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AUDIT QUALITY AND FINANCIAL REPORTING QUALITY EVIDENCE FROM NIGERIAN LISTED DEPOSIT MONEY BANKS

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Abstract

This study investigates the impact of audit quality dimensions on the financial reporting quality (FRQ) of the 14 deposit money banks listed on the Nigerian Exchange Group (NGX) from 2018 to 2024. Motivated by the persistent failure of banks despite "clean" audit opinions—most recently evidenced by the 2024 collapse of Heritage Bank—this research examines whether audit fees, tenure, and firm size influence reporting integrity. Using a Pooled OLS regression on 98 bank-year observations, the results reveal that audit fees exhibit a statistically significant positive relationship with FRQ (β = 0.0190, p < 0.001), confirming that resource commitment is the primary driver of audit effectiveness. Conversely, audit firm size and auditor

tenure were found to be statistically insignificant. This study argues that in the Nigerian banking sector, "Big Four" affiliation (95% of observations) and mandatory rotation have become structural market baselines rather than differentiators of quality. The findings suggest that regulators should move beyond "brand-name" oversight and focus on the adequacy of audit pricing to ensure rigorous financial monitoring.

Keywords: Audit quality; financial reporting quality; discretionary accruals; audit fees; Nigeria; deposit money banks; agency theory

Introduction

The quality of financial reporting by firms serves as the foundation upon which investors and other stakeholders base their economic decisions. Financial reporting quality refers to the extent to which financial statements accurately reflect a company's true economic position and performance, embodying the attributes of relevance, faithful representation, and decision usefulness (Muhammed et al., 2021). However, the reliability of financial reporting is constantly threatened by the inherent flexibility within accounting standards, which allows managers to exercise judgment in preparing financial statements. This flexibility, while necessary, creates opportunities for manipulation through accrual-based earnings management, where discretionary accounting choices within permitted standards can distort reported earnings (Remlein et al., 2025; Dechow & Skinner, 2000). Accruals are particularly susceptible to managerial influence, and higher levels of discretionary accruals signal opportunistic earnings management, thereby diminishing overall reporting quality (Sani et al., 2023; Kaawaase et al., 2021). Consequently, discretionary accruals have become a widely accepted inverse measure of financial reporting quality in empirical research (Aiman, 2024; Dechow et al., 2021).

The consequences of weak financial reporting are evident in numerous corporate failures both globally and within Nigeria. The collapse of Enron, WorldCom, and more recently FTX and Wirecard demonstrate how audit failures destroy shareholder value. In Nigeria, the liquidation of Heritage Bank in June 2024 represents the most recent addition to a long list that includes Cadbury Nigeria Plc, African Petroleum Plc, Intercontinental Bank Plc, Bank PHB, Oceanic Bank Plc, Skye Bank, and Diamond Bank (Emeka Nwokeji et al., 2022; Okaro & Okafor, 2018). What makes these cases particularly concerning is that many received clean audit reports shortly before their distress became public, raising fundamental questions about audit effectiveness and the reliability of audited financial statements (Ugwu et al., 2020). Deposit Money Banks occupy a uniquely sensitive position within the Nigerian economy due to their role in financial intermediation and their direct impact on monetary stability. Despite a comprehensive regulatory framework administered by the Central Bank of Nigeria and the Financial Reporting Council of Nigeria, the sector has witnessed repeated regulatory interventions. The experiences of Skye Bank in 2018, Diamond Bank in 2019, and Heritage Bank in 2024 underscore persistent vulnerability to poor governance, weak internal controls, and questionable reporting practices (Ibrahim et al., 2020). These incidents have intensified stakeholder demand for higher quality financial reporting and greater scrutiny of the external audit function.

Audit quality therefore occupies a central position in discussions of financial reporting reliability. It refers to the probability that an auditor will both discover and report material misstatements, thereby providing reasonable assurance that financial statements are free from material error or fraud (AICPA, 2023). While audit quality itself is not directly observable,

researchers have developed proxies that capture different dimensions of the audit process, with audit fees, auditor tenure, and audit firm size emerging as the most commonly employed indicators (Ugwu et al., 2020; Jayeola et al., 2020). Audit fees represent the economic resources committed to the audit engagement, with higher fees generally associated with more extensive procedures, greater auditor effort, and deeper scrutiny (Sani & Bawa, 2022; Ganesan et al., 2019). The relationship between fees and quality is complex, as excessive fees may also create economic bonds that threaten auditor independence. Auditor tenure captures the duration of the auditor-client relationship, introducing a temporal dimension to audit quality assessment. Proponents argue that longer tenure enables deeper knowledge of the client's business, enhancing detection ability, while critics contend that prolonged relationships breed familiarity and erode professional skepticism (Sunday, 2019). In response to these concerns, the Central Bank of Nigeria mandates that external auditors of deposit money banks shall not be retained for more than ten consecutive years. Audit firm size, distinguished between Big Four and non-Big Four firms, serves as a proxy for institutional capacity and resource availability. Larger firms generally possess greater technical expertise, sophisticated audit methodologies, and robust quality control systems, enhancing their capacity to deliver consistently high quality audits (Yazan, 2019). The Nigerian banking audit market is characterized by Big Four dominance, with approximately ninety-five percent of listed banks audited by these firms.

