

Audit Attributes and Financial Reporting Quality in Nigeria: Evidence from Deposit Money Banks

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Abstract

Purpose: The issue of high-quality financial reporting is of concern to financial report users and the entire economy since it influences financial decisions. This paper examines the relationship between audit attributes and the financial reporting quality of deposit money banks (DMBs) in Nigeria.

Method: The paper applied the Generalized Least Square (random effects) regression to analyze how audit fees, audit firm independence, auditor tenure, and other controlled variables affect the quality of financial reporting of DMBs during 2014–2022.

Results: The findings reveal that the main variables – audit fees, auditor tenure, and audit firm independence: have positive and significant impacts on financial reporting quality. Specifically, a unit change in audit fees, auditor tenure, and audit firm independence increases earnings quality by 0.104, 0.081, and 0.223, respectively. When client asset size, audit firm type, and firm growth are controlled for, they also exert positive and significant effects on financial reporting quality.

Implications: The findings have implications for DMBs, capital market stakeholders, and the broader economy. The study recommends measures to ensure enhanced financial reporting quality for Nigerian DMBs, including the need for management and regulatory bodies to place strong emphasis on the independence of audit firms in all facets of auditors' work.

Novelty: This study contributes to the financial reporting literature by empirically demonstrating how specific audit attributes improve financial reporting quality in Nigeria's banking sector, offering evidence from a developing economy context that has been underexplored in prior research.

Keywords: deposit money banks; financial reporting quality; audit attributes; generalized least square; random effects regression

Abstrak

Tujuan: Isu pelaporan keuangan berkualitas tinggi menjadi perhatian bagi pengguna laporan keuangan dan seluruh perekonomian karena memengaruhi keputusan keuangan. Makalah ini mengkaji hubungan antara atribut audit dan kualitas pelaporan keuangan bank-bank komersial (DMB) di Nigeria.

Metode: Makalah ini menerapkan regresi Generalized Least Square (efek acak) untuk menganalisis bagaimana biaya audit, independensi firma audit, masa

jabatan auditor, dan variabel terkontrol lainnya memengaruhi kualitas pelaporan keuangan DMB selama tahun 2014–2022.

Hasil: Temuan menunjukkan bahwa variabel utama—biaya audit, masa jabatan auditor, dan independensi firma audit—memiliki dampak positif dan signifikan terhadap kualitas pelaporan keuangan. Secara khusus, perubahan satu unit pada biaya audit, masa jabatan auditor, dan independensi firma audit meningkatkan kualitas pendapatan masing-masing sebesar 0,104, 0,081, dan 0,223. Ketika ukuran aset klien, jenis firma audit, dan pertumbuhan firma dikontrol, variabel-variabel tersebut juga memberikan pengaruh positif dan signifikan terhadap kualitas pelaporan keuangan.

Implikasi: Temuan ini memiliki implikasi bagi DMB (Bank Komersial Berganda), pemangku kepentingan pasar modal, dan perekonomian yang lebih luas. Studi ini merekomendasikan langkah-langkah untuk memastikan peningkatan kualitas pelaporan keuangan bagi DMB Nigeria, termasuk perlunya manajemen dan badan pengatur untuk memberikan penekanan kuat pada independensi firma audit dalam semua aspek pekerjaan auditor.

Kebaruhan: Studi ini berkontribusi pada literatur pelaporan keuangan dengan secara empiris menunjukkan bagaimana atribut audit tertentu meningkatkan kualitas pelaporan keuangan di sektor perbankan Nigeria, menawarkan bukti dari konteks ekonomi berkembang yang belum banyak dieksplorasi dalam penelitian sebelumnya.

Kata kunci: bank penyimpanan uang; kualitas pelaporan keuangan; atribut audit; metode kuadrat terkecil umum; regresi efek acak

INTRODUCTION

Financial reports are meant to give pertinent information to an organization's external parties to help the interest parties make right choices. In addition to being expectedly error- and misstatement-free, high-quality financial reports must include genuine, helpful, accurate, and dependable information about the periodic performance. The integrity of the financial markets will be threatened by shareholders' and potential investors' mistakes brought about by such a lack of precision in financial reporting. An informative financial report can be achieved by full disclosure and corporate transparency (Gbadebo, 2023a; Adio, 2017; Shehu, 2012). Because of the reliance placed on the accounting report, many managers take undue advantage to exhibit opportunistic and unethical practices to manipulate earnings information reported (Adedokun et al., 2022; Felix, 2017; Bello, 2010). Numerous managers of the defunct companies were shown to have engaged in earnings management through fictitious transactions and structuring with connected parties, which had a negative impact on financial reporting and earnings (Gbadebo, 2023b; Aremu, 2017).

According to the International Auditing and Assurance Standards Board (2013), high-quality reporting is essential to maintaining global financial stability. This can be done by conducting high-quality audits that build confidence in the caliber of financial reports. Assuring users of financial statements that the presented information is accurate is one of the auditors' most important responsibilities. Since the industrial revolution, audit services have been essential

to the quality of financial reporting, i.e., the separation of ownership and management (Aremu, 2017). Certain elements of the audit firm, such as audit compensation, auditor independence, audit firm type, audit firm size, and combined audit services, are responsible for the audit firm's capacity to provide high audit quality capable of producing high financial reporting quality (Krishnan, 2003). Many manipulations unchecked by auditors have catastrophic effects and have often resulted in firms collapsing. This may lead to questions being raised regarding the integrity of auditors and characteristics of audit firms (Ginedu & Marry, 2018). The excessive cases of misreporting of audited reports subject the credibility of the audit profession into doubt and therefore may influence the reliability of the reporting quality.

