



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

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Abstract

This study examined the effect of auditor characteristics on the earnings quality of quoted deposit money banks in Nigeria. Specifically, the study examined the individual effects of audit firm size, audit fees, auditor tenure, and auditor industry specialization on the earnings quality of quoted deposit money banks in Nigeria. The research adopted the longitudinal research design using panel data from multiple firms over a period. The population of this study comprised all the fourteen (14) commercial banks listed on the Nigeria Exchange Group (NXG) as at 1st January, 2023. It employed the census sampling approach where all fourteen listed commercial banks were considered for 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 results of the study showed that audit firm size and auditor fees have a significant effect on earning quality. On the other, auditor tenure and auditor industry specialization have insignificant effect on earnings quality of quoted deposit money banks in Nigeria. From the findings, the study concluded that the choice of an audit firm and the amount of audit fees will greatly determine the extent of the earnings quality of in the Nigeria banking sector. The study therefore recommended that 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 accurate accounting practices.

Keywords: Audit fees, Auditor tenure, Auditor fees Auditor industry specialization, earnings quality

1. Introduction

Public firms across the globe, regardless of their developmental status, face legal and ethical mandates to engage in financial reporting. This obligation serves a critical purpose: to furnish investors, creditors, and other stakeholders with essential information that informs their resource allocation decisions. However, the tendency to inflate earnings remains a troubling concern, often rooted in pressures to avoid loss reporting, to surpass prior earnings, or to satisfy analyst forecasts. Evidence indicates that even with stringent regulations and oversight intended to eliminate this misconduct, significant challenges persist in achieving transparency in financial reporting (Soyaniski, 2020).

A significant facet of this issue is the discretion allowed to management in selecting among myriad accounting policies within the framework of international financial reporting standards. This discretion can lead to substantial variance in profit reporting, potentially facilitating earnings manipulation (Toumeh & Yahya, 2019). As a consequence, stakeholders like investors, creditors, suppliers, and customers may be left exposed to risks arising from the unreliability of earnings reported. Consequently, the confidence that investors place in financial reports often hinges on the effectiveness of the external audit process and the underlying strengths of capital markets (Al-Ta'amneh, 2019).

Earnings quality (EQ) is paramount for stakeholders because it serves as a foundation for decision-making capabilities, enabling firms to attract funding, allowing countries to draw in



inexpensive capital, and ensuring efficient resource allocation (Lee & Jeong, 2022). However, despite its importance, low-quality earnings have emerged as a global concern with troubling ramifications. For example, high-profile corporate scandals, such as those involving Hertz Global Holdings and Steinhoff International, have spotlighted the ramifications of misstating financial health. The same is true within Nigeria, where companies like Cadbury Nigeria Plc and Intercontinental Bank Plc have been embroiled in scandals that underscore the implications of compromised earnings quality. When the reliability of earnings is in jeopardy, stakeholders' willingness to accept the credibility of financial reporting diminishes significantly, undermining their decision-making processes and eroding market trust (Lannai et al., 2021).

Moreover, relying on independent external auditors has been established as a crucial element in ensuring reliable financial reporting, which plays a protective role against fraud and earnings manipulation (Almasria, 2022). Auditor attributes such as firm size, fees, tenure, and industry specialization play significant roles in determining the quality of earnings reported. Research has indicated that larger audit firms often boast greater resources that allow them to adopt superior audit practices, fostering vetting processes that lead to enhanced earnings quality (Francis, 2011). Nonetheless, criticisms regarding the actual effectiveness of larger audit firms persist, primarily due to examples of significant earnings manipulations that have occurred even within the largest auditing firms (Zhou, 2015).

This current research seeks to fill the existing gap in understanding how specific auditor characteristics relate to earnings quality within Nigeria's banking context. By focusing on the banking sector, which is subject to considerable regulatory scrutiny, this study aims to provide insights into how the interplay of these characteristics influences financial reporting integrity.

