

Effect of Audit Independence on the Financial Reporting Quality of Listed Deposit Money Banks in Nigeria

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ABSTRACT

This study examines the effect of audit independence on the financial reporting quality of listed deposit money banks in Nigeria. The objectives are to explore the impact of audit fees, audit firm size, and audit tenure on financial reporting quality. An ex-post facto research design was adopted, employing both descriptive and inferential statistics to analyze data from 14 Nigerian listed deposit money banks, using secondary data from their annual reports (2016–2023). Panel regression models were applied, utilizing common, fixed, and random effects to account for cross-sectional and time effects. The findings indicate that higher audit fees exert a negative but statistically significant impact on financial reporting quality ($P\text{-Value} < 0.05$), while audit firm size also has a statistically significant negative impact ($P\text{-Value} < 0.05$). Conversely, audit tenure does not significantly influence financial reporting quality ($P\text{-Value} > 0.05$). The study concludes that audit independence, particularly regarding audit fees and firm size, can undermine financial reporting quality. This highlights the need for regulatory reforms to ensure auditors' independence. It recommends further exploration into the regulatory and professional standards to address these challenges in Nigeria's banking sector.

Keywords: audit independence, financial reporting quality, audit fees, audit firm size, audit tenure, Nigeria's deposit money banks.

INTRODUCTION

Background to the Study

Auditor independence has become a central topic in modern financial reporting. Various regulatory bodies, such as the Auditing Standards Board, Public Oversight Board, Independence Standards Board, and particularly the Securities and Exchange Commission (SEC), have focused on enhancing and defining auditor independence (Zhang, 2019). This emphasis stems from the crucial role auditors play in improving the reliability and trustworthiness of financial reports, which are essential for stakeholders like shareholders, investors, creditors, and regulators to make informed decisions (Salehi et al., 2020).

Historically, financial reporting was not viewed as vital for decision-making, especially during the medieval period. However, as commerce and corporate entities evolved, the need for financial statements grew. Today, financial reporting has become an essential tool for stakeholders to make informed decisions about the financial health of companies (Muhammad et al., 2022; Akbar et al., 2020). To ensure the quality of financial reporting, the SEC mandates publicly traded companies to follow set standards and undergo audits by certified public accounting firms (Susanti & Leny, 2018). These audits provide an independent evaluation of the accuracy and fairness of financial statements, reinforcing the reliability of the information disclosed.

Auditors primarily aim to offer assurance that the financial statements prepared by management are fair and accurate. While management is responsible for preparing the reports, auditors provide an impartial review of these documents (Yakubu & Williams, 2020; Yeng & Oppong, 2024). The importance of auditor independence extends beyond financial statements to other non-audited data provided by management, ensuring that auditors can perform their duties without undue influence. This impartiality is vital for maintaining the integrity of the audit process and ensuring the credibility of financial reports (Alwardat, 2019).

To safeguard auditor independence, the SEC has introduced rules requiring publicly traded firms to disclose

payments made to external auditors for non-audit services. This policy is designed to prevent financial relationships that could compromise the auditor's objectivity (Bratten et al., 2019). From an ethical standpoint, auditor independence is essential for the credibility of the accounting profession. Auditors must remain unbiased in their evaluations, despite external pressures or financial incentives (Ganesan et al., 2019). A compromised independence undermines the quality of financial reporting, which could lead to misguided decisions by stakeholders.

Despite these measures, concerns persist regarding the impact of factors such as high audit fees, long audit tenures, and the dominance of major audit firms. High audit fees may create economic dependencies that affect audit judgments, while prolonged audit tenures could reduce professional skepticism, making it harder to detect errors or fraud (Akbar et al., 2020; Fossung & Verges, 2022). The dominance of a few large audit firms may also lead to complacency over time.

Financial reporting quality is particularly critical in sectors like banking, where the integrity of financial statements influences investor decisions. When auditors maintain independence, they are better able to identify errors, fraud, or misstatements, enhancing the credibility of financial reports (Okaro et al., 2018; Okoh & Audu, 2024). High-quality financial reporting leads to better decision-making, efficient capital allocation, and improved investment outcomes. This study, therefore, investigates the effect of audit independence on the financial reporting quality of listed deposit money banks in Nigeria.

Statement of the Problem

Leadership challenges and inaccuracies in annual reports have been distorting the decisions of potential investors (Iyungu et al., 2019). This undermines the integrity of financial statements, highlighting the importance of auditors in addressing these issues by executing their audit responsibilities effectively (Shakhatreh et al., 2020). The problem is exemplified by events such as the Enron scandal in 2002, the collapse of Lehman Brothers, and the global financial crises of 2008, all of which were partly attributed to misleading financial statements (Ogoun & Perelayefa, 2020). In Nigeria, similar scandals have raised doubts about the reliability of financial reports, with notable cases involving the Nigerian National Petroleum Corporation (NNPC) and Cadbury Nigeria Plc (Sunday, 2019).

These concerns about audit quality and the integrity of financial reports have led to calls for enhanced regulations and corporate governance reforms (Imafidon et al., 2023). Existing studies present conflicting views on the relationship between audit independence and financial reporting quality. For instance, Stella (2019) and Audu (2019) suggest that high audit quality correlates with more stable financial reporting, while studies like Kamil (2020) and Moraes & Martinez (2015) argue that audit independence may negatively impact financial reporting quality. This inconsistency in research highlights the need for further investigation, especially within the context of Nigeria's banking sector, which is crucial to the country's economy. Ensuring high standards of financial reporting in the banking sector is vital for maintaining investor confidence and promoting economic stability. The broad objective of the study is to assess the effect of audit independence on the financial reporting quality of listed deposit money banks in Nigeria. The specific objectives were to:

1. Examine the extent to which audit fees affect the financial reporting quality of listed deposit money banks in Nigeria.
2. Assess the way audit firm size influences the financial reporting quality of listed deposit money banks in Nigeria.
3. Investigate the effect of audit tenure on the financial reporting quality of listed deposit money banks in Nigeria.

REVIEW OF LITERATURE

Conceptual Review

Financial Reporting Quality

Financial reporting is the medium through which executives communicate the management of capital allocated

by owners. As noted by Tobi et al. (2016), financial reporting must be clear and accurate to avoid misleading users. Auditors, appointed during annual general meetings (AGMs), enhance the legitimacy of financial statements, improving the quality of reporting (Widyaningsih et al., 2019). High-quality financial reporting is characterized by clear, precise, and relevant information. Effective disclosures reduce information asymmetry between management and stakeholders, thus lowering capital costs and enhancing market efficiency (Abdul-Rahman et al., 2017). Studies have identified factors like company size, ownership structure, and regulatory environment that affect disclosure quality, promoting greater transparency (Herath & Pradier, 2018).