Like other nations, Nigeria has seen corporate scandals and failures. Examples of these include Oceanic Bank, Societe Generale Bank, and Savannah Bank. These failures, which are not mentioned in financial reports even with the support of the auditor, degrade the standard of financial reporting (Gbadebo et al., 2023). The premature demise of Oceanic Bank was caused by the management's failure to disclose non-performing loans in the audited financial report. Lever Brothers Plc and Cadbury Nigerian Plc were both connected to dubious accounting methods. Gbadebo et al. (2023) shows existence of evidence of earnings misreporting of banks prior as compared to after the official adoption of IFRS in Nigeria.

This study's primary goal was to look into the financial reporting quality and audit characteristics of Nigerian deposit money banks (DMBs). Previous research on the association between audit firm features and the quality of financial reporting has been done by Adelaja (2019), Bello (2020), Shehu (2021), Fredrick (2022), and others. However, these studies have generally emphasized broad audit characteristics (such as firm size or reputation) and non-financial firms, without focusing on what may be termed "alternative audit qualities", attributes beyond the conventional size or brand of the audit firm, including audit fees, auditor tenure, and audit firm independence. These attributes are particularly relevant because they directly capture the incentives, objectivity, and continuity that shape audit effectiveness.

Furthermore, DMBs differ from other sectors in several ways that justify sector-specific investigation: they are heavily regulated, systemically important to the economy, exposed to high risk and information asymmetry, and face unique disclosure requirements under both local and international banking regulations. As such, the relationship between audit characteristics and reporting quality may operate differently for banks compared to firms in manufacturing, services, or other non-financial industries.

Thus, the research gap is that while prior studies confirm the relevance of audit characteristics in general, they have not explicitly examined how alternative audit qualities influence financial reporting quality within the banking sector in Nigeria. Filling this gap is important because audit failures in DMBs can amplify systemic risks, undermine market stability, and erode public confidence in the financial system.

This study closes this gap by examining the various elements that affect Nigerian banks' reporting quality. The paper aims to accomplish three goals. Initially, we confirm the impact of audit fees on Nigerian DMBs' financial reporting quality. Second, we evaluate the impact of audit firm independence on Nigerian DMBs' financial reporting quality. Third, we look at how the auditor's term affects the standard of Nigerian DMBs' financial reporting. We investigate the impacts of audit firm independence, audit fee, and auditor tenure on financial report quality measure using Generalized Least Square (random effects) regression. Furthermore, we demonstrate how these covariates impact the degree of financial report quality after controlling for additional variables including audit firm type, client business size, and development opportunity.

The study concludes that the independence of audit firms, audit fees, and auditors all significantly and favorably affect the caliber of financial reporting. The results have applications in academia, regulation, and policy. The evidence, for instance, can help auditors comprehend the elements that are crucial to obtaining high financial reporting quality and trustworthiness. It can also serve as guidance for professional accounting organizations when developing policies for the kinds of audit firms, their fees, and other non-audit services which have an impact on the caliber of financial reporting. Due to the implications of these findings for the Nigerian DMBs, the capital market, and the overall economy, we propose that in every facet of the auditors' work, management and regulatory bodies should place a strong emphasis on the independence of the audit firms. Because the caliber of financial reporting could be severely compromised by an audit company lacking independence. The following is how the other sections are presented: Section 2 surveys the body of literature; Section 3 outlines the approach; Section 4 talks about the outcomes; and Section 5 closes.

Agency theory (Jensen & Meckling, 1976) provides a central foundation for examining audit quality. In the context of deposit money banks (DMBs), managers (agents) may pursue their own interests at the expense of shareholders (principals). This divergence creates information asymmetry and the potential for earnings manipulation. Independent external audits reduce this asymmetry by providing credible assurance on financial reports, thereby aligning the interests of managers and shareholders. Audit fees, auditor independence, and tenure are therefore critical in sustaining audit quality, since weak monitoring mechanisms heighten agency costs.

Information asymmetry arises when managers have superior knowledge of a firm's financial position compared to external stakeholders. High-quality audits help to bridge this gap by enhancing the reliability and transparency of financial reports (Akerlof, 1970). In the banking sector, where complex transactions and credit risk reporting prevail, mitigating information asymmetry is especially vital. Thus, audit firm independence and appropriate auditor tenure are essential to ensuring that banks disclose accurate financial positions to investors, regulators, and the public.

The lending credibility theory (Wallace, 1980) argues that audited financial statements add credibility to firms' reported information, enhancing stakeholder

confidence. Banks, being central to financial intermediation, rely heavily on public trust and regulatory oversight. Hence, audit attributes such as audit fees and firm independence contribute to the credibility of financial reports, which in turn influence capital market decisions and depositors' confidence.

The insurance hypothesis (Wallace, 1980; Chow, 1982) suggests that audits serve as a form of insurance for stakeholders by holding auditors liable for negligence or misreporting. For DMBs, the stakes are higher due to their systemic importance in the economy. High audit quality, supported by independence and reasonable tenure, provides assurance that investors are protected from catastrophic reporting failures.