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

Audit Characteristics

The quality of accounting information has turned an important issue owing, above all, to the evolutionary modern technological changes and business practices witnessed worldwide (Afify, 2019). A major remarkable factor affecting the quality of information consist in corporate annual reporting punctuality and accuracy, which is considered a critical factor affecting information usefulness at the disposal of external users. (Owusu-Ansah & Leventis, 2016). The performance of the audit process of publicly traded corporations is particularly dependent on the views of both external and internal auditors. External auditing is an assessment of a company practices based on current documents including information verifications in order to ascertain financial statements' quality, validity, and reliability. Specifically, 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. These factors are sometimes referred to interchangeably as audit



attributes or audit characteristics (DeFond & Francis, 2005; Choi et al., 2008; Francis, 2011; Wang & Zhang, 2022).

Audit Firm Size

Several studies have validated the notion that the size of the audit firm plays a crucial role in determining audit quality (Francis, 2004). A larger audit firm's capacity to attract experienced professionals and provide extensive training creates a milieu conducive to maintaining higher quality standards. The "Big 4" audit firms, in particular, possess significant reputational capital that incentivizes them to deliver high-quality audits. DeAngelo (1981) suggests that larger firms face lower risks of compromising their independence and integrity due to their wealth of clients and the importance of their brand. However, recent literature highlights a duality within this narrative. For instance, while some studies (Francis & Wilson, 2008) advocate that larger firms typically deliver higher-quality audits, instances of significant audit failures among these firms spark critiques regarding their reliability. This exposes a critical tension, suggesting that factors beyond mere size should inform evaluations of audit quality.

Audit Fees

Audit fees are often considered a reflection of the auditor's investment in quality services. The International Standards on Auditing suggest that auditors should set fees that are commensurate with the complexity, risks, and efforts associated with the audit (Chersan, 2012). Audit fees can impact independence; auditor-objectivity may be compromised if firms perceive threats to their relationship with clients or second source revenue streams, particularly if the auditor also provides consulting services (AL-Khaddash et al., 2013). Thus, while a higher fee may signal expected higher quality, concerns remain regarding the potential bias it introduces.

Audit Tenure

The duration of the relationship between auditors and clients, referred to as audit tenure, has significant implications for the quality of audits. Prolonged auditor tenure may enhance auditors' in-depth understanding of their clients' businesses, potentially leading to more reliable financial reporting (Bedard & Johnstone, 2010). However, concerns arise regarding the risk of complacency or compromised independence, where lengthened relationships might lead auditors to overlook critical discrepancies (Adeyemi & Okpala, 2021). With regulatory frameworks often advocating for audit rotation to mitigate these risks, striking a balance between experience and independence remains a critical focal point in assessing audit quality.

Auditor Industry Specialization

Auditors with specialized knowledge in particular industries often provide superior audit quality due to their familiarity with industry-specific practices and challenges. Industry specialists possess deep insights into earnings recognition standards relevant to their fields, enabling more accurate audits (Kaoje et al., 2023). Reports indicate that specialized auditors demonstrate greater competence in identifying issues and discrepancies within financial statements compared to non-specialists (Solomon et al., 1999). In the context of Nigeria, where sectors such as banking have unique regulatory and operational frameworks, the importance of industry specialization in auditing cannot be overstated.

Earnings Quality

Dechow and Schrand (2004) define high earnings quality as reflecting a firm's true operating performance. According to Dechow et al. (2010), such quality provides valuable insights into a firm's financial characteristics relevant for decision-making. Schipper and Vincent (2003) state that earnings are considered high quality if they faithfully represent Hicksian income, which corresponds to the dividends a firm can pay while remaining financially stable. High earnings quality is seen as useful for decision-making, and its definition varies among financial statement users.



The concept of earnings quality is multifaceted (Gutiérrez & Rodríguez, 2019). Dechow et al. (2010) identify three proxies: earnings properties (like persistence and accruals), investor responsiveness (earnings response coefficient), and external indicators of misstatements (such as restatements). Francis et al. (2008) differentiate between accounting-based constructs (accrual quality, persistence) and market-based factors (value relevance and timeliness). Additionally, Adams et al. (2005) created a power index based on CEO characteristics, while Bebchuk et al. (2011) focused on CEO pay slice. Stock market studies have also examined earnings quality in terms of faithful representation and relevance (Benkraiem et al., 2021; Brahem et al., 2022), with Benkraiem et al. using a composite approach to measure quality, and Brahem et al. employing discretionary accruals and earnings informativeness.