The International Accounting Standards Board (IASB) categorizes financial reporting quality into essential and supplementary characteristics. Attributes such as accuracy, timeliness, and comparability are vital for reliable financial statements (Ibrahim & Ibrahim, 2018; Jenkins & Stanley, 2019). Auditing, which identifies accounting violations and inaccuracies, plays a key role in ensuring the credibility of financial reports (Kariuki & Oluoch, 2020; Majiyebo et al., 2018). Auditor independence is essential for upholding trust in financial reports. When auditors maintain independence, stakeholder confidence increases, improving the credibility of financial data (Priyanti & Dewi, 2019). Financial reports provide detailed information to stakeholders, ensuring accountability and effective resource usage (Oyedokun et al., 2020). The quality of financial reporting depends on the transparency and thoroughness of disclosures. Clear reports build stakeholder trust and aid decision-making, particularly for publicly listed banks in Nigeria. Key indicators include audit opinion (Soyemi, 2020), accrual quality (Dobija et al., 2022; Orazalin, 2020), IASB indices (Onatuyeh & Proso, 2019), and earnings management (Attia et al., 2024).

Earnings management, a method widely used in financial reporting, involves management manipulating earnings to present a misleading financial situation. Also known as income smoothing, it can occur through accrual-based techniques or direct earnings manipulation (Attia et al., 2024).

Audit Independence

Auditor independence is vital for audit reliability, as it ensures auditors make unbiased and neutral decisions regarding financial statements. An independent auditor is expected to offer a fair evaluation, thus enhancing financial reporting quality. Yeng and Oppong (2024) assert that auditor independence guarantees impartiality, ensuring auditors' decisions remain unaffected by external pressures. Okoh and Audu (2024) define this independence as the ability to remain objective, free from biases. Singh and Singh (2019) highlight that true independence means auditors must operate without interference, ensuring the integrity of the audit process. Fossung and Verges (2022) argue that independence is crucial for ensuring the accuracy of financial statements, without significant misstatements. Ogoun and Perelayefa (2020) distinguish between "independence in reality" (judgment) and "independence in appearance" (avoiding connections or gifts that could compromise neutrality). However, concerns remain about auditors' ability to maintain independence consistently. Okaro et al. (2018) emphasize that auditor independence is closely linked to public trust, requiring auditors to work in an environment free of threats to their neutrality.

Factors such as audit duration, compensation, non-audit services, and auditor-client relationships can affect independence. Shakhathreh et al. (2020) note that improper management of these elements may compromise objectivity and audit quality. Reliable audits ensure financial statements are error-free, boosting their trustworthiness. Stella (2019) argues that strong auditing prevents financial crises, while Sunday (2019) adds that independence increases stakeholders' confidence in reports. Audu (2019) reinforces the idea that maintaining independence safeguards audit quality. The lack of independence is a significant cause of audit failures, and it directly impacts audit quality and user satisfaction (Imafidon et al., 2023). Legal frameworks aim to support auditor independence by minimizing potential risks during audits (Soyemi, 2023). Research by Soyemi et al. (2024) underscores the importance of auditor independence in identifying fraud and errors, which enhances audit quality. Additionally, Umoren and Enang (2015) found a positive relationship between auditor independence and audit quality in Nigerian banks.

Audit Fees and Financial Reporting Quality

Auditors are essential for ensuring that managers act in the best interests of shareholders. Independent auditors

ensure high-quality financial statements by safeguarding shareholder interests (Shakhatreh et al., 2020). Ibrahim and Ali (2018) assert that financial reporting quality (FRQ) relies on audit quality. Audit fees, which reflect the auditor's work, depend on the client's size and associated risks, with an expectation of a negative correlation between fees and FRQ (Moraes & Martinez, 2015). Audit fees are influenced by service complexity, expertise required, and the client's cost structure (Abdul-rahman et al., 2017). These fees represent the payment to an external auditor based on the risks and complexities involved in the audit process (Bala et al., 2018). Ibrahim and Ibrahim (2018) note that audit fees fluctuate according to various factors, including the assignment risk and the complexity of the services. The fee should be appropriate for the auditor's responsibilities and risks (Jenkins & Stanley, 2019; Kariuki & Oluoch, 2020).

Audit fees may impact auditor independence. Excessive fees could undermine independence, compromising audit quality (Symanberg et al., 2019). Larger fees may foster economic bonds between auditors and clients, jeopardizing independence (Ridzky & Fitrinay, 2022). However, some argue higher fees improve audit quality by increasing effort (Samuel et al., 2017). The size of the client also influences fees, with larger companies requiring more resources for audits (Owolabi & Oladipo, 2020).

Audit Firm Size and Financial Reporting Quality

The relationship between audit firm size and financial reporting quality has been extensively studied, as firm size is seen to influence audit quality in various ways. Audit firm size is commonly measured by revenue, client base, staff expertise, and geographic reach (Prinyanti & Dewi, 2019). To assess audit quality, many studies use firm size as a proxy, dividing firms into two categories: large firms (Big-4) and smaller firms (Non-Big4) (Purnamasari & Negara, 2019). Sawan and Alsaqqa (2013) argue that larger audit firms provide better audit quality due to their specialization, technological advances, and innovation, which enhance their ability to detect errors. Bigger firms also face financial pressure from their broader client base to maintain high-quality standards. Furthermore, larger firms tend to maintain greater independence, increasing objectivity and reporting accuracy (Kingstone et al., 2017). Shakhatreh et al. (2020) support this by noting that large firms benefit from skilled professionals, advanced technology, and strong financial resources, improving audit efficiency. Big-4 firms, in particular, are motivated to maintain a strong reputation and minimize legal risks (Sana, 2021), with fewer legal issues and lower fines (Okolie, 2014).

However, some argue that size alone does not guarantee quality. The fall of Arthur Andersen and empirical studies (Grediani, 2019) show that larger firms can still fall short of regulatory compliance and effective detection of internal issues. Therefore, while firm size plays a role, it is not the sole determinant of audit quality.

Audit Tenure and Financial Reporting Quality

Audit tenure refers to the length of time an auditor works with a client. Prolonged tenure may lead to auditor dependency on the client, potentially decreasing financial reporting quality (Legoria et al., 2018). However, others argue that long tenure provides auditors with better understanding of the client's systems, improving reporting quality (Kalabeke et al., 2019). Research shows that longer auditor tenure can enhance reporting quality by increasing the auditor's knowledge of the client's operations and internal controls (Chen et al., 2008; Priyanti & Dewi, 2019). Mashayekhi et al. (2018) suggest extended tenure reduces fraudulent reporting.

Theoretical Review

Agency Theory

Agency theory, developed by Alchian and Demsetz (1972) and later refined by Jensen and Meckling (1976), highlights the conflict of interest between principals (shareholders) and agents (managers). Shareholders hire agents to manage business operations, but agents may prioritize personal interests over shareholder goals, resulting in the agency problem (Hasan et al., 2020). Agency theory suggests that proper corporate governance, such as a strong board of directors and audit committees, can mitigate these issues (Chen et al., 2008). Independent audits ensure that financial statements are trustworthy, reducing the information asymmetry between management and stakeholders (Alhadab, 2016).

Stakeholder Theory

Stakeholder theory, introduced by Freeman (1984), emphasizes balancing stakeholder interests to drive corporate decisions. It identifies key stakeholders such as employees, managers, shareholders, and customers, whose interests must be managed effectively (Harrison et al., 2015). The theory suggests that companies should act fairly and ethically, allocating resources to meet stakeholder demands, promoting organizational success (Cording et al., 2014). In the context of audit independence, the theory underscores the importance of trustworthy financial reporting for various stakeholders, helping boost trust and aiding informed decision-making, which is vital for economic stability (Parmar & Colle, 2010).

