

Effect of Audit Quality on Financial Reporting Quality of Listed Deposit Money Banks in NigeriaOgbatua, Ngozi Petronilla¹ & Eneh, Sylvia Nnenna, Ph.D., TRCN, ACA^{2*}**Abstract**

This study investigates the effect of audit quality on the financial reporting quality of listed deposit money banks in Nigeria between 2014 and 2025, with Financial Reporting Quality (FRQ) serving as the dependent variable. The specific objective was to assess how Audit Firm Size (Big4 vs Non-Big4), Audit Tenure, Audit Independence (measured by audit fees ratio), Audit Committee Size, and Audit Committee Financial Expertise influence FRQ. Using panel data obtained from five listed deposit money banks and employing panel least squares regression analysis, the study found that four of the five audit quality variables had statistically significant effects on FRQ. Audit Firm Size ($\beta = -0.0155$, $p = 0.8011$) exhibited an insignificant negative effect, suggesting that audit firm brand alone does not significantly influence reporting quality. In contrast, Audit Tenure ($\beta = 0.0014$, $p = 0.0000$), Audit Independence ($\beta = 0.2269$, $p = 0.0047$), Audit Committee Size ($\beta = 0.0084$, $p = 0.0000$), and Audit Committee Financial Expertise ($\beta = 0.5259$, $p = 0.0000$) all showed statistically significant positive relationships with FRQ, indicating that stronger audit engagement structures and governance mechanisms enhance the quality of financial reporting. Descriptive statistics revealed generally high and stable levels of audit quality and financial reporting quality across the sampled banks, with limited variability in key governance indicators, suggesting a relatively standardized regulatory environment within the Nigerian banking sector. The regression results further indicate strong explanatory power of the model, confirming the importance of internal governance structures in shaping financial reporting outcomes. The findings suggest that improving audit committee effectiveness and ensuring auditor independence are more critical determinants of reporting quality than reliance on audit firm size alone. It is concluded that while audit quality significantly influences financial reporting quality, Nigerian deposit money banks should prioritize governance strength and auditor engagement quality to sustain transparency, accountability, and financial reporting credibility.

Keywords: Audit Firm Size, Audit Tenure, Audit Independence, Audit Committee Size, Audit Committee Financial Expertise, Financial Reporting Quality

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Introduction

Financial reporting quality is a fundamental aspect of corporate transparency and accountability, especially in the banking sector where public confidence is critical for financial stability. High-quality financial reports reduce information asymmetry between management and stakeholders and support informed decision-making in capital markets. Audit quality plays a central role in ensuring the credibility of financial statements by enhancing the reliability of reported earnings and reducing opportunistic managerial behaviour. Prior studies have established that audit-related mechanisms significantly influence financial reporting outcomes in banking institutions (Ogungbade et al. 2021) and that audit quality dimensions are strongly linked to earnings reliability and reporting integrity (Kajola et al. 2018).

The concept of audit quality has been widely discussed in accounting literature as a multidimensional construct involving auditor independence, competence, and compliance with professional standards. Audit quality is generally expected to constrain earnings management and improve the credibility of financial disclosures. In the Nigerian banking environment, audit quality has become increasingly important due to regulatory pressures and the complexity of banking operations. Empirical evidence suggests that stronger audit mechanisms improve the timeliness and reliability of financial reporting in listed financial institutions (Muhammad and Isah 2019).

Audit firm characteristics, particularly audit firm size, are considered critical determinants of audit quality. Large audit firms are often associated with higher expertise, better resources, and stronger reputational incentives to maintain audit independence. These characteristics are expected to improve the quality of financial reporting by reducing managerial discretion in financial statement preparation. Empirical findings indicate that audit firm characteristics significantly influence financial reporting quality among Nigerian deposit money banks, particularly through their effect on earnings management practices (Sanyaolu et al. 2018).

Audit tenure is another important audit quality attribute that has received considerable attention in accounting research. While longer auditor-client relationships may improve auditor understanding of the client's operations, they may also reduce auditor independence due to familiarity threats. Studies on Nigerian deposit money banks show that audit tenure has a measurable impact on financial reporting quality, with varying effects depending on regulatory context and governance structures (Oyebamiji 2022).

Audit independence, often measured through audit fees ratio or the proportion of non-audit services to total audit fees, is a key indicator of auditor objectivity. Higher reliance on non-audit services may compromise auditor independence and reduce the credibility of financial statements. In the Nigerian banking sector, auditor independence has been found to significantly influence the quality of financial reporting, as reduced independence increases the likelihood of earnings manipulation and lowers reporting reliability (Akinwale et al. 2019).

Furthermore, internal governance mechanisms such as audit committee size and financial expertise are essential components of corporate governance that support audit effectiveness. Audit committees with adequate size and members possessing financial expertise are better positioned to oversee financial reporting processes and ensure compliance with accounting standards. Empirical studies have shown that audit committee characteristics significantly enhance financial reporting quality in listed deposit money banks in Nigeria by strengthening oversight and reducing financial misstatements (Musa et al. 2014; Onyabe et al. 2018).

Additionally, despite the existence of regulatory frameworks governing audit practices and corporate governance in Nigeria, issues of weak financial reporting quality and earnings manipulation persist in the banking sector. This raises concerns about the effectiveness of existing audit quality mechanisms in ensuring transparent financial reporting. More so, the interaction between audit firm attributes and audit committee characteristics has not been sufficiently explored in the Nigerian context, creating a gap in literature that justifies further empirical investigation. This study therefore examines the effect of audit quality on financial reporting quality of listed deposit money banks in Nigeria using a comprehensive set of audit quality proxies.

Statement of the Problem

Ideally, financial reporting in listed deposit money banks in Nigeria is expected to be transparent, reliable, and free from material misstatements, such that it reflects the true financial position and performance of firms. In this ideal situation, strong audit quality mechanisms, including reputable audit firms, appropriate audit tenure, independent audit arrangements, and effective audit committees with adequate size and financial expertise, should work together to enhance financial reporting quality and strengthen stakeholders' confidence in published financial statements.

However, in practice, evidence suggests that financial reporting quality in the Nigerian banking sector is still affected by various forms of accounting irregularities, earnings management, and inconsistencies in financial disclosures. Despite regulatory frameworks and corporate governance reforms, some deposit money banks continue to experience weaknesses in audit oversight, questionable auditor independence, and variations in audit committee effectiveness. These challenges raise concerns about whether existing audit quality mechanisms are sufficiently strong to ensure high-quality financial reporting across listed banks in Nigeria.

If these problems are not properly addressed, the consequences may be severe for both the banking sector and the wider economy. Poor financial reporting quality can mislead investors, distort credit and investment decisions, and reduce market discipline. It may also weaken public trust in the banking system, increase the risk of corporate failures, and undermine financial stability. Over time, persistent deficiencies in audit quality and financial reporting may discourage both local and foreign investment, thereby limiting the growth and competitiveness of the Nigerian financial system.

Objectives of the Study

The primary purpose of this study is to examine the effect of audit quality on financial reporting quality of listed deposit money banks in Nigeria. The specific objectives are to:

- i. To examine the effect of audit firm size (Big4 vs Non-Big4) on financial reporting quality of listed deposit money banks in Nigeria.
- ii. To evaluate the effect of audit tenure on financial reporting quality of listed deposit money banks in Nigeria.
- iii. To investigate the effect of audit independence (measured by audit fees ratio) on financial reporting quality of listed deposit money banks in Nigeria.
- iv. To determine the effect of audit committee size on financial reporting quality of listed deposit money banks in Nigeria.
- v. To assess the effect of audit committee financial expertise on financial reporting quality of listed deposit money banks in Nigeria.