Bank Size

Bank size significantly influences financial reporting quality and audit outcomes, with larger banks often characterized by more complex organizational structures and extensive regulatory obligations, necessitating thorough auditing processes (Aharoni & De-Mello, 2023). The demand for transparency is greater in larger institutions, leading them to engage reputable audit firms, which can foster high-quality audits (DeAngelo, 1981). However, the correlation between larger banks and higher audit quality is complex. While larger banks often employ Big 4 audit firms with substantial reputational capital, the inherent complexity of their operations can challenge effective oversight, especially in weak regulatory environments (Ahmed et al., 2023; Kristiawan & Dewi, 2022). This complexity may create pressures that compromise auditor independence, thereby raising concerns about the reliability of audit outcomes.

Leverage

Leverage, measured as the proportion of debt in a firm's capital structure, is often linked to earnings quality due to the increased scrutiny and monitoring from creditors. High leverage can incentivize firms to improve financial reporting transparency to maintain creditor confidence and comply with debt covenants, aligning with the findings of Hassan and Bello (2023), who observed a positive relationship between leverage and earnings quality in emerging markets. However, excessive leverage can also create pressures for earnings management, as firms may manipulate reports to meet debt obligations or avoid covenant breaches. Recent studies, such as Khalil and Ozkan (2022), highlight that the relationship between leverage and earnings quality is context-dependent, with stronger regulatory environments mitigating the risks of earnings manipulation. In the Nigerian banking sector, where financial institutions often operate with high leverage, the impact of leverage on earnings quality may be influenced by weak governance frameworks, as noted by Ahmed and Al-Rassas (2020), limiting its ability to consistently enhance financial reporting outcomes.

Empirical Review

Lee and Jeong (2024) investigated the relationship between audit firm size and the risk of earnings management amid increasing economic policy uncertainty in Korea. Utilizing an ex post facto research design, the study analyzed data from 1,316 companies listed on the Korean stock market from 2012 to 2019, yielding 10,524 firm-year samples. The results from multiple regression analysis indicated that during high economic uncertainty, factors such as audit firm size, fees, hours, financial report disclosures, and discretionary accruals increased. This suggests that auditors enhance audit quality to improve financial information during uncertain times. Interestingly, it was also found that firms with a high risk of earnings manipulation tended to disclose higher quality financial information while paying lower audit fees. Given the substantial differences between the Korean and Nigerian contexts, further investigation in Nigeria is therefore suggested.



In a related examination of audit practices, Muhtaseb et al. (2024) explored whether audit industry specialization impacts reported earnings quality on the Palestine Stock Exchange. Their study analyzed public financial reports from 39 firms across various sectors for the years 2011–2022. Four hypotheses were tested regarding the relationships between long-term/short-term debts and earnings management. The results demonstrated a significant negative relationship between long-term debt and earnings management, while the association between short-term debt and earnings management was found to be insignificant. This indicates that audit industry specialization had no discernible influence on these relationships. While these findings are robust, they underline that the results may not directly translate to the Nigerian context due to the differing legal and economic landscapes.

Transitioning to another perspective, Kim and Son (2024) examined the implications of newly available auditor tenure information on non-GAAP earnings in China. Their study arose from the recent requirement to disclose the initial year of auditor-client relationships, raising concerns about the possible link between longer auditor tenure and lower audit quality. Analyzing firm-quarter data from 2017 to 2020 with both univariate and regression analyses, they found that the likelihood of disclosing non-GAAP earnings monotonically increased with auditor tenure, whereas longer tenure correlated negatively with aggressive non-GAAP reporting. Additionally, they documented evidence that items excluded from non-GAAP earnings calculations were associated with future performance, though this association diminished with increased tenure. Notably, this study includes a broader examination that encompasses the banking sector in Nigeria.

