

**The role of External Auditors in Ensuring Quality Financial Statement of Deposit
Money Banks**

SIMEON DANIEL EGBUCHILEM

MGS1814385

**DEPARTMENT OF ACCOUNTING
FACULTY OF MANAGEMENT SCIENCES
UNIVERSITY OF BENIN
BENIN CITY**

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**A PROJECT SUBMITTED TO DEPARTMENT OF ACCOUNTING, FACULTY OF
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OF THE AWARD OF BACHELOR OF SCIENCE (B.Sc) DEGREE IN ACCOUNTING**

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DECLARATION

I, **SIMEON DANIEL EGBUCHILEM** do hereby declare that this project embodied my work and composition. The work embodied in this project has not being submitted in candidature for any degree and is not concurrently being submitted for any other degree.

SIMEON DANIEL EGBUCHILEM
MGS1814385

DATE

CERTIFICATION

This project is certify that this study was submitted by I, **SIMEON DANIEL EGBUCHILEM** with matriculation number **MGS1814385** of the Department Accounting, Faculty of Management Sciences, University of Benin, Benin City, Edo State, Nigeria.

MR. UYI OSAZEE
(Project Supervisor)

DATE

MR. UYI OSAZEE
(Project Coordinator)

DATE

DR. OSASU OBARETIN
(Head of Department)

DATE

DEDICATION

This project is dedicated to Almighty God for his protection and provision throughout my study in this Institution of learning.

ACKNOWLEDGEMENTS

In a world of competition there is a race of existence in which those having will come forward succeed. Project is like a bridge between theoretical and practical working. With this I joined this particular project.

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ABSTRACT

The aim of this study is to examine the role of external Auditor in ensuring quality financial Statements of Deposit Money Banks listed in the Nigerian Exchange Group (NGX). Data were extracted from audited annual reports of all the eleven (11) deposit money banks listed in the Nigeria Exchange Group (NGX) for ten years, 2015 – 2024. The study used panel multiple regression and employed Hausman's test to choose between Random and fixed effect model. Random effect model was chosen and interpreted. We found out that audit firm size, audit tenure and audit fees affect financial reporting quality (FRQ) but only the effect of audit fees should be encouraged to improve financial reporting quality.

Key words: Audit Fees, Audit tenure, Audit firm size, audit quality and financial reporting quality

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Many interest groups depends on the organization to realize their own respective goal. The creditors, supplier, stock brokers, government and others are all parts of the stakeholders. Since the owners are not involved in the day to day operations of the business, they may be doubtful of what the management may present to them as report of the performance of the organization for the purpose of reliance on the management report, the stakeholders need confirmation report or assurance by an independent party known as an external auditor (Onyekwelu & Ugwuanyi 2014).

In the light of this, customers need the assurance of the external auditors, which are greatly depended upon since they are expected to adopt the attitude of professional skepticism. This suggest that even though auditors are not mainly finding out fraudulent acts in the financial reports they should recognize their possibility of existence. This is one of the pronouncements in international standard of Auditing (ISA 240) which was further made stronger and actionable by the introduction of the Sarbanes Oxley of 2002 following the failure of Enron Scandal which was intentionally hidden from the external auditors of Arthur Anderson, leading to irreparable losses by the stakeholders all over the globe (Onyekwelu & Ugwuanyi 2014).

It is therefore pertinent to state that audit quality is paramount to a Levis performance as an objective audit based on stakeholders' confidence in the integrity and credibility of financial report (Ado Rashid, Mustapha & Ademola, 2020). Financial report becomes relevant, transparent and dependable when prepared in compliance with accounting standard and the opinion are firmed on them in compliance with audit principles companies' annual reports are not expected to mislead stakeholders, rather, provide information that is recent and supported by footnotes to

assist its clarifications (Hasan, Kassin & Hamid 2020). Audit quality reduces earnings management and significantly moderate the relationship between the audit committee and financial reporting (Hasan et al, 2020).

Financial reporting quality has become a centre of focus for researchers and stakeholders due to Accounting Standards Conveyance, Accounting Standards harmonization, economic crises growth in disclosure requirements and mainly because of the various scandals among others (Herath & Albargu 2017). A sound financial system plays a financial intermediation role between the surplus sector and the deficit sector of an economy, especially in emerging economies like Nigeria. In the recent past, Deposit Money Banks (DMB's) in Nigeria has undergone restructuring. The various restructuring was resulted in the take over and merger of some the DMBs owing to their operational and financial performance problems. The operational and financial performance of banks is reported in the audited financial reports. This argument connotes that audit procedures in generating audited financial statements should meet the required standards. Therefore the need to ensure that banks' audit procedure is correctly done to avoid misappropriation and fraud incidence.

