Effect of Audit Quality on Financial Performance of Deposit Money Banks in Nigeria: Corporate Governance Perspectives

Department of Finance, University of Lagos

Kehinde A. Alliu: kehindealliu@gmail.com +234-8138504107, Olukayode Oyewale: ooyewale@unilg.edu.ng +234-8023438139; and Ayodele Ajayi: aajayi@unilag.edu.ng

Abstracts

This study examined the effects of audit quality on the financial performance of 10 out of 16 Deposit Money Banks (DMBs) listed on Nigeria Stock Exchange (NSE) for which data were available covering a period of 10 years (2010-2019). While the specific objectives are to ascertain the effect of Audit Fee (AUF), Audit Report Lag (ARL) and Audit Committee Diligence (ACM) on the financial performance of Deposit Money Banks (DMBs) in Nigeria, it applied Return on Assets (ROA) as a measure of financial performance. The study adopted ex post facto research design, data for the study were collected from annual reports and accounts of listed DMBs. The study employed multiple regression analysis using SPSS to test the formulated hypotheses. The result showed Audit Fees (AF) and Audit Reported Lag (ARL) significantly affect financial performance of DMBs in Nigeria while Audit Committee Diligence (ACM) has insignificant effect on the financial performance of DMBs in Nigeria. The study recommends that: DMBs should strive to enhance the efficiency of their financial reporting processes to reduce the need for extensive audit procedures. Implementing robust internal control systems, automating processes, and adopting advanced accounting software can streamline financial reporting and potentially lower audit fee; DMBs should strive to streamline their internal processes and improve the efficiency of the financial reporting and auditing processes. This includes ensuring timely preparation of financial statements, prompt resolution of accounting issues, and effective communication with auditors. By reducing unnecessary delays in the audit process, companies can minimize audit report lag; DMBs should promote a culture of continuous improvement and learning within audit committees. This can be achieved through ongoing professional development programs, access to relevant resources and training, and opportunities for committee members to stay updated on emerging trends and regulatory changes. By continuously enhancing their knowledge and skills, audit committees can contribute more effectively to financial performance.

***Keywords: Audit quality, Financial Performance, Deposit Money Banks, Corporate Governance*.**

1.0 Introduction

1.1 Background to the study

The banking sector plays a crucial role in the Nigerian economy, as it serves as a catalyst for economic growth, facilitates investment, and provides financial services to individuals and businesses. In recent years, there has been an increased focus on the quality of corporate governance and financial performance of banks, driven by the need to enhance transparency, accountability, and stability in the sector.

Audit quality and corporate governance are two key components that contribute to the effective functioning of banks. Audit quality refers to the degree to which auditors adhere to ethical and professional standards, exercise skepticism, maintain objectivity, and effectively communicate the results of their work, contributing to the credibility and trustworthiness of financial information (IFAC, 2012). Corporate governance on the other hand is the system by which corporations are directed and controlled, encompassing the structures, processes, and mechanisms that influence corporate behavior, ensuring ethical conduct, transparency, and compliance with legal and regulatory requirements." (ICGN, 2020). The quality of audits plays a crucial role in fostering an efficient market environment, and it is through independent and high-quality audits that confidence in the credibility of well-functioning markets is established. This, in turn, leads to enhanced financial performance (Farouk & Hassan, 2014).

1.2 The statement of the Problem

Financial institutions, including banks and other intermediaries, have played a central role in the global financial crises that have occurred in recent years. These crises were primarily caused by the decline in the quality of their asset portfolios, along with fraudulent practices such as presenting false financial statements and a failure to follow corporate governance principles. Distorted credit management practices were particularly responsible for exacerbating these issues (Sanusi, 2010). The collapse of many financial institution shortly after being certified healthy by external auditors' raises concern on the effectiveness of quality audit as a potent corporate governance mechanism.

The necessity for audit quality was however captured by Normanton (2013) who noted that “without audit, no accountability, without accountability, no control and if there is no control, where is the seat of power”. Despite the significance of audit quality and corporate governance, there is a lack of comprehensive empirical research examining their relationship with the financial performance of listed deposit money banks in Nigeria. The existing literature on the measures of audit quality and financial performance in Nigerian deposit money banks is limited. Therefore, there is a need for a comprehensive study to address this gap and shed light on the relationship between audit quality and financial performance. This study is crucial and timely as it aims to investigate the impact of audit quality on the financial performance of deposit money banks in Nigeria, filling the current research void in this area. Understanding the interplay between audit quality, corporate governance, and financial performance can provide valuable insights into how these factors contribute to the overall success and stability of banks in the Nigerian market.