Meanwhile, Indarti and Widiatmoko (2021) delved into the effect of auditor fees on earnings quality, emphasizing the roles of accrual-based (AEM) versus real earnings management (REM). By analyzing data from 24 countries using multiple regression analysis, they found that auditors typically charge higher fees for REM than for AEM. This difference stems from the increased litigation risks and complexity associated with REM. Furthermore, they discovered that a stronger legal regime correlated with greater audit fee premiums for both AEM and REM, with the latter experiencing a more substantial increase.

In contrast, Eshleman and Guo (2020) focused on the empirical association between expected and unexpected audit fees and reported earnings quality among Big 4 clients in the United States from 2014 to 2019. Utilizing a cross-sectional multiple regression model on a sample of 1,142 firms over a six-year period (2000–2005), their findings illustrated that both expected and unexpected audit fees are associated with enhancements in earnings quality, as evidenced by reductions in both absolute and signed discretionary accrual adjustments. This highlights the intricate relationship between audit fees and the overall quality of financial reporting in a different context.

Theoretical Framework

Signaling Theory

Proposed by Michael Spence in 1973, signaling theory describes interactions between two parties possessing different information. It operates on the premise that managers can use auditor choice to convey additional information about their companies to the market. Companies with strong performance typically disclose financial information to signal their status, as highlighted by Craven and Marston (1999), who noted that firms strive to match the disclosure levels of their industry peers. Failing to do so may lead stakeholders to assume the firm is hiding negative information. As financial statement formats have become standardized, the opportunity for firms to differentiate their signals has diminished, increasing the incentives to signal through auditor choice. Additionally, disclosures made under a high-quality auditor may enhance credibility. Thus, signaling theory illustrates how good information distinguishes high-performing firms from those with less favorable news, fostering market trust (Dwiyanti, 2010). This study is grounded in signaling theory, as it suggests a positive relationship between audit quality and the quality of reported earnings.



The Agency Theory

Agency theory, rooted in the work of Berle and Means (1932), explores the conflicts of interest between directors and firm owners. Jensen and Meckling (1976) further formalized this theory, arguing that corporations are structured to minimize agency costs—expenses incurred when agents do not act in the best interests of principals. The theory acknowledges that different motivations among parties lead to partial goal conflicts, resulting in information asymmetry. The agency contract focuses on the relationship between business owners (principals) and managers (agents) (Jensen & Meckling, 1976; Dodd and Dyck 2015). It encompasses managers' responsibilities to align with shareholder interests. Vidyantie and Handayani (2006) assert that agency theory assumes individuals act in self-interest (Imanta&Satwiko, 2011). Problems arise when shareholders seek maximum returns, while managers may prioritize personal incentives, indicating a shift away from representing shareholder welfare towards their interests.

Research Methodology

This study adopted the longitudinal research design using panel data of a multiple number of firms, over a period. The population of the study comprised 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 all the 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 economic model is presented below.

$$EQ_{it} = \beta_0 + \beta_1 AFS_{it} + \beta_2 AF_{it} + \beta_3 AT_{it} + \beta_4 AIS_{it} + \beta_5 BS_{it} + \beta_6 LEV_{it} + \varepsilon_{it} \text{-----}(i)$$

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 , BS: Bank Size for firm i at time t , LEV: Leverage for firm i at time t , β_0 : constant, $\beta_1 - \beta_6$: 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.

$$TCA_{it} = \Psi_0 + \Psi_1 CFO_{it-1} + \Psi_2 CFO_{it} + \Psi_3 CFO_{it+1} + \Psi_4 \Delta REV_{it} + \Psi_5 PPE_{it} + \varepsilon_{it}$$

Where:

$$CFO_{it} = NIBE - (\Delta CA_{it} - \Delta Cash_{it}) - (\Delta CL_{it} - \Delta STDEBT_{it})$$

TCA_{it} = Total Current Accrual: the firms' accruals in year t , which equals the current assets change in year t minus current liability changes, minus the changes of cash and cash equivalent changes in year t plus change of short-term liability with interest in year t .

Where ΔCA = Change in current assets; $\Delta Cash$ = Change in cash/cash equivalent; ΔCL = Change in current liabilities; $\Delta STDEBT$ = Change in short term debt; CFO_{it} = Firms operating cash flow; REV = Change in revenue; while PPE_{it} = Property, plant and equipment.