Credibility Theory

Credibility Theory posits that audits enhance the credibility of financial statements by ensuring accuracy and fairness. In Nigerian deposit money banks, auditor independence is critical for generating trust in financial reports (Kalabeke et al., 2019). Independent auditors, free from influence, provide objective opinions that stakeholders rely on to assess the financial health of banks. If auditors compromise their independence, the credibility of financial statements is undermined, potentially leading to regulatory penalties, loss of investor confidence, or systemic risks, thereby affecting the overall stability of the financial sector (Hohenfels, 2016).

Public Interest Theory

Public Interest Theory argues that regulations, particularly in financial reporting and auditing, are meant to protect the public rather than private interests. In Nigeria's banking sector, auditors must act independently to ensure financial reports are free from manipulation, safeguarding public trust (Abid et al., 2018). By verifying transparency, auditors prevent financial misstatements and fraud, promoting confidence in the banking system. Public Interest Theory emphasizes that auditors' role is a public good, crucial for maintaining the integrity of financial markets, protecting depositors, and fostering economic stability (Okolie, 2014).

Theoretical Framework

This study is grounded in Agency Theory, as developed by Jensen and Meckling (1976), which focuses on the relationship between principals (shareholders) and agents (managers) in organizations. The theory highlights the inherent conflict of interest that arises from the separation of ownership and control. While shareholders delegate authority to managers to handle resources, managers may act in ways that serve their personal interests, such as manipulating financial reports to present an overly optimistic picture of the company's performance. In the context of Nigerian deposit money banks, this agency problem emphasizes the need for independent auditors. Auditors act as external monitors, bridging the information gap between management and stakeholders. By maintaining independence, auditors ensure that financial statements are accurate, reducing the likelihood of financial misreporting or fraud. Therefore, Agency Theory underscores the importance of auditor independence in achieving high-quality financial reporting, which is essential for fostering investor confidence, regulatory compliance, and financial stability.

Empirical Review

Audit Fees and Financial Reporting Quality

Yeng and Oppoung (2024) studied the impact of audit independence on financial reporting quality in Sub-Saharan African stock markets. Analyzing data from 106 publicly traded companies across six stock markets from 2012 to 2021, they found that audit tenure positively influenced financial reporting quality. The size of the audit firm had a positive but insignificant effect. Importantly, audit fees were found to have a positive and notable impact on financial reporting quality. These findings highlight the crucial role of audit fees in enhancing the quality of financial reporting, particularly in emerging markets like Sub-Saharan Africa.

Yayangida et al. (2023) assessed how audit committee independence affects the relationship between audit fees and financial reporting quality in Nigeria. They focused on 30 non-financial service companies listed on the Nigerian Exchange Group between 2011 and 2021. Their results indicated that while audit fees did not directly

influence financial reporting quality, they became statistically significant when adjusted for the independence of the audit committee. This underscores the importance of strong audit committee governance in improving financial reporting.

Okoh and Audu (2023) examined how auditor independence, including audit tenure and fees, affects financial reporting quality in Nigeria's FMCG sector. Surveying audit professionals from publicly listed FMCG companies, the research showed that audit fees and non-audit services had no significant impact on financial reporting quality. However, the length of the audit tenure was found to have a notable impact on financial reporting quality. These results suggest that while audit fees may not directly influence financial reporting, factors like tenure may play a more significant role in maintaining audit quality.

Imafidon et al. (2023) investigated the effect of audit independence on financial statements for Nigerian commercial banks. The study spanned from 2010 to 2021 and focused on audit fees, joint audits, audit duration, and audit opinions. Their regression analysis showed that audit fees had a significant impact on the quality of financial statements, while other variables, like tenure and joint audits, had no statistically significant effects. This research highlights the importance of adequate audit fees in ensuring high-quality financial reporting, particularly in the banking sector where trust and transparency are paramount.

Ogungbade et al. (2021) analyzed the quality of audits and financial reporting of Nigerian deposit money banks between 2009 and 2018. Using data from 11 listed banks, the study found that audit fees, audit firm size, and audit tenure impacted financial reporting quality. However, only the effect of audit fees was statistically significant. This suggests that while audit firm characteristics and tenure may play roles, audit fees remain a key determinant of financial reporting quality in Nigerian banks, reinforcing the importance of adequate compensation for auditors to uphold reporting standards.

Daferighe and George (2020) studied the influence of audit firm characteristics on financial reporting quality in Nigeria's publicly listed manufacturing companies. Their analysis, covering 16 manufacturing companies, revealed that audit fees significantly impacted financial reporting quality. The size of the audit firm and delays in auditing also played a significant role. These findings highlight that auditor compensation, alongside firm characteristics, affects the quality of financial statements, particularly in the manufacturing sector, where transparency is critical for attracting investment and ensuring regulatory compliance.

Shakhatreh et al. (2020) examined how audit fees, audit firm size, and audit opinions influence the quality of financial statements in Jordan. They focused on financial statements flagged by the Jordanian Securities Commission for low quality between 2009 and 2016. The study found that audit fees positively and significantly influenced financial statement quality, while audit opinions had a negative impact. These results indicate that auditor compensation is a crucial factor in improving the reliability of financial statements, especially when dealing with firms facing scrutiny over financial reporting quality.

Priyanti and Dewi (2019) analyzed how audit tenure, audit firm size, and the size of the client's company influence financial reporting quality. Focusing on publicly traded companies in Indonesia between 2012 and 2017, they found that audit tenure and firm size had no significant impact on financial reporting quality. This study suggests that factors like audit duration and firm characteristics may not be as influential as expected, possibly due to the short time frame and small sample size. The results caution against generalizing findings from limited timeframes and sample sizes in audit research.

Ibrahim and Ali (2018) examined the impact of audit fees on audit quality, using discretionary accruals as the measure of quality. Employing panel data and regression analysis, the study found that audit fees significantly influence audit quality. This supports the view that adequate compensation for auditors is crucial to ensure thorough audits, thus improving the accuracy of financial statements. Abdul-Rahman et al. (2017) also found that audit fees have a substantial impact on audit quality in Nigeria's cement industry, reinforcing the idea that well-compensated audit firms are more likely to produce high-quality audits.

Moraes and Martinez (2015) studied the relationship between audit fees and audit quality in Brazil between 2009 and 2012. Their analysis of 300 companies revealed that unusually low audit fees were associated with higher

discretionary accruals, indicating aggressive earnings management. This suggests that inadequate compensation for audit firms could lead to poorer audit quality, potentially allowing companies to manipulate financial statements. These findings highlight the need for appropriate audit fees to ensure that auditors can maintain high standards of independence and professionalism when conducting financial audits.

Audit Firm Size and Financial Reporting Quality

Yeng and Oppoung (2024) investigated the impact of audit independence on financial reporting quality within Sub-Saharan Africa's stock markets. They analyzed the yearly financial statements of 106 publicly traded companies across six Sub-Saharan African stock markets over a 10-year period (2012–2021). The research employed an Ex-post facto design, which was ideal for the study. Their findings showed that while audit tenure positively influenced financial reporting quality, the size of the audit firm had a positive yet statistically insignificant effect. Additionally, audit fees were found to have a substantial and positive effect on financial reporting quality.