This study therefore aims to address this research gap by investigating the extent to which audit quality and corporate governance practices impact the financial performance indicators, such as Return on Assets (ROA), Price to earnings of listed deposit money banks in Nigeria using a tripod of Audit fees, Audit report lag and board audit committee independence as independent variables.

1.3 Objectives of the Study

The aim of the study is to investigate the effect of audit quality on financial performance of quoted deposit money banks in Nigeria. Financial performance is however measured by Return on Asset (ROA). Specifically, the study seeks to:

I. Determine the influence of audit fees on the financial performance of Deposit Money Banks in Nigeria;

II. Examine the effect of audit reported lag on the financial performance of Deposit Money Banks in Nigeria;

III. Explore the effect of audit committee diligence on the financial performance of Deposit Money Banks in Nigeria.

1.4 Research Questions

The study was guided by the under-listed formulated research questions:

I. To what extent does audit fees affect the financial performance of Deposit Money Banks in Nigeria?

II. What is the effect of audit report lag on the financial performance of Deposit Money Banks in Nigeria?

III. What is the effect of audit committee diligence on the financial performance of Deposit Money Banks in Nigeria?

1.5 Research Hypotheses

The following null hypotheses have been developed with the aim of achieving the research

H_{01}: Audit fees has no significant effect on the financial performance of Deposit Money Banks in Nigeria.

H_{02} Audit reported lag does not have a significant effect on the financial performance of Deposit Money Banks

H_{03} Audit committee diligence has no significant influence on financial performance of Deposit money banks.

1.6 Significance of the study

The significance of the study lies in its ability to strengthen investor confidence in the Nigerian banking industry. Robust audit quality and corporate governance practices are crucial for ensuring transparency, accountability, and reliability of financial information. A study that investigates their impact on financial performance can provide insights that help investors make informed decisions and promote trust in the banking sector. Furthermore, the study will contribute to the enhancement of the regulatory framework for deposit money banks in Nigeria by identifying areas for improvement in regulations, standards, and practices to ensure the effective functioning of the banking sector. It will also contribute to the academic literature on the relationship between audit quality, corporate governance, and financial performance, particularly in the context of deposit money banks in Nigeria. It can provide valuable empirical evidence and insights that can be referenced by researchers and scholars in related fields, furthering the understanding of corporate governance and its impact on financial outcomes.

In summary, the significance of the study lies in its potential to inform policy decisions, enhance transparency and accountability, and contribute to the stability, performance, and reputation of the Nigerian banking sector.

2.0 Review of Related Literature

The literature review establishes a foundation for understanding the relationship between audit quality, corporate governance, and financial performance in the Nigerian banking sector. The review also emphasizes the importance of strong corporate governance practices and effective risk management in promoting financial performance and stability in DMBs.

2.1 Conceptual Review

2.1.1 Audit Quality

Audit quality refers to the degree to which an audit engagement provides reasonable assurance that financial statements are free from material misstatement and accurately represent the financial position of an organization. It encompasses several dimensions that contribute to the effectiveness and reliability of the audit process. While the specific dimensions of audit quality may vary in different studies, some common elements include: independence and objectivity, competence and professionalism, audit firm reputation, audit firm size and audit committee oversight. This is captured by De Angelo (1981) as the degree to which an audit satisfies the professional standards and expectations regarding the auditor's independence, competence, due care, professional skepticism, and the reliability and usefulness of the audit report. International Federation of Accountants asserts audit quality to mean the degree to which auditors adhere to ethical and professional standards, exercise skepticism, maintain objectivity, and effectively communicate the results of their work, contributing to the credibility and trustworthiness of financial information." (IFAC, 2012). The relationship between audit quality and corporate governance is closely intertwined. Effective corporate governance frameworks provide the necessary oversight and structures to ensure audit quality. Audit quality, in turn, enhances corporate governance by providing reliable and accurate financial information to stakeholders, fostering transparency, and reducing information asymmetry (DeFond & Zhang, 2014). These definitions provide further insights into audit quality, emphasizing aspects such as skills, expertise, objectivity, skepticism, and adherence to professional standards. .Each definition contributes to our understanding of the multifaceted nature of audit quality and its impact on financial reporting and decision-making. In this study, audit quality is measured by audit fees, and audit report lag and audit committee diligence.

