EFFECT OF AUDIT FIRM CHARACTERISTICS ON FINANCIAL REPORTING QUALITY OF MONEY BANKS QUOTED IN THE NIGERIAN EXCHANGE GROUP

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ABSTRACT

The study investigated the effect of audit firm characteristics on financial reporting quality of Money Deposit Banks Quoted in the Nigerian Exchange Group from 1999-2021 of listed deposit money banks in Nigeria. Specifically, the study determined the effect of audit fee, audit firm size and the effect of audit tenure on financial reporting quality of listed deposit money banks in Nigeria. Data collected were from four sampled deposit money banks for the period. The data were analyzed using descriptive statistics. Linear multiple regressions anchored on ordinary least square (OLS) method was employed to test the hypotheses at 5% level of significance. Results from the test revealed that audit fee and audit tenure have negative and significant effect on financial reporting quality; while audit firm size showed positive and significant effect on financial reporting quality of listed deposit money banks in Nigeria. The implication of these findings is that enhancement in the financial reporting quality of the listed banks can be achieved if adequate audit fee and proper audit tenure are maintained between the auditors and the listed banks. The study therefore recommended that audit firm size, appropriate audit tenure and audit fees should be encouraged to improved financial reporting quality of money deposit banks in Nigeria.

Keywords: Firm Characteristics Quality Reporting, Financial Reporting, Money Deposit Bank

INTRODUCTION

The need to ensure accurate and reliable financial reports have been a topical discuss in recent times due to continuous corporate scandals witnessed in both developed and developing countries. This has led to the continuing studies on financial reporting quality that resulted mainly from the fact that corporate entities audited by independent auditors suddenly failed after such audits had negative consequences on the economy. The failure of such corporate entities had threatened the creditability of the accounting profession such that the users of financial statements have almost lost confidence in the profession (Daferighe and George, 2020). Therefore, the expectation of the society regarding the role of auditors to carry out quality audits capable of safeguarding the assets/ investments of the absentee owners in these quoted corporate entities were questionable and as such needed evidence that the financial reports prepared are in conformity with the applicable laws, standards and in-compliance as well as free from unethical judgment that can mislead prudent business decision.

Therefore, the quality of financial reporting is to promote transparency and deliver high quality annual report through comprehensive disclosure (Shehu, 2012). Consequently, regulators and financial statements analysis as well as auditors are to ensure that financial statements' information are true, fair and free from opportunistic and unethical judgment which destroies the quality of financial reporting. It is in view of the importance of quality of financial reporting that the International Federation of Accountants (IFAC) and its audit arm, international Auditing and Assurance Standards Board (IAASB), stated that audit services are an assurance service that the financial statements prepared by the managers is true and fair, and free from intentional and unintentional errors and misstatements, and conform to the relevant rules and regulations guiding the preparation and presentation of accounting information (IAASB, 2013).

Nigeria like other countries of the world witnessed corporate scandals and failures of banks, such as Oceanic Bank, Savannah Bank, Afri-Bank, intercontinental and Fin Bank, these were not pointed by their financial reports in spite of the auditor's endorsement. Banking Industry as we know is critical to the economic development of any economy; and should be given adequate attention in terms of studies on financial reporting quality, particularly in relation to auditors' characteristics on the quality reporting of financial statements. Consequently, the need for quality financial reports in the recent times had resulted negative consequences of poor quality financial reporting, which prompted the investigation on audit characteristics and financial reporting quality of listed deposit money banks in Nigeria.

Objectives of the Study

The study is aimed at investigating the effect of audit characteristics on the financial reporting quality of quoted deposit money banks in Nigeria by determining effect of audit fees ,audit firm size and audit the implication of audit tenure on financial reporting quality of quoted deposit money banks in Nigeria.