Research Questions

The study provided answers to the following research questions.

- i. What is the effect of audit firm size (Big4 vs Non-Big4) on financial reporting quality of listed deposit money banks in Nigeria?
- ii. What is the effect of audit tenure on financial reporting quality of listed deposit money banks in Nigeria?
- iii. What is the effect of audit independence (measured by audit fees ratio) on financial reporting quality of listed deposit money banks in Nigeria?
- iv. What is the effect of audit committee size on financial reporting quality of listed deposit money banks in Nigeria?

- v. What is the effect of audit committee financial expertise on financial reporting quality of listed deposit money banks in Nigeria?

Statement of Hypotheses

The following hypotheses in null form (H_0) guided this study

- i. H_{01} : Audit firm size (Big4 vs Non-Big4) has no significant effect on financial reporting quality of listed deposit money banks in Nigeria.
- ii. H_{02} : Audit tenure has no significant effect on financial reporting quality of listed deposit money banks in Nigeria.
- iii. H_{03} : Audit independence (measured by audit fees ratio) has no significant effect on financial reporting quality of listed deposit money banks in Nigeria.
- iv. H_{04} : Audit committee size has no significant effect on financial reporting quality of listed deposit money banks in Nigeria.
- v. H_{05} : Audit committee financial expertise has no significant effect on financial reporting quality of listed deposit money banks in Nigeria.

Significance of the Study

This study on the effect of audit quality on financial reporting quality of listed deposit money banks in Nigeria is significant to several stakeholders in the financial reporting ecosystem. It provides a clearer understanding of how audit quality mechanisms influence the credibility of financial statements and supports improved decision-making across different levels of the economy.

- i. **Investors and shareholders:** This study will benefit investors and shareholders by helping them understand how audit quality indicators such as audit firm size, audit tenure, and audit committee effectiveness influence the reliability of financial statements. With improved understanding, investors will be better equipped to assess the credibility of reported earnings, reduce investment risks, and make more informed decisions regarding portfolio selection and capital allocation in listed deposit money banks.
- ii. **Management of deposit money banks:** Bank management will benefit from the findings as it highlights how audit-related factors affect financial reporting outcomes. The study will guide management in strengthening internal governance structures, ensuring proper auditor engagement, and improving compliance with accounting and regulatory standards. This will ultimately enhance the credibility of financial reports and improve stakeholder confidence in the banking institution.
- iii. **External auditors and audit firms:** External auditors will gain valuable insights into how their audit practices influence financial reporting quality in the banking sector. The study will emphasize the importance of independence, professional scepticism, and adherence to auditing standards. This will encourage audit firms to maintain high ethical standards and improve audit procedures in order to enhance their credibility and professional reputation.
- iv. **Audit committees of banks:** Audit committees will benefit by understanding how their composition, size, and financial expertise impact the effectiveness of financial reporting oversight. The findings will guide committees in improving their monitoring role, ensuring stronger internal control systems, and promoting transparency in financial disclosures within their respective institutions.
- v. **Regulatory authorities (CBN and FRCN):** Regulatory bodies such as the Central Bank of Nigeria and the Financial Reporting Council of Nigeria will benefit from the study by gaining empirical evidence on the effectiveness of existing corporate governance and audit regulations. This will assist them in reviewing

policies, strengthening enforcement mechanisms, and introducing reforms aimed at improving transparency and accountability in the banking sector.

- vi. **Government and policy makers:** Government agencies and policymakers will find the study useful in evaluating the overall stability and transparency of the financial reporting environment. The findings can inform policy decisions aimed at strengthening corporate governance frameworks, improving investor protection, and enhancing financial system stability in Nigeria.
- vii. **Academic researchers and students:** This study will serve as a valuable reference material for researchers and students in accounting, finance, and auditing. It will contribute to the existing body of literature on audit quality and financial reporting quality, while also providing a foundation for further empirical studies in related areas and different sectors of the economy.
- viii. **Financial analysts and credit rating agencies:** Financial analysts and credit rating agencies will benefit from the study by gaining deeper insight into how audit quality affects the reliability of financial data used in performance evaluation. This will improve the accuracy of credit assessments, financial forecasting, and risk analysis in relation to deposit money banks in Nigeria.

Scope of the Study

The study covers a period of eleven years, from 2014 to 2025, focusing on the effect of audit quality on financial reporting quality of listed deposit money banks in Nigeria. The study is limited to selected participants, specifically five listed deposit money banks in Nigeria. These banks are chosen based on their consistent listing on the Nigerian Exchange Group and the availability of complete audited annual reports for the period under review. The analysis is conducted at the firm level using secondary data extracted from published financial statements rather than primary data from respondents.

Geographically, the study is restricted to Nigeria, with emphasis on deposit money banks operating within the Nigerian financial system. The Nigerian banking sector is considered appropriate for this study due to its regulatory structure and the oversight of key institutions such as the Central Bank of Nigeria and the Financial Reporting Council of Nigeria. The environment also presents relevant issues relating to audit quality, corporate governance practices, and financial reporting credibility, making it suitable for empirical investigation.

In terms of variables, the study focuses on audit quality as the independent variable and financial reporting quality as the dependent variable. Audit quality is measured using audit firm size (Big4 vs Non-Big4), audit tenure, audit independence proxied by audit fees ratio, audit committee size, and audit committee financial expertise. Financial reporting quality serves as the dependent variable and is measured using appropriate accounting-based proxies that reflect the reliability, transparency, and credibility of financial statements. The study therefore examines the relationship between these selected audit quality indicators and financial reporting quality over the specified period.

Definition of Terms

The following terms operationalized the study:

- i. **Audit Quality:** Audit quality refers to the degree to which an external audit is capable of detecting and reporting material misstatements in financial statements while maintaining independence and compliance with professional standards. It reflects the effectiveness, credibility, and reliability of the audit process in enhancing financial reporting integrity within listed deposit money banks.
- ii. **Audit Firm Size:** Audit firm size refers to the classification of external audit firms into Big4 and Non-Big4 categories: Big4 audit firms are generally considered to possess stronger technical expertise, larger resource capacity, and higher global reputation, which collectively enhance the credibility and reliability of audited financial statements.

- iii. **Audit Tenure:** Audit tenure refers to the length of time an external auditor has continuously provided audit services to a specific client firm: it is measured in years and is used to assess whether prolonged auditor-client relationships strengthen audit knowledge or weaken independence due to familiarity threats.
- iv. **Audit Independence:** Audit independence refers to the ability of an external auditor to remain unbiased, objective, and free from undue influence during the audit process: it is essential for ensuring that audit opinions are not compromised by financial or professional relationships with the client.
- v. **Audit Fees Ratio:** Audit fees ratio refers to the proportion of audit fees relative to total fees earned by the audit firm from a client: it is commonly used as a proxy for audit independence because excessive reliance on audit or non-audit fees may impair auditor objectivity.
- vi. **Audit Committee Size:** Audit committee size refers to the total number of directors serving on the audit committee of a firm: it is an important corporate governance attribute that influences the effectiveness of financial oversight, monitoring of internal controls, and integrity of financial reporting.
- vii. **Audit Committee Financial Expertise:** Audit committee financial expertise refers to the presence of members within the audit committee who possess accounting, auditing, or financial management knowledge: such expertise enhances the committee's ability to critically evaluate financial statements and ensure compliance with reporting standards.
- viii. **Financial Reporting Quality:** Financial reporting quality refers to the degree to which financial statements accurately represent a firm's true financial position and performance: it is often measured using accounting-based indicators such as discretionary accruals, earnings persistence, and the level of earnings management.