2.1.2 Audit Fees

The audit fee denotes the financial compensation provided to auditors for rendering audit services in accordance with specific standards. It encompasses the overall cost of conducting the audit, including the comprehensive audit work, risk mitigation, and profit considerations. The audit fee holds significance not only for ensuring audit quality but also for shaping the growth of accounting firms and the audit industry (Siheng, 2017). In theory, the amount of audit fees paid by a client firm to its audit firm reflects the level of audit work required during the auditing process. This level of work is determined by the auditor's assessment of the process's complexity and the desired risk level. Moutinho's work (2012) suggests that, all else being equal, if an auditor aims to minimize the risk associated with issuing an unqualified opinion in the presence of material misstatements in the client's financial statements, they typically adjust the nature, extent, and timing of audit procedures, which consequently affects the final amount of fees required.

2.1.3 Audit Report Lag

Audit report lag refers to the duration, measured in days, between the end of a company's accounting year and the date of the audit report. As a crucial source of information, the audit report garners significant attention from audit firms, companies, regulators, and investors. Boyne and Law (1991) as cited in Yuniarti (2011) highlight that the annual report serves as a means of accountability, while Bamber, Dechow, and Bamber (1993) find that audit delays are influenced by the level of audit work, incentives for timely reporting, and the adoption of a structured audit approach. Furthermore, Dibia and Onwuchekwa (2013) reveal that undue audit lag diminishes the quality of financial reporting by depriving investors and prospective investors of timely information. Consequently, the delay in the audit report can erode investor confidence and exacerbate the agency problem.

2.1.4 Audit committee diligence

This is a key component of corporate governance practices within organizations. The audit committee, as part of the corporate governance structure, is responsible for overseeing the financial reporting process, internal controls, and the external audit function. The diligence of the audit committee refers to the thoroughness, attentiveness, and proactive approach taken by its members in carrying out their responsibilities. The frequency and the number of meetings during a year for the audit committee has been proved by some scholars to have positive relationship with performance. Some authors like Jackling and Johl (2009) and Lipton and Lorsch (2012) contended that frequent meetings are likely to lead to higher performance while Rebeiz and Salame (2015) highlighted that the quality of the meeting and not just the quantity is significant for firm performance. The audit committee is an essential and statutory committee on the board created to aid the board in the achievement of its oversight tasks as it relates to the accounting and financial reporting policies and practices, internal controls, auditing, compliance programmes and general compliance with applicable regulations and laws (Ojeka, Ben-Caleb & Ekpe 2017). In Nigeria, according to the Companies and Allied Matters Act (CAMA) 2020, there should be five members in this committee, comprising two non-executive directors. The members should all be financially literate, with at least one belonging to an accounting professional association, established by an Act in Nigeria (Federal Republic of Nigeria 2020).

2.1.5 Return on Assets (ROA)

Return on assets (ROA) serves as a metric that assesses a company's profitability relative to its total assets. It provides managers, investors, and analysts with insights into the efficiency of a company's management in utilizing its assets to generate earnings (Gallo, 2016). ROA reveals the earnings derived from the capital invested in the form of assets. For public companies, ROA can vary significantly and is heavily influenced by the industry in which the company operates. Therefore, when using ROA as a comparative measure, it is best to compare it against a company's historical ROA figures or against those of similar companies. The ROA value offers investors an understanding of how effectively a company converts its investments into net income. A higher ROA indicates better performance, as the company generates more earnings with fewer investments. Comparing ROA is most valuable within the same industry since different industries employ assets differently. For instance, service-oriented firms like banks tend to have significantly higher ROA compared to capital-intensive companies such as construction or utilities. Ultimately, ROA provides an assessment of how efficiently a company utilizes its assets to generate profits. Its usefulness may vary across industries due to the differing levels of asset utilization dictated by industry characteristics.

2.2 Theoretical

This study is anchored on agency theory.

