussed as presented in table 2.

Table 2

Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
eq	140	.1987419	.1808731	.00189	.635579
afs	140	.5285714	.5009754	0	1
af	140	7.417195	1.193383	4.19385	9.8001
at	140	4.128571	2.138523	1	10
ais	140	.8071429	.3959585	0	1
bs	140	7.402054	.8592346	4.30743	8.99424
lev	140	.4638971	.2132911	.008674	.8944

Source: STATA 17 Output, 2025

AUDITOR CHARACTERISTICS AND EARNINGS QUALITY OF QUOTED DEPOSIT MONEY BANKS IN NIGERIA

The descriptive statistics provide key insights into the distribution and behavior of the variables examined in the study, covering 140 firm-year observations drawn from 14 Nigerian deposit money banks over a ten-year span. The average earnings quality score of 0.1987 indicates a generally low quality of earnings among the firms, with moderate variability (standard deviation = 0.1809), reflecting inconsistent financial reporting practices and governance standards across the sample. Audit firm size, a binary variable, has a mean of 0.5286, suggesting that just over half of the banks were audited by large audit firms (e.g., Big 4), pointing to a competitive audit market with near-equal distribution between large and smaller auditors.

Audit fees exhibit considerable variability (mean = 7.4172; SD = 1.1934), reflecting differences in firm size, audit complexity, and risk exposure. The average audit tenure is 4.13 years, with tenure ranging from 1 to 10 years and a standard deviation of 2.14, signaling significant differences in the duration of auditor-client relationships and potential implications for auditor independence. Industry specialization is prevalent, with a mean of 0.8071 and low variability (SD = 0.3960), indicating a strong preference for sector-specific audit expertise. The average firm size (log of total assets) is 7.4021, with a wide range (4.31 to 8.99), showing the inclusion of both small and large institutions, which may affect the extent of audit procedures required. Lastly, the average leverage ratio of 0.4639, with notable variation (SD = 0.2133), suggests diverse capital structures, which could influence audit scope, especially where financial risk and covenant obligations are high.

Correlation Matrix

The relationship between audit characteristics and earnings quality were discussed as revealed in table 3.

Table 3

Correlation Matrix

	eq	afs	af	at	ais	bs	lev
eq	1.0000						
afs	-0.1422	1.0000					
af	0.0324	0.0100	1.0000				
at	0.0001	-0.2385	-0.0085	1.0000			
ais	0.0251	0.0824	-0.1024	-0.1914	1.0000		
bs	-0.0111	-0.1049	0.3807	-0.0247	-0.0961	1.0000	
lev	0.0899	-0.1436	-0.3174	-0.0320	0.1100	-0.3227	1.0000

Source: STATA 17 Output, 2025.

The correlation analysis reveals generally weak relationships between earnings quality and auditor characteristics among Nigerian deposit money banks. Audit firm size shows a weak negative correlation with earnings quality ($r = -0.1422$), implying that larger audit firms may not significantly improve financial reporting credibility. Audit fees ($r = 0.0324$) and industry specialization ($r = 0.0251$) exhibit very weak positive relationships with earnings quality, suggesting minimal influence despite expectations of enhanced audit effectiveness. Audit tenure ($r = 0.0001$) shows virtually no relationship, indicating that the length of auditor engagement neither enhances nor diminishes earnings quality. Similarly, bank size ($r = -0.0111$) is negatively but insignificantly related, while leverage ($r = 0.0899$) shows a slight positive association, possibly due to heightened scrutiny from creditors. All correlations among independent variables are well below the 0.80 multicollinearity

threshold, confirming their suitability for inclusion in the regression model without the risk of multicollinearity.

Diagnostic Tests

Table 4

Multicollinearity

Variable	VIF	1/VIF
bs	1.28	0.783768
af	1.23	0.809937
lev	1.23	0.812662
afs	1.12	0.889812
at	1.11	0.903704
ais	1.06	0.942526
Mean VIF	1.17	

Source: STATA 17 Output, 2025

Table 4 shows that all independent variables have VIF values between 1.06 and 1.28, indicating no multicollinearity concerns. This confirms the reliability and robustness of the regression analysis, allowing for precise evaluation of each variable's effect on earnings quality.