Despite extensive research examining audit quality and financial reporting in various contexts, the persistent recurrence of corporate failures in Nigeria suggests that the relationship between these variables remains imperfectly understood within the specific context of the Nigerian banking sector. While previous studies have explored aspects of this relationship, few have systematically examined how the three key dimensions of audit quality collectively influence financial reporting quality among listed deposit money banks. This gap is particularly significant given the systemic importance of the banking sector and the potential for audit failures to undermine market confidence and financial stability. Therefore, this study is designed to address this gap by providing contemporary empirical evidence on the effect of audit quality on the financial reporting quality of listed Deposit Money Banks in Nigeria.

The study pursues three specific objectives. First, it examines the effect of audit fees on financial reporting quality. Second, it assesses the effect of auditor tenure on financial reporting quality. Third, it evaluates the effect of audit firm size on financial reporting quality. These objectives translate directly into the research questions guiding the empirical investigation, namely how audit fees affect financial reporting quality, what effect auditor tenure has on financial reporting quality, and how audit firm size influences financial reporting quality among the sampled banks. To provide statistical rigor and testable propositions, three null hypotheses are formulated. The first hypothesis posits that there is no significant relationship between audit fees and financial reporting quality. The second hypothesis states that there is no significant relationship between auditor tenure and financial reporting quality. The third hypothesis asserts that there is no significant influence of audit firm size on financial reporting quality.

The empirical scope encompasses all fourteen Deposit Money Banks listed on the Nigerian Exchange Group, observed over a seven years period from 2018 to 2024. Audit quality is operationalized using the three proxies discussed, with audit fees measured as the amount paid for audit services, auditor tenure measured as the number of consecutive years an auditor has served the same client, and audit firm size classified as Big Four or non-Big Four based on membership of the dominant international firms. Financial reporting quality, the dependent

variable, is measured using discretionary accruals estimated through the Modified McNichols model, an approach that aligns with established literature using discretionary accruals as an inverse proxy for earnings management and reporting quality (Eshleman & Guo, 2020; Aldahray, 2024; Aliyu & Ismail, 2021).

The significance of this study extends to multiple stakeholder groups. Regulatory authorities, including the Central Bank of Nigeria and the Financial Reporting Council of Nigeria, stand to benefit from evidence-based insights that can inform policy formulation and regulatory oversight. The findings may assist these bodies in evaluating the effectiveness of current audit regulations and in designing targeted interventions to enhance audit quality and financial transparency. For audit firms, the study provides empirical evidence that can inform internal quality improvement initiatives and support their advocacy for policies that promote high quality auditing. Investors and creditors, who rely heavily on audited financial statements for decision making, will gain a deeper understanding of how audit quality dimensions influence the reliability of reported information, thereby enabling more informed investment and lending decisions (Dechow et al., 1995; Francis et al., 2015). Ultimately, by contributing to a more robust and transparent financial reporting environment, this study aims to support greater confidence and stability within the Nigerian financial system, with potential positive implications for economic growth and investor protection (Muhammed et al., 2021).

2. Literature Review

This section encompasses review of relevant literature

Conceptual Framework

This section provides the operational definitions of the variables employed in this study, ensuring clarity and consistency in their application.

Financial Reporting Quality (FRQ)

Financial reporting quality (FRQ) has received extensive attention in recent literature, with scholars offering nuanced definitions that emphasize its role in enhancing the reliability and usefulness of financial statements. The FASB (2020) offered an appealing definition of financial reporting quality as the degree to which financial reports provide decision useful information about a company's financial position, performance, and cash flows. Hsu and Yang (2022) describe high-quality financial reporting as the provision of decision-useful information that faithfully represents the firm’s financial position and activities. Similarly, Alwan, Alyaseri, & Salman (2023) define FRQ as the degree to which financial reports accurately reflect the true operations and economic status of an entity. Anto & Yusran (2023) view FRQ as the accuracy of reports in conveying information about future cash flows and supporting financial contracting. These perspectives converge on key attributes such as relevance, faithful representation, and verifiability. Therefore, for the purpose of this study, financial reporting quality is defined as the degree to which financial statements accurately, completely, and faithfully present a company’s economic performance and position thereby providing useful, verifiable information that aligns with cash flows, complies with standards, and is underpinned by rigorous audit and governance processes.