2.2.1 Agency Theory

According to Abels and Martelli (2013), agency theory is an economic theory established by Alchian and Demsetz (1972). The theory was further improved on by Jensen and Meckling (1976) and Fama and Jensen (1983). **Agency theory is a prominent theoretical framework used to analyze and understand the relationship between principals (shareholders or owners) and agents (management or executives) within an organization. It provides insights into how conflicts of interest can arise between principals and agents and how these conflicts can be mitigated through mechanisms such as corporate governance.**

When applied to the context of audit quality as a measure of corporate governance, agency theory offers valuable insights into the incentives and behaviors of both principals and agents. In this case, the principals are the shareholders or owners of a company who delegate the responsibility of managing the company to agents, namely the management team. The principals are interested in ensuring that the agents act in their best interests and maximize shareholder value.

Audit quality, in this context, refers to the extent to which an external auditor provides an independent and objective assessment of the financial statements of a company. The audit process aims to enhance the credibility and reliability of financial information for the benefit of shareholders and other stakeholders. High-quality audits contribute to increased confidence in the financial reporting process, which, in turn, can positively impact corporate governance.

According to agency theory, the relationship between principals and agents is characterized by information asymmetry and the potential for agency costs. Information asymmetry arises because agents possess more information about the company's operations and financial performance compared to principals. This creates a risk that agents may act in their own self-interest rather than in the best interests of the principals. The costs associated with this divergence of interests are known as agency costs.

One way to mitigate agency costs and align the interests of principals and agents is through effective corporate governance mechanisms. Audit quality plays a crucial role in this regard. When external auditors provide high-quality audits, they act as independent

monitors who verify the accuracy and reliability of financial statements. This enhances transparency, reduces information asymmetry, and strengthens the principal-agent relationship.

By ensuring that financial statements are prepared in accordance with relevant accounting standards and that potential misstatements or fraudulent activities are detected, audit quality serves as a mechanism to mitigate agency problems. It helps to reduce the risk of opportunistic behavior by agents, such as manipulating financial results or engaging in other unethical practices.

In conclusion, agency theory provides a theoretical foundation for understanding the relationship between audit quality and corporate governance. By aligning the interests of principals and agents, high-quality audits contribute to improved corporate governance practices. The role of auditors as independent monitors enhances transparency, reduces agency costs, and inspires confidence in the financial reporting process.

2.3 Empirical Studies

Results from empirical studies on audit quality and financial performance of firms are mixed either for market measure of performance or accounting measure. Some scholars have researched audit quality and financial performance in Nigeria and abroad with inconsistent approaches and findings.

In their respective studies, Chinedu, Nwoha, and Udeh (2019) and Iliemena & Okolocha (2019) employed Return on Assets (ROA) as a performance measure for listed manufacturing companies and listed industrial firms in Nigeria. They also utilized different proxies to assess audit quality, including auditor independence, firm rotation, audit committee composition, and audit fees. Chinedu, Nwoha, and Udeh (2019) found that auditor independence and audit committee composition had a significant impact on firm performance, while audit fees did not show a significant relationship. On the other hand, Iliemena & Okolocha (2019) discovered that audit fees actually influenced the performance of industrial firms in Nigeria. These studies demonstrate the varying results and conclusions regarding the relationship between audit quality factors and firm performance, as well as the role of audit fees in specific industries. The findings suggest that the impact of audit quality on performance may differ depending on the specific context and industry under investigation.

In their study, Ogbodo and Akabuogu (2018) aimed to investigate the impact of audit quality on the financial performance of selected banks in Nigeria. The study focused on three specific areas: the influence of audit firm size on return on assets (ROA) of Nigerian banks, the relationship between audit committee independence and return on equity (ROE) of Nigerian banks, and the effect of audit committee size on the profit margin of Nigerian banks. The research questions and hypotheses were formulated to align with the study's objectives. The population of the study comprised sixteen deposit money banks listed on the Nigerian Stock Exchange. Data for the analysis were extracted from the financial statements of these banks for the period between 2008 and 2017. The collected data were then analyzed using regression analysis with the Statistical Package for Social Sciences (SPSS) Version 20. The findings of the study indicated that the size of the audit firm had a significant impact on the return on assets of Nigerian banks. Furthermore, the study revealed a significant relationship between audit committee independence and the return on equity of Nigerian banks. Additionally, the research found that the size of the audit committee significantly influenced the profit margin of Nigerian banks. Based on these findings, the study recommended, among other suggestions, that companies should engage audit firms with a proven track record of audit quality and reputation. The study emphasized that the debate surrounding audit quality remains unresolved and warrants continued attention.

