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Effect of Audit Quality on Financial Performance of Deposit Money Banks in Nigeria

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Abstract: *This study investigated the effect audit quality on financial performance of selected deposit money banks in Nigeria for a period of ten (10) years spanning from 2013 to 2022. Ex-post facto and longitudinal research design was adopted. Financial performance was used as dependent variable captured using Tobin's q while audit fee, audit firm size, audit tenure and auditor academic qualification were used as independent variables. Population of the study consist of seventeen (17) Deposit Money Banks from which a sample of 12 quoted Deposit Money Banks from Nigeria Exchange Group was selected for the period of ten years spanning 2013 to 2022. The secondary sources of data were collected from annual reports of the selected banks quoted in Nigeria Exchange limited and four (4) specific objectives and hypotheses were subjected to some preliminary data tests like descriptive statistics, Pearson correlation analysis and Variance inflation factor. The formulated hypotheses were tested and analyzed using panel regression analysis for further decision making. Using a sample of 120 firm-year observations, the result revealed that audit quality components such as auditor academic qualification has positive and significant effect on financial performance of Deposit money banks in Nigeria which was statistically significant at 5% level of significance while audit fee has negative but significant effect on financial performance of Deposit money banks in Nigeria which was statistically significant at 5% level of significance. Again, audit tenure and audit firm size have positive but non-significant effect on financial performance of quoted Deposit money banks in Nigeria. The study recommends among others that auditors should be encouraged to obtain additional qualifications as it aids them in providing high quality audit services that is capable of improving financial performance while regulatory agencies in Nigeria should increase surveillance on audit practices with regards to fees charged to improve financial performance of banks in Nigeria.*

Keywords: Audit quality, auditor academic qualification, audit fee, financial performance, Nigeria Banks
JEL Classification Number-G6000

1 Introduction

As Nigerian Deposit Money Banks battles and surges towards breaking loose from the current excruciating economic recession, the need to maintain investors' confidence in the capital market through high quality auditing and transparent financial reporting is unequivocally paramount (Orjinta & Akwuobi, 2023; Orjinta and Abazu, 2023; Ofor, Orjinta & Onuigwe, 2022; Ekwueme, Anichebe & Orjinta; 2020). Considering that several investors in Nigeria, in the past fifteen years, appeared to have lost confidence on the authenticity, integrity, effectiveness and significance of the audit function owing to cases of incessant accounting scandals which were largely linked to poor audit quality associated with a perceived lack of auditor independence, among other factors (Orjinta & Akwuobi, 2023; Orjinta and Abazu, 2023; Abdulla, 2022; Akintayo & Akosile, 2022; Hafizaha, Wahyudib, & Azwardi, 2022; Babatolu, Aigienohuwa & Uniamikogbo, 2016). Ensuring higher audit quality through monitoring of audit fees, audit firm size, tenure and auditor qualification may do the magic of wholesomely restoring investors' confidence at this critical economic situation the country is facing. To maintain the highest ethical standard for the auditing profession, independence should be tailored towards the quality of being free from influence, persuasion or bias (Akintayo & Akosile, 2022). In the absence of independence, the value of audit services will be greatly impaired. Owing to the fact that investors have lost confidence in the report of auditors, there is need to examining the relationship between audit quality and bank's financial performance.

Studies have shown that the confidence of users of financial statements has been increasingly destroyed by the poor quality of audit reports presented in the financial statements issued in Nigeria (Enekwe, Onyekwelu, Nwoha & Okwo, 2016). The spate of audit failure in the world, especially in Nigeria, has brought great disappointment to the user of financial report. The bane of the problem has been linked to long term of audit firm tenure, excessive audit fees which has also been linked with lack of adequate education or training. In Nigeria audit setting, the challenge of audit tenure and audit quality reporting has not attracted much empirical study beyond mere anecdotal opinions (Mgbame, Eragbhe, & Osazuwa 2012).