LITERATURE REVIEW

Firm Characteristics

The concept of audit is on assurance engagement that involved objective process of obtaining and evaluating evidence with regard to financial statements; so as to form an opinion that published or reported financial statements are free from material misstatements and intentional errors and are in accordance with relevant laws and standards. The ability of an auditor to mitigate misstatements is a function of the auditor's characteristics to detect material misstatements and to adjust for or report it (DeAngelo, 1981). Researchers like Dang (2004) predict that an auditor's ability to detect errors is a function of auditor characteristics (effort and effectiveness), and that an auditor's incentives to report or correct errors depend on factors such as litigation risk, reputation cost and auditor independence (DeAngelo, 1981). Thus, audit quality is determined by the auditor's ability to detect material misstatements (auditor competence and the auditor's willingness to report discovered material misstatements. The most direct empirical proxies for effort and effectiveness included hours spent in auditing (Caramanis and Lennox, 2008), and auditor industry expertise (Krishnan, 2003), and both are negatively associated with discretionary accruals. Accordingly, this is composing of audit tenure, audit fee, audit independence, audit firm size and joint audit (Dechow, et al, 2010).

Audit fee: This refers to the total fees paid to an auditor. It includes payment for audit services, non-audit services and abnormal accruals. This is called total audit compensation which can be used as a measure for audit quality (Francis, 2004).

Audit Firm Size

Large audit firms are the four largest international accounting and professional services firms referred to as the BIG4. Audit firms are categorized into Big four and Non-Big four. The Big four, includes KPMG, Price water house Coopers (PWC), Earnest and Young (EY), and Deloitte.

Audit Tenure: The effect of audit tenure of financial reporting quality has long been a debate both within the academia and by regulatory bodies globally. The debate centered on two main opposing views. The positive view argues that long audit tenure leads to higher audit quality through learning process. An auditor that is more knowledgeable of the client is more likely to promptly identify financial reporting the problems. However, the negative view argues that long audit tenure may have a detrimental effect on audit quality due to over familiarity (Okolie, 2014). Thus, the length of time between auditor-client relationships is referred to as audit tenure.

Audit Financial Report

Financial reporting quality is defined as the exact manner for which it shows information as regards a business activity as it relates to its anticipated cash flows, with the aim of informing shareholders about a company's operations. Tang (2008) defined financial reporting quality as the degree to which financial statements provide us with information that is fair and authentic about the financial position and performance of an enterprise. Accordingly, a commonly accepted definition is provided by Jonas and Balurchet (2000), who asserted that quality of financial reporting is complete and unambiguous information that is not designed to misinform users. IASB opined that "the objective of financial reporting is to provide financial information about the reporting entity that is useful to present to potential equity investors, lenders and other creditors in making decisions in their capacity as capital provides.

Empirical Review

Tinuola, Olusegun, Oluwayemisi and Omotayo (2021) examined audit committee characteristics and audit quality: An exploratory and empirical analysis in Nigerian oil sector. The broad objective of the study was to ascertain the effect of audit committee characteristics on audit quality in Nigeria, for 10 years spanning from 2009-2018. The study adopted an expo-facto research design since the data collected were already in existence in the 12 listed oil and gas sectors; out of which 10 firms were selected through a random sampling technique. Data were specifically sourced from the published financial reports of the sampled firms. Descriptive analysis was employed to determine the minimum, maximum, mean and standard deviation of all the variables. Logistic regression was used to test the formulated hypotheses. Outcome of the analysis revealed that audit committee size exerted a positive significant effect on audit quality of the firms, while audit committee meeting exerts a positive but in significant effect on audit quality of firm in the oil and gas sector in Nigeria. It was recommended that emphasis and focus should be placed on the size of the audit committee to improve audit quality while modalities surrounding the meetings of committee members should be revisited.

Daferighe and George (2020) explored the effect of audit firm attributes and financial reporting quality of quoted manufacturing firms in Nigeria. The population of this study was twenty-two (22) listed manufacturing firms producing consumer goods in Nigeria. Six (6) quoted companies out of the twenty-two (22) whose annual reports were not found were dropped, and this brought the sample size of the study to sixteen (16). Financial statements were analyzed to get the relevant data. Descriptive statistics were employed for data analysis while multiple regression was used to test hypotheses formulated at 5% level of significance. The results of the findings showed that auditor fees have significant effect on the financial reporting quality of listed manufacturing firms in Nigeria. Secondly, audit firm size and audit delay have in significant effect on the financial reporting quality of the manufacturing firms in Nigeria. It was recommended that those firms should create an enabling environment which will ensure the proper conduct of audit and also for timely release of their audit and also for timely release of their audit report to users of the financial information for quality decision making.