Egbunike and Abiahu (2017) conducted a study to explore the impact of audit firm reports on the financial performance of deposit money banks in Nigeria during the period from 2010 to 2014. The research employed an ex post facto and correlational research design, and the collected data were analyzed using multiple regression analysis. The study's findings revealed that audit quality significantly influenced the return on assets of Nigerian banks. However, the study did not find any significant influence of audit fee and audit report lag on the return on asset, earnings per share, and net profit margin of Nigerian banks. They study suggested the implementation of mandatory rotation of auditors as a means to safeguard auditor independence and enhance audit quality. Additionally, the establishment of corporate governance principles that address issues such as board independence and committee sizes was recommended to guide the activities within the banking sector.

Onaolapo and Ajulo (2017) conducted a study that aimed to examine the relationship between audit fees and audit quality in Nigeria. The research focused on a sample of listed cement companies on the Nigerian Stock Exchange. The study specifically investigated the impact of audit fee, audit tenure, client size, and leverage ratio on audit quality. The researchers utilized the

Ordinary Least Square Model estimation technique to analyze the relationship between the explanatory variables and the dependent variable. Secondary data obtained from the published annual reports of the selected companies for the period of six years (2010-2015) was used for the study. The findings of the study revealed that there is a significant joint relationship between audit fee, audit tenure, client size, leverage ratio, and audit quality. The coefficient of determination (R2) was calculated to be 0.6006, indicating that the independent variables can explain approximately 60% of the changes in audit quality. The combined p-value of 0.001 and Fcalc=7.14 further supported the significant relationship. Specifically, the study found that audit fee had a significant positive impact on audit quality, as evidenced by the high positive correlation coefficient of 0.7513. The stat. and p-values for audit fee were 4.04 and 0.001, respectively. The study recommended that the government, in collaboration with professional bodies, should develop robust policies to enhance audit quality in Nigeria.

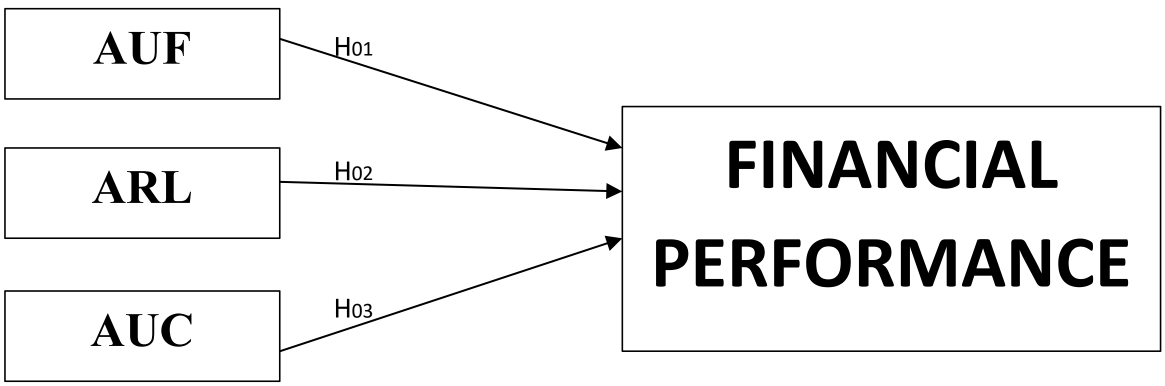
In a study conducted by Ilechukwu (2017), the impact of audit fees on audit quality was examined using a sample of selected firms from the consumer goods sector in Nigeria. The study focused on data from the period between 2011 and 2016. The core explanatory variables analyzed were audit fees and audit tenure. Additionally, the study included controls for firm size, profitability, and leverage. To analyze the data, the pooled data Ordinary Least Squares (OLS) regression technique was employed. The findings of the study revealed that audit fees and other explanatory variables collectively account for 38% of the variations in audit quality among the selected firms. Specifically, the study found that audit fees, client profitability, and financial leverage had a positive effect on audit quality in the consumer goods sector of quoted firms in Nigeria, although this effect was not statistically significant. On the other hand, audit tenure and client size had a significant positive impact on audit quality in the consumer goods sector of quoted firms in Nigeria. Based on these findings, the study concluded that the length of audit tenure and client size significantly enhance the quality of firm audits, more so than the amount of audit fees, firm profitability, and leverage. As a recommendation, the study suggests that firms should engage audit firms for longer periods, exceeding three years, in order to promote the quality of audit reports.