Alhumoudi (2024) focused on the relationship between audit committee characteristics (independence, financial expertise, committee size, and meeting frequency) and the quality of financial reporting. Using data from 292 Saudi non-financial firms over four years (2019–2022), the study employed panel data regression techniques. The findings revealed that the presence of financial experts on audit committees significantly contributed to higher financial reporting quality, as indicated by qualified audit opinions. Furthermore, the study found a positive correlation between the quality of audits, as measured by Big 4 audit firms, and enhanced financial reporting quality.

Pham et al. (2024) examined factors affecting the quality of audits in Vietnamese commercial banks, particularly distinguishing between Big 4 and Non-Big 4 firms. Data was collected from 226 independent auditors across 20 firms in Vietnam from April to August 2023. The research ranked key factors influencing audit quality, including auditors' skills, the characteristics of commercial banks, time constraints, and audit procedures. They found that auditors' capabilities and the legal environment significantly impacted audit quality, while the size and reputation of the audit firm played a lesser role in affecting financial reporting quality.

Owolabi and Oluwatobi (2023) analyzed how audit independence affects financial reporting quality in publicly listed deposit money banks (DMBs) in Nigeria. They collected secondary data from the annual reports of 10 out of 20 registered DMBs using purposive sampling. Their analysis, which included descriptive tests, correlation analysis, and panel OLS regression, showed that audit independence positively correlates with the quality of financial reporting. They concluded that ensuring audit independence is critical in enhancing the reliability of financial statements in Nigeria's banking sector.

Fossung and Verges (2022) explored the link between external audit quality and value creation, factoring in company size and age. Data was gathered from 97 publicly traded firms in Cameroon, and logistic regression was applied. The study found that audit quality, defined by the competence and independence of the auditors, positively impacted value creation. However, the size of the audit firm, involvement in services beyond external audits, and audit fees did not have a statistically significant effect on value creation, indicating that other factors contributed more to firm performance.

Salma and Moha (2022) investigated the role of audit quality in enhancing financial reporting quality for publicly traded companies on the Egyptian stock market. Data was gathered from the financial reports of 152 companies between 2016 and 2020. The study found that audit duration negatively correlated with financial reporting quality. Longer audit durations were associated with lower-quality financial statements, suggesting that prolonged audits might lead to inefficiencies or delays in identifying financial discrepancies.

Oyedokun (2020) analyzed how audit quality influenced the financial reporting of Nigerian companies between 2009 and 2019, focusing on consumer goods companies. The research, using an ex-post facto design, selected companies with up-to-date financial data. Descriptive statistics and OLS regression were employed in the analysis. The study found that audit duration adversely affected financial reporting quality, indicating that extended audits might not always lead to better financial transparency and could hinder timely reporting.

Ogungbade et al. (2021) examined the impact of audit quality on financial reporting in Nigeria's listed deposit money banks between 2009 and 2018. They used data from the annual reports of all 11 listed banks and applied multiple regression analysis. Their findings revealed that while audit firm size, tenure, and fees all influenced financial reporting quality, only audit fees showed a statistically significant relationship. The study suggests that, contrary to expectations, other factors such as firm size and tenure may have less impact on financial reporting quality in Nigerian banks.

Ogoun and Perelayefa (2020) explored the influence of corporate governance on audit quality in 71 non-financial firms between 2008 and 2015. The research used binary regression analysis to assess whether the presence of a Big 4 firm indicated higher audit quality, with corporate governance represented by board independence. The findings showed that board independence had a negative correlation with audit quality, suggesting that greater board independence may not always ensure better audit outcomes, especially when compared to Big 4 engagements.

Shakhatreh et al. (2020) studied the impact of audit fees, firm size, and audit opinions on the quality of financial statements in Jordan. Using data from manufacturing and service firms listed on the Amman Stock Exchange from 2009 to 2016, the study applied logistic regression analysis. The results showed that audit fees significantly improved the quality of financial statements, highlighting the importance of sufficient resources allocated to audits. However, audit firm size and opinions had less influence on the overall quality of financial statements, particularly in the context of Jordanian firms.

Kamil (2020) researched the role of large audit firms in improving audit quality on the Indonesia Stock Exchange. The study used a descriptive design with a sample of 22 companies, employing logistic regression to analyze data from 2016 to 2019. The findings confirmed that engagement with large audit firms consistently improved audit quality. Larger audit firms were more effective at reducing earnings management practices, contributing to more reliable financial reports and increasing stakeholder confidence in financial statements.

Kariuki and Oluoch (2020) examined the relationship between audit firm size and financial reporting quality among firms listed on the Nairobi Stock Exchange. Using data from 2010 to 2019, their study revealed that audit firm size positively influenced financial reporting quality. Additionally, they found a strong positive correlation between the independence of audit committees and the quality of financial reporting, suggesting that both audit firm size and committee independence are crucial factors in ensuring the reliability of financial statements in Kenyan firms.

Daferighe and George (2020) assessed the effect of audit firm characteristics on the quality of financial reporting in Nigerian listed manufacturing companies. The study analyzed data from 16 manufacturing firms, excluding those with incomplete reports. Using descriptive statistics and multiple regression, the findings revealed that auditor fees, firm size, and audit delays significantly affected financial reporting quality. However, the delay in auditing was found to have the most notable impact on reporting quality, suggesting that timely audits are essential for maintaining financial transparency in Nigeria's manufacturing sector.

Priyanti and Dewi (2019) studied the impact of audit tenure, firm size, and client size on financial reporting quality among publicly traded companies on the Indonesia Stock Exchange. Their analysis, based on data from 30 companies between 2012 and 2017, showed that neither audit tenure nor firm size significantly affected financial reporting quality. The study suggested that a five-year period may be too short to detect meaningful trends, and the sample size was not large enough to yield reliable conclusions for the entire population of companies.

Susanti and Leny (2018) investigated how the size of external audit firms influences the audit report quality in Indonesia. The study, based on a survey of 73 public accounting firms, assessed audit firm size by the number of branches and international affiliations. The research found that the size of external audit firms significantly influenced the quality of audit reports. Larger audit firms, with more resources and expertise, were better equipped to produce thorough audits, resulting in higher-quality audit reports for their clients.

Ibrahim and Ali (2018) explored how the size of audit firms impacted the quality of audit reports, using a dummy variable to represent Big 4 firms. The study used discretionary accruals as a proxy for audit quality and applied

OLS regression with random effect analysis. The results indicated that larger audit firms, represented by the Big 4, contributed to better-quality audit reports. This finding emphasizes the importance of choosing reputable audit firms to ensure more reliable financial statements, enhancing the credibility of financial reporting in the corporate world.

Majiyebo (2018) examined the effect of audit independence on financial reporting quality in Nigerian deposit money banks. The study utilized secondary data from 2007 to 2016, sourced from the Nigerian Stock Exchange and the annual reports of selected banks. Using the adjusted Jones model for financial reporting quality and regression analysis, the findings revealed that larger audit firms, in terms of size, had a negative effect on financial reporting quality. This counterintuitive result suggested that audit firm size might not always correlate with better quality financial reporting in Nigerian banking institutions.