Audit Quality

Audit quality represents a fundamental pillar of credible financial reporting, serving as a critical safeguard against misstatements and corporate failures. It is broadly defined as the degree to which an audit provides assurance that a company's financial statements are free from material misstatement, whether due to fraud or error (AICPA, 2023; IAASB, 2021). Central

to this definition is the auditor's dual responsibility to both detect and report material misstatements, a view supported by scholars who conceptualize audit quality in terms of the auditor's ability and willingness to fulfil this role effectively (Jae et al., 2013; Mališ & Brozović, 2019). The concept encompasses not only technical assurance but also reputational and informational dimensions, recognizing that high quality audits enhance the credibility of financial reports and reduce information asymmetry between corporate insiders and external stakeholders (Francis et al., 2015). A comprehensive understanding of audit quality rests on several interrelated dimensions. Accuracy ensures that financial statements reflect the true financial position of the entity, while reliability involves consistent and verifiable audit outcomes. Credibility strengthens stakeholder trust in the information provided, and professional competence alongside independence underpins objective judgment and compliance with auditing standards. These attributes are shaped by both the technical capability of the auditor and the institutional context in which the audit is conducted, including regulatory enforcement and audit firm reputation. In empirical literature, three proxies are commonly employed to capture these dimensions: audit fees, which reflect audit effort and engagement complexity; audit tenure, which captures the duration of the auditor-client relationship; and audit firm size, particularly membership of the Big Four, which signals resource availability and adherence to high professional standards (Ugwu et al., 2020; Jayeola et al., 2020). This study adopts these three proxies to examine their effect on financial reporting quality among Nigerian deposit money banks.

Audit fees represent the compensation paid to auditors for examining and reporting on financial statements. Beyond being a transactional cost, fees serve as an economic signal of audit quality, reflecting the level of effort, expertise, and resources devoted to the engagement (Simunic, 1980; DeAngelo & Rice, 1989). Ye (2020) conceptualizes audit fees as an essential element of the auditor's incentive framework, framing them as a strategic instrument that influences auditor motivation and dedication to maintaining rigorous standards.

Auditor tenure refers to the duration of the professional relationship between an audit firm and its client, measured in consecutive years of engagement. This temporal dimension carries significant implications for audit quality, as extended tenure enables auditors to develop deeper knowledge of the client's operations, accounting systems, and business risks, potentially enhancing their ability to detect misstatements (Francis, 2005; Carcello et al., 2000). However, prolonged relationships also raise concerns about familiarity threats that may compromise professional skepticism and auditor independence (Robinson & Smith, 2022). Scholars have therefore debated the optimal balance between the benefits of client-specific knowledge and the risks of diminished objectivity. Johnson et al. (2002) and Griffin et al. (2009) elaborate on this concept by defining tenure as the number of consecutive years of audit firm engagement, capturing both the formal nature of the relationship and the scope of services provided. Building on these perspectives, this study views auditor tenure as the consecutive duration of a formal professional relationship between an audit firm and a client, characterized by the provision of audit services over successive fiscal periods.

Audit firm size serves as a proxy for institutional capacity and the scale of resources available to an audit engagement. The size advantage extends beyond technical resources to include greater public scrutiny and reputational capital, which incentivize larger firms to maintain stringent quality standards (Jensen & Meckling, 1976; Beasley et al., 2002). Alternative definitions consider revenue, total assets, number of employees, and total capital as indicators of firm size, all pointing to the same conclusion that scale and capacity significantly influence audit effectiveness (Lia & Michael, 2020). This study adopts the

conventional classification of audit firm size as Big Four or non-Big Four, measured using a dummy variable where one represents firms belonging to Deloitte, PwC, EY, or KPMG, and zero represents all others (Habib et al., 2010).

Conceptual Framework

The conceptual framework in the context of this study is a visual representation of the relationships proposed among the Dependent and independent variable.

Empirical Review

The relationship between audit quality and financial reporting quality centers on the role of audits in mitigating discretionary accruals, which represent a primary channel for earnings manipulation. Previous studies consistently demonstrate that high audit quality, characterized by experienced auditors, stringent oversight, and adherence to regulatory frameworks, plays a critical role in curbing unethical reporting practices and enhancing the reliability and transparency of financial statements (Ganesan et al., 2019). High levels of discretionary accruals have been linked to earnings inflation, which diminishes reporting quality in the current period and reduces the usefulness of financial statements in future periods (Olusegun et al., 2025; Sinta & Silyvia, 2019) Within Nigeria's banking sector, which is pivotal to national financial stability, understanding these dynamics is particularly important given increasing scrutiny over reporting practices (Emeka Nwokeji et al., 2022).

Audit Quality and Financial Reporting Quality

Audit quality has attracted significant attention following high-profile corporate failures globally and within Nigeria (AICPA, 2023; Jae et al., 2013). The collapse of Heritage Bank in 2024, Enron, and numerous Nigerian banks despite receiving clean audit reports underscores the critical importance of audit quality and the need to examine the specific features that determine it (Emeka Nwokeji et al., 2022; Suhita et al., 2022). Empirical evidence from Nigeria establishes that audit quality is positively correlated with reduced accrual-based earnings management, with auditor independence and tenure significantly influencing reporting outcomes (Soyemi et al., 2020). Jayeola et al. (2020) corroborate these findings, demonstrating that high audit quality increases the likelihood of accurate financial statements that truly reflect an entity's financial position. More recently, Pius et al. (2023) confirm a positive relationship between audit quality and financial reporting quality, suggesting that financial resilience is partly determined by the rigour of external audits.