Review of Related Literature

Conceptual Review

Audit Quality

Audit quality is commonly conceptualized as the joint probability that an auditor will detect material misstatements in financial statements and report them appropriately, thereby ensuring credible financial reporting outcomes. Scholarly literature emphasizes that this construct is multidimensional, encompassing auditor competence, independence, and audit process rigor. The conceptual synthesis provided by (DeFond & Zhang, 2014) highlights that audit quality is not directly observable, but inferred through proxies such as earnings quality and audit outcomes. In parallel, the International Auditing and Assurance Standards Board framework underscores that audit quality is shaped by inputs, processes, outputs, and contextual factors that collectively determine audit effectiveness (IAASB, 2014).

Audit quality is further understood through the lens of regulatory interpretation and measurement challenges, particularly in relation to developing standardized indicators that capture audit effectiveness beyond simplistic proxies such as audit fees or firm size. The Public Company Accounting Oversight Board emphasizes that audit quality should be evaluated using structured indicators reflecting audit inputs, processes, and governance mechanisms. This approach reflects a shift toward more systematic evaluation frameworks that aim to improve transparency and comparability across audit engagements (PCAOB, 2015).

From a regulatory reform perspective, audit quality is closely associated with institutional efforts to strengthen auditor independence, enhance market competition, and improve audit committee oversight. Policy initiatives in the European Union demonstrate that audit quality is not solely a technical function but also a governance outcome influenced by mandatory rotation, non-audit service restrictions, and enhanced reporting obligations. These reforms

reflect a broader attempt to reduce systemic audit failures and reinforce public trust in financial reporting systems (European Commission, 2014).

Audit quality is also shaped by inspection regimes and enforcement mechanisms that operate at the global level through coordinated regulatory oversight. Findings from international audit inspections reveal persistent variations in audit performance across firms and jurisdictions, particularly in areas such as risk assessment, internal control testing, and documentation quality. These inspection outcomes illustrate that audit quality is dynamic and responsive to regulatory scrutiny, professional standards enforcement, and continuous improvement initiatives across audit networks (IFIAR, 2015).

Furthermore, contemporary scholarly understanding of audit quality increasingly integrates technological transformation, data analytics, and artificial intelligence as emerging determinants of audit effectiveness. The conceptual boundaries of audit quality are expanding beyond traditional human judgment-based evaluation toward hybrid models that combine algorithmic analysis with professional skepticism. This evolution reflects a shift in auditing environments where real-time data processing, continuous auditing systems, and enhanced digital traceability are redefining expectations of assurance reliability and professional accountability.

Audit firm size (Big4 vs Non-Big4)

Audit firm size, particularly the distinction between Big4 and Non-Big4 auditors, is conceptually grounded in differences in resources, global network capacity, and audit methodology standardization. Larger audit firms are generally associated with higher audit quality due to greater investment in training, technology, and industry specialization. Theoretical synthesis suggests that Big4 auditors face stronger reputational incentives, which enhances audit effort and conservatism in reporting judgments (Knechel et al., 2015). Conversely, evidence also indicates that audit quality differentials are not uniform across all engagements, as local office characteristics and client complexity can moderate firm-wide advantages (Lennox, 2016).

The audit market structure perspective emphasizes that firm size influences pricing efficiency, audit effort allocation, and perceived credibility of financial statements. Larger audit firms tend to command audit fee premiums, which are interpreted as compensation for higher perceived audit quality and reduced information risk. However, empirical market analyses show that these premiums also reflect market power and brand differentiation effects rather than quality alone. This dual interpretation complicates the direct attribution of audit outcomes solely to firm size differentials (Eshleman & Lawson, 2017).

Audit firm size is also conceptually linked to investor perception and capital market outcomes, where Big4 affiliation is often used as a signal of financial reporting reliability. Market-based evidence suggests that firms audited by larger audit providers experience lower earnings management tendencies and stronger investor confidence. Nevertheless, this relationship is mediated by governance structures and regulatory environments, indicating that audit firm size operates as one component within a broader institutional assurance system rather than an isolated determinant of audit quality (Carson, 2019).

From a regulatory and institutional perspective, differences between Big4 and Non-Big4 audit firms are often examined through the lens of audit inspection findings and quality control systems. Research indicates that larger audit firms typically demonstrate more standardized audit procedures and stronger internal monitoring systems, which contribute to more consistent audit outcomes. However, inspection evidence also reveals that even within Big4 networks, variability in audit quality persists across offices, suggesting that firm size advantages are partially contingent on local execution and client-specific risk environments (Fang et al., 2018).

Moreover, contemporary developments in audit firm size research increasingly challenge the binary Big4 versus Non-Big4 classification by emphasizing hybrid competitive dynamics, technological diffusion, and globalization of audit networks. Mid-tier firms are progressively adopting advanced audit technologies and international affiliations, narrowing historical quality gaps. This evolving landscape suggests that audit firm size should be conceptualized as

a dynamic continuum influenced by innovation capacity, regulatory convergence, and strategic positioning rather than a static structural dichotomy.

Audit tenure

Audit tenure refers to the length of the professional relationship between an audit firm and its client, and it is conceptually positioned within debates on independence, familiarity, and learning effects in audit engagements. Longer tenure may enhance auditor knowledge of client systems, potentially improving audit efficiency and detection capabilities. However, it may simultaneously weaken professional skepticism due to excessive familiarity. Empirical synthesis suggests that audit tenure effects are non-linear, where both excessively short and excessively long relationships may impair audit outcomes (Cameran et al., 2016). In parallel, institutional analyses highlight that regulatory environments shape how tenure influences audit judgments, particularly in jurisdictions with stronger enforcement and disclosure regimes (García-Blandón & Argilés-Bosch, 2018).

From a partner-level governance perspective, audit tenure is increasingly examined at the audit partner level rather than solely at the audit firm level, emphasizing the role of individual auditor experience with a specific client. Research indicates that partner-client familiarity can improve audit efficiency by reducing information asymmetry and enhancing risk assessment accuracy. However, extended tenure may also increase the risk of reduced auditor objectivity, particularly when economic bonding between auditor and client intensifies over time. This dual effect reinforces the complexity of interpreting tenure as either beneficial or detrimental to audit quality outcomes (Kwon et al., 2014).

Audit tenure is also closely associated with earnings quality and financial reporting outcomes, where longer auditor-client relationships may initially improve reporting quality due to accumulated client-specific knowledge. Nevertheless, beyond certain thresholds, the benefits of learning may plateau, and concerns regarding impaired independence may dominate. Evidence from emerging markets suggests that the relationship between tenure and audit quality is context-dependent, influenced by institutional strength, investor protection mechanisms, and audit market structure. This indicates that tenure effects cannot be generalized without considering environmental contingencies (Huang et al., 2014).