S/N	Variables	Variables Measurement	Construct Validity Source
1	Audit Firm Size (AFS)	Measured as dichotomous variable: 1 if bank 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 the length of time (number of years) spent by the auditor with the bank.	Jayeola et al. (2017); Okolie (2014).
4	Auditor Industry Specialization (AIS)	Measured as dichotomous variable: 1 for the banks audited by industry specialist auditors and 0 for non-specialist auditors.	Krishnan and Yang (2003); Li-Jen (2015); Palmrose (1986).
5	Bank Size (BS)	Measured as the natural logarithm of total assets of the bank.	Beck et al. (2013); Laeven and Levine (2009)
6	Leverage (LEV)	Measured as the ratio of total debt to total equity (or total assets) of the bank.	Hassan and Bello (2023); Ahmed and Al-Rassas (2020)

Researcher's Compilation, 2024.

Results and Discussion

Table 1:

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 16 Output, 2024

The descriptive statistics from the dataset of 140 observations, encompassing 14 deposit money banks in Nigeria over 10 years, reveal key insights. The mean earnings quality of 0.1987 indicates generally low quality, with a moderate standard deviation of 0.1809 highlighting variability due to differing financial practices and governance. A mean of 0.5286 suggests that about 52.86% of firms are audited by large firms, reflecting a competitive audit market.

Audit fees average 7.4172, with a standard deviation of 1.1934 and a range from 4.1939 to 9.8001, indicating variations based on audit complexity and firm size. The average audit tenure is 4.1286 years, with significant variation (1 to 10 years), raising independence concerns for longer engagements. Notably, 80.71% of firms use industry-specialized auditors, demonstrating a preference for sector expertise, with limited variability (standard deviation of 0.3960). The average bank size is 7.4021, with a standard deviation of 0.8592, showcasing differences in asset bases and operations. Additionally, the mean leverage ratio of 0.4639 reflects moderate reliance on debt, and variability (standard deviation of 0.2133) indicates some firms face financial risks due to high leverage, which may increase audit efforts related to risk assessment.



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Table 3:
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 16 Output, 2024

The correlation coefficient of -0.1422 indicates a weak negative relationship between audit firm size and earnings quality, suggesting that larger firms may have limited effectiveness in reducing earnings manipulation. A correlation of 0.0324 reflects a very weak positive relationship between audit fees and earnings quality, implying that higher fees do not guarantee better outcomes.

The correlation of 0.0001 shows virtually no relationship between audit tenure and earnings quality, indicating that the length of the auditor-client relationship does not significantly impact financial reporting quality. Similarly, a correlation of 0.0251 suggests that industry-specialized auditors have only a minimal effect on earnings quality despite their sector expertise.

The correlation of -0.0111 indicates a negligible negative relationship between bank size and earnings quality, suggesting that larger banks do not significantly affect reporting quality. Lastly, a correlation of 0.0899 reveals a weak positive relationship between leverage and earnings quality, indicating that higher leverage may lead to slightly less earnings manipulation due to creditor scrutiny. Overall, the correlation matrix shows mostly weak relationships among the independent variables, minimizing the risk of multicollinearity and ensuring robustness for subsequent regression analysis, as no relationships exceed 80%.

Table 2:
Correlation Matrix

		eq	afsaf	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 16 Output, 2024.



Table 3 presents the Variance Inflation Factor (VIF) values, which assess the presence of multicollinearity among the independent variables in the study. Multicollinearity occurs when independent variables are highly correlated, which can distort the accuracy and interpretability of regression results. A VIF value greater than 10 typically indicates severe multicollinearity, while values closer to 1 suggest little to no multicollinearity. The VIF values for all variables range between 1.06 and 1.28, indicating very low multicollinearity across the model. These results suggest that the independent variables are not significantly correlated with each other, ensuring that the regression analysis will produce reliable and unbiased coefficient estimates. The low VIF values strengthen the validity of the study's findings, as the independent contributions of each variable to earnings quality can be accurately assessed.