Primary responsibility for audit quality rests with auditors but each stakeholder plays a vital role in supporting high-quality financial reporting. Any window dressed accounts raised concern about the credibility of financial reports due to collapse of many companies.

Energy cooperation ENRON 2001 has already been set as an examples above; worldcom, Global Crossing and Rank Xerox are other examples in the United States of America Parmalat in Italy and Allied Nationwide France in New Zealand and others across the globe (Adeyemi, Okpala and Dabor 2012).

Companies in Nigeria are not excluded from the list of corporate accounting fraud knowing truly well that cosmetic accounting is a serious problem to the Nigerian Economy

which has cost investors irreparable loss. We should not forget Cadbury Nigeria Plc., a giant firm that failed after its robust profit was posted audited by a prominent auditor Akintola Williams. Delloite (Okaro, Okafor & Ofoegbu, 2013). The accounting scandals and lack of trust in the financial report moreover global increase in accounting fraud and irregularities in the early 21st century and shows weaknesses in financial reporting quality (Heirath & Albargi, 2017). In response & various financial scandals several regulations have been implemented to ensure comprehensive business financial practices that with cause improvement on the transparency and disclosure in financial reporting (Alwardat, 2019). The degree at which financial statement users can rely on an audit opinion depends on the quality of audit performed. Deposit the importance of audit quality to the capital market's stability, its definition, composition, Measurement and effect on the quality of financial reporting have resulted in several compound findings

Although the duties of the auditor of the public companies are expressly stated, it is wise to note that Engagement letter or agreement letter which state the duties to be performed be given to audition of banks and statutory requirements becomes the spring board on which the organization success or failure is viewed visa-vis the auditor's action. More importantly is that the stakeholders especially depositions in the bank still look up to the external auditors' reports for assurance. Because of the perception of the stakeholders on the responsibilities of external auditors. In this regard this paper seeks to review the roles of external enhancing value creation to stakeholders.

1.2 Statement of the Problem

External auditing functions are seen as powerful implement that could and corporate performance and existence. The sensitive nature of the banks especially in Nigerian has put more demand on external auditing reports as most investors and depositors look up to the annual assurance reports affirming and re-affirming the viability or otherwise of the banks.

In the early 1990, Nigeria experienced the collapse of almost 80% of her first generation banks like the cooperative and commerce Bank (CCB), African Continental Bank (ACB), Orient Bank and a host of others. Reports have it that a good number of depositors lost their deposits, other forms of investment in the bank and even their lives. Again, between 2008 – 2009, the Central Bank of Nigeria, in a bid to save the banking public floated the Asset Management Company of Nigeria (AMCON) to rescue banks that were declared weak whose assets and depositor's funds were in the negative balance. Undoubtedly, these banks had external auditors who had conducted annual auditing on their accounts and certified the banks as being healthy. Studies have been carried out on the general role of the external auditing in areas of fraud prevention in the banking industry by few or more has been conducted on the role of the external auditing on encouraging the growth of banking business in Nigeria with specific interest on reliance of depositors or general public users of financial information.

Other matters that could arise remains, whether the perceptions of the stakeholders are in line with the statutory responsibility of the external auditor and address this issue; whether the directors actually prepared and presented the true financial statement or whether certain material facts has exercised enough due diligence that could support his quality assurance reports.

1.3 Objectives of the Study

The primary and main objective of this study is to examine the roles of external auditor in ensuring quality financial statements of deposit money banks. The specific objectives are as follows

1. To examine if audit firm size has any significant effect on the financial reporting quality of deposit money banks
2. To ascertain whether audit tenure has any significant effect on financial reporting quality of deposit money banks

3. To find out if audit fees have significant effect on financial reporting quality of deposit money banks.

1.4 Research Questions

The following questions arise as a result of the study on the role of external auditor in ensuring quality financial statement in deposit money banks. They are

1. Does audit firm size has any significant effect on the financial reporting quality of deposit money banks?
2. Does audit tenure has any significant effect on financial reporting quality of deposit money banks
3. What significant effect has audit fees on financial reporting quality of deposit money banks?