Badawy (2021) evaluated the impact of quality and timeliness of limited reviews report on perceived interim financial reporting quality during covid-19 pandemic crisis in Egypt. The population of the study comprised 95 firms quoted on the floor of the Egyptian stock exchange market. Data for the study was obtained through secondary means from the Egyptian stock exchange issued at the end of the 3rd quarter of 2020. Analysis of data was done with the use of descriptive statistics while formulated hypotheses were tested using multiple regression model. Result of the analysis indicated that timeliness of limited review reports is positively and significantly associated with the perceived quality of financial report with the perceived quality of financial reporting from the investors' point of view. Concerning the control variables, it was discovered that net income, book value of equity and audit firm size are positively and significantly related to the quality of interim financial reporting.

Akem, Rufus, Abiodun and Olawumi (2020) evaluated the relationship between audit reporting lag and firm value in Nigerian Food and Beverage companies. Data were sourced from annual reports of 10 quoted companies for the period of five (5) years covering 2012-2017. Descriptive statistics was used to analyze the data collected. Hausman specification test was conducted to determine whether fixed or random effect model is suitable. Multiple regression equation was used to determine the nature of the relationship between the research variables. The findings of the tests indicated that audit report lag negatively affect firm value while holding other factors constant, but the effect is not statistically significant.

Ado, Rashid, Mustapha and Ademola (2020) carried out a study on the impact of the audit quality on financial performance of listed companies in Nigeria. The broad objective of the study was to ascertain the impact of audit quality on the financial performance of companies listed in the Nigerian Stock Exchange 2010 to 2018. Data were retrieved from Thompson Reuters data stream and financial statements of the quoted companies. Data was analyzed using descriptive statistics while formulated hypotheses were tested using multiple regression at 0.05 level of significance. The result of the analysis revealed that audit fee showed a positive and insignificant relationship with financial performance. Secondly, audit independence is seen to be positive and has a statistical significant relationship with financial performance of the listed companies in Nigeria. The study proposed that executives should engage the services provided by audit firms whose integrity and character is unquestionable.

Ebyi, Adegbie, Salawu and Odesanya (2019), examined ethical principles and faithful representation of financial reports of quoted companies in Nigeria. The broad objective of the study is to ascertain the impact of ethical principles such as integrity, objectivity, diligence and professional competence on faithful representation of financial reports of listed companies in Nigeria. Data was collected with the use of questionnaires administered to accountants and auditors listed companies as well as accountant and auditors of quoted companies' regulatory agencies in Nigeria. The questionnaire instrument was sectionalized to reflect demographic anatomy of the participants, the independent and dependent variables. Responses were rated using 5-point likert scale. Reliability of the research instrument was also conducted to check internal consistency with the use of Cronbach Alphat test. Analysis of data was done using descriptive and inferential statistics. The result of the analysis showed that ethical principles influence financial reporting quality significantly. However, there exist negative relationship between audit firm tenure and audit quality moreso, the correlation between audit quality and leverage was strong, negative and statistically significant. Also, the correlation between audit quality and company size was strong, positive and statistically significant.

Awardat (2019) examined disclosure quality and its impact on financial reporting quality audit and investors' perceptions of the quality of financial reporting. The purpose of the study was to review the most recent empirical studies on corporate disclosure. seventy-eight empirical studies published in several relevant journals from 2003 onwards been categorized and analyzed so as to ascertain the link between the research variables of the study regularly especially in the aftermath of the Sarbine Oxley Act (2002). The review started with identifies 100 studies on corporate disclosure, but later decided to select only studies published in international journals which narrowed down the sampled 67 studies. These studies were classified based on the dependent variables, financial reporting quality, audit quality and investor perceptions of the financial report process of the research was based on the following keyword: corporate disclosure, audit quality, reporting quality, earning quality investors' perceptions and financial statement. Result from the analysis of the data collected indicated that Sarbane Oxley Act (2002) has significantly increased managed awareness of the importance of accounting disclosure.