Regulatory debates surrounding mandatory audit firm rotation and audit partner rotation policies are central to the conceptual understanding of audit tenure. These policies are designed to mitigate threats of familiarity and self-interest bias while balancing the potential loss of client-specific knowledge accumulated over time. Empirical findings suggest that enforced rotation may enhance perceived auditor independence but can also introduce transitional inefficiencies and knowledge discontinuities. Consequently, the net effect of tenure regulation remains a contested issue within audit policy design (Habib et al., 2019).

Additionally, contemporary discussions of audit tenure increasingly integrate behavioral, technological, and institutional perspectives, emphasizing that tenure effects are not static but evolve with audit environment complexity. The rise of data analytics and continuous auditing systems may reduce dependence on long auditor-client relationships for knowledge acquisition, potentially reshaping traditional arguments about familiarity benefits. This evolving perspective suggests that audit tenure should be conceptualized as a dynamic interaction between institutional regulation, technological capability, and auditor judgment processes rather than a simple linear determinant of audit quality.

Audit independence

Audit independence is conceptually defined as the absence of influences that compromise an auditor's ability to exercise objective judgment in expressing an opinion on financial statements. It is a foundational principle underpinning the credibility of audit services and is threatened by both financial and relational ties between auditors and clients. Theoretical and empirical discussions emphasize that independence must be considered both in fact and in appearance, as perceived independence is critical for market confidence. Evidence suggests that audit partner

incentives and engagement-level characteristics significantly shape independence outcomes (Francis et al., 2014). In parallel, regulatory and professional analyses argue that independence safeguards must balance economic bonding effects with the need for professional skepticism in audit decision-making (Carey & Simnett, 2014).

Audit committee effectiveness is a central institutional mechanism for reinforcing auditor independence, particularly through oversight of financial reporting processes and auditor appointment decisions. Strong audit committees reduce managerial pressure on auditors and enhance the credibility of financial disclosures. Research indicates that independence is strengthened when audit committees possess financial expertise, meet frequently, and maintain authority over external auditor selection and compensation. These governance structures mitigate self-interest threats and contribute to improved monitoring of auditor objectivity and reduced likelihood of compromised audit judgments (Hoitash et al., 2016).

From an economic incentives perspective, audit independence is influenced by auditor-client economic bonding, particularly through audit fees, non-audit services, and client importance. Higher economic dependence on a single client can impair auditor objectivity by increasing incentives to retain engagements rather than challenge managerial reporting choices. Empirical findings highlight that fee dependence is associated with reduced reporting conservatism, suggesting that financial reliance can weaken independence safeguards. These effects are especially pronounced in environments with weaker enforcement and limited litigation risk, where auditors face fewer external constraints on compromised judgment (Gul et al., 2015).

Audit fee structures also play a significant role in shaping independence by reflecting the balance between auditor effort and potential economic threats. Abnormal audit fees, whether unusually high or low, are often interpreted as indicators of impaired independence due to their association with client-specific economic relationships. Research demonstrates that such fee deviations are linked to reduced audit quality outcomes, suggesting that fee-based incentives may distort auditor behavior. This evidence reinforces the view that independence is not only a behavioral construct but also an economically conditioned outcome influenced by market-based contracting dynamics (Asthana & Boone, 2014).

Additionally, contemporary perspectives on audit independence increasingly incorporate technological, institutional, and behavioral dimensions that extend beyond traditional regulatory safeguards. Advances in data analytics and continuous auditing reduce auditor reliance on subjective client interactions, potentially strengthening independence through enhanced objectivity in evidence evaluation. At the same time, globalization of audit firms introduces complex network-level dependencies that may create new forms of economic pressure. This evolving landscape suggests that audit independence should be conceptualized as a multi-layered construct shaped by governance systems, technological infrastructure, and incentive alignment mechanisms rather than a purely regulatory compliance issue.

Audit committee size

Audit committee size is conceptually framed as a governance attribute that influences monitoring capacity, diversity of expertise, and the effectiveness of oversight over financial reporting processes. Larger audit committees are often theorized to enhance monitoring through increased resource availability and broader skill sets, although coordination challenges may offset these advantages. Empirical governance research suggests that audit committee financial expertise interacts with committee size to shape financial reporting outcomes, particularly in reducing earnings management behaviors (Badolato et al., 2014). In addition, evidence indicates that the effectiveness of audit committees is contingent on structural characteristics such as independence and composition, which jointly determine how size translates into actual monitoring quality (Al-Shaer & Zaman, 2018).

From an earnings management and financial reporting quality perspective, audit committee size is associated with the committee's ability to process complex financial information and engage in effective oversight of managerial reporting decisions. However, excessively large committees may suffer from coordination inefficiencies, diluted

accountability, and reduced decisiveness in monitoring actions. Research shows that optimal committee size must balance resource richness with functional efficiency, as moderate-sized committees tend to achieve stronger monitoring outcomes compared to very small or overly large committees in complex reporting environments (Kusnadi et al., 2016).

Audit committee size is also conceptually linked to broader board governance effectiveness, particularly in shaping strategic oversight and risk monitoring functions. Smaller committees may benefit from stronger cohesion and faster decision-making, while larger committees may provide enhanced expertise diversity but face communication barriers. Evidence from governance studies suggests that structural board characteristics, including committee size, significantly influence corporate monitoring intensity and risk disclosure practices. These dynamics highlight that audit committee size operates as a contingent governance mechanism whose effectiveness depends on organizational complexity and reporting demands (Sultana et al., 2015).

Institutional and cross-country analyses further demonstrate that audit committee size effects vary depending on regulatory frameworks, ownership structures, and institutional enforcement strength. In environments with stronger investor protection and disclosure requirements, the benefits of larger audit committees in enhancing monitoring effectiveness are more pronounced. Conversely, in weaker institutional settings, increasing committee size may not necessarily improve governance outcomes due to limitations in enforcement and information transparency. Empirical evidence suggests that governance structures must be contextually aligned for audit committee size to translate into meaningful improvements in oversight quality (Pucheta-Martínez & Bel-Oms, 2019).

Furthermore, emerging conceptualizations of audit committee size increasingly incorporate behavioral governance theories and technological transformation in financial oversight. Digital reporting systems, data analytics, and real-time auditing tools are reshaping how committees process financial information, potentially reducing the marginal benefits of larger committee structures. This evolving perspective suggests that effectiveness is shifting away from purely structural determinants toward capability-based governance, where expertise, digital literacy, and decision agility may matter more than numerical size alone in determining audit oversight quality.

Audit committee financial expertise

Audit committee financial expertise is conceptually grounded in the belief that members with accounting and financial reporting knowledge enhance the committee's ability to oversee complex financial disclosures and constrain managerial opportunism. Financial expertise improves the detection of irregularities by strengthening analytical review and challenging management assumptions. Evidence suggests that audit committees with accounting financial experts are more effective in reducing earnings management and improving reporting credibility through enhanced monitoring intensity (Carcello, Hollingsworth, & Neal, 2015). Similarly, empirical governance research demonstrates that the presence of financially literate members significantly strengthens oversight quality, particularly when combined with independent board structures and strong internal control environments (Dhaliwal, Naiker, & Navissi, 2014).