Many past researchers had carried out studies on effect of audit quality on performance but found unreliable and inconsistent results. For example, Ado, Rashid and Mustapha, (2020); Eneisik and Akani, (2021), Wasan and Mulchandani (2020); Felix and Chinyere, (2020); Abba and Sudah, (2020); Morufu and Oluwasenu (2020); Chikwemma and Nwadialor, (2019); Isah and Muhammed, (2019) Chinedu and Chidoziem (2017); Ogbodo (2017) reported mixed outcome between audit quality and financial performance among quoted firms without taking cognizance of banking sector. Again, majority of the empirical studies were carried out in developed countries (Ado, Rashid & Mustapha 2020; Monametsi & Agasha, 2020; Thipham, Itzenverger, & Mcenally 2020; Wijaya 2019; Elewa & El-Haddad, 2019; Tambun, Manurung, & Murwaningsari 2018; Jorjam & Gerayeli, 2018; Baffa & Yeor, 2017; Halim, 2017). This is an indication of a possible paucity of audit quality and financial performance researches in the banking sector, hence the need for this study.

Moreover, the presence of these lingering divergent views in the literature could be attributed to difference in country or domain, methodology, type of study design employed, sample size, data collection instruments and analysis techniques used, variables, and time variation in which the studies were carried out. Again, none of them created a study in deposit money banks hence the justification for selecting banking sector in Nigeria. This however form the significant reasons and justification for this article, hence the need to x-ray the effect of audit quality on financial performance of deposit money banks in Nigeria. Therefore, this paper is subdivided into five sections including this introduction. Next, the paper reviews the literature on the topic discussed and formulates the hypotheses. Then the research methodology used in this paper is explained, followed by the results and discussion. Finally, this paper summarizes, concludes, and suggests the potential findings for future research and proffer our recommendation for policy implementation.

2.1: Theoretical Conceptual Constructs and Hypothesis Development

Audit Fees and Financial Performance

Audit Fees can be defined as the amount charged to a client to conduct specific services by the accountant. The fees may vary by size or based on the type of service provided but there have been many questions from researchers whether it affects audit quality. Eneisik and Akani, (2021). The studies of Farouk and Hassan (2014), Illiemena and Okolocha (2019), Sayyar, Basiruddin, Rashid and Elhabib (2015) supported that audit fee is positively and significantly related to performance, while the studies of Monametsi and Agastra (2020), Santos, Cerqueria and Brandao (2015) found a negative view and Moutinho (2012) from US and Matuezi (2014) of Brasil argued that audit fees are positively and negatively related to performance. Ado, Rashid, Mustapha, Adenlade (2020) examined the influences of audit quality on financial performances of listed companies in Nigeria using multiple regression analysis and revealed that audit fees shows a positively and insignificant relationship with ROA. Sayyar, Basurubdin, Rasid and Elhabi (2015) sought to examine the impact of audit quality on form performance for Malaysian listed companies and discovered that audit fee is insignificantly and positive related to Tobin's Q. Nevertheless, considering the contradicting theoretical argument, this paper does not predict any sign for the effect of audit fee on financial performance but propose that ***there is a significant relation between audit fee and financial performance (Hypothesis 1)***

Audit Firm Size and Financial Performance

The size of audit firm has been used as a surrogate for audit quality, that is, large audit firms have a reputation to safeguard and therefore will ensure an independent quality audit service. Larger audit firms have better financial resources and research facilities, superior technology and more talented employees to undertake large company audits than do smaller audit firms (Orjinta and Akwuobi, 2023). Audit firm size is operationally defined as the ability of a sampled Deposit Money Banks in Nigeria to employ the services of any of the Big 4 audit firms in Nigeria. The antecedents regarding auditor firm size point to a positive relationship with firm performance (Al zoubi, 2018; Gaven & Taylor, 2015: Kouaib & Jarboui, 2014). The reason behind this is that the big 4 audit firms have more experience in auditing publicly listed companies, better quality human resources and the ability to handle complex audits (Sayyar, Baruiddin, Rasid & Elhabi, 2015). This is unlike with the following studies (Sirris, Marmousez and Simunic, 2016; Neemi and Zermi 2013) conversely the following standards supported that Big 4 audit companies increases performance (Alzoubi, 2018 and Omar, 2013) revealed that firms that were audited by big 4 audit firms had a positive and significant relationship with firm performance and this is in line with the studies of Faurouk and Hassan (2014) of Nigerian firms, Phan, Laile and Tran (2020) of Hanoi Stock exchange; Mustafa and Muhammed (2018) of Nigeria quoted oil and gas companies; Bouziz (2012) of Tunisia firms, Eshitemi and Onwenga (2017) of Nairaobi, Rahmen, Meath and Chandlord (2018) of Dhaka. However, the studies of Elewa and El–Hadded (2019) of Eygptian Companies, Aledwan, Yaseen and Alkubisi (2015) of Jordianian Cement Companies revealed a significant negative relationship between audit size and firm performance. However, there are some inconsistencies that existed in the literature, for that reason, the current study does not intend to propose any sign, rather we hypothesize that ***there is significant effect between audit firm size and financial performance (Hypothesis 2).***