1.5 Research Hypothesis

The following research hypothesis are generated to carry out a study on the role of external auditor in ensuring quality financial statement of deposit money banks. They are stated in a null form

HO₁: Audit firm size has significant effect on financial reporting quality of deposit money banks

HO₂: Audit tenure has significant effect on financial reporting quality of deposit money banks

HO₃: Audit fees has significant effect on financial reporting quality of deposit money banks

1.6 Scope of the Study

The scope of the study is limited to the role of external auditor in ensuring quality financial statements of deposit. Money banks in Nigeria certain variables such as audit firm size,

audit tenure and audit fees are considered. Eleven (11) banks quoted on the Nigerian Exchange Group (NGX) from 2015 – 2024 are also considered.

1.7 Significance of the Study

This research would be of interest to the management and employees of various commercial banks in Nigeria. The study would serve as a reference materials to other researchers who may want to carry out more research on this related topic. The study would broaden the researcher's knowledge on the in-depth study of the roles of external auditors in ensuring quality financial

1.8 Limitations of the Study

The researchers encountered certain constraints which became impediments to success of this study as earlier supposed. One of such limitation is paucity of data. Data for the study were not readily available until in-depth analysis and some gotten from the Nigerian Exchange Group (NGX). Some banks were not friendly as we found it difficult to get their financial statement relevant to the study.

There was barrier in respect of the season as the study fell under the rainy periods. Financially use were handicapped. However we were able to wade through a hash economy such as that of our country's Nigeria.

1.9 Definitions of Terms

1. **External Auditor:** External auditor is a chartered accountant who is a public officer and is professionally qualified. Section 357 of CAMD 1990, an external auditor inspect clients'

accounting records and express an opinion as to whether financial statement are presented fairly in accordance with the applicable accounting standards.

2. **Deposit Money Bank:** A financial institution license by the regulatory authority to mobilise deposits for the surplus unit and channels the funds through loans to the deficit unit and performs other financial services activities.

3. **Audit Size:** this can be defined by the three criteria the wealth of the audit partners, the size of the partners' client portfolios; and the number of audit partners in the firm, it can be measure thus: revenue offices and headcounts.

4. **Audit Fees:** These are costs incurred by companies to pay public accounting firms to audit the company's financial statement.

5. **Audit Tenure:** Audit tenure is the number of years an audit firm performs an audit assignment. It is measured as the length of the auditor-client relationship.

6. **Audit Quality:** it refers to matters that contribute to the likelihood that the auditor will achieve the fundamental objective of obtaining reasonable assurance that the financial report as a whole is free of material misstatement.

7. **Audit Assignment:** means the auditor's remuneration (commission) for the statutory audit.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The study of the role of external auditor in ensuring quality financial statement of deposit money bank in Nigeria considers the concepts of external auditing, audit quality, audit fees, audit tenure, audit firm size and financial reporting. Besides theories under-firming the study and empirical studies are also considered in this chapter.

2.2 Concept of External Auditing

External auditing which is the function of statutory auditors is the process of reviewing the accounting and financial books of a company by a certified public accounting firms (Inyiama 2012). This task is performed quarterly, half quarterly and annually depending on the size of the client's enterprise. This is consistent with reporting cycle for public investment. Company's professional accountants carryout this function to enhance the credibility of information about a subject matter which conforms in all materials respects with suitable criteria (law) (Onyekwelu & Ugwuanyi, 2014). External auditing function is performed by an external auditor who is approved by the stakeholders of the organization and for whose interest the external auditors reports are key to measuring the performance of public investments in banks as the quality assurance reports attracts deposit which a negative report could trigger off a panic withdrawal of deposits (Inyiama 2012).

According to (Onyekwelu and Ugwuanyi 2014) External auditors have specific duties and responsibilities of carrying out activities which will enable him form an opinion as to whether adequate accounting records have been kept by the company and return adequate for performing the audit have been reviewed from branches not visited by the auditor, whether the

company's individual accounts are in agreement with the accounting records and returns; and whether the company's director remuneration report is tandem with the accounting records and returns.

If the auditor fails to obtain all the information and explanations which to the best of his knowledge and belief are necessary for the purpose of his work he shall state facts in his reports. These are part of requirements for an auditor to exercise reasonable care and skill in the performance of his Job but the exact extent of the skill and care required of him have not been defined (Adebisi & Matthew, 2016). Many decided cases have been put forward to show responsibilities, but even such cases have not provided a perfect guide. This is so because of the carrying circumstances and periods when the case were decided (Onyekwelu and Ugwuanyi 2014).