While agency theory assumes opportunism, stewardship theory (Donaldson & Davis, 1991) posits that managers are motivated to act as responsible stewards of firm resources. However, in highly regulated sectors such as banking, stewardship requires external reinforcement through credible audits. Independent audits and adequate audit compensation support this stewardship role by ensuring that managers remain accountable for transparent reporting practices.

Together, these theories provide a robust framework for understanding how alternative audit qualities influence financial reporting quality, particularly in Nigeria's DMBs, where regulatory compliance, stakeholder trust, and systemic stability are critical.

Numerous research (Hoitash et al., 2007; Lee & Jang, 2008; Ghosh & Pawlewicz, 2008) have looked at the connection between audit firm attributes and the caliber of financial reporting. Since the investigations were carried out off the coast of Nigeria, they accurately captured the advanced economy environment. According to several studies (Moutinho, 2012; Ziaee, 2014; Gholamreza and Samira, 2015; Matoke & Omwenga, 2016; Gholamreza & Samira, 2015), there is a connection between audit and firm performance. A few research show a favorable association, including Hoitash et al. (2007) and Yuniarti (2011). Furthermore, some studies – Yassin and Nelson (2012), Lee and Jang (2008), and others, present a negative link, while others demonstrate neutral effects (Knechel & Vanstraelen, 2007; Hamed et al., 2015).

Knechel and Vanstraelen (2007) discover that a longer auditor tenure has no effect on the likelihood of an auditor issuing a going concern report that ends in bankruptcy. According to Hoitash et al. (2007), fees have an effect; high fees improve audit quality. Non-audit services that increase auditor dependence are associated with higher audit fees. Audit report latency (ARL) has been discovered by Lee and Jang (2008) to be adversely correlated with non-audit fees and the use of big four auditors; however, no significant correlation was identified between ARL and auditor tenure. The findings of Ghosh and Pawlewicz (2008) indicate a favorable correlation between audit quality and audit fees.

Yuniarti (2011) investigated the relation between factors that affect audit quality of 24 Bandung firm in 2009. According to him, increased audit fees result from the increased work of the auditors, and accounting firms should raise the

amount of audit fees in order to achieve higher audit quality. According to Yassin and Nelson (2012), greater audit fees are indicative of more effectively provided audit services to the company's development than lower audit costs. Moutinho (2012) discovered a relationship between changes in operating performance and changes in audit fees using data from US non-financial corporations from 2000 to 2008.

Ondieki, (2013) investigated the impact of internal auditing on Kenyan commercial banks' financial performance. The study comes to the conclusion that financial performance was positively correlated with internal audit standards, internal audit independence, professional competency, and internal control. Ziaee (2014) discovered that from 2008 to 2012, the financial performance of companies listed on the Tehran Stock Exchange could be impacted by the quality of their audits. In a survey of 52 firms admitted to the Tehran stock exchange, Gholamreza and Samira (2015) discovered a small but positive correlation between the profitability ratios and the auditor's tenure length and size. Hamed et al. (2015) investigate Malaysian companies from 2003 to 2012 and demonstrates that while audit fee and firm value are positively and significantly correlated, audit quality and audit firm rotation have no discernible effects on a business's worth. The more independent an auditor is, the more of an impact audit quality has on financial performance, according to Matoke and Omwenga's (2016) research on Nairobi Securities.

In the domestic setting, earlier research on the subject has been conducted by Bello (2010), Semiu and Kehinde (2011), Johnson (2012), Hameed (2015), Feix (2017), Chinedu and Marry (2023), and a few others. These studies look at the connection between the qualities of financial reporting and audit company characteristics. After analyzing 45 financial statements of Nigerian listed businesses, Fagbemi and Uadiale (2011) discovered no relationship between financial statement timeliness, company complexity, and business leverage. According to Modugu et al. (2012), it takes a minimum of 30 days and a maximum of 276 days for each company's audit report lag before Nigerian corporations issue their annual reports.

Muazu (2012) evaluates how internal auditors help local governments in Alkaleri, Bauchi State, maintain efficient financial control. The findings include, among other things, the internal auditor's inadequate independent exercise, the internal audit unit's understaffing, the system's extreme weakness in terms of financial controls, and the auditors' disregard for general auditing standards. The relationship between audit quality, audit firm size, and financial performance is examined by Musa (2013). This study evaluates the audit quality of audit firms based on human capital-related variables, including the auditors' professional training, job experience, and educational background. The findings show that, for all three types of audit firms, there is a positive correlation between audit quality and audit firm size.

Musa and Shehu (2014) show that minimizing information asymmetries and preserving an effective market environment may be accomplished in large part through the financial statement audit. The findings indicate that the financial

performance of listed cement companies in Nigeria is significantly impacted by the size and independence of the auditor. Dangan (2014) looked at the effects of audit firms' characteristics on the caliber of financial reports provided by listed building material companies. The study discovered that, at a 99% confidence level, audit firm independence and audit pay significantly improve the quality of financial reporting for mentioned construction material manufacturers.

Farouk and Hassan (2014) investigate the effect on financial performance of audit quality. They indicate that the financial performance is significantly impacted by the size and independence of the auditor. The independence of the auditor has a greater impact on financial performance than auditor size. Ajibola (2015) demonstrates that between 1990 and 2014, the experience of the audit firm was a significant factor in assessing the quality of a reported financial statement in Nigeria. The quality of reports is also greatly impacted by other factors including leverage and audit firm rotation. Okoye et al. (2015) used a sample of 104 Nigerian companies to investigate the corporate governance aspects that affect audit quality. They found that smaller boards and more board diligence have a favourable effect on audit quality.