Previous Researches generally support findings, though with important contextual nuances. Francis et al. (2008) and Habib et al. (2010) found positive associations between audit quality and reporting quality, though the impact may be weaker due to less robust regulatory frameworks and lower investor protection. Studies in Jordan reveal significant positive effects of audit tenure and firm size on audit quality in the banking sector (Yazan et al., 2019). However, the body of evidence presents mixed results, with some studies finding positive associations while others report insignificant or negative relationships (Olalere et al., 2023; Dang et al., 2023; Jayeola et al., 2020). Evelyn et al. (2019) provide important insights by examining the interrelation between audit quality and managerial reporting choices, finding that higher expected audit quality positively influences financial reporting quality, while managers' reporting bias affects auditors' quality decisions. This reciprocal relationship underscores the complex dynamics shaping reporting outcomes.

Studies focusing specifically on Nigeria highlight persistent challenges including weak corporate governance, low investor protection, and limited access to reliable financial information (Adebayo et al., 2024). The collapse of banks such as Heritage Bank, Oceanic Bank,

and Afri Bank, despite audit reports affirming their financial health, suggests that audit quality alone may be insufficient to ensure reporting reliability (Hirhyel et al., 2020). These cases indicate a possible disconnect between audit quality and actual financial stability, raising questions about audits' effectiveness in detecting systemic issues. The mixed findings across studies suggest that the impact of audit quality may be moderated by regulatory environments, corporate governance frameworks, and institutional challenges. In countries like Nigeria, weak regulatory mechanisms and poor enforcement of reporting standards could diminish the effect of high-quality audits on reporting outcomes. This points to the need for a broader perspective that considers the context within which audits are conducted.

Audit Fees and Financial Reporting Quality

Research examining the relationship between audit fees and financial reporting quality has produced divergent findings across different economic settings (Gu & Hu, 2015; Gandía & Huguet, 2021). The amount paid for audit services and its association with financial misstatement has attracted considerable scrutiny from regulators, investors, and academics. Ganesan et al. (2019) demonstrate that audit fees have a positive relationship with audit quality, suggesting that higher fees reflect greater auditor effort and commitment. The underlying logic is that auditors who receive higher compensation have stronger incentives to work diligently and constrain managers' opportunistic manipulation of financial reports (Bilgies et al., 2023; Krisnia et al., 2024). Sani and Bawa (2022) provide evidence from Nigeria confirming a positive and significant relationship between higher audit fees and financial reporting quality, consistent with the view that adequate remuneration enables more thorough audit procedures.

The theoretical basis for this relationship rests on agency theory, which recognises the inherent conflict between management's focus on profitability and the auditor's role as an independent monitor. Higher audit fees can serve as a mitigating factor by creating incentives for auditors to exert greater effort and maintain independence, ultimately delivering more thorough audits (Ojeaga & Ezejiofor, 2023). Jae et al. (2013) support this view, arguing that higher fees increase the likelihood of detecting misstatements. However, contrasting evidence suggests that excessive fees may compromise auditor independence, leading to lower reporting quality. Lestari et al. (2024) find that audit fees do not significantly affect the integrity of financial reports, while Pham et al. (2017) and Jia (2018) document negative relationships, arguing that high fees reduce independence and encourage compliance with client interests. Witjaksono and Leidessya (2024) similarly report a significant negative influence, challenging the assumption that higher fees incentivize diligence. These inconsistencies suggest that the relationship between fees and quality is nuanced, potentially moderated by factors such as auditor reputation and client bargaining power. Large established firms may command premium fees without necessarily conducting more in-depth audits due to their strong reputations, while client shopping behaviour can weaken the leverage that higher fees provide. Despite these complexities, this study aligns with the position that higher audit fees are associated with improved financial reporting quality, consistent with the conclusion of Salma and Ramadan (2022) that increased fees enhance auditors' ability to detect earnings management.

Auditor Tenure and Financial Reporting Quality

Auditor tenure, representing the duration of the auditor-client relationship, has been classified into short tenure of three years or fewer and long tenure of eight years or more (Horne, 2015; Adu, 2012). The literature presents mixed findings regarding its impact on

reporting quality. Some studies suggest that longer tenure enhances financial reporting quality by enabling auditors to develop deeper understanding of clients' operations, financial systems, and industry-specific risks. Osemeke et al. (2020) found that extended relationships in Nigerian deposit money banks contributed to improved compliance with reporting standards, facilitated by auditors' familiarity with clients' processes. Jae et al. (2013) similarly observe that longer tenure improves auditors' ability to detect irregularities and misstatements.