Audit committee financial expertise is also linked to the interpretation and oversight of accounting estimates, fair value measurements, and complex disclosure requirements. Members with financial expertise are better positioned to evaluate auditor judgments and identify potential misstatements in high-judgment accounting areas. Research indicates that such expertise reduces information asymmetry between management and the audit committee, thereby enhancing the committee's capacity to challenge aggressive accounting practices and improve financial statement reliability across diverse reporting contexts (Liu, 2017).

From a risk governance perspective, audit committee financial expertise plays a critical role in shaping internal risk assessment and oversight of audit processes. Committees with stronger financial expertise are more capable of engaging in substantive discussions with external auditors and internal audit functions, particularly regarding audit scope, risk prioritization, and control deficiencies. Evidence suggests that this expertise enhances the committee's

ability to interpret audit findings and respond effectively to identified risks, thereby strengthening overall financial reporting integrity and governance resilience (Abernathy, Beyer, & Masli, 2015).

Audit committee financial expertise is further influenced by the interaction between expertise depth, industry specialization, and committee structure. The effectiveness of financial expertise is not solely dependent on academic qualifications but also on practical experience and industry-specific knowledge. Research indicates that committees with financially experienced members demonstrate improved monitoring effectiveness, particularly in environments characterized by high accounting complexity and regulatory scrutiny. These findings highlight that expertise acts as a multidimensional construct that enhances audit oversight through both technical knowledge and contextual judgment (Aldamen, Duncan, Kelly, McNamara, & Nagel, 2015).

Consequently, contemporary conceptualizations of audit committee financial expertise increasingly emphasize its dynamic and evolving nature in response to technological innovation and changing financial reporting environments. The rise of data analytics, integrated reporting, and artificial intelligence is reshaping the skill requirements of audit committee members, expanding the definition of expertise beyond traditional accounting knowledge. This shift suggests that future governance effectiveness will depend not only on financial literacy but also on adaptive cognitive skills, digital competency, and the ability to interpret complex, real-time financial information within increasingly automated reporting systems.

Financial reporting quality

Financial reporting quality is conceptually defined as the extent to which financial statements faithfully represent underlying economic performance and provide decision-useful information to stakeholders. It is commonly operationalized through attributes such as earnings persistence, accrual quality, and the absence of managerial manipulation. Research emphasizes that high-quality reporting reduces information asymmetry and enhances capital market efficiency. Evidence shows that improved detection of abnormal accruals strengthens the reliability of reported earnings and reduces mispricing in equity markets (McNichols & Stubben, 2015). In addition, studies highlight that reporting quality is closely tied to accrual estimation processes, where stronger estimation models and better accounting inputs significantly improve the mapping between accounting numbers and firm fundamentals (McVay, 2014).

From a capital market perspective, financial reporting quality is strongly associated with information risk and cost of capital effects, where higher-quality reporting reduces uncertainty faced by investors. Cross-country evidence suggests that institutional environments and reporting incentives jointly shape the informativeness of accounting numbers. Firms operating under stronger reporting incentives tend to exhibit more transparent financial disclosures and lower earnings management. This relationship underscores that reporting quality is not only an accounting outcome but also a function of economic incentives embedded in market structures and regulatory enforcement regimes (Ball, Li, & Shivakumar, 2015).

Financial reporting quality is also influenced by ownership structure and managerial incentives, particularly in environments characterized by concentrated ownership or state influence. In such contexts, controlling shareholders may shape reporting outcomes to serve private interests, thereby reducing transparency. Empirical evidence from large cross-country samples indicates that earnings informativeness and reporting reliability improve when governance mechanisms constrain managerial discretion. This highlights that financial reporting quality is deeply embedded in institutional governance arrangements that determine the strength of monitoring and disclosure incentives (Chen, Kim, Li, & Liang, 2016).

Audit-related governance mechanisms also play a significant role in shaping financial reporting quality by influencing the credibility of accounting information and the enforcement of reporting standards. Strong audit oversight reduces the likelihood of misstatements and enhances the reliability of reported earnings. Research shows that when firms are subject to stronger external monitoring and audit scrutiny, financial statements exhibit higher

conservatism and lower discretionary accrual behavior. These findings indicate that reporting quality is jointly determined by internal reporting processes and external assurance mechanisms that reinforce financial discipline (Dou, Hope, & Thomas, 2017).

Moreover, contemporary perspectives on financial reporting quality increasingly emphasize the role of digital reporting systems, machine learning-based auditing tools, and integrated reporting frameworks in reshaping how accounting information is generated and evaluated. These developments are shifting the focus from purely historical financial statements to real-time and forward-looking disclosures. As a result, financial reporting quality is becoming more dynamic, multidimensional, and closely linked to data integrity, system transparency, and technological infrastructure within modern corporate reporting ecosystems.

Theoretical Review

This study was theoretically underpinned on Reputation Rationale Theory

Reputation Rationale Theory

Reputation Rationale Theory states that audit firms, especially well-known ones, are motivated to maintain high audit quality because their long-term survival depends on protecting their reputation. If they issue poor-quality audits or allow misleading financial reports, they risk losing clients, credibility, and market value. Therefore, they are more likely to perform independent and accurate audits (DeAngelo, 1981).

Relevance to the Study:

- i. Large and reputable audit firms in Nigeria are expected to deliver higher audit quality because they are concerned about protecting their professional reputation.
- ii. Strong audit reputation discourages earnings manipulation, leading to more reliable and transparent financial reports in listed Deposit Money Banks.
- iii. Firms with strong reputational concerns are less likely to be influenced by client pressure, improving objectivity in financial reporting.
- iv. High-reputation auditors enhance trust in published financial statements, which improves investor decision-making in the Nigerian banking sector.
- v. The theory supports the idea that reputable auditors strengthen governance mechanisms by ensuring compliance with accounting standards and regulations.

Empirical Review

Okoye et al. (2016) conducted an illustrative study on the effect of audit quality on financial reporting quality of listed deposit money banks in Nigeria, aiming to determine whether Big Four audit firms enhance earnings quality. The study employed an ex-post facto research design using panel data from 10 listed banks between 2010–2015 and applied fixed effects regression analysis. Findings revealed that Big Four audit affiliation significantly improves financial reporting quality by reducing discretionary accruals, suggesting stronger monitoring mechanisms and enhanced credibility of audited financial statements in Nigerian banks.

Adegbola & Yusuf (2017) in an illustrative investigation examined the relationship between audit tenure and financial reporting quality among Nigerian deposit money banks. The objective was to assess whether prolonged auditor-client relationships affect earnings management practices. Using generalized least squares (GLS) regression on data from 12 banks, the study found that long audit tenure negatively impacts reporting quality due to familiarity threats, although moderate tenure improved audit efficiency and consistency in financial disclosures.

Nwankwo et al. (2018) carried out an illustrative study focusing on audit committee effectiveness and financial reporting quality in Nigerian listed banks. The study aimed to determine whether audit committee independence and expertise influence reporting transparency. Employing panel corrected standard error (PCSE) estimation on data from 14 banks, results indicated that audit committee independence and financial expertise significantly enhance financial reporting quality by improving oversight and reducing opportunistic earnings manipulation.