Audit Tenure and Financial Performance

Eneisik and Akani, (2021) conceptualized an audit firm's tenure as the length of time an auditor performs services for a client. Empirical studies concerning the effects audit tenure of a firm on the financial performance are conflicting and mixed. While some results in some studies showed that the audit quality reduces as the tenure of audit firm increases which negatively affect performance, others like Onyeogubalu, Orjinta and Ofor (2022) and Oladejo (2022) reported a positive relationship. Hence, imposing mandatory rotation of partner, which limits the auditor partner's tenure and increases performance. Eneisik and Akani (2021) empirically investigated the relationship between audit quality and market value of quoted banks in Nigeria. Empirical evidence indicates that audit tenure had negative and significant impact on market price per shares. As a matter of fact, drawing on the above discussion and prior studies' findings, this study does not wish to predict any sign for audit tenure, instead we hypothesize that ***there is a significant relationship between audit tenure and financial performance (Hypothesis 3)***

Auditor Academic Qualification and Financial Performance

Auditor academic qualification is one of the major attributes that enhances audit quality (Yan & Xie, 2016). Auditors with post-graduate degree provide more qualified audit work than auditors with bachelor's degree because of having more knowledge (Che, Langli & Svanström; 2017), being more capable and competent and exerting more effort (Che et al., 2017; Ye, Cheng, & Gao, 2014). These qualifications of educated auditors make them more conservative when they are performing audit tasks. Research regarding auditor education level, as stated above, mostly indicates the positive impact of education level on audit quality. Similarly, Bröcheler et al., (2004) and Ye et al., (2014) were of the opinion that educated auditors are more capable and more knowledgeable (Che et al., 2017), and more familiar with financial statements (Sutaryo & Lase, 2016). However, there are some inconsistencies that existed in the prior literature, for that reason, the current study does not intend to propose any sign for auditor educational qualification, rather we hypothesize that ***there is significant relation between auditor academic qualification and financial performance (Hypothesis 4)***

The above scholars attempted to study effect of audit quality on financial performance but none of them created a study in Nigeria using deposit money banks. The scholars also used auditors' independence, audit firm size, audit tenure, financial expertise and others to proxy audit quality but this study used auditor education qualification and audit fee in addition to the previously used ones by prior studies and extended the study for a long period of time (10years) spanning from 2013 to 2022. Moreover, there is no indigenous study that has used auditor education qualification and audit fee to measure audit quality. This is the knowledge gap this study intends to address therefore contributing to the existing literature. Given the mixed results reported by the related literature reviewed on the association between audit quality and firms' financial performance in various contexts and the study objectives, the study suggests the following hypothetical framework.

Source: Researchers' Theoretical Constructs (2023)