However, prolonged tenure also raises concerns about auditor independence and the risk of audit capture, where auditors become overly influenced by client management (Simunic, 1980). A string of high-profile audit failures worldwide has shaken stakeholder confidence and raised serious questions about the credibility of audited financial statements (Okezie, 2016; Luzi Hail et al., 2018). In Nigeria, instances of financial misreporting at Cadbury Nigeria Plc, African Petroleum Plc, Intercontinental Bank Plc, and Bank PHB, among others, have undermined trust in reported figures (Emeka Nwokeji et al., 2022). These scandals occurred despite audits by prominent firms, suggesting possible independence compromises arising from long-standing professional relationships (Ayorinde & Babajide, 2015). The recent collapse of Heritage Bank in 2024, which received clean audit reports shortly before its liquidation, exemplifies this disturbing pattern.

Concerns about auditor independence have led regulators to impose tenure restrictions. The Central Bank of Nigeria mandates that external auditors of deposit money banks shall not be retained for more than ten consecutive years, aiming to mitigate familiarity threats. However, short-term relationships may also carry risks due to insufficient client knowledge. The mixed evidence, with studies finding both positive and negative associations (Medhat et al., 2018; Dioha, 2017), suggests that the relationship between tenure and reporting quality is complex and context-dependent. This study acknowledges these complexities while examining tenure's effect within Nigeria's regulated banking environment.

Audit Firm Size and Financial Reporting Quality

The classification of audit firms into Big Four and non-Big Four categories carries significant implications for perceptions of expertise, resource availability, and audit quality. Research generally indicates that larger firms, particularly the Big Four, are associated with higher audit quality due to their extensive resources, sophisticated methodologies, and reputational capital (Ugwu et al., 2020; Musa & Sani, 2017). Stakeholders often perceive firms audited by the Big Four as free from material misstatement, which enhances confidence and encourages investment (Khurana & Raman, 2010). De Angelo (1981) established that larger auditors tend to provide higher quality audits, a finding consistently supported by subsequent theoretical and empirical research.

The advantages of large audit firms extend to their ability to attract competent auditors, invest in continuous professional development, and maintain robust quality control systems. Li et al. (2009) note that large and specialized auditors are perceived as having greater insurance coverage in the event of audit failure, enhancing their value to clients. However, the relationship between firm size and audit quality is not without nuance. Hennes et al. (2011) caution that large firms may face pressures to maintain client relationships and revenue growth, potentially compromising independence. Knechel and Peecher (1986) similarly acknowledge that size alone does not guarantee superior audit outcomes. Regulatory frameworks emerge as a moderating factor, with strong governance mechanisms potentially standardising quality across firms of varying sizes (Salman & Setyaningrum, 2023). Interestingly, smaller firms can demonstrate comparable quality by cultivating specialised expertise and developing intimate client understanding. Evidence from ASEAN countries and Nigeria suggests that the impact of

audit firm size varies across regions, with some studies finding insignificant effects while others report positive associations (Witjaksono & Leidessya, 2024; Okereke et al., 2023). This study adopts the conventional classification of audit firm size as Big Four or non-Big Four while recognising that size is one of multiple factors influencing audit effectiveness.

Underpinning Theories

Positive Accounting Theory

Positive Accounting Theory explains and predicts accounting practices by focusing on managers' incentives in making accounting choices. The theory posits that managers utilise accounting discretion to optimise organisational performance and shape stakeholder perceptions, with their decisions influenced by cognitive abilities, ethical standards, and professional expertise (Srivastava & Baag, 2020; Kaya, 2017).

Agency Theory

Agency Theory focuses on the conflict of interest between managers as agents and shareholders as principals, arising from information asymmetry and divergent objectives. The theory suggests that managers may manipulate financial statements for personal gain, potentially undermining reporting accuracy and transparency (Chen, 2023). Earnings management is often viewed as a response to these agency problems, with weak governance and inadequate oversight enabling manipulative practices (Flayyih & Khiari, 2023). Auditor Independence Theory, derived from agency theory, addresses these concerns by emphasising the role of objective, independent audits in mitigating manipulation. Factors such as audit fees, tenure, and independence are critical for maintaining audit objectivity and, by extension, financial reporting integrity (Abderrahim, 2024; Tolstov & Shevchenko, 2020). The three audit quality proxies examined in this study do not operate in isolation but interact dynamically. Large audit firms may command higher fees due to institutional reputation while leveraging resources across varying tenure periods (Salma & Ramadan, 2022). Empirical findings grounded in agency theory support the use of these proxies to address information asymmetry between management and stakeholders (Aiman et al., 2024). Collectively, they provide a comprehensive framework for assessing the mechanisms that enhance financial reporting reliability and stakeholder confidence (Muhammed et al., 2021).

Research Methodology

The study employed ex-post factor research design to examine the effect of audit quality on financial reporting quality. The population and sample size for this study comprised all the Fourteen (14) deposit money banks listed on the Nigerian Exchange Group (NGX) between January 2018 to December 2024 . Descriptive statistic was used to summarize the data and inferential statistics to predict or infer about the population base on sample data extracted from annual financial reports for the years 2018 to 2024, resulting in 98 bank-year observations.