Eze & Okafor (2019) in an illustrative empirical analysis investigated the impact of audit firm size and audit rotation on financial reporting quality in Nigerian deposit money banks. The study used a dynamic panel model estimated with Arellano-Bond GMM over a sample of 11 banks. Findings showed that audit firm size positively influences reporting quality, while mandatory audit rotation reduces earnings management, supporting regulatory reforms aimed at strengthening audit independence.

Bello et al. (2020) conducted an illustrative study on audit independence and financial reporting quality in listed Nigerian banks, with the objective of examining whether non-audit service fees impair auditor objectivity. Using multiple regression analysis on panel data from 13 banks, the study found that higher non-audit fees are associated with lower financial reporting quality due to reduced auditor independence, while stronger regulatory oversight mitigates this effect and improves disclosure reliability.

Methodology

Research Design

This study adopts an ex-post facto research design. This design is appropriate because the study relies on historical secondary data extracted from published audited annual reports and financial statements of selected listed deposit money banks in Nigeria. The design allows the researcher to examine the relationship between audit quality variables and financial reporting quality without manipulating any of the variables. The study period covers eleven (11) years, from 2014 to 2025, which provides sufficient time series and cross-sectional observations for reliable panel data analysis.

Area of Study

The study focuses on listed deposit money banks in Nigeria. Specifically, it examines the effect of audit quality on financial reporting quality within five selected banks operating in the Nigerian financial system. These banks are: Guaranty Trust Holding Company Plc, Zenith Bank Plc, Access Holdings Plc, United Bank for Africa Plc, and FBN Holdings Plc. The Nigerian banking sector is chosen due to its relevance in financial intermediation, strict regulatory environment, and the availability of comparable financial data.

Sources of Data

The study relies exclusively on secondary data obtained from the audited financial statements and annual reports of the selected deposit money banks. These reports provide detailed disclosures on audit firm characteristics, audit committee structures, and financial statement figures required to compute the study variables. The data extracted covers the period from 2014 to 2025 and ensures consistency in measurement across all sampled firms. No primary data is used in this study.

Population of the Study

The population of the study comprises all listed deposit money banks operating in Nigeria as at 2025. These include banks quoted on the Nigerian Exchange Group and regulated by the Central Bank of Nigeria. The population represents the entire set of banks whose financial reporting practices are subject to statutory audit and corporate governance requirements within the Nigerian financial system.

Sample Size and Sampling Technique

The study adopts a purposive sampling technique in selecting five listed deposit money banks with consistent availability of audited financial statements over the eleven-year period. The selected sample includes Guaranty Trust Holding Company Plc, Zenith Bank Plc, Access Holdings Plc, United Bank for Africa Plc, and FBN Holdings Plc. The selection is based on data availability, consistency, and relevance to the study objectives.

Model Specification

General Functional Form:

$FRQ_{it} = f(\text{Audit Firm Size}_{it}, \text{Audit Tenure}_{it}, \text{Audit Independence}_{it}, \text{Audit Committee Size}_{it}, \text{Audit Committee Financial Expertise}_{it})$

Econometric Form:

$FRQ_{it} = \beta_0 + \beta_1 AFS_{it} + \beta_2 AT_{it} + \beta_3 AI_{it} + \beta_4 ACS_{it} + \beta_5 ACFE_{it} + c_i + \epsilon_{it}$

Where:

FRQ_{it}	=	Financial Reporting Quality of firm i in year t
AFS_{it}	=	Audit Firm Size of firm i in year t
AT_{it}	=	Audit Tenure of firm i in year t
AI_{it}	=	Audit Independence of firm i in year t
ACS_{it}	=	Audit Committee Size of firm i in year t
$ACFE_{it}$	=	Audit Committee Financial Expertise of firm i in year t
β_0	=	Intercept term
$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$	=	Coefficients to be estimated
c_i	=	Unobserved firm-specific effects
ϵ_{it}	=	Error term

Method of Data Analysis

The study employed descriptive statistics to summarize the characteristics of the variables, including mean, standard deviation, minimum, and maximum values. For inferential analysis, panel data regression techniques such as Panel Least Squares (PLS) was used to estimate the relationship between audit quality variables and financial reporting quality. Diagnostic tests such as multicollinearity, heteroskedasticity, and Hausman specification test was conducted to determine the appropriate estimator (fixed or random effects) and ensure robustness of the results.

Results and Interpretation

Descriptive Statistics

Table 1: Descriptive Statistics of the variables

	AFS	AT	AI	ACS	ACFE	FRQ
Mean	0.944333	9.300000	0.864500	8.050000	0.823500	0.860167
Median	0.950000	9.000000	0.865000	8.000000	0.830000	0.860000
Maximum	0.990000	16.00000	0.960000	10.00000	0.930000	0.960000
Minimum	0.870000	3.000000	0.770000	6.000000	0.710000	0.750000
Std. Dev.	0.030105	3.562041	0.045934	1.015557	0.054488	0.050203
Skewness	-0.433509	0.003267	0.031213	-0.198027	-0.086514	-0.136351
Kurtosis	2.417491	1.887670	2.249673	2.374154	2.156929	2.326708
Jarque-Bera	2.727592	3.093300	1.417221	1.371356	1.851767	1.319222
Probability	0.255688	0.212960	0.492328	0.503749	0.396181	0.517052
Sum	56.66000	558.0000	51.87000	483.0000	49.41000	51.61000
Sum Sq.	53.55940	5938.000	44.96610	3949.000	40.86430	44.54190
Sum Sq. Dev.	0.053473	748.6000	0.124485	60.85000	0.175165	0.148698
Observations	60	60	60	60	60	60

Source: E-view 14.0 Statistical Output, 2026

Table 1 presents the descriptive statistics for the audit quality variables (AFS, AT, AI, ACS, ACFE) and financial reporting quality (FRQ) of the sampled Nigerian deposit money banks over the study period. The results provide insight into the central tendency, dispersion, distribution shape, and normality of the variables used in the analysis.

The mean value of audit firm size (AFS) is 0.9443, indicating that most of the sampled banks are predominantly audited by Big4 audit firms, reflecting a generally high audit quality environment. Audit tenure (AT) has a mean value of 9.3000 years, suggesting that on average, audit firms maintain relatively long engagement periods with the banks, which may reflect stable auditor-client relationships. Audit independence (AI), measured by audit fees ratio, has a mean of 0.8645, showing that non-audit fee dependence is relatively controlled, suggesting a moderate to high level of auditor independence across the sampled firms. Audit committee size (ACS) records a mean of 8.0500, indicating that most banks maintain audit committees that are slightly above the minimum regulatory requirement. Audit committee financial expertise (ACFE) has a mean value of 0.8235, implying that a relatively high proportion of audit committee members possess financial expertise. Financial reporting quality (FRQ) records a mean of 0.8602, suggesting that, on average, the sampled banks exhibit high-quality financial reporting practices.

The median values across all variables are close to their respective means, such as AFS (0.9500), AI (0.8650), and FRQ (0.8600), indicating that the distributions are fairly symmetrical and not heavily influenced by extreme values. The maximum and minimum values also show limited dispersion, with AFS ranging from 0.8700 to 0.9900 and FRQ ranging from 0.7500 to 0.9600, suggesting relatively small differences in audit quality and reporting quality across the sampled banks. Audit tenure varies more noticeably from 3 to 16 years, indicating differences in auditor-client relationship length across firms.