In a research conducted by Kwabena (2017), the focus was on examining the impact of internal audit quality on the financial performance of firms in Kenya. The study covered the period from 2010 to 2016 and utilized both primary and secondary data sources. The independent variables considered were firm size, financial leverage, and liquidity, while the dependent variable was return on equity. The study encompassed a sample of 121 listed firms on the Nairobi Stock Exchange (NSE). Multiple regression analysis was employed to analyze the collected data. The findings of the study demonstrated that firm size, financial leverage, and liquidity had a significant influence on return on equity. These variables were found to play a crucial role in determining the financial performance of the firms under investigation. Based on the results, the study recommended that managers should recognize the importance of the relationship between internal audit and financial performance in order to enhance the overall financial performance of the firm. Implementing effective internal audit practices can contribute to improving financial performance.

In their research, Sylvester and Eyesan (2017) investigated the influence of audit quality on earnings management in Nigerian Deposit Money Banks (DMBs). The study focused on a sample of 18 banks listed on the Nigerian Stock Exchange (NSE) as of December 2010. Data was collected for the period between 2005 and 2010. The researchers utilized cross-sectional year-by-year regression analysis as the statistical method to analyze the data. The study employed two measures to assess audit quality: audit fees and auditor change. Earnings management was evaluated using abnormal loan loss provision. The findings of the study revealed that both audit fees and auditor change had a positive and significant association with abnormal loan loss provision. This implies that higher audit fees and changes in auditor tenure could potentially exacerbate earnings management practices. Based on the results, the study recommended that auditor changes should not be mere formalities, but rather be driven by actual inefficiency. Additionally, monitoring of audit fees from each auditor-client relationship should be implemented to enforce the maximum limit of five percent, as suggested by the Institute of Chartered Accountants of Nigeria's code of ethics in 2016.

Hirhyel (2017) conducted a study on the impact of audit firm attributes on the earnings quality of listed consumer goods firms in Nigeria. The research sample consisted of 13 firms. The dependent variable in the study was earnings quality, which was measured using the Modified Jones Models as a proxy for earnings management. The independent variables included industry specialized auditor, audit compensation, audit tenure, and audit firm type. Data for the study were collected from the audited annual reports of the 13 sampled consumer goods firms over a period of eight years, spanning from 2007 to 2014. The ordinary least square regression analysis was employed as the statistical tool for data analysis. The findings of the study revealed that industry specialized auditors and audit firm types had a significant positive influence on the earnings quality of the sampled firms. This suggests that the expertise and specialization of auditors in the consumer goods industry, as well as the type of audit firm, play a crucial role in enhancing earnings quality. However, the study did not find a significant influence of audit tenure and audit compensation on the earnings quality of the firms. Based on the results, the study recommended that consumer goods firms aiming to achieve higher earnings quality and provide reliable financial information for effective decision-making should consider engaging industry specialized auditors and big four audit firm types. These auditors and firms are believed to possess the expertise and capabilities to positively impact the quality of a company's earnings.

Figure 2.1: Conceptual Framework



Source: Author's Design, 2023

3.0 METHODOLOGY

3.1 Research Design

Ex-post facto research design was adopted for the study. This is appropriate because the study aims at measuring the relationship between one variable and another, in which the variables of interest are not capable of being manipulated by the researcher in view of their past nature.

3.2 Population and sample

The population of the study comprises 10 of the 16 DMBs listed on the Nigeria Stock Exchange (NSE) market as at 31st December, 2019. Only Banks that have complete data within the period of the study were included in the sample of the study. With this purposive sampling method, ten banks representing 62.5% of the population were selected as sample for the study. Data were sourced from the annual reports and financial statements of the sampled banks between 2010 and 2019.

3.3 Method of data analysis

Multiple Regression technique was also adopted as the tool of analysis as it is most appropriate for the study and because of its ability to use multiple independent variables to estimate their effect on a single dependent variable. The Ordinary Least Squares (OLS) multiple regression techniques were used to analyze the panel data because it is considered to be the Best Linear Unbiased Estimator (BLUE) that is appropriate for estimating a model of this nature.