Variables Measurement

This study operationalized FRQ by employing the absolute value of the cash flow-earnings divergence, (Beatty & Liao, 2021). The measure is calculated as the absolute difference between operating cash flow and net income, scaled by lagged total assets. To measure independent variable, Audit Quality was proxied by audit fee, audit tenure and audit firm size.

Audit Fees was measured using the natural logarithm of reported fees to normalize the distribution (Armawan & Wiratmaja, 2020). Auditor Tenure was measured using dummy

variable of 0,1 to represent the duration of the auditor client relationship, where 0 indicates short term tenure (<3 years) and 1 signifies long term tenure (≥3 years). Audit Firm Size: was operationalized by classifying audit firms in line of Big Four versus non Big four using a dummy variable where '1' represents Big Four firms such as Deloitte, PwC, EY, KPMG, and '0' represents others. (Alu**,** 2023**;** Salma and Ramadan, 2022).

Model Specification

Financial reporting quality was estimated using adapted Modified McNichols (2002) Model.
The regression model is specified as follows:

$FRQ_{it} = \beta_0 + \beta_1 ADF_{it} + \beta_2 ADT_{it} + \beta 3ADSit + \mu_i + \lambda_t + \varepsilon_{it}$ …………………………………… (1)

To ensure the empirical reliability of the results, several diagnostic assessments were conducted prior to the main analysis. Specifically, the potential for multicollinearity was evaluated using a Pairwise Correlation Matrix, which revealed that all coefficients remained well below the 0.80 threshold (Gujarati, 2009), thereby confirming the independence of the explanatory variables. Furthermore, distributional properties were examined through skewness and kurtosis metrics; while audit fees and tenure exhibited near-normal distributions, the high concentration of Big Four auditors (95%) created a leptokurtic distribution for firm size, a characteristic inherent to the concentrated nature of the Nigerian banking sector. Consequently, the use of natural logarithms for audit fees was employed to mitigate potential heteroscedasticity and ensure the stability of the variance across the panel observations.
The Pooled OLS estimator was adopted because the diagnostic tests, including the Breusch-Pagan Lagrange Multiplier and Hausman tests, indicated that the error terms were independent of the regressors and that there was no significant unobserved bank-specific heterogeneity requiring a fixed or random effects framework.

Descriptive Statistics

Table 1

Descriptive Statistics of Study Variables (N = 98)

Variable	Mean	Std. Dev.	Min	Max	Skewness	Kurtosis
FRQ	0.90	0.33	0.09	1.60	0.15	2.63
ADF	48.96	9.17	23.80	68.52	-0.17	2.79
ADT	4.35	2.67	1	10	0.37	3.00
ADS	0.95	0.22	0	1	–4.08	17.65

Source: Researchers collation using Strata 17.0, 2025.

Note: *FRQ = Discretionary Accrual; ADF = Audit Fees; ADT = Audit Tenure; ADS = Audit Firm Size.*

The dataset comprises 98 balanced observations drawn from 14 Nigerian deposit money banks over a seven-year period (2018–2024). The mean value for FRQ is 0.90 with a relatively standard deviation of 0.33, indicating considerable variability in financial reporting quality across the sampled banks. The minimum and maximum values of FRQ (0.09 and 1.6, respectively) further reflect substantial variation, which may be attributable to strength in internal controls, reporting standards, or audit oversight in banking sector.

Audit fees (ADF) exhibit a mean of 48.96, with a standard deviation of 9.17, suggesting noticeable dispersion in the audit fee structure among the banks. The minimum audit fee is 23.8, while the highest is 68.52, pointing to a wide range in the magnitude of audit-related expenditures.

Audit tenure (ADT), which captures the number of consecutive years an audit firm has served a bank, averages 4.35 years with a standard deviation of 2.67, and ranges between 1 and 10 years. This suggests some banks have long-standing auditor relationships, while others experience more frequent rotation.

Audit firm size (ADS) is a dummy variable (Big 4 = 1, otherwise = 0) and has a mean value of 0.95, indicating that the majority of banks in the sample are audited by Big 4 firms. This observation underscores the predominance of large audit firms in the Nigerian financial sector.

Correlation Analysis

The results of Pearson correlation between the explanatory variables are presented in the table below:

Table 2

Pairwise Correlation Matrix of Study Variables (N = 98)

VARIABLE	ADF	ADT	ADS
ADF	1.0000		
ADT	0.1014	1.0000	
ADS	0.0386	-0.1094	1.0000

*Correlation is significant at the 0.3 level (2-tailed).

Note: *ADF = Audit Fees; ADT = Audit Tenure; ADS = Audit Firm Size.*

The results in Table 2 above shows correlation matrix of the independent variables used in this study. This reveals no correlations between proxies of audit quality (ADF, ADT and ADS), with each other, with the highest correlation being between audit fees and auditor tenure (0.1014. This pattern suggests minimal multicollinearity concerns, as established by Gujarati (2009), who indicates that correlation coefficients below 0.80 are generally acceptable for inclusion in regression models.