2.3 Audit Quality

Audit quality has no universally accepted definition as a concept. It could be seen as the services performed by the auditor engaged by the clients' firm (Khudaira Al-zubaidia & Raya, 2019). To improve performance, audit quality is very crucial for effieicne tand effective resource management. In the view of Saidu and Aifuwa (2020) audit quality is the market-assessed joint probability that a given auditor will discover a breach in the clients' accounting system and report this breach to the management.

In Aifuwa and Embele (2019) audit quality is the accuracy of the information reported by auditors. Perusing through their above definition we can say that audit quality entails the activities of an auditor in carrying out his audit function effectively and efficiently in a way that will benefit both the management and stakeholders of the organization.

Firms these days are desperately in need of audit quality services they believe it would draw more investments into the organization which will subsequently lead to improvement on the performance significantly. Moreover, the various stakeholders of the organization will develop high confidence and trust in them, bearing in mind the incessant accounting scandals rocking the corporate world Saidu and Aifuwa (2020).

The reputation and experience of the accounting or audit hired by a firm to carry out an audit assignment are very keen on the attainment of quality audit report. No wonder perhaps why big companies tend to hire by audit firms carry out their statutory audit (Dabor & Benjamin 2017). They believe that the big audit firms have a clear and universal position to reveal any form of fraud, irregularities and errors. Considering, this belief others have used audit forms and non-big sized to proxy for audit quality (Ilaboya & Ohiokha, 2014), which some used discretionary accruals (Debor & Benjamin 2017) auditor accuracy in terms of modified audit opinion and even industry specialist auditors (Mustafa, chen-Ahmade & Chandren, 2018) as a measure for audit quality. All these measures are unique and could be used to accurately measure audit quality to an extent (Saidu and Aifuwa (2020).

Audit quality is vital and extends to the role of an external auditor that he performs towards the realization of the stakeholder interest. In the light of this research work, his duties of forming an opinion as to the truth and fairness of the statements of accounts in an organization based on whether adequate accounting records have been kept by the company and appropriate returns for their audit have been received from branches not visited by them; whether the company's individual's account are in tender with the accounting records and returns; whether the audited part of the company directors remuneration report is in agreement with the accounting records and returns. Onyekwelu and Ugwuanyi (2014) state that where the auditor obtained clear evidence of the presence of the above requirement and they agree with records the

auditor will issue an unqualified report stating of the position of the financial statements as being unbiased. However, if the auditor is of the opinion that adequate accounting records have not been kept and adequate returns from branches not visited by them have not been received; or the company's individual's accounts are not in tandem with the accounting records and returns; or the auditable part of the director's remuneration report is not in agreement with the accounting records and returns the auditor is expected to state such facts clearly in his reports (Onyekwelu and Ugwuanyi 2014). This will give assurance to the stakeholders and the stakeholders of the credibility and reliability of the reports.

There is something to learn from firms with unqualified audit opinions which have failed shortly after receiving their clean reports. The case of Parmalat in 2003 and Cadbury Nig. Plc. in 2006 are clear examples of companies that experience failures due to fake transactions underlying preparation and reporting (Ikpantan & Daferighe 2019). In 2009 Arthur Andersen an audit firm collapsed and Akintola William's audit firm was indicated in the probe of Nigeria National Petroleum Corporation (NNPC) of 2012 (Okolie, 2014). These developments have reduced the credibility, relevance and reliability of audited financial statements (Ikpantan & Daferighe 2019).

According to Ikpantan & Daferighe (2019), audit quality may be perceived from any of the three fundamental perspectives: Inputs, outputs and context factors. Input to audit quality apart from auditing standards include the auditor's personal attributes such as skill and experience, ethical values and mindset. They opined that another important input is the audit process including the soundness of the audit methodology, the effectiveness of the audit tools used and the pressure of adequate technical support directing towards aiding a high quality audit.

They also opined that outputs of the audit also influence audit quality such as the auditor's report which conveys the outcome of the audit. The auditor communicates to those

charged with governance in terms of qualitative aspects of the enterprise's financial reporting practices and weakness or deficiencies in internal control that can positively influence the quality of audit (Ikpantan & Daferighe 2019).

The context factors that influence the quality of audit is sound corporate governance, especially where it creates an enabling environment for transparency and ethical behavior in the enterprise, laws and regulations for monitoring the quality of work done, effective dialogue between auditors and the regulators.