Audit Tenure and Financial Reporting Quality

Yeng and Oppoung (2024) explored the impacts of audit independence on financial reporting quality in Sub-Saharan African stock markets. The study utilized data from the financial statements of 106 publicly traded companies across six stock exchanges over a decade (2012-2021). The Ex-post factor design was deemed suitable. The results revealed that audit tenure positively influences financial reporting quality and is statistically significant. However, while audit firm size had a positive impact, it was not statistically significant. Audit fees were also found to significantly improve financial reporting quality, indicating their importance in enhancing audit effectiveness.

Imafidon et al. (2023) examined the relationship between audit independence and financial statement quality for Nigerian commercial banks. The study, spanning 2010 to 2021, analyzed data from twelve banks, focusing on audit fees, joint auditing, audit duration, and audit opinions. Pre-regression assessments, including descriptive statistics and correlation analysis, were conducted. The findings showed that audit fees had a significant impact on financial statement quality. However, audit tenure, joint auditing, and auditors' opinions did not show a statistically significant effect on the quality of the financial statements of the banks under review.

Ogungbade et al. (2021) investigated the effect of audit quality and financial reporting of Nigerian deposit money banks (DMBs) between 2009 and 2018. Data was collected from the audited annual reports of 11 listed DMBs. The study employed descriptive and inferential statistics, utilizing panel regression analysis. The results indicated that audit firm size, audit tenure, and audit fees influenced financial reporting quality. However, only audit fees showed a statistically significant impact. This suggests that while audit tenure plays a role in financial reporting, the effect is overshadowed by the significance of audit fees in this context.

Martani et al. (2021) analyzed the effect of audit tenure on the strength of audit reports. The research used discretionary accruals as a proxy for audit report quality and the number of years an auditor worked with a client to measure audit tenure. Data was gathered from 215 quoted companies, covering the period from 2013 to 2017. The results revealed a negligible effect of audit tenure on the reliability of audit reports. This finding suggests that the length of audit engagement alone does not substantially impact the quality or reliability of audit outcomes in the context of these companies.

Salma and Moha (2022) studied the impact of audit quality on financial reporting quality among companies listed on the Egyptian Stock Exchange from 2016 to 2020. Secondary data were collected from 152 companies, resulting in 608 firm-year observations. Audit fees and audit duration were used as indicators of audit quality. The study found an inverse correlation between audit duration and the quality of financial reporting. This suggests that while longer audit engagements might be expected to improve reporting, the actual outcome may be detrimental to reporting quality, possibly due to prolonged familiarity with the client.

Oyedokun (2020) investigated the effect of audit qualities on the financial reporting quality of Nigerian companies between 2009 and 2019. The study employed an ex-post facto research design, focusing on publicly traded companies in the consumer goods sector. Descriptive statistics and Ordinary Least Squares (OLS) were used for analysis. The research found that audit duration negatively impacted the financial reporting quality of the selected firms. This implies that longer audit engagements may result in a decline in the quality of financial reporting, likely due to auditor complacency or lack of objectivity over time in these engagements.

Sunday (2019) examined the relationship between auditors' independence and the quality of corporate financial reports in Nigeria, using data from public manufacturing firms spanning 2013 to 2017. Descriptive and correlation statistics were employed, and regression analysis was used to explore relationships. The study found a positive connection between audit duration, audit incentives, client size, and financial reporting quality. However, it also highlighted a negative correlation between auditor independence, especially with Big Four firms, and reporting quality. This suggests that longer auditor-client relationships may result in compromised objectivity, reducing financial reporting quality.

Stella and Uchenna (2019) explored how audit independence affects the quality of financial statements in Nigerian banks from 2014 to 2018. The study employed an ex-post facto design, focusing on four banks listed on the Nigerian Stock Exchange. The results demonstrated a significant impact of audit independence on the quality of financial statements. The study concluded that maintaining audit independence is critical to enhancing the reliability and quality of financial reporting in the banking sector, underlining the importance of auditors' objectivity in ensuring accurate and trustworthy financial statements.

Charles (2017) assessed whether the duration of external audits improves audit report quality in Nigeria. A descriptive research design was employed, using a dummy variable for audit tenure, with 1 indicating over five years and 0 indicating less than five years of auditor-client engagement. Binary logistic regression was used for analysis. The results showed that longer audit engagements did not improve audit report quality. This finding suggests that audit tenure alone is not sufficient to enhance the reliability of audit reports, challenging the conventional belief that longer auditor relationships lead to better audit outcomes.

Abdul-Rahman et al. (2017) conducted research to assess the relationship between audit tenure and the ability of audit firms to detect errors and fraud. Using OLS regression analysis, the study found that shorter audit tenures improved the capability of auditors to detect errors and fraud. This suggests that new auditors, with fresh perspectives, may be more diligent and objective, leading to better error detection and fraud prevention. The study challenges the notion that long audit engagements foster more thorough audits, instead highlighting the benefits of shorter, more objective engagements in identifying financial discrepancies.

Gap in the Literature

While numerous studies have explored the link between audit independence and the quality of financial reporting in various sectors, significant gaps remain concerning listed deposit money banks (DMBs) in Nigeria. Research by Yeng and Oppoung (2024) and Yayangida et al. (2023) focused on larger Sub-Saharan African markets and the non-financial sector in Nigeria, respectively. While these studies provide valuable insights into the broader impact of audit independence, they do not examine the unique dynamics of DMBs. The absence of focused research on this segment creates a critical gap in understanding the sector-specific challenges that affect audit outcomes in Nigerian banks.

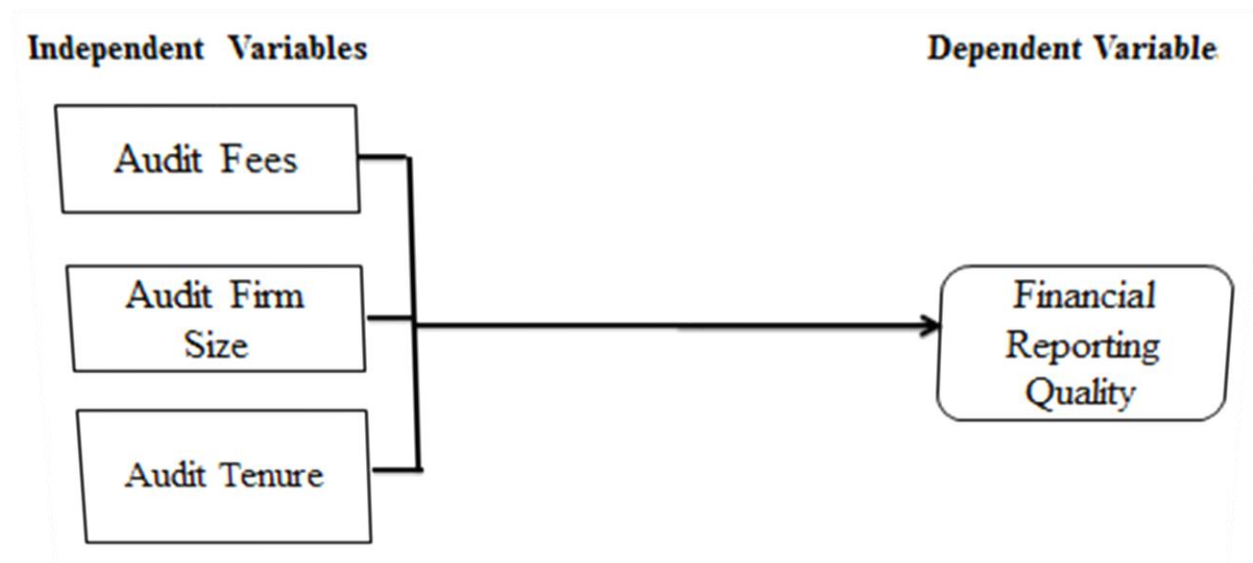
Further studies by Okoh and Audu (2023) on FMCG companies and Imafidon et al. (2023) on commercial banks contribute to the literature but only partially address the context of listed DMBs. Notably, Imafidon et al. (2023) covered a twelve-year period (2010 to 2021) but overlooked the post-2021 period, particularly the significant shifts in the audit landscape brought on by economic fluctuations and regulatory changes following the COVID-19 pandemic. These developments significantly impacted audit processes and financial reporting standards within the banking sector, yet remain unexplored in existing literature.