3.4 Model specification

Two models were adopted in this study with each of the models applied to measure each of the dependent variables.

$$ROAit = \beta0it + \beta1AUFSit + \beta2ARL\ it + \beta3AUC\ it + \beta4LIQ\ it + \beta5FSZ\ it + \epsilon it \ldots\ldots\ldots.3.41$$

Where:

ROA = Return on Assets

β0= intercepts autonomous variable

β1, β2, β3, β4, β5 = the regression coefficients of the independent variable

it= time for intercepts

AUF = Audit Fees;

ARL = Audit Report Lag

AUC = Audit Committee Diligence

LIQ = Liquidity

FSZ = Firm Size

Є = Error Term

Table 3.1: Variable Description and Measurement

S/N	Variable	Description	Type of Variable	Measurement	Reference	Expected Sign
1	ROA	Return on Assets	Dependent	Net Income/ Total Assets	Ogbodo and Akabuogu (2018)	+
2	AUF	Audit Fees	Independent	Natural log of all fees paid to auditors	Iliemena & Okolocha (2019)	+
3	ARL	Audit Report Lag	Independent	Measured by counting the number of days after the closing date of the company's book up to the date of signing of the independent auditor's report by the auditor stated in the company's audited financial statements.	Egbunike and Abiahu (2017)	-
4	AUC	Audit Committee Diligence	Independent	No of diligence held by the board audit committee	Ogbodo and Akabuogu (2018)	+
5	LIQ	Liquidity	Control	Liquid assets/Total deposit liabilities	Kwabena (2017),	+
6	FSZ	Firm Size	Control	Natural log of	Onaolapo and Ajulo	+

				Bank Total Assets	(2017)	

Source: Author's Computation, 2023

4. Presentation and Analysis of Data

Table 4.1 Descriptive statistics

Variable	OBS	Mean	Std. Dev	Min	Max
Return on Assets	100	1.68	1.59	-7.83	5.62
Audit Fees	100	8.26	0.26	7.81	8.77
Audit Report	100	1.90	0.15	1.49	2.40
Audit Committee Meeting	100	4.3	0.85	3	6
Liquidity	100	0.34	0.40	0.06	1.90
Firm Size	100	9.29	0.33	8.42	10.07

Table 4.1 displays the descriptive statistics, the return on asset ratio has a mean and standard deviation of 1.68 and 1.59 respectively. The audit fees have a mean and standard deviation of 8.26 and 0.26, respectively; the mean audit report lag is 1.90. The audit committee meets at least four times a year and a maximum of six times a year.

Table 4.2 Correlation Matrix

	AF	AR	AC	FS	LI	RO
AF	1.0000					
AR	-0.2877	1.0000				
AC	-0.1389	-0.1206	1.0000			
FS	0.1856	0.0040	-0.1526	1.0000		
LI	0.2037	-0.2607	-0.0061	0.2115	1.0000	
RO	0.1599	0.0943	-0.1305	0.1915	0.5886	1.0000

Table 4.3 Variance inflation factor

Variable	VIF	1/VIF
Liquidity	2.30	0.4346
Firm Size	1.23	0.8132
Audit Fees	1.20	0.8324
Audit Report Lag	1.19	0.8428
Audit Committee Meeting	1.07	0.9322
Mean	1.51	

Table 4.2 shows correlation results: There is a positive relationship between liquidity and return on assets (0.5886), and in the same view, a negative correlation exists between audit fees and audit reports lag (-0.2877). Furthermore, table 4.3 displays the Variance inflation factor results; all the variables are less than the ten threshold. This implies that there are no issues of multicollinearity among the independent variables.