Ugwunta, Ugwuanyi and Ngwa (2018) examined the effect of audit quality on market price of firms listed on the Nigerian stock market. The main objective of the study was to actually determine the relationship between audits that adopted *ex-post-facto* research design since the study used historic data. The data were sourced from the annual reports and accounts of the sampled firms. Data were analyzed with the use of covariance analyses while the formulated hypotheses were tested using regression. Panel Least Square (PLS) was applied to the series of data; the signs of the coefficients were relied upon in describing the direction and strength of linear relationship between the dependent and the independent variables. Findings from the regression analysis revealed that the composition of the audit committee and auditor type has significant relationship between audit committee composition and share prices.

Theoretical Framework

Agency Theory

The theoretical framework underpinning this study is rooted in Agency theory propounded by Jensen and Meckling in 1976. According to the agency theory, a company consists of a set of linked contracts between the owners of economic resources (the principals) and managers (the agents) who are charged with using and controlling these resources Jensen and Meckling (1976) state that in agency theory, agents have more information than principals; and this information asymmetry adversely affects the principals' ability to monitor whether or not their interests are being properly served by the agents. sarens and Abdolmohhamadi (2007) opined that an assumption of agency theory is that principal and agents act rationally and use contract to maximize their wealth. A consequence of this is the moral hazard issue (Farouk and Hassan, 2014) since all available information are not known to the principal at the time a decision is being made by an agent. Thus, the principal fails to determine whether the agent's actions are in the best interest of the firm. to reduce the likelihood of the moral hazard, corporate governance mechanism (audit characteristics) which ensure the inclusion of auditing as an internal control and monitoring function is introduced to help and satisfy the shareholders demand for accountability.

The theory is relevant to this study because the purpose of audit is to enhance the quality of financial statements by providing reasonable assurance from an independent auditor that the audited financial statements prepare by agents showed a true and fair view in accordance with the relevant statutes. Accordingly, Louis (2005) opined that audit serves as a fundamental purpose in promoting confidence and reinforcing trust in financial information. Therefore, audited financial statement is meant to protected the various investors interest of losing their investments since managers (agents) may be pursing their interest instead of those of shareholders (principals).

METHODOLOGY

This study adopted *Ex-post facto* design. This type of research design is a method of testing out antecedent of events that have happened and therefore cannot be manipulated by the investigator. Therefore, the study adopted *Ex-post facto* research design because the data used were already in existe

Description of Research Variables

Dependent Variable Definition	Measurement
Financial Reporting Quality	Financial reporting quality was measured using one of the qualitative characteristics of financial statements, which is relevance. The time lag between the Accounting year-end and the date the external auditor signed the report was employed to measure relevance. (Ogungbade, Adekoya, Olugbodi, 2021)
Independent Variables	
Audit	This concept refers to the amount of remuneration paid to the audit firm for audit work done as reported in the statement comprehensive income (Jerry and Saidu, 2016).
Audit firm size	A dummy variable assigned 1 if bank is associated with one of the BIG 4 and 0 if otherwise. BIG 4 = Delloitte, ERNST & YOUNG, PWC, KPMG. (Ugwunta, Ugwuanyi and Ngwa (2018)
Audit Tenure	A dichotoumous variable of "1" if auditor client relationship is 3 year+ and '0' if otherwise

MODEL SPECIFICATION

Multiple regression model (MRM) anchored on ordinary least square (OLS) was used to determine the statistical relationship between the research variables. The MRM is represented as follows:

$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + et$

Where:

Y	=	Dependent variable
$X_1\ X_2\ X_3$	=	Explanatory variables (Independent variables)
a	=	Constant
$\beta_1\ \beta_2\ \beta_3$	=	Coefficient of the Explanatory Variables
et	=	Error term

Explicit representation of the baseline model:

$RV = a + \beta_1 AF + \beta_2 AFS + \beta_3 AT + et$

Where:

RV	=	Relevance (A proxy for Financial Reporting Quality)
AF	=	Audit Fee
AFS	=	Audit firm size
AT	=	Audit tenure
a	=	Constance
$\beta_1\beta_2$ $\beta3$	=	Beta Coefficients of the Explanatory Variables
et	=	Error term

METHOD OF DATA ANALYSIS

Data was analyzed using descriptive statistics. OLS Multiple regression model was employed to find the statistical significant of the independent variables on the dependent variable. The decision rules that guided the study are as follows:

Decision Rule 1: Accept the alternate hypothesis and reject the null hypothesis if the p-value is less than the chosen level of significance (0.05).