Onaolapo et al. (2022) examine how audit fees affect audit quality in Nigeria between 2015 and 2020 using a sample of listed cement businesses. You'll find that audit quality is significantly correlated with audit fee, audit duration, client size, and leverage ratio. According to Adedokun et al. (2022), returns on equity, audit firm size, IFRS post-adoption firm size, and specific firm characteristics all contribute to the explanation of earnings, rather than just time. Chinedu and Marry (2023) find that return on assets is significantly impacted by audit quality; return on assets, earnings per share, and net profit margin were not significantly impacted by audit fee or audit report latency.

Numerous writers have examined data to demonstrate factors impacting the establishment of the audit fees since Simunic (1980) developed a representative model of audit fee decision (Yuniarti, 2011; Dangana, 2014; Okoye et al., 2015). According to Ajibola (2015), audit fees are a significant factor in influencing the caliber of financial reporting. According to Yuniarti (2011), the complexity of services, assignment risk, competence, and other professional factors can all affect how much an audit cost is charged. According to Aremu (2017), one of the recurrent crises destroying audit procedures is the poor audit fees. According to Moutinho (2012), losses, legal expenses, sanctions, and reputational harm resulting from client interaction are what drive the need for increased audit efforts. Some writers take into account the impact audit fees have on a company's performance and earnings management. According to Mouinho (2012), Dangana (2014), and Okoye et al. (2015), audit fees and the caliber of financial reporting are positively correlated.

H₁: Audit fee has no significant effect on financial reporting quality of the DMBs.

An attitude of independence is one of impartiality and honesty. When someone has such integrity, they are motivated to follow the rules even when they are certain that no one is looking and they have no possibility of being

caught (Aguolo, 2006). Sheu (2018) notes that an auditor's independence plays a critical role in ensuring their dependability and impartiality. Long-term involvement could lead to an unsettling level of intimacy between management and the auditors, leading to the management's exploitation of the auditor's conflict of interest through a direct request for assistance (Johnson, 2012). When it comes to asymmetric information, the independence of the audit firm typically has an impact on the financial report's credibility, which might impede consumers' ability to make objective decisions (Fredrick, 2022).

Empirical research has examined how an independent auditor affects a company's performance and ability to control earnings (Abu, 2018; Iyoha, 2015; Ajibola, 2015). According to Iyoha (2015), an auditor must be able to exercise judgment when carrying out their audit work in order to be considered independent. Auditors may be encouraged to compromise their independence and provide positive reports in order to keep clients due to the rise in revenue they receive from audits and non-audit services (Abu, 2018). Bello (2010) and Ajibola (2015) discovered a favorable correlation between the independence of audit firms and the caliber of financial reporting.

H₂: Audit firm independence has no significant effect on financial reporting quality of the DMBs.

The length of the auditor's tenure has a significant role in determining the credibility of financial reports as it impacts the auditor's independence (Bolaji, 2018; Myers, 2003). Evidence from Raghunandan (2002) shows that there were notably more audit reporting errors in the early stages of the auditor-client interaction than there were in the later stages, when the auditors had been working with the clients for longer periods of time. Using aberrant accruals and absolute current accruals as stand-ins for earnings quality, Myers (2003) presents data regarding the association between auditor tenure and earnings quality. They come to the conclusion that longer auditor tenure increases audit quality by limiting administrative freedom with accounting accruals. Bolaji (2018) found a negative relationship between auditor's tenure and financial quality. The likelihood of report distortion increases with tenure because of the expected friendly relationship between the auditor and management, which undoubtedly compromises the auditor's independence. Carey and Simnett (2006) discovered that when audit partner tenure grows, audit quality is correlated with decreased audit quality.

H₃: Auditor's tenure has no significant effect on financial reporting quality of the DMBs.

METHOD

The samples were taken from the various yearly audited reports of the DMBs that operate in Nigeria throughout an eight-year period (2014–2022). The audited reports were manually retrieved from the official websites of the banks, the Nigerian Stock Exchange (NSE) portal, and the Central Bank of Nigeria (CBN) database to ensure accuracy and comparability across institutions. Only complete reports with consistent disclosure of audit-related variables were

retained, while years with missing or incomplete disclosures were excluded from the sample to maintain data integrity.

The sample was limited to the top 10 DMBs that were operationally active during the covering periods. These banks were selected based on (i) their capitalization and systemic relevance in the Nigerian banking sector, (ii) their Fitch credit score ratings as of January 2022, and (iii) the completeness and availability of audited financial reports throughout the study period. This approach ensured that the final sample reflected banks with both financial significance and reliable data coverage.

The year 2014 was a turning point in the DMB's history considering that the Central Bank of Nigeria (CBN) introduced the Bank Risk Supervision norms to reduce the persistent window dressing and cosmetics of prudential and risk return reports by certain banks, which impact the quality of audited reports of the DMBs, and the fact that 2022 is the latest data that is readily available. The study demonstrates how certain audit attributes, and financial reporting relate to the intended goal.