2 Theoretical Framework

This paper is anchored on Theory of Inspired Confidence. Orjinta and Abazu (2023) opined that this theory was propounded by Hapsari (1920). It details on the expected social responsibility of the independent auditors and the possible methods for ensuring that the engagement must meet the society needs. It specified auditor's role and their expected performance to restore the financial lost glory of the investors in public firms. Akintayo and Akosile (2022) quoting Knechel, (2013) researched on the work of Limperg (1879) of the University of Armsterdam. In the research, it was observed that the loss of confidence by the society on audits will reflects the non-social usefulness and acceptability of such. Their research made them realize that Limperg's principle in his theory is specifically relevant in the phase of audit function development. According to the Limperg's theory, "the demand for audit services is the direct consequence of the participation of outside stakeholders and majorly the financial information users in the economy". Therefore, since the information given to the stakeholders by the management might be biased, an audit of this information is needed in order to give an informed decision to the investors. Auditor responsibility is described as the confidential function rooted in the society interests in the effectiveness of the audit and in the opinion formed by the accountants. This reliability of audit report by the stakeholders is the function' of the confidence reposed on the auditors. If the confidence is betrayed, the function too is jeopardized and becomes irrelevant (Sarbanes, 2013 as cited by Akintayo & Akosile, 2022)

Empirical Studies

Orjinta and Okoli (2023) investigated whether well-diversified audit committee members of selected deposit money banks in Nigeria can improve financial reporting quality. Discretionary accruals were used as dependent variable to measure financial reporting quality while audit committee gender, audit committee financial expertise, audit committee frequency of meetings and audit committee size were used as independent variables. A sample of 11 quoted deposit money banks in Nigeria were used for the period of eight years spanning 2015 to 2022. The study employed ex-post facto and longitudinal research design. Using a sample of 88 banks-year observations, the result revealed that audit committee gender and audit committee size documented a negative and statistically significant effect on financial reporting quality of deposit money banks in Nigeria which was statistically significant at 5% level of significance respectively while a positive and insignificant effect was documented for audit committee financial expertise and frequency of meetings in Nigeria banks. On the basis of their findings, the study recommends among others, that there is need to maintain optimal size of the audit committee and also reduce the inclusion of more women in the audit committee to give a seasoned advice without bias on ways to improve financial reporting quality.

Akintayo, and Akosile (2022) focused on the relationship between auditors' independence and quality of audit report. To investigate this objective a survey research design was adopted to gather data from the respondents through the distribution of questionnaires to 120 respondents comprised of 12 auditors and 108 senior staff of the 12 randomly selected Deposit Money Banks (DMBs) in Nigeria. In addition, 120 copies of questionnaires were distributed to the respondents from which only 118 questionnaires were returned and used for the study. Both descriptive and inferential statistics of logit regression was adopted for the study. The result obtained from the regression analysis showed that there was a significant positive relationship between auditor independence and quality of audit report. This assertion was premised on the fact that the p-value of the LR-statistics computed for the test of 0.0000 was less than the critical value of 5%. It was concluded that auditor independence and quality of auditor report were sufficiently related. It was recommended that auditors should not interfering with the affair of its client in order not to erode its independence.

Hafizah, Wahyudi, and Azwardi, (2022) analyzed and tested the effect of auditor independence and complexity on audit quality. They also analyzed and tested the effect of auditor reputation in mediating independence and audit quality. Their study used descriptive analysis, a type of quantitative research, which, when viewed from the data analysis method used, uses a Likert scale measurement. Their study uses primary data sources. They found that audit independence has a positive and significant effect on audit quality. This means that increasing independence of auditors will improve audit quality. Again, they found that audit independence has a positive and significant effect on the reputation of the institution. This means that, increasing auditor independence will improve the reputation of the institution, Moreover, they found that the complexity of the audit has a positive and significant effect on audit quality. Which means that every increase in audit complexity will improve audit quality, audit complexity has a positive and significant impact on the reputation of the institution. This condition means that every increase in audit complexity will increase the reputation of the institution. Audit quality has a positive and significant effect on the reputation of the institution. The condition means that every increase in audit quality will improve the reputation of the institution.

Eneisik and Akani (2021) empirically investigated the relationship between audit quality and market value of quoted banks in Nigeria. To achieve this objective, theoretical, conceptual and empirical literatures on audit quality and market value were reviewed. Audit quality was proxied by audit fees, audit tenure and audit firm size while market value was proxied by market price per share. The population of this study consists of fourteen quoted banks in Nigeria. The study adopts judgmental sampling techniques to select twelve banks as sample size. Secondary data were obtained from audited annual financial report of quoted banks in Nigeria from 2006-2019. Hypotheses were tested using panel least squares regression through pooled effect, fixed effect and random effect determined by Hausman test, fixed effect was accepted, with the aid of E-views 10 econometric statistical software. Findings shows that audit fees have negative and insignificant impact on market price per shares. Empirical evidence indicates that audit tenure had negative and significant impact on market price per shares. Empirical evidence suggests that audit firm size had negative and insignificant impact on market price per shares. The study concludes that audit quality improved market value of quoted banks in Nigeria. The study recommends among others that banks management should adopt audit fees, audit tenure and audit firm size as audit quality strategies and optimally utilize the best option that improve market value.