Decision Rule 2: Accept the null hypothesis and reject the alternate hypothesis if the p-value is greater than the chosen level of significance (0.05).

Descriptive Test

Table 1: Descriptive

	AF	AFS	AT	RV
Mean	1.8600	0.9908	7.072	184.000
Median	1.31408	1.4600	6.00	90.000
Maximum	4.35E+01	1.8000	10.000	155.000
Minimum	1.2000	0.000	1.000	42.000
Std. Dev.	1.20E+08	0.3181	2.6255	20.431
Skewness	1.112846	1.8071	-1.191482	2.420
Kurtosis	1.709581	2.2841	1.164016	4.456
Jarque-Bera	27.09828	199.6178	26.1498	517.3481
Probability	0.000001	0.063000	0.000002	0.087300
Sum	1.94E+10	48.000	14.000	128.400
Sum Sq. Dev.	1.847	13.699	421.175	108.429
Observations	101	101	101	101

Source: Author's Computation 2022.

On average, the audit fees paid by the investigated banks during the period of investigation was one hundred and eight six million naira's (N1.86), and the maximum audit fee was four hundred and thirty-five million naira's (N4.35E+08) while the minimum audit fee was twelve million naira's (1.200). the standard deviation was one hundred and twenty million naira's (N1.20E+08), and the data were not normally distributed, as shown by Jarque-Bera probability that is less than 5% (B statistics = 27.09828, P =0.000001). in like manner, the average value of audit firm size was o.9908, approximately 1, which means many of the audit firms that audited the investigated firms during the investigation period were in the big four catefories. This result is also confirmed by the median, which is 1. The minimum firm size was 0, representing audit firms that are not in the big four categories (The big four audit firms include KPMG, PWC, Deloitte, and Ernst & Young).

The standard Deviation was 0.313180, and the data had a normal distribution of the error term JB Statistics = 199.6178, p = 0.063000.

Similarly, the average audit tenure was 7.072727, approximately seven years, the maximum audit tenure was ten years, and the minimum audit tenure was 1. The standard deviation was 2.6255, and the data were not normally distributed JB statistics = 26.1498, p = 0.000002. in like manner, the average time between the year-end date and the date the financial report was ready (signed by the external auditor) was 84 days; the maximum was 155 days, and the minimum was 42 days. The standard deviation was 20.431, and the data were not normally distributed (JB Statistics = 517.3481, p = 0.087300).

Test of Hypotheses

Table 2 Regression Results

variable	**Coefficient**	**Std. Error**	**T-Statistic**	**P. value**
Audit fees	-0.674	0.802	-2.983	0.034
Audit Firm Size	1.417	0.643	4.156	0.0215
Audit Tenure	-0.489	1.136	-6.443	0.005
C	86.210	1.692	23.901	0.0022
R-Square	0.669			
Adjusted R-Square	0.606			D.W-stat 1.494

Results from E-views, 2022

Decision Rule

Decision Rule 1: Accept the alternate hypothesis and reject the null hypothesis if the p-value is less than the chosen level of significance (0.05).

Decision Rule 2: Accept the null hypothesis and reject the alternate hypothesis if the p-value is greater than the chosen level of significance (0.05).

Decision Rule 3: Accept the alternate hypothesis and reject the null hypothesis if the p-value is equal to the chosen level of significance (0.05).