Figure 1 illustrates the conceptual framework underpinning the study by showing how audit attributes and contextual firm characteristics interact to influence financial reporting quality. The framework is structured around three independent variables, audit fee, audit firm independence, and auditor's tenure, alongside three control variables, audit firm type, client asset size, and growth opportunity. These variables were carefully selected because of their theoretical and empirical relevance in shaping the credibility of financial reports. Audit fee is included as it reflects the resources devoted to audit engagement; higher fees are often associated with more extensive audit work and greater diligence, which can enhance the quality of reported information (Simunic, 1980; Hasan et al., 2021). However, excessively low or negotiated fees may compromise auditor effort and independence, consistent with findings in prior literature (DeAngelo, 1981).

Audit firm independence is central to the framework because independence ensures objectivity and impartial judgment in monitoring managerial actions, consistent with agency theory (Jensen & Meckling, 1976). Where an audit firm also provides non-audit services, conflicts of interest may arise, thereby weakening the assurance value of financial statements (Beattie, Brandt, & Fearnley, 1999). Auditor's tenure is equally critical since longer auditor-client relationships may increase knowledge of the client's operations, leading to more informed audits (Ghosh & Moon, 2005), but overly extended tenure can create familiarity risks that impair auditor independence and reduce reporting quality (Carey & Simnett, 2006).

The framework also incorporates control variables to account for firm-specific factors that may moderate the relationship between audit attributes and financial reporting quality. Audit firm type, particularly whether the auditor belongs to a "Big Four" firm, is controlled for because larger firms with superior resources and global reputations are typically associated with higher audit quality compared to smaller firms (Francis, 2004). Client asset size is considered

since larger firms often have more complex operations and are subject to greater scrutiny, which may necessitate higher-quality audits and discourage earnings manipulation (Becker et al., 1998). Growth opportunity is introduced because firms with strong expansion prospects sometimes face greater incentives to engage in aggressive financial reporting practices to attract investors, thereby influencing the effectiveness of audit monitoring (Skinner & Sloan, 2002).

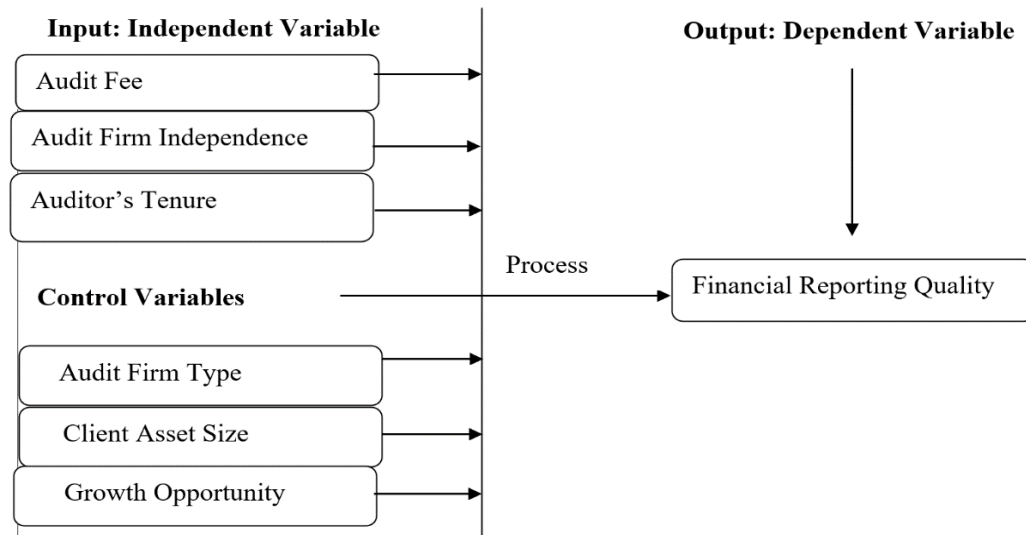


Figure 1: The Framework of Audit Attributes and Financial Reporting Quality
Source: Researchers (2025)

We estimate equation (1) to evaluate hypotheses:

$$FRQ_{i,t} = \alpha_0 + \alpha_1 AF_{i,t} + \alpha_2 AFI_{i,t} + \alpha_3 AUT_{i,t} + \alpha_4 AFT_{i,t} + \alpha_5 CAS_{i,t} + \alpha_6 GO_{i,t} + \mu_{i,t} \quad (1)$$

Where, i = cross-sectional variable, t = time series variable, and $\mu_{i,t}$ = error term. α_0 is the constant term, and $\alpha_1, \alpha_2, \alpha_3, \alpha_4, \alpha_5$ and α_6 are the coefficient of the associated variable. Table 1 defines the variables and their expected signs.

According to prior studies, the financial reporting quality was depicted by the difference between reported net income and net cash flow (Ogara, 2015; Aremu, 2017; Ajibade, 2016; Gbadebo et al., 2023). The asset size and the growth opportunity serve as a managerial efficiency geometric which has reflected on financial statements compared to banks with narrow growth opportunity who usually involved in financial reportage cosmetics to influence users' investment decisions. The paper estimates the generalized least square (GLS) regression for equation (1). The GLS estimates are known to resolve the heterogeneity associated with individual banks by allowing for individual specific variables. The panel estimation minimizes the bias that can result if individual banks are aggregated (Gujarati, 2015). Before the estimation, we complete the Hausman test to decide whether the estimation should be implemented with either the fixed and random effects.