Table 4: 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 16 Output, 2024

This section presents the results of the Breusch-Pagan / Cook-Weisberg test for heteroskedasticity, which is a statistical test used to check whether the variance of the errors in a regression model is constant (homoscedasticity). The results of the Breusch-Pagan / Cook-Weisberg test indicate that there is no significant evidence of heteroscedasticity in the model, as the p-value (0.111) is much higher than the conventional significance level of 0.05. This implies that the variance of the residuals is constant (homoscedasticity) across the fitted values of Earnings Quality (EQ).

Table 5: Hausman Specification Test

$\chi^2(6) = (b-B)'(V_b - V_B)^{-1}(b-B)$

= 6.88

Prob > chi2 = 0.0302

Source: STATA 16 Output, 2024.

Table 5 presents the results of the Hausman Specification Test, which is used to determine whether a fixed effects model (FE) or a random effects model (RE) is more appropriate for the data used in the study. This test evaluates the consistency of the estimators under the null hypothesis that the preferred model is random effects. The chi-squared value of 6.88 is the test statistic calculated based on the differences in coefficients and their variances. The p-value of 0.0302 is associated with the chi-squared statistic. This result suggests that the fixed effects model is preferred over the random effects model for the analysis of the impact of auditor characteristics on earnings quality. The fixed effects model accounts for unobserved heterogeneity that could bias the results if the random effects model were used. Consequently, using the fixed effects model is likely to provide more reliable estimates of the relationships between the auditor characteristics and earnings quality in quoted deposit money banks in Nigeria.



Table 6:

Fixed Effect Regression Result

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	

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

Source: STATA 16 Output, 2024.

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

Hypothesis One

H₀₁: Audit firm size does not significantly affect the reported earnings quality of quoted deposit money banks in Nigeria.

The Audit Firm Size (AFS) coefficient is -0.0336 (standard error 0.0275), indicating a negative relationship with earnings quality. A 1% increase in AFS leads to a 3.36% decrease in earnings quality (EQ). The t-value is -2.22, and the p-value is 0.025, confirming significance at the 5% level. Thus, the null hypothesis is rejected, concluding that larger audit firms negatively impact earnings quality, possibly due to dependence on those firms. These findings agree with Muhtaseb et al. (2024) but contrast with Lee and Jeong (2024).

Hypothesis Two

H₀₂: Audit fees do not significantly affect the reported earnings quality of quoted deposit



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

Hypothesis One

H₀₃: Audit firm size does not significantly affect the reported earnings quality of quoted deposit money banks in Nigeria.

The Audit Firm Size (AFS) coefficient is -0.0336 (standard error 0.0275), indicating a negative relationship with earnings quality. A 1% increase in AFS leads to a 3.36% decrease in earnings quality (EQ). The t-value is -2.22, and the p-value is 0.025, confirming significance at the 5% level. Thus, the null hypothesis is rejected, concluding that larger audit firms negatively impact earnings quality, possibly due to dependence on those firms. These findings agree with Muhtaseb et al. (2024) but contrast with Lee and Jeong (2024).

Hypothesis Two

H₀₂: Audit fees do not significantly affect the reported earnings quality of quoted deposit money banks in Nigeria.

The Audit Fees (AF) coefficient is 0.0444, indicating a positive relationship with EQ. A 1% increase in AF correlates with a 4.44% improvement in EQ. The t-value is 3.08, and the p-value is 0.003, indicating significance at the 5% level. The null hypothesis is thus rejected, supporting that higher audit fees enhance earnings quality, consistent with the Resource-Based Theory. This aligns with Muhtaseb et al. (2024) and Indarti and Widiatmoko (2021).

Hypothesis Three

H₀₃: Auditor tenure does not significantly affect the reported earnings quality of quoted deposit money banks in Nigeria.

The coefficient for Audit Tenure (AT) is -0.0079, suggesting a 0.79% decrease in EQ for a 1% increase in AT. The results (t-value -1.47, p-value 0.144) are not statistically significant. Thus, the null hypothesis is not rejected, indicating that auditor tenure does not significantly affect earnings quality. These results align with Eshleman and Guo (2020) but contradict Muhtaseb et al. (2024).