INTERPRETATION OF RESULT

The result in table 2 shows that audit fees (β = - 0.674, p-value=0.034) has negative significant effect on financial reporting quality of deposit moneys bank in Nigeria. Likewise audit tenure (β = -0.489, p-value = 0.005) has negative significant effect on the financial reporting quality of the banks. However, the table indicated that audit firm size (β = 1.417, p-value = 0.0215) has positive and significant effect on financial reporting quality of deposit moneys bank in Nigeria. The value of $R^2 = 0.669$ is showing that about 67% of the changes in financial reporting quality of deposit money banks listed in the Nigerian Stock Exchange for the period 1999-2021 is attributed to the variation in audit fee, audit firm size and audit tenure; while 33% changes in financial reporting quality of the banks are caused by other factors not captured in the model of the study, but which are capable of affecting the financial reporting quality of the banks. Durbin Waston value (1.494) is within the acceptable range, which implies no existence of the autocorrelation.

DISCUSSION OF FINDINGS

Discussion of findings was made in line with outcome of the regression analysis.

Effect of Audit fee on Financial Reporting Quality of Listed deposit money banks in Nigeria

The study found that audit fee has negative significant effect on financial reporting quality of the listed banks in Nigeria. However, this result disagreed with the findings of Ado, Rashid, Mustapha and Ademola (2020) who opined that audit fee showed positive and insignificant relationship with quality of financial statements of listed companies in Nigeria. The result is in line with the findings of Ogunbade, Adekoya and Olugbodi (2021) who observed that audit fee had statistical significant effect on financial reporting quality of listed commercial banks in Nigeria.

Effect of Audit Firm size on Financial Reporting Quality of Listed Deposit Money Banks in Nigeria

The study found that audit firm size has positive significant effect on financial reporting quality of listed deposit money banks in Nigeria. This result is in conformity with the findings of Abdollahi, Pitenoei and Gerayli (2020) who found that audit firm size had positive and significant effect on the value relevance of accounting information. Similarly, the result agreed with the study of Badawu (2021) who found that audit firm size are positively and significantly related to the quality of interim financial reporting. However, the result disagreed with the findings of Dferighe and George (2020) who maintained that audit firm size had insignificant effect on financial reporting quality of quoted commercial banks in Nigeria.

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

The study found that audit tenure has negative and significant effect on financial reporting quality of quoted commercial banks in Nigeria. This result corroborate with the findings of Enyi, Adegbie, Salawu and Odesanya (2019) who stated that audit tenure had negative relationship with financial reporting quality of listed companies in Nigeria. The result agreed with the study Ogungbade, Adekoya and Olugbodi (2021) who observed that audit tenure affects financial reporting quality of listed in Nigeria.

IMPLICATION OF RESULTS

The study evaluated the effect of audit characteristics on financial reporting quality of listed deposit money banks in Nigeria for the period 1999-2021. The study found that audit fee and audit tenure have negative significant effect on financial reporting quality; while audit firm size has positive significant effect on financial reporting quality of the listed deposit money banks in Nigeria. In line with this, the implication of the study is that enhancement in the financial reporting quality of the listed banks can be achieved, if adequate audit fee and proper audit tenure will be maintained between the auditors and the listed banks?

Summary of Findings

Based on the results of the regression analysis, the study found as follows:

i. Audit fee has negative significant effect on financial reporting quality of listed deposit money banks in Nigeria ($\beta = -0.674$, p-value = $0.034 < 0.05$).
ii. Audit firm size has positive significant effect on financial reporting quality of listed deposit money banks in Nigeria ($\beta = 1.417$, p-value = $0.0215 < 0.05$).
iii. Audit tenure has negative significant effect on financial reporting quality of listed deposit money banks in Nigeria ($\beta = -0.489$, p-value = $0.005 < 0.05$).

Conclusion

The study examined the effect of audit characteristics on financial reporting quality of listed deposit money banks in Nigeria for the period 1999-2021. Based on the findings, the study concluded that audit characteristics employed in this study have significantly affected on financial reporting quality of listed deposit money banks in Nigeria.

Recommendations

In line with the outcome of the study, the researcher made the following recommendations.

i. External auditors should be adequately compensated during their conduct of statutory audit to enable them conduct a thorough audit that would uncover material misstatements.
ii. Deposit money banks in Nigeria should engage the services of the BIG4 to enable them have a better audit service that would improve their financial reporting quality.
iii. Long audit tenure encourages over familiarity between the auditor and his client. Therefore, regulatory authority should discourage long audit tenure.

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