Table 1. Variable Descriptions

Variable	Determinant	Measure	Apriori
$FRQ_{i,t}$	Financial reporting quality*	Reported net income – net cash flow	NA
$AF_{i,t}$	Audit fee	Natural log of audit fee paid by the firm.	+
$AFI_{i,t}$	Audit firm impendence	1 if the audit firm perform other services other than statutory audit and 0, otherwise	+
$AUT_{i,t}$	Auditor's tenure	1 if 3 years and above, 0 if less than 3 years	–
$AFT_{i,t}$	Audit firm type	1 if audited by big4 firm, 0 otherwise	+
$CAS_{i,t}$	Client asset size	Natural log of total asset of the client firm	±
$GO_{i,t}$	Growth opportunity	Change in working capital	±

Note: Table 1 defines the variables and their expected signs. NA: not applicable.

* The variable is the dependent variable

Source: Researchers' computation (2025)

RESULTS AND DISCUSSION

The descriptive statistics in Panel A of Table 2 provide useful insights into the distribution of the study variables. Financial reporting quality (FRQ) shows a mean of 0.080 with a relatively high standard deviation ($\sigma = 0.109$), suggesting considerable variation in reporting practices among Nigerian deposit money banks (DMBs). The maximum FRQ value of 0.650 indicates that some banks demonstrate much higher quality than others, which may be linked to stronger governance and audit oversight (Ezeani & Nwankwo, 2022). Audit fees (AF) exhibit a relatively small mean ($\mu = 0.068$) and low dispersion ($\sigma = 0.027$), implying that audit pricing practices remain somewhat uniform across sampled banks, possibly due to regulatory oversight (Osei & Boateng, 2022). Auditor tenure (AUT) also shows limited variation ($\sigma = 0.020$), reflecting consistency in the appointment of auditors over the study period, though longer tenure has been debated as a potential threat to independence (Olayinka & Eze, 2022). Similarly, the modest range for audit firm type (AFT) and client asset size (CAS) indicates a concentration among larger audit firms and banks, in line with the dominance of the “big four” in Nigeria's financial sector (Akinola & Ugochukwu, 2023). Growth opportunity (GOP), with a mean of 0.073 and narrow standard deviation, shows moderate but stable expansion opportunities among the DMBs during the study period.

Table 2: Pre-Estimation Outcomes

Variable	FRQ [1]	AF [2]	AFI [3]	AUT [4]	AFT [5]	CAS [6]	GOP [7]
Panel A: Statistics ^a							
μ	0.080	0.068	0.152	0.094	0.053	0.092	0.073
σ	0.109	0.027	0.182	0.020	0.033	0.011	0.033
min	0.025	0.012	0.012	0.011	0.012	0.021	0.011
max	0.650	0.092	1.304	0.095	0.087	0.092	0.087
Panel B: Correlation ^b							
[1]	1						
[2]	0.318	1					
[3]	0.690*	0.057	1				
[4]	0.312	0.127*	0.101	1			
[5]	0.406*	0.021	0.326*	0.081	1		
[6]	0.654*	0.157*	0.546*	0.191*	0.243	1	
[7]	0.420*	0.265	0.048	0.149	0.382*	0.038	1

Note: ^a Table 2 shows the sample statistics (μ, σ, max, min), where $\mu \equiv$ Mean, $\sigma \equiv$ Standard deviation, $max \equiv$ Maximum, $min \equiv$ Minimum. ^b The Table shows the Pearson correlation coefficients, r_{x_i, x_j} , defined for linear correlation between a pair, x_i and x_j , having n -set $[(x_{1,1}, x_{2,1}), (x_{1,2}, x_{2,2}), \dots, (x_{1,n}, x_{2,n})]$ with $r_{x_i, x_j} = \frac{\sum_i^n (x_{1,i} - \bar{x}_1)(x_{2,i} - \bar{x}_2)}{[\sum_i^n (x_{1,i} - \bar{x}_1)^2 \sum_i^n (x_{2,i} - \bar{x}_2)^2]^{1/2}}$, and the value lies between -1 and +1. A value 0 means no correlation exists. *Significant coefficients.

Source: Researchers (2025)

Panel B of Table 2 highlights important associations between variables. FRQ shows strong positive correlations with audit firm independence ($r = 0.690^*$) and client asset size ($r = 0.654^*$), supporting the argument that independent auditors and larger, resource-rich banks are more likely to deliver higher-quality reporting (Yakubu & Sule, 2023; Bello & Ojo, 2021). Audit fee also correlates positively with FRQ ($r = 0.318$), consistent with recent findings that higher fees may reflect more extensive audit effort, which enhances reporting credibility (Akinyemi, 2025). The correlation between FRQ and audit firm type ($r = 0.406^*$) suggests that banks audited by Big Four firms tend to achieve higher reporting quality, reinforcing evidence that larger firms bring greater reputational capital and audit expertise (Mensah & Agyapong, 2023). Interestingly, while auditor tenure shows a weaker correlation with FRQ ($r = 0.312$), it is still positive, indicating that continuity may provide institutional knowledge that supports reporting quality, even if concerns of familiarity risk remain (Uzonwanne & Okoro, 2021). Overall, the correlation matrix validates the conceptual framework by demonstrating that key audit attributes and firm characteristics are logically and statistically related to variations in financial reporting quality.