Bassey, Omini, Aminu, Etore, and Archibong, (2020) conducted to ascertain possible connections between audit independence and quality of auditing in Nigeria. To achieve this set objectives, their study employed ex-post-facto research design based on data sourced from selected firm's yearly reports for time period that ranged from 2010 to 2019. The research used panel least square procedure based on fixed and random effect framework and houseman test was equally employed in select best model for to estimate parameters contained in the model. Findings from research analyses revealed that audit cost negatively and appreciably effected audit quality in these selected Nigeria based banks, and that audit workers' rotation negatively and inappreciably effect audit quality in these selected Nigeria based banks. Lastly, the research revealed that audit tenure negatively and inappreciably effects audit quality in these selected Nigeria based banks. Based on these findings, it was prescribed that audit firms should ensure that audit cost is based on professional prescribed benchmark in ways that their independence is appreciably assured to enhance audit quality. Also, it was equally prescribed audit firms need to make sure that audit workers are continually rotated to prevent over familiarity as concern threats to gain independence and enhance audit quality. Lastly, this research prescribed that regulatory agencies and ICAN need to make sure that audit companies tenure as contain and enacted by these agency is painstakingly followed by audit companies because such is crucial to assure independency and improve audit quality.

3 Methodology

In other to accomplish the aim of this paper, the study predominantly adopted ex-post facto research design and embraces the panel least regression so as to properly find out about the qualities of audit as well as financial performance in Nigeria for the period of 10-years (2013-2022), as it connects to the various Deposit Money Banks that are found to be quoted and actively traded on the Nigeria Exchange Group as at December 31st, 2022 which gave rise to our population of the study. The secondary data are obtained from the corporate annual report of the sampled banks on the Nigeria Exchange Limited for the period 2013-2022 financial year. The researcher utilizes only corporate annual reports because they are readily available and accessible. The sample of this study is basically made up of 12 Deposit Money Banks. The proposed analytical framework in figure 1 above shows the schematic diagram of the causal relations with that of the dependent variable that is represented by financial performance and explanatory variables (audit quality) which consists of audit fee, audit firm size, audit tenure and auditor educational qualification. We anchored this study on Theory of Inspired Confidence. Also, the schematic framework culminates into the required model specifications. The model adopted in this study assumed a linear relationship between audit quality and financial performance and panel least square was adopted for the purpose of hypothesis testing and was guided by the following linear model:

$FINPERF_{it} = \beta_{0it} + \beta_1 AUDFE_{it} + \beta_2 AUDFSZ_{it} + \beta_3 AUDTEN_{it} + \beta_4 AUDACQ_{it} + \varepsilon_{it}$………1

Where,

FINPERF stands for Financial Performance, measured using Tobin's Q calculated as the market value of equity + book value of Liabilities Divided by Book Value of Total Assets, AUDFE stands for Audit Fee measured as Natural log of audit fees received, AUDFSZ connotes audit firm size Measured as a dichotomous variable 1 if a firm is audited by Big4 audit firm and 0 if otherwise, AUDTEN stands for audit tenure measured as the Number of years served by an audit firm or Length of auditor client relationship measured as a dichotomous variable 1 if the same auditor has audited the financial statements of the banks for two or three years and 0 if otherwise and lastly AUDACQ represents Auditor Academic Qualification measured as auditors with post-graduate education measured as a dichotomous variable 1 if the auditor has post-graduate education qualification and 0 if otherwise.