The standard deviation values indicate low to moderate variability across the variables. AFS (0.0310) and FRQ (0.0502) show very low dispersion, suggesting strong uniformity in audit firm engagement and reporting quality among the banks. AI and ACFE also exhibit relatively low standard deviations of 0.0459 and 0.0544 respectively, indicating consistency in audit independence and committee expertise. In contrast, audit tenure (3.5620) and audit committee size (1.0156) show higher variability, reflecting structural differences in governance practices among the banks.

The skewness statistics show that most variables are approximately symmetrically distributed. AFS (-0.4335) and ACS (-0.1980) are mildly negatively skewed, indicating a slight concentration of observations at higher values. AI (0.0312) is almost perfectly symmetric, while ACFE (-0.0865) and FRQ (-0.1364) also show very slight negative skewness, suggesting a small tendency toward higher values across firms.

The kurtosis values for all variables range between approximately 1.89 and 2.42, indicating that the distributions are platykurtic, meaning they are flatter than a normal distribution with lighter tails. This suggests fewer extreme outliers in the dataset and a relatively even spread of observations across the variables.

The Jarque-Bera probability values for all variables are greater than 0.05, including AFS (0.2557), AT (0.2129), AI (0.4923), ACS (0.5037), ACFE (0.3962), and FRQ (0.5171). This indicates that all variables are normally distributed at the 5% significance level. Therefore, the assumption of normality is satisfied, making the dataset appropriate for further parametric analyses such as panel regression estimation.

Table 2: Panel Regression Analysis Result of the Time Series Data

Dependent Variable: FRQ
 Method: Panel Least Squares
 Date: 06/13/26 Time: 15:34
 Sample: 2014 2025
 Periods included: 12
 Cross-sections included: 5
 Total panel (balanced) observations: 60

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AFS	-0.015528	0.061323	-0.253217	0.8011
AT	0.001394	0.000228	6.107295	0.0000
AI	0.226913	0.076968	2.948139	0.0047
ACS	0.008449	0.000990	8.533972	0.0000
ACFE	0.525905	0.077794	6.760177	0.0000
C	0.164609	0.037621	4.375439	0.0001
R-squared	0.996656	Mean dependent var		0.860167
Adjusted R-squared	0.996346	S.D. dependent var		0.050203
S.E. of regression	0.003035	Akaike info criterion		-8.662801
Sum squared resid	0.000497	Schwarz criterion		-8.453366
Log likelihood	265.8840	Hannan-Quinn criter.		-8.580880
F-statistic	3218.575	Durbin-Watson stat		1.818371
Prob(F-statistic)	0.000000			

Source: E-view 14.0 Statistical Output, 2026

Table 2 presents the results of the panel least squares regression analysis examining the effect of audit quality variables: audit firm size (AFS), audit tenure (AT), audit independence (AI), audit committee size (ACS), and audit committee financial expertise (ACFE) on financial reporting quality (FRQ) of listed deposit money banks in Nigeria over the period 2014 to 2025.

The results reveal that audit firm size (AFS) has a negative and statistically insignificant relationship with financial reporting quality (coefficient = -0.015528, p = 0.8011). This implies that although engagement of Big4 audit firms is generally expected to enhance reporting quality, the effect in this study is not statistically meaningful, suggesting that audit firm brand alone does not significantly influence FRQ in the sampled banks.

Audit tenure (AT) shows a positive and highly significant effect on FRQ (coefficient = 0.001394, p = 0.0000). This indicates that longer auditor-client relationships are associated with improved financial reporting quality, suggesting that increased familiarity between auditors and clients may enhance audit effectiveness and reporting reliability.

Audit independence (AI), measured by audit fees ratio, has a positive and statistically significant relationship with FRQ (coefficient = 0.226913, $p = 0.0047$). This implies that greater auditor independence is associated with higher financial reporting quality, supporting the argument that reduced economic dependence on clients strengthens audit objectivity and reporting credibility.

Audit committee size (ACS) also exhibits a positive and statistically significant effect on FRQ (coefficient = 0.008449, $p = 0.0000$). This suggests that larger audit committees contribute to improved financial reporting quality, likely due to enhanced monitoring capacity, broader expertise, and stronger oversight functions.

Similarly, audit committee financial expertise (ACFE) has a strong positive and statistically significant effect on FRQ (coefficient = 0.525905, $p = 0.0000$). This indicates that the presence of financially literate and experienced committee members significantly enhances the quality of financial reporting, reinforcing the importance of expertise in governance structures.

The constant term (C) is positive and statistically significant (coefficient = 0.164609, $p = 0.0001$), suggesting that even in the absence of the explanatory variables, there exists a baseline level of financial reporting quality among the sampled banks.

The R-squared value of 0.9967 indicates that approximately 99.67% of the variation in financial reporting quality is explained by the model, showing an exceptionally high explanatory power. The adjusted R-squared (0.9963) confirms the robustness of the model even after adjustment for the number of predictors. The F-statistic (3218.575) with a probability of 0.0000 indicates that the model is statistically significant as a whole, meaning that audit quality variables jointly have a significant effect on financial reporting quality.

The Durbin-Watson statistic of 1.818 suggests that there is no serious autocorrelation problem in the model residuals, as the value is close to the acceptable benchmark of 2. Overall, the regression results strongly support the conclusion that audit quality significantly influences financial reporting quality among listed deposit money banks in Nigeria.

Test of Hypotheses

Test of Hypothesis One

Restatement of the Hypothesis in Null and Alternate forms:

H_{01} : Audit firm size (Big4 vs Non-Big4) has no significant effect on financial reporting quality of listed deposit money banks in Nigeria.

H_{a1} : Audit firm size (Big4 vs Non-Big4) has a significant effect on financial reporting quality of listed deposit money banks in Nigeria.

Statement of Decision Rule:

Reject the null hypothesis (H_0) if the p-value of the t-statistic is less than 0.05. Otherwise, accept the null hypothesis and reject the alternate hypothesis.

Decision:

From the regression result, the coefficient of AFS is -0.015528 with a t-statistic of -0.2532 and a p-value of 0.8011, which is greater than 0.05. Therefore, H_{01} is accepted, and the alternate hypothesis is rejected.

This implies that audit firm size does not have a statistically significant effect on financial reporting quality of listed deposit money banks in Nigeria during the study period.

Test of Hypothesis Two

Restatement of the Hypothesis in Null and Alternate forms:

H_{02} : Audit tenure has no significant effect on financial reporting quality of listed deposit money banks in Nigeria.

H_{a2} : Audit tenure has a significant effect on financial reporting quality of listed deposit money banks in Nigeria.

Statement of Decision Rule:

Reject the null hypothesis (H_0) if the p-value of the t-statistic is less than 0.05. Otherwise, accept the null hypothesis and reject the alternate hypothesis.

Decision:

The coefficient of AT is 0.001394 with a t-statistic of 6.1073 and a p-value of 0.0000, which is less than 0.05. Therefore, H_{02} is rejected, and the alternate hypothesis is accepted.

This indicates that audit tenure has a statistically significant positive effect on financial reporting quality of listed deposit money banks in Nigeria over the study period.

Test of Hypothesis Three

Restatement of the Hypothesis in Null and Alternate forms:

H_{03} : Audit independence (measured by audit fees ratio) has no significant effect on financial reporting quality of listed deposit money banks in Nigeria.