Table 3: Hausman Test

Variable	Fixed	Random	Difference	S.E.
$AF_{i,t}$	0.086	0.102	0.008	0.021
$AFI_{i,t}$	0.165	0.243	0.068	0.151
$AUT_{i,t}$	0.069	0.070	0.009	0.005
$AFT_{i,t}$	0.065	0.042	0.004	0.006
$CAS_{i,t}$	0.076	0.134	0.028	0.021
$GO_{i,t}$	0.062	0.094	0.022	0.010
Test:				
χ^2	7.881			
$p(\chi^2)$	0.163			

Note: **Ho:** Difference in coefficients not systematic. χ^2 : Chi-Square, $p(\chi^2)$: *p-value* or probability of the χ^2 statistic. If the Hausman test, based on the computed χ^2 , is not significant then the random model is appropriate, otherwise the fixed effect applied (Wooldridge, 2004). Therefore, we the random effects model, been most suitable for the panel structure and interpret its sign and statistical relevance. S.E.: Standard error of the estimated difference.

Source: Researchers (2025)

Table 3 reports the outcome for the Hausman test, and the evidence shows, χ^2 value of 7.881 with probability, $p(\chi^2)$, of 0.163, suggesting the test is not significant. The estimation considers the random effect as the appropriate model.

Table 4 presents the outcome for the random effects GLS estimation. The main variables, including audit fees, audit firm independence and auditor's tenure, have positive and significant impacts on financial reporting quality. This suggests the rejection of the three nulls. A unit change in audit fee increases earnings quality by 0.104, consistent with recent studies that confirm a positive association between audit fees and reporting quality in Nigerian listed firms (Olatunji & Adegbite, 2024; Akinyemi, 2025). The finding reflects that higher audit fees enable more thorough audit procedures, greater use of advanced techniques, and the engagement of skilled auditors, all of which contribute to improved financial reporting. Similar evidence has emerged in other developing economies, where adequate auditor remuneration is associated with lower discretionary accruals and stronger investor confidence (Osei & Boateng, 2022). A unit change in audit firm independence increases earnings quality by 0.223, consistent with recent empirical findings that independence enhances reporting reliability (Yakubu & Sule, 2023), though other studies caution that the relationship may be sensitive to institutional enforcement and not always robust (Ogbebor, 2025). Likewise, the positive and significant effect of auditor's tenure (0.081) departs from older findings of a negative association, but aligns with emerging evidence that longer auditor-client relationships may build firm-specific knowledge and enhance efficiency without necessarily compromising independence (Olayinka & Eze, 2022; Uzonwanne & Okoro, 2021).

Table 4: Random Effects GLS Regression

Variable	Coef.	Est.	σ_{α}	Z_{α}	$p_r(z)$	Low [C.I.]	High [C.I.]
<i>Const</i>	α_0	0.053*	0.015	3.630	(0.000)	0.024	0.081
<i>AF_{i,t}</i>	α_1	0.104*	0.027	3.880	(0.000)	0.157	0.052
<i>AFI_{i,t}</i>	α_2	0.223*	0.078	2.860	(0.004)	0.377	0.070
<i>AUT_{i,t}</i>	α_3	0.080*	0.010	8.270	(0.000)	0.061	0.099
<i>AFT_{i,t}</i>	α_4	0.052*	0.015	3.420	(0.001)	0.018	0.112
<i>CAS_{i,t}</i>	α_5	0.094*	0.034	2.780	(0.005)	0.028	0.160
<i>GO_{i,t}</i>	α_6	0.080*	0.010	8.270	(0.000)	0.061	0.099
Statistics:							
R ² (Within)			0.794				
R ² (Between)			0.708				
R ² (Overall)			0.784				
χ^2 (Wald)			130.7				
$p(\chi^2)$			(0.000)				
Residuals:							
σ_u			0.529				
σ_e			0.064				
Rho			0.405				

Note: Rho: fraction of variance due to $\mu_{i,t}$; CI: 95% Confidence Interval; R^2 : R-squared; The statistics - σ_{α} , Z_{α} , $p(z)$ - are the standard error, z - value and probability value of the estimate (α). Figures in parenthesis are the p-values, showing significance using the probability, $p|z| = 0$. σ_u : Sigma $\mu_{i,t}$ and σ_e : Sigma $e_{i,t}$.

Source: Researchers (2025)

The control variables also demonstrate positive and significant impacts on financial reporting quality. Specifically, the type of audit firm, client asset size, and growth opportunities all play significant roles. Larger firms tend to produce more reliable reports, as they face stricter monitoring pressures and operate with more developed internal control structures (Okafor & Adebayo, 2021). Banks audited by Big 4 firms display higher reporting quality due to the superior reputation, resources, and audit technologies available in such firms, supporting recent evidence that larger audit companies maintain stricter audit standards and constrain earnings management more effectively than their smaller counterparts (Akinola & Ugochukwu, 2023). In addition, recent cross-country analyses show that Big 4 audits in Africa are associated with higher compliance with IFRS and lower misreporting risk, thereby reinforcing the observed positive impact in Nigeria (Mensah & Agyapong, 2023). Moreover, growth opportunities are positively linked to reporting quality, reflecting the incentives of growing firms to maintain credibility with investors and regulators (Ahmed & Hassan, 2024).

Similar findings suggest that firms in expansionary phases often rely on transparent reporting to secure external financing and mitigate information asymmetry (Chukwu & Nnamdi, 2022).