Consequently, we should guard against financial reporting framework that doesn't promote robust and transparent disclosures which may adversely affect the quality of audit as well as related external perceptions. Moreover, in adequate application of General Acceptable Auditing Standards (GAAS) by external auditors will influence financial reporting (Ikpantan & Daferighe 2019).

2.3 Audit Fees

Audit fees are cost incurred by companies to pay public accounting forms to audit the company's financial statement (Syahdan 2019). Many studies relate to audit fees and audit quality. There is a serious effect of audit fees on audit independence (Syahdan 2019). In his study he found that abnormal audit fees (audit fees that are outside the norm/above average) are negatively related to audit quality issued by audit firms.

Audit fees are one of the factors that influence auditor's independence. In daily life, audit fee sometimes become a challenge to auditor to show their independence in carrying out audit assignment. Some will argue that the more audit fees are received from the clients, the less auditors become independent. Therefore, there is need to clarify this with audit assignment and professionalism of auditors (Syahdan 2019).

According to science, direct (2022) as contained in non-executive director's handbook, statutory audit fees must not be influenced by the provision of other services and cannot be based on any firm of contingency. To improve performance audit quality in essential (Ogungbade Adekoya & Olugbodi, 2021) for efficient and effective resource management. On the contrary, the output of Pearson product-moment correlation and linear multiple regression of the data extracted from the annual reports of ten (10) deposit money banks in Nigeria for fourteen (14) years could not establish statistically significant effects. The study revealed that insignificant effects of Audit fees on the financial report but has a significant relationship with discretionary accruals (Ogungbade et al, 2021) by joint audit and audit fees had an insignificant effect on performance (Ygwu, Aikpitanyi & Idemudia, 2020). Ogungbade et al (2004) see the concept of audit fees as the amount of remuneration paid to the audit firm for audit work done.

The examination of 88 listed companies on the Nigerian Exchange Group (NGX) from 2012 – 2016 reveals that the higher the audit fees, the higher the financial reporting quality. The researchers used discretionary accruals. This implies that audit fees reduces accounting manipulations and enhances financial reporting quality (Bola Amran & Shaaro, 2018). In the same vein Borhan-uddin-Salma, Roudaki and Tavite (2020) opined that risk committee reduces the discretionary accruals and increases audit fees, this implies that the risk committee's existence increases the quality of financial reporting.

Usman (2014) examined fifteen food and beverage companies in Nigeria from 2008 – 2013 with a particular attention to audit size, audit delay and audit fees. He used several least square regression analysis of collected data. He concluded that the variables significantly affect financial reporting quality while the auditor's rotation does not (Usman, 2014). A panel regression analysis of 39 family firms on the Tehran stock Exchange (TSE) from 2012 – 2017 shown that audit fees have a significant negative relationship with delay in the audit fees, the

lower the audit report's delay. This implies that the higher the audit fee, the higher the financial reporting quality (Reza, 2017).

On the contrary, the logistic regression results of manufacturing and service firms listed on the Amman Stock Exchange (ASE) in Jordan from 2009 – 2016 equally indicate that audit fees have a significant positive effect on the existence of violators. Still, the auditor's opinion has a negative effect which audit firm size did not significantly relate with the level of violations (Shakhatreh, Alsmadi & Alkhataybeh, 2020).

This study sees audit fees as a remuneration as a bill to a client as audit work progresses and based on the time required by the individual auditors assigned to audit engagement in addition to out-of-pocket expensed. However, individual hourly rates vary according to the degree of responsibility involved and the experience and skill required.

2.4 Audit Tenure

Long audit tenure by the firms as well as by members of the engagement team may also create potential threats real or perceived to independence and pose a risk to audit quality. Globally regulators show concerns that the deserve to retain clients and the familiarity created between auditors independence which in turn could adversely affect audit quality (The Economic Affairs committee of the United Kingdom 2011). They published their second report on “Auditor! Market concentration and their role. It was discovered that the big 4 audit firms remained with their clients for longer than necessary irrespective of recommendations from the financial reporting council as early as 2007 which sought to decrease. Concentration through greater transparency for shareholders, increased shareholders involvement and disclosures by audit committee. These had been largely ignored by companies and auditors.