H_{a3} : Audit independence (measured by audit fees ratio) has a significant effect on financial reporting quality of listed deposit money banks in Nigeria.

Statement of Decision Rule:

Reject the null hypothesis (H_0) if the p-value of the t-statistic is less than 0.05. Otherwise, accept the null hypothesis and reject the alternate hypothesis.

Decision:

The coefficient of AI is 0.226913 with a t-statistic of 2.9484 and a p-value of 0.0047, which is less than 0.05. Therefore, H_{03} is rejected, and the alternate hypothesis is accepted.

This suggests that audit independence has a statistically significant positive effect on financial reporting quality of listed deposit money banks in Nigeria during the period under review.

Test of Hypothesis Four

Restatement of the Hypothesis in Null and Alternate forms:

H_{04} : Audit committee size has no significant effect on financial reporting quality of listed deposit money banks in Nigeria.

H_{a4} : Audit committee size has a significant effect on financial reporting quality of listed deposit money banks in Nigeria.

Statement of Decision Rule:

Reject the null hypothesis (H_0) if the p-value of the t-statistic is less than 0.05. Otherwise, accept the null hypothesis and reject the alternate hypothesis.

Decision:

The coefficient of ACS is 0.008449 with a t-statistic of 8.5340 and a p-value of 0.0000, which is less than 0.05. Therefore, H_{04} is rejected, and the alternate hypothesis is accepted.

This implies that audit committee size has a statistically significant positive effect on financial reporting quality of listed deposit money banks in Nigeria over the study period.

Test of Hypothesis Five

Restatement of the Hypothesis in Null and Alternate forms:

H_{05} : Audit committee financial expertise has no significant effect on financial reporting quality of listed deposit money banks in Nigeria.

H_{a5} : Audit committee financial expertise has a significant effect on financial reporting quality of listed deposit money banks in Nigeria.

Statement of Decision Rule:

Reject the null hypothesis (H_0) if the p-value of the t-statistic is less than 0.05. Otherwise, accept the null hypothesis and reject the alternate hypothesis.

Decision:

The coefficient of ACFE is 0.525905 with a t-statistic of 6.7602 and a p-value of 0.0000, which is less than 0.05. Therefore, H_{05} is rejected, and the alternate hypothesis is accepted.

This shows that audit committee financial expertise has a statistically significant positive effect on financial reporting quality of listed deposit money banks in Nigeria during the period under review.

Summary of Findings, Conclusion and Recommendations

Summary of Findings

The key findings of the study are elucidated below:

- i. Audit Firm Size (AFS) was found to have a negative and statistically insignificant effect on financial reporting quality, with a coefficient of -0.015528 ($t = -0.2532$, $p = 0.8011$). This indicates that although firms audited by Big4 auditors are generally expected to exhibit higher reporting quality, the result suggests that audit firm brand alone does not significantly influence financial reporting quality among listed deposit money banks in Nigeria.
- ii. Audit Tenure (AT) showed a positive and statistically significant effect on financial reporting quality, with a coefficient of 0.001394 ($t = 6.1073$, $p = 0.0000$). This implies that longer auditor-client relationships enhance financial reporting quality, likely due to improved auditor familiarity with the client's operations and reduced information asymmetry over time.
- iii. Audit Independence (AI) demonstrated a positive and statistically significant relationship with financial reporting quality, with a coefficient of 0.226913 ($t = 2.9484$, $p = 0.0047$). This finding indicates that greater auditor independence, reflected in audit fees ratio, strengthens the credibility and reliability of financial reporting in listed deposit money banks.
- iv. Audit Committee Size (ACS) had a positive and statistically significant effect on financial reporting quality, with a coefficient of 0.008449 ($t = 8.5340$, $p = 0.0000$). This suggests that larger audit committees improve monitoring effectiveness, enhance oversight functions, and ultimately contribute to higher financial reporting quality.
- v. Audit Committee Financial Expertise (ACFE) showed a strong positive and statistically significant impact on financial reporting quality, with a coefficient of 0.525905 ($t = 6.7602$, $p = 0.0000$). This indicates that the presence of financially knowledgeable committee members significantly improves the quality of financial reporting through better review, detection of irregularities, and stronger governance mechanisms.

Conclusion

The study conclusively found that among the selected audit quality indicators Audit Firm Size (Big4 vs Non-Big4), Audit Tenure, Audit Independence (measured by audit fees ratio), Audit Committee Size, and Audit Committee Financial Expertise only audit tenure, audit independence, audit committee size, and audit committee financial expertise exhibited statistically significant effects on the financial reporting quality (FRQ) of listed deposit money banks in Nigeria. Notably, all the significant relationships were positive, suggesting that improvements in these governance and audit-related mechanisms contribute to enhanced financial reporting quality.

On the other hand, audit firm size showed a negative but statistically insignificant effect on financial reporting quality, indicating that the reputation of the audit firm alone (Big4 vs Non-Big4) does not significantly determine the quality of financial reporting in the sampled banks during the study period.

These findings imply that financial reporting quality in Nigerian deposit money banks is more strongly driven by internal governance mechanisms and audit process characteristics such as audit committee effectiveness, financial expertise, and audit engagement duration rather than simply the brand name or size of the external audit firm. It suggests that institutional monitoring structures play a more critical role in strengthening transparency, accountability, and reporting integrity.

Therefore, while audit quality remains a crucial determinant of financial reporting outcomes, banks should prioritize strengthening internal governance structures and maintaining appropriate audit relationships to enhance reporting credibility. A balanced emphasis on auditor independence, audit committee competence, and optimal audit tenure is essential for sustaining high-quality financial reporting in the Nigerian banking sector.

Recommendations

Based on the findings of this study, the following recommendations are proposed:

- i. Although audit firm size (Big4 vs Non-Big4) was found to have an insignificant effect on financial reporting quality, listed deposit money banks should not disregard the role of external auditors. Instead, banks should focus on strengthening auditor engagement quality by ensuring that audit firms, whether Big4 or non-Big4, adhere strictly to professional auditing standards, independence requirements, and international financial reporting frameworks to enhance credibility.
- ii. Given the significant positive effect of audit tenure on financial reporting quality, banks are advised to maintain optimal and stable auditor-client relationships. However, this should be balanced with regulatory guidelines to avoid excessive familiarity threats. Periodic audit partner rotation within the same firm should be encouraged to maintain objectivity while still benefiting from auditor experience.
- iii. Since audit independence (audit fees ratio) significantly improves financial reporting quality, banks should strengthen policies that ensure auditors remain financially independent from clients. Regulatory bodies and boards of directors should monitor audit fee structures to prevent overdependence on non-audit services, thereby safeguarding auditor objectivity and enhancing reporting integrity.
- iv. Considering the significant positive effect of audit committee size, listed banks are encouraged to maintain adequately sized audit committees that are neither too small to limit oversight nor too large to hinder efficiency. Optimal committee composition should ensure effective monitoring, improved deliberation, and stronger oversight of financial reporting processes.
- v. Based on the significant influence of audit committee financial expertise on financial reporting quality, banks should prioritize the inclusion of financially literate and professionally experienced individuals in audit committees. Regulatory authorities should also enforce minimum financial expertise requirements to ensure that audit committees are capable of effectively interpreting financial statements and detecting reporting irregularities.

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