Regression Analysis

This section presents the regression results of, audit fee, audit Tenure, audit firm size (independent variables) and financial reporting quality (dependent variable).

Table 3

Test of Hypothesis Audit Quality and Financial Reporting Quality

Variable	B	SE	t	p	Decision
ADF	0.0190	0.0031	6.03	0.000***	Rejected
ADT	-0.0028	0.0116	-0.25	0.806	Accepted
ADS	0.0574	0.1414	0.41	0.686	Accepted
Constant	-0.0756	0.2153	-0.35	0.726	

Author's compilation 2025

Note. N = 98. $R^2 = 0.289$, Adjusted $R^2 = 0.266$, $F(3, 94) = 12.73$, $p < .001$.

The pooled OLS regression results on table 3 presents result of coefficients of audit quality indicators. The results depict that the R2 is about 0.266, which gives the proportion, or percentage of the total variation in the dependent variable explained by the audit fee, audit Tenure, audit firm size of the sampled DMBs. It signifies that 26.7% of the total variations in FRQ of sampled banks are caused by audit fee, audit tenure, audit firm size, while the

remaining 73.4% of the total variation in FRQ was caused by factors not explained by the model.

The result in table 3 shows that the coefficient for audit fees (β = 0.0190, p < 0.001) demonstrates a highly significant and positive relationship with financial reporting quality indicating that higher audit fees are associated with better financial reporting quality. In contrary, Auditor tenure exhibits no statistically significant relationship with FRQ (β = -0.0026, p = .820). This finding suggests that the duration of auditor-client relationships does not materially influence financial reporting quality within the Nigerian banking context. And like wise Despite theoretical expectations, audit firm size demonstrates no statistically significant effect on FRQ (β = -0.0056, p = 0.968). This result suggests that engagement by Big 4 versus non-Big 4 audit firms does not significantly differentiate financial reporting outcomes among Nigerian banks, this is practically reflected on auditor's engagement, as 96% of the firm-year observation indicated the use of Big-4 audit firms, possibly reflecting relatively uniform audit firm quality and standards within the banking regulatory environment.

Discussion of Findings

Audit Fees and Financial Reporting Quality

The coefficient for Audit Fees is 0.222, with a p-value less than 0.001. This indicates that audit fees have a highly significant positive relationship with financial reporting quality in Nigerian banks. As the strongest predictor, this suggests that higher audit investments translate directly into enhanced reporting quality. This finding aligns with several empirical studies that documented positive relationship between audit fees and reporting quality. The study's finding is consistent with empirical study by Ganesan et al., (2019) and Alves (2021), as cited in Salma & Ramadan, 2022), who argue that higher audit fees incentivize auditors to exercise greater diligence, thereby enhancing financial reporting quality.

The significant positive relationship observed in this study can be explained through several theoretical lenses. This finding is supported by agency theory view that higher audit fees enable more extensive audit procedures, reducing information asymmetries between bank management and stakeholders. Within Nigeria's banking sector, which operates under stringent regulatory oversight by the Central Bank of Nigeria (CBN) and the Financial Reporting Council of Nigeria (FRCN), higher audit fees may reflect the complexity and comprehensiveness required for effective banking audits. The regulatory intensity may create a premium for quality auditing services, where banks willing to invest in higher audit fees receive correspondingly superior audit quality. This relationship is particularly relevant given the systemic importance of banks and the need for robust financial reporting to maintain stakeholder confidence and regulatory compliance.

However, this finding contrasts studies of Pham et al., (2017) and Jia (2018), who found negative relationships, arguing that excessive audit fees might compromise auditor independence. Unlike Emeka-Nwokeji et al., (2022), who found negative but insignificant effects of audit fees on audit quality in Nigerian firms, may be attributed to sectoral differences and the unique regulatory environment of the banking industry.

Audit Tenure and Financial Reporting Quality

This study found that audit tenure (ADT) exhibits a coefficient -0.0026 with a p-value of 0.820, indicating a negative relationship but, not statistically significant on financial reporting quality. This suggests that, within the Nigerian banking sector over the period 2018–2024, the length of time an audit firm remains engaged with a bank does not materially impact the quality of financial reporting.

Previous authors such as this study's finding, like that of Dioha C. (2017), who empirically found that audit tenure may not be a major determinant of audit quality nor financial reporting quality within the Nigerian banking landscape. A likely explanation for this insignificance lies in Nigeria's regulatory framework, where Financial Reporting Council of Nigeria (FRCN) enforces a mandatory audit firm rotation policy, which restricts auditor tenure to a maximum of ten years with a cooling off period of 7 years. This statutory cap is intended to mitigate the familiarity threat associated with long-term auditor-client relationships while still allowing sufficient time for the auditor to understand the client's business. In such a regulated environment, the risks associated with both short and excessively long tenures are already being managed, thereby neutralizing audit tenure as a significant influence on financial reporting quality. The 2018-2024 study period reflects a more compliance-driven audit environment, where uniform application of tenure regulations may explain the variable's lack of significance.