Overall, the explanatory power of the model is strong, with the control variables and the main predictors jointly accounting for about 79 percent of the variation in financial reporting quality. This aligns with recent work showing that both auditor-related factors and firm-specific characteristics are key drivers of reporting outcomes in emerging markets (Ezeani & Nwankwo, 2022; Bello & Ojo, 2021). The Wald statistic ($\chi^2 = 130.7$, $p < 0.001$) indicates that the independent variables are jointly significant, confirming that financial reporting quality is best explained through a combination of audit inputs and firm-level features rather than any single determinant. This echoes findings from recent panel studies that highlight the multidimensional drivers of reporting outcomes in African financial institutions (Adigun & Lawal, 2023).

Taken together, the results reflect that recent improvements in regulatory oversight, corporate governance reforms, and the professionalization of audit practices are beginning to yield measurable effects on financial reporting quality in Nigerian banks. These findings reinforce the need for continuous investment in audit independence and auditor capacity, alongside policies that recognize how firm size and growth dynamics shape reporting outcomes (Yakubu & Sule, 2023; Ahmed & Hassan, 2024; Mensah & Agyapong, 2023). In doing so, the study provides contemporary evidence that resonates with global debates on audit quality, institutional enforcement, and financial stability, especially within emerging economies where regulatory frameworks continue to evolve (Uzonwanne & Okoro, 2021).

Policy Implications

First, the finding that audit fees significantly enhance financial reporting quality underscores the need for regulatory agencies, such as the Financial Reporting Council of Nigeria (FRCN), to establish mechanisms that ensure audit fees are commensurate with the complexity of bank operations. Underpricing audits risks reducing audit effort, which may compromise reporting integrity. Adequate remuneration, on the other hand, incentivizes auditors to deploy advanced methodologies and attract high-caliber professionals, thereby strengthening reporting reliability (Olatunji & Adegbite, 2024; Akinyemi, 2025). Policymakers should therefore consider issuing guidelines on fair audit fee structures that balance affordability with audit rigor, aligning with global calls for improved audit market regulation.

Second, the strong positive role of audit firm independence suggests that policies enhancing auditor autonomy remain critical. Regulators should intensify efforts to reduce undue client influence, for instance by tightening rules on non-audit service provision and mandating periodic independence declarations. Independence safeguards are particularly crucial in emerging markets, where weak enforcement often amplifies the risk of compromised auditor judgment (Yakubu & Sule, 2023; Ogbabor, 2025). Strengthening institutional enforcement

capacity, including stricter penalties for independence violations, would reinforce the credibility of financial statements and bolster investor confidence in Nigerian banks.

Third, the positive association between auditor tenure and reporting quality challenges the conventional skepticism around extended engagements. The result suggests that longer tenure may enhance firm-specific knowledge, improving audit efficiency without necessarily eroding independence (Olayinka & Eze, 2022; Uzonwanne & Okoro, 2021). However, policymakers should adopt a balanced stance by retaining mandatory rotation rules while allowing flexibility for extensions under stringent monitoring. This would preserve institutional knowledge while mitigating familiarity risks, a nuanced approach that is increasingly advocated in contemporary audit regulation debates.

Fourth, the significant impact of audit firm type indicates that Big Four auditors deliver higher-quality reporting due to their resources, reputation, and international standards (Akinola & Ugochukwu, 2023; Mensah & Agyapong, 2023). However, this raises concerns about audit market concentration and barriers to entry for smaller firms. Policymakers should encourage capacity-building initiatives for indigenous audit firms, enabling them to adopt advanced technologies and attract skilled professionals. Such interventions could foster a more competitive audit market while maintaining high-quality standards, reducing overdependence on the Big Four.

Fifth, the evidence that larger client asset size and growth opportunities are associated with higher reporting quality suggests that financial stability policies should integrate firm-level incentives for transparency. Regulators could require growing banks to disclose more granular information on risk exposures, capital adequacy, and loan portfolios, aligning reporting obligations with expansion trajectories. This would not only protect investors but also enhance systemic resilience by ensuring that rapidly expanding banks remain accountable (Ahmed & Hassan, 2024; Chukwu & Nnamdi, 2022). Such policies align with the broader prudential regulation framework aimed at safeguarding financial stability in emerging markets.

Finally, the overall explanatory power of the model highlights the multidimensional drivers of financial reporting quality, spanning audit inputs and firm characteristics. Policymakers should therefore adopt a holistic regulatory approach that combines audit market reforms, corporate governance strengthening, and firm-specific disclosure requirements (Adigun & Lawal, 2023; Ezeani & Nwankwo, 2022). By embedding these complementary levers into Nigeria's financial reporting framework, regulators can enhance the credibility of banking sector disclosures, attract foreign investment, and foster sustainable economic growth.

CONCLUSIONS

The results indicate that the audit fee, the independence of the audit company, and the auditor's tenure cannot be ruled out when evaluating the variables that affect the financial report's quality. We advise policy makers and

regulators to step up regulations and oversight since investors and other stakeholders depend on high-quality financial reporting to make decisions about lending, investments, and other matters that can improve market efficiency. The audit company need to receive fair compensation for carrying out the statutory audit. Their charges ought to be commensurate with the scope and real audit tasks involved. Second, in all facets of the auditors' work, management and regulatory bodies ought to place a strong emphasis on the independence of audit firms. In order to support the independence of the audit firms, there should be sufficient regulatory provisions and oversight of the auditors. Last but not least, in order to guarantee that the quality of audited financial statements is raised, a clearly defined standard that has been approved by law should be implemented to control auditor tenure. We recommend that future research look into the effects of customer size on the caliber of reporting.

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