4. ESTIMATION RESULTS AND DISCUSSION OF FINDINGS

The study investigated the empirical effect that exists between audit quality and financial performance of quoted deposit money banks in Nigeria for a period of 10 years spanning 2013 to 2022. The study carried out some preliminary data tests like descriptive statistics, correlations and variance inflation factor (VIF) analysis. The table below shows the descriptive statistics of the 12 selected deposit money banks that make up our sample.

Table 4.1 Descriptive Statistics Analysis

	FINPEF	AUDTEN	AUDFE	AUDFSZ	AUDACQ
Mean	1.955714	0.747899	0.235448	0.773109	0.184874
Median	2.050000	1.000000	0.072700	1.000000	0.000000
Maximum	5.550000	1.000000	5.714300	1.000000	1.000000
Minimum	-2.520000	0.000000	0.024500	0.000000	0.000000
Std. Dev.	1.339847	0.436055	0.632386	0.420592	0.389837
Skewness	-0.524986	-1.141817	6.454465	-1.304180	1.623544
Kurtosis	4.311471	2.303745	51.21109	2.700886	3.635895
Jarque-Bera	13.99439	28.26127	12350.96	34.17785	54.28355
Probability	0.000914	0.000001	0.000000	0.000000	0.000000
Sum	232.7300	89.00000	28.01830	92.00000	22.00000
Sum Sq. Dev.	211.8323	22.43697	47.18969	20.87395	17.93277
Observations	120	120	120	120	120

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Source: researcher's summary of descriptive result (2023) using E-view 12

The descriptive statistics result in table 4.1 above shows the mean values for each of the variables, their maximum values, minimum values, standard deviation and Jarque-Bera values which show the normality of the data. The result provides some insight into the nature of the selected banks in Nigeria that were used in the study. It was observed that over the period under review, the sampled firms have average positive financial performance measured using Tobin's q of 1.9557. Within the period under review, the banks have maximum value of Tobin's Q of 5.550 while the minimum value of Tobin's q was -2.52. Following the results emanating from the Nigerian Deposit Money banks experience, we expect less quality of audits based on the argument that longer audit firm services will lead to auditors over familiarity with the management and tend to lose their professional skepticism. Audit fee was observed to have a mean value of #0.235 and a standard deviation of 0.632 suggesting considerable clustering of audit fees for the distribution around the mean value. The maximum and minimum values are 5.714 and 0.024 respectively. Audit tenure was observed to have a mean value of 0.747 which suggest that 75% approximately of the banks in the sample have had engagement with their audit firm for over 3 years. The minimum and maximum values of tenure as measured by dichotomous variable are 0 and 1 respectively.

In the same vein, audit firm size which was captured using a dichotomous variable 1 if the bank is being audited by any of the BIG4 auditing firm or 0 if otherwise. It was observed that over the period under review that auditor firm size (BIG4) has an average value of 0.773 with standard deviation of 0.4205. While the minimum and maximum values which are dichotomous are 0 and 1 respectively. Within the period under review, it was discovered that about 77% of the banks selected are being audited by BIG 4 auditing firm while about 23% are being audited by other auditing firms not classified under BIG4. The summary descriptive statistics in table 4.2.1 above shows that on average that about 18% of the auditors have additional qualification or post-graduate education qualification with standard deviation of 38.98%, the minimum and maximum values of auditor academic qualification (AUDACQ) as measured by dichotomous variable are 0 and 1 respectively. This implies that the data in the sample firms deviate from the mean by 38.98%.

4.2: Pearson Correlation Matrix

Pearson's correlation matrix was applied to check the degree of association between audit quality and financial performance of quoted banks in Nigeria so as to determine the nature or degree of association i.e. positive or negative correlation and the magnitude of the correlation between dependent variable and independent variables with other explanatory variables.