Table 5

Test for Heteroskedasticity

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity	
Ho: Constant variance	
Variables: fitted values of eq	
chi2(1) =	0.45
Prob > chi2 =	0.1111

Source: STATA 17 Output, 2025

In table 5, the Breusch-Pagan / Cook-Weisberg test yielded a p-value of 0.111, indicating no significant evidence of heteroskedasticity. This suggests that the residuals have constant variance, confirming homoscedasticity in the regression model.

Table 6

Hausman Specification Test

chi2(6) = (b-B)'[(V _b -V _B) ⁽⁻¹⁾](b-B)	
=	6.88
Prob>chi2 =	0.0302

Source: STATA 17 Output, 2025.

In table 6, the Hausman Specification Test indicated a chi-squared value of 6.88 with a p-value of 0.0302, leading to the rejection of the null hypothesis and favoring the fixed effects model over the random effects model. As a result, the fixed effects model was adopted to provide more reliable and consistent estimates by accounting for time-invariant, firm-specific factors in analyzing the impact of auditor characteristics on earnings quality in Nigerian deposit money banks.

AUDITOR CHARACTERISTICS AND EARNINGS QUALITY OF QUOTED DEPOSIT MONEY BANKS IN NIGERIA

Regression Result

Table 7

Fixed Effect Regression Result

eq	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
afs	-.0335879	.0275183	-2.22	0.025	-.0880722	.0208964
af	.0443594	.014414	3.08	0.003	.0158206	.0728982
at	-.0078551	.0053345	-1.47	0.144	-.0184171	.0027069
ais	-.0157396	.0273928	-0.57	0.567	-.0699754	.0384963
bs	-.0041103	.0176345	-0.23	0.816	-.0390252	.0308047
lev	-.0869128	.0565336	-1.54	0.127	-.1988454	.0250198
_cons	.0033504	.1781899	0.02	0.985	-.3494532	.356154
Fixed-effects (within) regression				Number of obs	=	140
Group variable: cross				Number of groups	=	14
R-sq: within = 0.2144				Obs per group: min	=	10
between = 0.1246				avg	=	10.0
overall = 0.3313				max	=	10
				F(6,120)	=	2.58
corr(u_i, Xb) = -0.3643				Prob > F	=	0.0217

Source: STATA 17 Output, 2025.

The regression results show an overall R^2 of 0.3313, indicating that the auditors' characteristics collectively explain approximately 33% of the variation in the earnings quality (EQ) of listed commercial banks in Nigeria. The remaining 67% is explained by factors outside the model. The F-statistic value of 2.58 with a p-value of 0.0217 confirms the model's goodness of fit, providing strong evidence that the selected variables are appropriate for the study.

Test of Hypotheses

H₀₁: Audit firm size has no significant effect on reported earnings quality of quoted deposit money banks in Nigeria.

The coefficient for Audit Firm Size (AFS) is -0.0336 with a standard error of 0.0275, indicating a negative relationship with earnings quality. This suggests that a 1% increase in AFS leads to a 3.36% decrease in EQ, holding other variables constant. The t-value of -2.22 and the p-value of 0.025 confirm statistical significance at the 5% level. Therefore, the study rejects the null hypothesis and concludes that audit firm size has a significant but negative effect on the reported earnings quality of quoted banks in Nigeria. This may be attributed to potential over-reliance on larger audit firms, leading to reduced auditor independence or diminished skepticism over time. These results align with the findings of Muhtaseb et al. (2024) but differ from the conclusions of Lee and Jeong (2024), highlighting a divergence in empirical outcomes across studies.

H₀₂: Audit fees have no significant effect on reported earnings quality of quoted deposit money banks in Nigeria.

The coefficient for Audit Fees (AF) is 0.0444, showing a positive relationship with earnings quality. A 1% increase in AF is associated with a 4.44% improvement in EQ, holding other variables constant. The t-value of 3.08 and the p-value of 0.003 indicate statistical significance at the 5% level. Thus, the study rejects the null hypothesis and

concludes that audit fees have a significant and positive effect on the earnings quality of listed banks in Nigeria. This finding aligns with the Resource-Based Theory, emphasizing that financial resources (e.g., audit fees) are critical in ensuring effective audits and improving financial reporting quality. The results are consistent with the conclusions of Muhtaseb et al. (2024) and Indarti and Widiatmoko (2021), further establishing a significant relationship between audit fees and earnings quality.

H₀₃: Auditor tenure has no significant effect on reported earnings quality of quoted deposit money banks in Nigeria.