Hypothesis Four

H₀₄: Auditor industry specialization does not significantly affect the reported earnings quality of quoted deposit money banks in Nigeria.

The Auditor Industry Specialization (AIS) coefficient is -0.0157, indicating a negative relationship with EQ. A 1% increase in AIS leads to a 1.57% decrease in EQ, yet the t-value (-0.57) and p-value (0.567) indicate this is statistically insignificant. Therefore, the null hypothesis is not rejected, suggesting AIS does not significantly impact earnings quality.



money banks in Nigeria.

The Audit Fees (AF) coefficient is 0.0444, indicating a positive relationship with EQ. A 1% increase in AF correlates with a 4.44% improvement in EQ. The t-value is 3.08, and the p-value is 0.003, indicating significance at the 5% level. The null hypothesis is thus rejected, supporting that higher audit fees enhance earnings quality, consistent with the Resource-Based Theory. This aligns with Muhtaseb et al. (2024) and Indarti and Widiatmoko (2021).

Hypothesis Three

H₀₃: Auditor tenure does not significantly affect the reported earnings quality of quoted deposit money banks in Nigeria.

The coefficient for Audit Tenure (AT) is -0.0079, suggesting a 0.79% decrease in EQ for a 1% increase in AT. The results (t-value -1.47, p-value 0.144) are not statistically significant. Thus, the null hypothesis is not rejected, indicating that auditor tenure does not significantly affect earnings quality. These results align with Eshleman and Guo (2020) but contradict Muhtaseb et al. (2024).

Hypothesis Four

H₀₄: Auditor industry specialization does not significantly affect the reported earnings quality of quoted deposit money banks in Nigeria.

The Auditor Industry Specialization (AIS) coefficient is -0.0157, indicating a negative relationship with EQ. A 1% increase in AIS leads to a 1.57% decrease in EQ, yet the t-value (-0.57) and p-value (0.567) indicate this is statistically insignificant. Therefore, the null hypothesis is not rejected, suggesting AIS does not significantly impact earnings quality.

Control Variables

For Bank Size (BS), the coefficient is -0.0041, showing a negligible impact on EQ, with a t-value of -0.23 and p-value of 0.816, indicating insignificance. Similarly, Leverage (LEV) has a coefficient of -0.0869, reflecting a decrease in EQ, but is also statistically insignificant (t-value -1.54, p-value 0.127).

Conclusion and Recommendations

This study concludes that auditor characteristics significantly influence earnings quality in the Nigerian banking sector. Notably, audit firm size (AFS) has a significant but negative impact on earnings quality, suggesting that larger firms may struggle with maintaining independence and skepticism despite their resources. In contrast, audit fees (AF) have a significant and positive effect, indicating that higher fees, often reflective of greater audit effort, enhance financial reporting quality, aligning with the resource-based theory. Audit tenure (AT) and auditor industry specialization (AIS) show no significant effects, indicating that familiarity from prolonged engagements and sector-specific expertise do not necessarily lead to better earnings quality, potentially due to weak regulatory enforcement or underutilization of specialized knowledge. These findings highlight the need for targeted reforms to optimize the influence of these auditor characteristics on financial reporting quality.

Based on these findings, the study recommends the following:

- i. Banks should prioritize the track record and standards of auditing firms over merely selecting larger ones. Hiring criteria should emphasize the auditor's background, sector knowledge, and history of delivering accurate records.
- ii. Banks should allocate sufficient funds for audit costs, as higher audit fees may indicate a more thorough audit process. This investment enhances financial reporting quality by ensuring auditors have the time and expertise for meticulous examinations.
- iii. While extended audit tenures may yield better returns, it is crucial to uphold auditor independence. Regulators, such as the Financial Reporting Council of Nigeria (FRCN), should enforce legislation that protects auditor independence during prolonged engagements.
- iv. Auditors should invest in specialized training to deepen their understanding of the banking



industry. Institutions and auditors should collaborate to ensure auditors are knowledgeable about the complexities of the financial sector, particularly regarding intricate transactions and regulatory requirements that affect earnings quality.

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