Table 4.4 the effect of audit quality on bank performance (RO)

Variable	POOL	FEM	REM
C P-value	-9.6390* 0.0602	-9.1080 0.2826	-8.6777 0.1956
Audit Fees P-value	-0.8852 0.2834	-1.8213* 0.0544	-1.5434* 0.0848
Audit Report Lag P-value	2.5535*** 0.0061	2.2241** 0.0243	2.2742** 0.0165
Audit Committee Meeting P-value	-0.1536 0.2935	-0.1708 0.2495	-0.1630 0.2532
Liquidity P-value	2.6168*** 0.000	2.3485*** 0.000	2.4437*** 0.000
Firm Size P-value	1.1231** 0.0225	1.7851** 0.0198	1.5459 0.0142
F-statistics P-value	16.0601*** 0.000	8.5657*** 0.000	10.7636*** 0.000
R-squared	0.4607	0.5852	0.3641
Hausman Test P-value	1.1841 0.9464		

Table 4.4 shows the results for the return on assets model; the results of the pooled OLS (POOL) are reported in column 1, followed by the fixed-effect model (FEM) in column 2 and the random-effects model (REM) in column 3. The analysis is based on the random-effect model because the p-value is greater than the 5% significant level ($p = 0.9464 > 0.05$). The R-squired is 46 per cent; this implies that the 46 per cent variation in return on assets is explained by the three independent variables and the rest by the error term.

4.0 Summary of findings

4.1 Audit Fees

Audit fees with a coefficient of -1.5434 and a p-value of 0.0848, less than the 10% significant level, have a significant negative effect on return on assets. This implies that increased audit fees will decrease the return on assets of listed commercial banks in Nigeria. This may be indicative of a system that is plagued with increased financial risks resulting from inefficient operations and weak internal controls that might require extensive audit work to come to an opinion. The findings is consistent with the results of Moutinho et al. (2012), who found a significant negative correlation between audit fees and firm performance. However, Cheong et al. (2015) found a significant positive relationship between audit fees and firm performance.

4.2 Audit Report Lag

The audit report, with a coefficient of 2.2742 and a p-value of 0.0165, less than the 5% significant level, has a significant positive effect on return on assets. This implies that increased audit reports lag will increase the return on assets of listed commercial banks in Nigeria. Longer audit report lag may be associated with companies that prioritize strong corporate governance practices. These companies may have more thorough board oversight and stricter adherence to financial reporting standards, leading to improved financial performance. The findings is consistent with the results of Egbunike and Abiahu (2017), who found no significant relationship between audit report and firm performance. However, Omer et al. (2020) found a significant negative relationship between audit report and firm performance.

4.3 Audit Committee Meeting

Audit committee meeting with a coefficient of -0.1630 and a p-value of 0.2532, greater than the 5% significant level, have an insignificant effect on return on assets. This implies that increased audit committee meeting do not affect the return on assets of listed commercial banks in Nigeria. The financial performance of a company is influenced by various factors, such as industry conditions, market dynamics, management decisions, and macroeconomic factors. While the audit committee plays a crucial role in overseeing the financial reporting process and internal controls, its impact on financial performance may be overshadowed by other influential factors. The findings is consistent with the results of Afza and Nazir (2014), who found an insignificant correlation between audit committee meetings and firm performance. However, Osemene and Fakile (2018) found a significant positive relationship between audit committee meetings and firm performance.

5.0 CONCLUSION AND RECOMMENDATIONS

5.1 Conclusions

This study employed multiple regression model to examine the relationship between audit quality and the financial performance of listed DMBs in Nigeria using Return on Asset (ROA) as a measure of financial performance. The result showed Audit Fees (AF) and Audit Reported Lag (ARL) significantly affect financial performance of DMBs in Nigeria while Audit Committee Diligence (ACM) has insignificant effect on the financial performance of DMBs in Nigeria.

5.2 Recommendations

In view of the impact of corporate governance on financial sustainability of DMBs and given audit quality as key component of corporate governance mechanism, it is recommended that

1. DMBs should strive to enhance the efficiency of their financial reporting processes to reduce the need for extensive audit procedures. Implementing robust internal control systems, automating processes, and adopting advanced accounting software can streamline financial reporting and potentially lower audit fees
2. DMBs should strive to streamline their internal processes and improve the efficiency of the financial reporting and auditing processes. This includes ensuring timely preparation of financial statements, prompt resolution of accounting issues, and effective communication with auditors. By reducing unnecessary delays in the audit process, companies can minimize audit report lag.
3. DMBs should promote a culture of continuous improvement and learning within audit committees. This can be achieved through ongoing professional development programs, access to relevant resources and training, and opportunities for committee members to stay updated on emerging trends and regulatory changes. By continuously enhancing their knowledge and skills, audit committees can contribute more effectively to financial performance.

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