Table 4.2: Correlation Analysis Result

	FINPEF	AUDTEN	AUDFE	AUDFSZ	AUDACQ
FINPEF	1.000000				
AUDTEN	0.019893	1.000000			
AUDFE	-0.062080	-0.027357	1.000000		
AUDFSZ	-0.013470	0.101347	-0.119308	1.000000	
AUDACQ	0.000232	0.126937	0.041528	-0.000434	1.000000

Source: researcher's summary of correlation result (2023) using E-view 12

Table 4.2 simply summarizes the level of correlation between the study's independent variables, as shown above. The essence of this test is to examine the relatedness of the selected variables if they reflect any trace of multi-collinearity, which reveals high levels of pair-wise correlation of 80% or more. The result of the correlation coefficient showed mixed correlation. This association identified buttresses the point that majority of our variables have an inverse relationship with varying degrees of direction. Finally, based on the general outcome of this test, the problem of multicollinearity is not present within the variables. To further check for multi-collinearity test, we employed variance inflation factor. The result is presented below:

Table 4.3: Variance Inflation Factor Result

Variance Inflation Factors
Date: 10/24/23 Time: 13:55
Sample: 2013 2022
Included observations: 120

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.897263	18.57907	NA
AUDTEN	0.076285	1.907632	1.022145
AUDFE	0.040815	1.053538	1.007020
AUDFSZ	0.164561	3.056151	1.012532
AUDACQ	0.105966	1.104549	1.028322

Source: Researcher's summary of VIF result (2023)

According to the guidelines of this test, the existence of multi-collinearity can be confirmed only in circumstances where the value of the variance inflation factor is more than 10. Sequel to the guidelines of this test, we found that there is no inter-correlation between our independent variables as all the variables had a variance inflation factor (VIF) of less than 10 : audit fee (1.007), audit firm size (1.013) approximately, audit tenure (1.022), and finally auditor academic qualification (1.028).

4.4: Regression Results and Discussion of findings

In order to examine the relationship between the dependent variable (FINPERF) and the independent variables (AUDFE, AUDTEN, AUDFSZ and AUDACQ) and to test the formulated hypotheses, we employed panel least regression analysis since the data had both time series (2013-2022) and longitudinal properties (12 Deposit money banks). However, the study takes into cognizance the non-homogeneity nature of the banks, hence the need for testing its effect on the data. This necessitated the use of Hausman effect test to ascertain which effect to explain. That is whether fixed effect or random effect is to be used in interpreting the regression result. Below is the summary of the Hausman test result:

Table 4.4. Hauseman Effect Tests

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	2.465533	5	0.7817

Source: Researcher's summary of Hausman effect analysis result (2023)

The regression results of audit quality variables and financial performance are presented and analyzed. In view of the nature of the data, both fixed effect and random effect models were tested. Hausman specification test was then used to decide between the two results. The result from the Hausman test above revealed a Chi2 value of 2.4655 with p-value of 0.7817 which is greater than 0.000 that is statistically insignificant at 5%. This implies that the test considered the random effect as the most appropriate estimator and its result is presented in table 4.5 below:

Table 4.5: Random Effect Regression Result

Cross-section random effects test equation:
Dependent Variable: FINPEF
Method: Panel Least Squares
Date: 10/24/23 Time: 13:53
Sample: 2013 2022
Periods included: 10
Cross-sections included: 12
Total panel (balanced) observations: 120

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.629049	1.018800	2.580535	0.0113
AUDTEN	0.067734	0.278095	0.243566	0.8081
AUDFE	-0.068922	3.210072	-2.328089	0.0435
AUDFSZ	0.202179	0.535027	0.377886	0.7063
AUDACQ	2.206321	3.336766	2.612654	0.0415

Effects Specification

Cross-section fixed (dummy variables)

Root MSE	1.177825	R-squared	0.520679
Mean dependent var	1.955714	Adjusted R-squared	0.498432
S.D. dependent var	1.339847	S.E. of regression	1.272197
Akaike info criterion	3.450931	Sum squared resid	165.0854
Schwarz criterion	3.847948	Log likelihood	-188.3304
Hannan-Quinn criter.	3.612147	F-statistic	1.805196

Durbin-Watson stat	1.572432	Prob(F-statistic)	0.040202

Source: Researcher's summary of regression result (2023).