Additionally, studies by Ogungbade et al. (2021) and Owolabi & Oluwatobi (2023) focused on Nigerian DMBs but concluded in 2018 and 2021, respectively, missing out on important changes within the 2016 to 2023 timeframe. The evolving regulatory environment and increased digital transformation in banking require more up-to-date research. Furthermore, many earlier studies relied on survey or ex-post facto methods, which may not fully capture the complexities and nuances of audit independence in Nigerian DMBs, especially considering the fast-paced changes in the banking industry.

Given these gaps, there is a clear need for research focused on the specific impact of audit independence on the financial reporting quality of listed DMBs in Nigeria, particularly during the 2016 to 2023 period. This research

aims to fill these gaps by providing empirical data that will not only enhance the understanding of audit practices in Nigerian banks but also contribute to improving regulatory frameworks and audit methodologies, ensuring more reliable and transparent financial reporting in the banking sector.

Conceptual Framework



Source: Researcher's Model, 2025

METHODOLOGY

The study adopted an ex-post facto research design with both descriptive and inferential statistics, as it aimed to analyze data from past events. The explanatory design was used to explore the relationship between audit independence and the quality of financial reporting. The population of the study consisted of 14 listed deposit money banks (DMBs) in Nigeria, selected due to their strict regulatory oversight and their role in ensuring transparency and accountability in financial reporting. These banks are integral to Nigeria's economy, offering key financial services that contribute to economic development.

A census sampling technique was employed, focusing on the 14 quoted DMBs that have been in operation from 2016 to 2023, ensuring the inclusion of only relevant data. Secondary data, sourced from the annual reports of the listed banks, were used, as this data is already established and covers the required period.

To analyze the data, panel regression estimates were used, which are ideal for exploring heterogeneity and cross-sectional time effects among firms. The study employed common effect, fixed effect, and random effect models, considering the individual differences between firms. This approach allows for addressing unobservable factors that might impact the dependent variable, providing robust analysis of audit independence's effect on financial reporting.

Model Specification and Variable Measurement

This study adapted the model of Yeng and Oppong (2024) to examine the effect of audit independence on financial reporting quality of listed deposit money banks in Nigeria. The regression equation was specified as follows:

$$FRQ_{it} = \beta_0 + \beta_1 AuDT_{it} + \beta_2 AuDFS_{it} + \beta_3 AuDF_{it} + \beta_4 FSZ_{it} + \beta_5 LEV_{it} + \beta_6 ROA_{it} \dots \dots \dots 3.1$$

Where:

FRQ_{it} = Financial reporting quality for firm i in year t

$AuDT_{it}$ = Audit tenure for firm i in year t

$AuDFS_{it}$ = Audit firm size for firm i in year t

$AuDF_{it}$ = Audit Fees for firm i in year t

FSz_{it} = Firm size for firm i in year t

LEV_{it} = Leverage for firm i in year t

ϵ = Error term

Furthermore, financial reporting quality was measured using Modified Jones model in line with prior studies (Ogungbade et al., 2021). The model is: $TACC_i = NI_i - OCF_i$. Total accruals (TACC) is defined as the difference between net income (NI), which is the earnings before taxation and extraordinary item and cash flow from operating activities (OCF).

$$TACit/Ait_{-1} = \beta_0 [1/Ait_{-1}] + \beta_1 [(\Delta REV - \Delta REC)/Ait_{-1}] + \beta_2 (PPEit/Ait_{-1}) + \epsilon_{it} \dots \dots \dots 3.2$$

Where:

TA_{it} = Total accruals for firm i in year t

Ait_{-1} = total assets for firm i at the end of the previous year

ΔREV_{it} = change in revenue for firm i between the current year and last year

ΔREC_{it} = change in receivables for firm i between the current year and last year

PPE_{it} = gross property, plant and equipment for firm i in the current year

ϵ = Error term.

RESULTS AND DISCUSSIONS

Table 1 Descriptive Statistics

	AUDFEE	AUDFSIZE	AUDTEN	FRQ	FSZ	LEV	ROA
Mean	7.470732	1.000000	7.642857	1.739821	6.872679	86.04429	1.712768
Median	7.502500	1.000000	8.000000	1.101500	6.805000	86.40500	1.420000
Maximum	8.398000	1.000000	13.00000	19.03800	7.450000	100.0000	5.620000
Minimum	5.778000	1.000000	3.000000	0.001000	5.970000	71.72000	-5.590000
Std. Dev.	0.556884	0.000000	2.507133	2.772344	0.303591	4.775151	1.398174
Observations	112	112	112	112	112	112	112

The table provides descriptive statistics for key variables in the study assessing the effect of audit independence on the financial reporting quality of listed deposit money banks (DMBs) in Nigeria. The mean audit fee (7.47) indicates moderate consistency across the sample, with a small range between the minimum (5.78) and maximum (8.40), and a standard deviation of 0.56, implying low variability in audit fees. Audit tenure shows more variability, with a mean of 7.64 and a range from 3 to 13 years, highlighted by a standard deviation of 2.51, indicating diverse audit engagement lengths across firms. Audit firm size has a mean and median of 1, reflecting that all firms are audited by large firms, with no variation (standard deviation = 0).

For financial performance, the mean return on assets (ROA) is 1.71, but the wide range (from -5.59 to 5.62) and a high standard deviation of 1.40 suggest significant variations in profitability. These statistics indicate that while

most DMBs perform reasonably well, some show extreme financial results. The data highlights the variability in audit practices and financial performance, essential for understanding how audit independence influences financial reporting quality in Nigerian DMBs.