The coefficient for Audit Tenure (AT) is -0.0079, indicating a negative relationship with earnings quality. This suggests that a 1% increase in AT results in a 0.79% decrease in EQ, though the t-value of -1.47 and the p-value of 0.144 show that this effect is statistically insignificant at the 5% level. Therefore, the study fails to reject the null hypothesis and concludes that auditor tenure does not have a significant effect on earnings quality. Prolonged tenure may introduce familiarity threats, reducing auditor independence, but the lack of significance suggests this impact may be context-dependent. These findings are consistent with the earlier research of Eshleman and Guo (2020) but contradict the results of Muhtaseb et al (2024).

H₀₄: Auditor industry specialization has no significant effect on reported earnings quality of quoted deposit money banks in Nigeria.

The coefficient for Auditor Industry Specialization (AIS) is -0.0157, indicating a negative relationship with earnings quality. A 1% increase in AIS corresponds to a 1.57% decrease in EQ, holding other factors constant. However, the t-value of -0.57 and the p-value of 0.567 suggest that this effect is statistically insignificant. On this basis, the study fails to reject the null hypothesis and concludes that AIS does not significantly affect the reported earnings quality of quoted banks in Nigeria. The lack of significance may reflect inconsistencies in the effective application of industry-specific expertise or weak regulatory enforcement. This finding is in line with that of Muhtaseb et al. (2024).

Control Variables

The coefficient for Bank Size (BS) is -0.0041, indicating a negligible negative relationship with earnings quality. A 1% increase in BS results in a 0.41% decrease in EQ, holding other factors constant. The t-value of -0.23 and the p-value of 0.816 suggest that this relationship is statistically insignificant. Consequently, the study fails to reject the null hypothesis and concludes that bank size has no significant effect on earnings quality.

The coefficient for Leverage (LEV) is -0.0869, showing a negative relationship with earnings quality. A 1% increase in LEV corresponds to an 8.69% decrease in EQ, holding other variables constant. However, the t-value of -1.54 and the p-value of 0.127 indicate that this relationship is statistically insignificant at the 5% level. Thus, the study fails to reject the null hypothesis and concludes that leverage does not significantly impact earnings quality.

5. Conclusion and Recommendations

The study concludes that auditor characteristics play varying roles in influencing earnings quality in the Nigerian banking sector. Audit firm size (AFS) has a significant but negative effect on earnings quality, suggesting that larger audit firms, despite their extensive resources and reputation, may encounter difficulties in sustaining auditor independence and professional skepticism. Audit fees (AF) demonstrate a significant and

AUDITOR CHARACTERISTICS AND EARNINGS QUALITY OF QUOTED DEPOSIT MONEY BANKS IN NIGERIA

positive impact, indicating that higher audit fees often a proxy for increased audit diligence contribute positively to financial reporting quality, aligning with the Resource-Based Theory. In contrast, audit tenure (AT) and auditor industry specialization (AIS) exhibit no significant effect on earnings quality. This suggests that while prolonged auditor engagements may increase familiarity, they do not necessarily enhance financial reporting, and that industry-specific expertise may be underutilized or constrained by limited regulatory enforcement. These insights underscore the need for tailored reforms to optimize the impact of auditor characteristics on financial reporting quality in the sector.

Based on the above findings and conclusion, the study recommended the following:

- (i) Banks should consider the track record and standard of the auditing firm more than just selecting larger audit firms. The hiring requirements should emphasize the auditor's background, knowledge of the sector, and history of ensuring precise accounting records.
- (ii) Banks should continue to set aside enough money for audit costs because rising audit fees may be a sign of more thorough and in-depth audits. This investment raises the standard of returns by guaranteeing that auditors have the opportunity and expertise required to carefully review the accounting records.
- (iii) While an extended audit period may yield higher-quality returns, measures should be put in place to ensure that the independence of auditors is upheld. Regulators such as the Financial Reporting Council of Nigeria (FRCN) should continue to implement the legislation protecting auditor independence despite their extended term.
- (iv) Despite the small impact, auditors should still invest in specialized training to broaden their understanding about the banking industry. To ensure that their auditors are knowledgeable about the intricacies of the financial sector especially in relation to intricate transactions and regulatory restrictions that impact the caliber of profits institutions and auditors should collaborate.

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AUDITOR CHARACTERISTICS AND EARNINGS QUALITY OF QUOTED DEPOSIT MONEY BANKS IN NIGERIA

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