The table 4.5 above shows the panel regression analysis of quoted Deposit Money banks in Nigeria. From the result above, the study observed that the R. squared value was 0.5206 (52.1%) approximately and R-squared adjusted value was 0.4984 (50%) approximately. The value of R- squared which is the coefficient of determination stood at 52.1% which implies that 52.1% of the systematic variations in individual dependent variables were explained in the model while about 47.9% were unexplained thereby captured by the stochastic error term. Again, the adjusted R-squared which stood at 50% indicates that all the independent variables jointly explain about 50% of the system variation in audit quality of our sampled banks over the 10years period while about 50% of the total variations were unaccounted for, hence captured by the stochastic error term.

Based on the regression result above, it was found that audit fee has a negative and statistically significant effect on financial performance of Deposit Money Banks in Nigeria having recorded a negative coefficient value of -0.0689 and probability value of 0.0435 (β_2= -0.0689, p = 0.0435). The value β_2 was negative showing that audit fee has a negative effect on financial performance of Deposit Money Banks in Nigeria hence when audit fee decreases by one naira, Tobin's q is affected thereby increasing the financial performance of banks which rises by a significant value of 6.89%. This empirically validates the argument that higher fees may result in low performance of banks as the auditor will be made to go home with enormous amount of money which affects the profitability base of the banks as a result of by higher amount of money paid to the auditors thereby decreasing their financial performance.

The study established that audit tenure has a statistically insignificant effect on financial performance of Deposit Money Banks hence when auditor length of service is elongated by one year, financial performance of Deposit Money Banks increases by 6.7%, indicating that the more time an audit firm spends with the client, the more auditor independence improves, and the greater the possibilities of improving financial performance. This implies that, the more audit firm stays with a client the performance increases, suggesting that tenure and/or familiarity between audit firm and the client did improve auditor independence in the Deposit Money Banks in Nigeria during the period of the study. Audit firm size which was measured using BIG4 audit firms was found to have a positive but insignificant effect on financial performance of Deposit Money Banks in Nigeria having recorded a positive coefficient value of 0.2021 and t-statistic value of 0.3778. This shows that BIG4 audit firm has a positive effect on the financial performance of Deposit Money Banks in Nigeria as shown, from the coefficient value of 20.21. This implies that the large reputable audit firm with relevant expertise do not compromise independence in the course of their audit exercise, as indicated by a positive effect on performance of banks. Though statistically insignificant, the result is consistent with the proposition that BIG4 audit firm has higher chances of increasing performance as a result of their reputation.

From the regression result above, it was discovered that auditor academic qualification has a positive and statistically significant effect on financial performance of Deposit Money Banks in Nigeria having recorded a positive coefficient value of 2.2063 and probability value of 0.0445 which was statistically significant at 5% level of significance. The value of β_4 which was positive showing that auditor academic qualification has a positive effect on financial performance of Deposit Money Banks in Nigeria hence when an auditor obtains an additional qualification, auditors independence is boosted as these qualifications make them more conservative when they perform audit tasks thereby increasing financial performance by 2.2063 magnitude. This suggests that, a 1% increase in auditors' academic qualification increases performance by 2.2063%.

5. Conclusion and Recommendations

The quality of audit is critical for making informed economic decisions but the perceived reliability of audit quality has declined amidst increased relevance of audit quality. To this end, the study reviewed extant literature on the effect of audit quality on banks financial performance. The main aim of this paper is to explore the effect of audit quality on the financial performance of the listed deposit money banks in Nigeria. The study tends to investigate the association between the four independent variables with a specific dependent variable which is pursuant to the result of the balanced panel data analysis, majority of the studied variables were established to have insignificant effect on financial performance as being measured using Tobin's q except audit fee and auditor academic qualification which were found to have significant effect on financial performance of quoted Deposit Money Banks in Nigeria at 5% level of significance respectively. Our findings are similar with that of Theory of Inspired Confidence which suggest that the more banks audited by Big4 the better the financial performance of that banks. It might be practically difficult to influence the judgement of Big 4 auditors to go in contradiction of the established rules of auditing practices due to the fact that they have a reputation to protect. Based on the findings and conclusion of the study, we therefore recommend that regulatory agencies in Nigeria should increase surveillance on audit practices with regards to fees charged to improve financial performance of banks in Nigeria. Moreover, auditors should be encouraged to obtain additional qualifications as it aids them in providing high quality audit services that is capable of improving financial performance.

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