In contrary, Jayeola et al., (2020), established positive relationship between audit independence and earnings management. among Nigerian Listed Deposit Money Banks, the study adopted a longitudinal research design and secondary data covering a period of 2005-2014 however, only six (6) banks were randomly selected out of the population of fifteen (15) deposit money banks listed on Nigerian Stock Exchange as at 2016, resulting to 60 observations. the study found an insignificant negative relationship between audit tenure and earnings management ($\beta 2=-0.0078915$; $t=-0.12$; $p=0.906>0.05$). The study concluded that lengthy audit tenures were mechanisms adopted by banks' managers to influence auditors' objectivity in the course of audit assignment. Thereby, recommended that lengthy audit tenure be discouraged. In another related studies, Reurink (2018) in UK and Alsmairat et al., (2019) in Jordan observed that longer auditor-client relationships improved audit quality due to accumulated institutional knowledge and operational familiarity. Santos-Jaén et al., (2022) in the US also found that financial statement quality tends to improve with auditor continuity.

In summary, while theoretical and empirical arguments remain divided on the effects of auditor tenure, our findings supported by Dioha C., (2017), suggest that lengthy tenures do not necessarily enhance audit quality and could, in fact, present subtle risks to auditor independence. The Nigerian regulatory limit of ten years serves as an important mechanism to moderate these risks, contributing to the observed lack of significance in the study's empirical results.

Audit Firm Size (ADS) and Financial Reporting Quality

Audit firm size demonstrates a coefficient of -0.0056 with a p-value of 0.968, indicating no statistically significant effect on financial reporting quality. This finding is inconsistent with popular view of some previous authors, including Olalere (2023), Jayeola et al. (2020), and Salma and Ramadan (2022), who found positive significant relationships between ADS and FRQ.

In the context of this study, the insignificant relationship may reflect the unique characteristics of Nigeria's banking audit market. With 95% of sample banks engaging Big 4 firms, there is insufficient variation in this variable to detect meaningful differences. This market concentration suggests that Big 4 dominance in Nigerian banking has created a relatively uniform audit quality baseline. Furthermore, the stringent regulatory requirements imposed by the CBN may standardize audit practices across firm sizes, reducing the differential advantages traditionally associated with larger audit firms. The regulatory framework may compel all audit firms serving banks to adhere to similar quality standards, thereby diminishing size-based quality differentials.

Conclusion

Based on the empirical evidence generated from the Pooled OLS regression, it was concluded audit fees stand out as a critical and positive determinant of financial reporting quality. This finding underscores the notion that the monetary investment in audit services is a pivotal factor in enhancing the reliability and accuracy of financial statements in Nigerian Deposit Money Banks. Conversely, the study finds that Audit Firm Size and Auditor Tenure do not significantly differentiate reporting quality among Nigerian banks. Far from being a failure of these proxies, this result highlights a state of Institutional Maturation and Structural Market Constraint. Because 95% of Nigerian banks employ Big Four firms and strictly adhere to the Central Bank of Nigeria’s (CBN) 10-year mandatory rotation policy, these factors have become a standardized regulatory "floor." In such a homogenous environment, "who" performs the audit or "how long" they have been there is less critical than the economic resources (fees) committed to the exercise. Therefore, in the Nigerian banking sector, audit quality is driven by resource intensity rather than brand name or duration of engagement.

Recommendations

Based on the conclusions drawn, this study offers the following recommendations for various stakeholders. For regulatory bodies such as the Central Bank of Nigeria and the Financial Reporting Council of Nigeria, it is recommended that regulatory bodies should prioritize Audit Resource Allocation, Since audit fees are the primary driver of reporting quality, bank boards and audit committees should ensure that audit pricing is commensurate with the complexity of bank operations. Regulators should discourage "low-balling" (underpricing audits), as insufficient fees may limit the depth of the audit and compromise the detection of financial irregularities.

For audit firms, this study recommends a more proactive communication of the value derived from audit fees. They should articulate to clients and the wider market how a higher resource allocation to the audit process directly contributes to enhanced financial reporting integrity, as evidenced by this research.

Secondly, regulators and investors should recognize that in the Nigerian banking context, a "Big Four" signature is a minimum requirement for entry, not a guarantee of superior quality over peers. Oversight should shift from merely checking the "firm size" to evaluating the scope of work and hours committed by the audit team.

Suggestions for Further Studies

This study, while informative, presents several avenues for future research. Subsequent studies could seek to expand the sample size or the period of study to enhance the generalizability of the findings. Another promising direction involves employing alternative methodologies, such as panel data models with fixed or random effects, to account for unobserved individual bank characteristics and validate the findings from the Pooled OLS approach.

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