Table 2 Correlation Matrix of Independent Variables

Correlation	AUD_FEE	AUD_TEN	FRQ	FIRM_SIZE	LEV	ROA
AUD_FEE	1.000000					
AUD_TEN	0.071419	1.000000				
FRQ	-0.235394	-0.020723	1.000000			
FSZ	-0.010944	-0.033175	-0.322453	1.000000		
LEV	0.104289	-0.159802	-0.261400	0.223772	1.000000	
ROA	-0.215898	-0.035747	-0.002747	0.069519	-0.200776	1.000000

Source: Author's Computation, 2025

The correlation matrix examines the relationships between key variables in the study on audit independence and financial reporting quality of listed deposit money banks (DMBs) in Nigeria. Audit fees (AUD_FEE) show a weak positive correlation with audit tenure (AUD_TEN) at 0.071, indicating minimal impact between these two variables. The negative correlation of audit fees with financial reporting quality (FRQ) at -0.235 suggests that higher audit fees might be linked to lower financial reporting quality. The negative relationship between audit fees and firm size (FSZ) (-0.0109) indicates no meaningful association. Financial leverage (LEV) shows a weak negative correlation with audit tenure (-0.1598) and a weak positive correlation with audit fees (0.1043), suggesting that leverage may influence audit practices, albeit weakly. Return on assets (ROA) has weak negative correlations with audit fees, tenure, and firm size, further supporting minimal direct impacts. These correlations imply that audit independence, particularly through audit fees and tenure, may have subtle and varying effects on financial reporting quality, highlighting the need for deeper exploration into the underlying causes and dynamics. This study will focus on these relationships to provide insights into enhancing financial reporting quality through audit independence in Nigeria's DMB sector.

Table 3 Unit Root Test

	Level		
Variables	Levin, Lin and Chu t		
	Intercept	Intercept and Trend	None
AUD_FEE	0.0000**	0.0000**	0.4591**
FRQ	0.0869	0.0000**	0.0003**
FSZ	0.0000**	0.0000**	0.8655
LEV	0.0000**	0.0000**	0.0315**
ROA	0.0000**	0.0000**	0.1206**

The table presents the results of the Levin, Lin, and Chu t-test, assessing stationarity for various variables. For the **Intercept** model, the significant p-values (**0.0000**) for **AUD_FEE**, **FSZ**, **LEV**, and **ROA** indicate these variables are stationary and thus relevant for the study. The **Trend** model also shows that **AUD_FEE**, **FRQ**, and **FSZ** have significant p-values (**0.0000**), suggesting a trend influence on these variables. However, **ROA** shows a significant p-value of **0.0000**, indicating it is sensitive to trend effects. In the **None** model, **AUD_FEE** and

FRQ exhibit significant results (**0.4591** for **AUD_FEE**), but other variables such as **FSZ** and **LEV** show no significant results, which means they lack a clear trend over time in the absence of a trend factor. The implication for the study is that audit fees, firm size, and leverage are strongly linked to financial reporting quality in DMBs, and the results justify further exploring their relationships. A trend factor seems crucial, particularly for **AUD_FEE** and **FRQ**, aligning with the study's objectives to analyze audit-related variables' impact.

Hausman Specification Test

The Hausman test aids in selecting between a fixed effects model and a random effects model in panel data analysis, which is the study of data across time. The alternative hypothesis is that the model has fixed effects, whereas the null hypothesis is that random effect is the preferred model. In essence, the tests tend to verify if the unique errors and the model's regressors are correlated. There is no association between the two, according to the null hypothesis. Therefore, the null hypothesis should be rejected if the p-value is insignificant (less than 0.05).

Table 4 Results of Hausman Specification Test

Correlated Random Effects - Hausman Test			
Test period random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Period random	8.184453	6	0.1464

The table presents the results of the Hausman test for random effects, which tests whether a random effects model is appropriate for the data. The **Chi-Square Statistic** is **8.184453**, with **6 degrees of freedom** (d.f.), and the **p-value** is **0.1464**. Since the p-value is greater than the typical significance level of 0.05, we fail to reject the null hypothesis, indicating that the random effects model is appropriate for this study. This suggests that there is no significant difference between the random effects and the fixed effects model in this context. The implication for the study is that the chosen model does not need to account for any fixed effects bias and can proceed with random effects, making it suitable for analyzing the impact of audit fees, audit firm size, and audit tenure on the financial reporting quality of listed deposit money banks in Nigeria. This result justifies the use of the random effects model for assessing the variables' influence over time.

Regression Analysis and Test of Hypotheses

The section examined the regression estimate for testing the formulated hypotheses by adopting the panel estimated generalized least square method which helps in weighting the observations appropriately, leading to more efficient and reliable estimates.

Table 4.5 Regression Results

Period random effects test equation:				
Dependent Variable: FRQ				
Method: Panel Least Squares				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	44.55490	8.346215	5.338336	0.0000
AUD_FEE	-1.315495	0.451048	-2.916529	0.0044
AUDIT_FIRM_SIZE	-3.354783	0.869285	-3.859244	0.0002
AUDIT_TENURE	-0.332328	0.263843	-1.259570	0.2108
FIRM_SIZE	-3.237357	-2.530068	0.080535	0.0127

LEVERAGE	-0.095038	0.055722	-1.705593	0.0913
ROA	-0.145532	0.191056	-0.761723	0.4481

The table presents the results of a random effects regression model assessing the effect of audit independence on the financial reporting quality (FRQ) of listed deposit money banks in Nigeria. The dependent variable, FRQ, is influenced by several factors, including audit fees, audit firm size, audit tenure, firm size, leverage, and return on assets (ROA).

Audit Fees (AUD_FEE) have a negative and statistically significant coefficient of -1.315495, with a p-value of 0.0044. This indicates that higher audit fees reduce financial reporting quality. The t-statistic of -2.916529 further supports the negative relationship, suggesting that increased audit fees could undermine audit independence and, consequently, the quality of financial reports.

Audit Firm Size (AUDIT_FIRM_SIZE) also has a negative and significant coefficient of -3.354783, with a p-value of 0.0002. The negative coefficient implies that larger audit firms, contrary to expectations, might not improve financial reporting quality, possibly due to complacency or conflicts of interest.

Audit Tenure (AUDIT_TENURE) shows a negative but statistically insignificant coefficient of -0.332328 (p-value 0.2108), indicating that the duration of the audit relationship does not significantly affect financial reporting quality. This could mean that longer tenures might not necessarily reduce independence or professional skepticism.

Firm Size (FIRM_SIZE) has a negative coefficient of -3.237357 and is significant at a 1.27% level (p-value 0.0127), suggesting that larger firms may face more complex reporting requirements, but this complexity could negatively affect financial reporting quality.

Leverage (LEVERAGE) and Return on Assets (ROA) have negative coefficients, but only leverage is marginally significant (p-value 0.0913), indicating that higher leverage could reduce financial reporting quality, while ROA's insignificance suggests it doesn't play a direct role in affecting financial reporting quality.

Overall, the study provides critical insights into how certain audit practices, such as audit fees and audit firm size, can influence the quality of financial reports, with implications for improving regulatory frameworks and auditing standards within Nigeria's banking sector.

Test of Hypothesis

Null Hypothesis (Ho1): Audit fees have no significant effect on the financial reporting quality of listed deposit money banks in Nigeria.

The coefficient for AUD_FEE is -1.315495 with a p-value of 0.0044. Since the p-value is less than 0.05, we reject the null hypothesis. This suggests that audit fees have a statistically significant negative effect on financial reporting quality. A higher audit fee may be associated with better audit quality, which might, in turn, lead to improved financial reporting. However, the negative sign indicates that as audit fees increase, the quality of financial reporting decreases, which could imply inefficiencies or the possibility of higher costs being associated with poor-quality audits.

Null Hypothesis (Ho2): Audit firm size has no significant effect on the financial reporting quality of listed deposit money banks in Nigeria.

The coefficient for AUDIT_FIRM_SIZE is -3.354783 with a p-value of 0.0002. Since the p-value is less than 0.05, we reject the null hypothesis. The negative coefficient indicates that larger audit firms may lead to lower financial reporting quality. This result is unexpected, as larger firms are typically thought to have better resources and expertise. However, it could also suggest that large audit firms might be more inclined to prioritize efficiency over thoroughness, leading to compromised reporting quality in some cases.

Null Hypothesis (Ho3): Audit tenure has no significant effect on the financial reporting quality of listed deposit

money banks in Nigeria.

The coefficient for AUDIT_TENURE is -0.332328 with a p-value of 0.2108. Since the p-value is greater than 0.05, we fail to reject the null hypothesis. The result indicates that audit tenure does not have a statistically significant effect on the financial reporting quality of the sampled banks. This could suggest that the length of time an audit firm spends with a client does not necessarily result in improved or deteriorated financial reporting quality, possibly due to other variables at play, such as audit quality or firm-specific characteristics.

Heteroskedasticity Test

The Breusch-Pagan/Cook-Weisberg test was conducted to check for heteroskedasticity — a situation where the variance of the residuals is not constant across observations. The null hypothesis states that there is no heteroskedasticity.

Test	Breusch-Pagan Test for Heteroskedasticity
Chi-square Statistic	3.25
p-value	0.072

Interpretation:

Since the p-value (0.072) is greater than the 5% significance level (0.05), we fail to reject the null hypothesis. This suggests that there is no evidence of heteroskedasticity in the model, indicating that the assumption of homoskedasticity holds.

Serial Correlation Test

The Durbin-Watson statistic was used to detect the presence of serial correlation (autocorrelation) in the residuals of the regression model. Serial correlation violates the independence assumption of the classical linear regression model.

Test	Durbin-Watson Statistic
DW value	2.11

Interpretation:

The Durbin-Watson value of 2.11 is close to 2, indicating that there is no serious autocorrelation in the residuals. Thus, the model does not suffer from serial correlation.

Normality Test of Residuals

The Jarque-Bera test was conducted to check if the residuals are normally distributed. The null hypothesis assumes that the residuals are normally distributed.

Test	Jarque-Bera Test
JB Statistic	1.78
p-value	0.410

Interpretation:

Since the p-value (0.410) is greater than 0.05, we fail to reject the null hypothesis. Therefore, the residuals are normally distributed, and the normality assumption of the regression model is satisfied.

DISCUSSION OF FINDINGS

Objective One: The findings suggest that audit fees have a significant negative effect on financial reporting quality in Nigerian deposit money banks. A rise in audit fees is associated with a decline in financial reporting quality, which aligns with Ogungbade et al. (2021) and others but contradicts Hasan et al. (2020). This negative relationship implies that high audit fees may lead to auditors' dependence on clients, undermining their independence. Auditors may prioritize maintaining profitable contracts over producing unbiased reports, which could reduce audit quality. Elevated audit fees could also reflect subpar audits or lenient oversight due to client pressure, implying a need for stronger regulatory oversight. For investors, the link between higher audit fees and lower reporting quality may be a red flag, requiring careful assessment of both audit costs and financial statements.

Objective Two: The study finds that the size of the audit firm negatively impacts financial reporting quality, contradicting the common belief that larger firms offer better audits. This aligns with Shakatreh et al. (2020) but challenges other studies. Large firms may become complacent due to their reputation and may focus more on profitability than thorough audits. This raises concerns about the effectiveness of auditing standards in Nigeria and suggests that audit regulations need reassessment. Smaller firms could benefit if perceived as offering more detailed audits.

Objective Three: Audit tenure has a negative but insignificant effect on financial reporting quality. The results align with studies by Alhadab (2016) and others, suggesting that the duration of the auditor-client relationship does not significantly affect audit quality. Although long audit tenures could slightly reduce auditor independence, the lack of statistical significance suggests other factors, like audit fees and firm size, have a more substantial impact. Therefore, the findings do not support mandatory audit firm rotation, but suggest that audit fees and firm size should be the focus of regulatory policies.

CONCLUSION AND RECOMMENDATIONS

Conclusion

This study aimed to assess the effect of audit independence on the financial reporting quality of listed deposit money banks in Nigeria. Based on the findings, a clear conclusion was drawn: audit independence, particularly influenced by audit fees and audit firm size, plays a crucial role in determining the financial reporting quality in Nigerian banks. The analysis shows that while audit tenure had an insignificant effect, both audit fees and firm size had a statistically significant negative impact on financial reporting quality. Therefore, the independence of auditors, as influenced by these factors, can compromise the reliability of financial statements, which is a key concern for stakeholders in the banking sector.

The results indicate that higher audit fees may reduce the quality of financial reporting. This finding implies that as audit fees increase, auditors may face pressure to compromise on their independence, potentially producing biased reports. Moreover, larger audit firms, contrary to the expected positive impact, also appear to lower the quality of financial reporting. This suggests that large firms may prioritize efficiency and profitability, leading to less thorough audits. These insights call for a reassessment of how audit fees and firm size are regulated to enhance the reliability of financial reporting in Nigeria's banking sector.

In addition, audit tenure showed no significant effect on the financial reporting quality. This finding challenges the conventional view that longer audit tenures may lead to reduced auditor independence. However, the results suggest that factors such as audit fees and audit firm size should be given more attention in regulatory discussions. The study underscores the importance of strengthening regulations on audit practices and developing frameworks that address the potential conflicts of interest arising from high audit fees and the size of audit firms.

Recommendations

To improve financial reporting quality in Nigerian deposit money banks, regulatory bodies should reconsider

the current approach to audit fees. The study shows that high audit fees are linked to lower reporting quality, suggesting that auditors may become too reliant on their clients. Regulators should introduce policies that limit the influence of audit fees on auditor independence. This could involve setting clear standards for audit fee structures to ensure transparency and reduce any potential conflicts of interest that may arise from inflated audit costs.

Additionally, the negative impact of large audit firms on financial reporting quality calls for a reevaluation of the role of large audit firms in Nigeria. While large firms are often assumed to deliver better quality audits due to their size and resources, the study found otherwise. Smaller firms might be more thorough and committed to high-quality audits. Regulators should encourage more competition among audit firms and explore measures that promote the involvement of smaller audit firms, potentially through incentives that support quality over efficiency.

Finally, the study found that audit tenure did not significantly influence the financial reporting quality of listed banks. Therefore, instead of focusing on mandatory audit firm rotation, policymakers should emphasize strengthening the quality of audits through improved training, better audit methodologies, and enhanced auditor independence. The government should consider policies that prioritize auditor competency and ethical practices, ensuring that auditors remain committed to providing accurate and unbiased financial reports.

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