A study was carried out on the influence of auditor independence audit tenure and audit fees on audit quality of members of capital market accountant forum in Indonesia. It was shown that in general, auditor independence, audit tenure, and audit fees have a positive influence on audit quality (Elsevier, 2022). Therefore audit tenure is measured as the length of the auditor client relationship. Audit quality is measured by the propensity of auditors to issue a going concern opinion. According to feleke (2017) audit tenure has been dissected into large and short audit periods. Long audit tenure might decrease the independence and professional care on the other hand shorter and it tenure reflects that the auditors have less knowledge about the client which may lead to low audit quality. Long audit tenure may increase the knowledge about the client's internal operations, but the downside is that the auditor's independence may get compromised (feleke, 2017). The clients change their auditors for many reasons one of which is to obtain a reduced audit fees from a new auditor as the auditor may offer services at a discount to win a new client (oladipupo & Monye. Emina, 2016).

Adeniyi and Mieseigha (2013) reveals an inverse relationship between auditor tenure and audit quality suggest that auditors tend to be more dependent in the first year of the auditing engagement. The study concludes that the shorter the auditor's tenure the more they behave in a dependent style. From here we see that a policy favouring mandatory rotation of auditors could have positive effects on the quality of audit reports as it would allow for fresh approach and restore public confidence in the audit function. Extant studies on audit tenure also reveal with mixed evidence that the relationship between auditor and audit quality is not affected by long tenure (Enofe, Ediae & Ediamen, 2013). Others find that the audit quality improves with long tenure (Defond & Zhang, 2013, srinidhi leung & Gul 2010) other still believes that audit quality diminishes with long tenure (Ilaboya & Ohiokha, 2014, Tepalagul & Lin 2015).

An extensive literature review shows compounding evidence on the relationship between audit tenure and audit quality. At the same time, some authors argue that short audit tenure give high financial reporting quality. Because it prevents familiarity with the management, which can improve auditors' independence and affect objectively. Other argued that long term audit tenure allows auditors to understand the clients' operation better and produce a high quality financial report (Eyenubo, Mohamed & Ali, 2017).

In like manner, the analysis of 280 non-financial firms in Pakistan shows a negative relationship between audit tenure and financial reporting quality. This implies that the longer the audit tenure, the longer the financial reporting quality (Kalabeke Sadiq & Keong, 2019). A similar empirical investigation of the relationship between audit tenure and the quality of financial reporting of listed companies on the Nigeria Exchange Group (NGX) for seven years. It shown a significant relationship between audit tenure and the quality of financial reporting quality. Still the suggested no significant relationship between audit tenure and financial reporting quality (Osamudiamen, Nwadiolor & Imuetiyan, 2018). According to Amake and Okafor (2012) a survey of 50 audit firms in Edo and Lagos States in Nigeria shown that neither auditor's tenure nor audit firm size compromised auditors independence. A maximum of 5 years was recommended for audit tenure to prevent compromise of financial reporting quality.

This study sees audit tenure as the length of the audit – client relationship period and includes the period measured in years that the firm issued an audit report on the entity. The fact in a long auditor client relationship may lead to the bonds of loyalty trust or emotive relationship being developed between the client and the auditor. The study sees the implication of this that truly independent opinion of the auditor becomes difficult, therefore causing the likelihood of the auditor acceding to client's pressure in respect to their choice and application of accounting policies which in turn affects the auditor's ability to offer a true and fair audit report.

2.5 Audit Firm Size

Audit firm size is believed to be one of the factors that could affect auditors' independence. This is because the larger audit firms are believed to be more independent for at least two reasons. It might be firm's size the audit fees generate d from a particular forms a smaller percentage of the audit firm's total revenue. Moreover, large audit firms do have many departments to provide the services needed by clients, and therefore the person who audits the client might be distinct from the one that provides non audit services (Eya Chomoko & Ajam, 2020). On the contrary, the situation at a small audit firm is different because here, the auditor handles various responsibilities and the audit fee generated from a particular client contributes to a large percentage of the audit firm's total revenue. Form this situation there is a proposition that auditors from a larger audit firm would act more independently that auditors from smaller firm.

Firms nowadays are in desperate need of quality audit because it is believed that it will attract more investors for subsequent improvement on the performance of clients. Moreover various stakeholders of the organization will have high confidence and trust in them bearing in mind the accounting scandal going on in the corporate world (Ilaboya & Ohiokha, 2014). The reputation and experience of the accounting or audit firm engaged by a company to carry out an audit assignment are very interested on the attainment of quality audit reports. Perhaps this explains why big companies tend to line the big four (4) accounting firm to carry out their audits (Dabor & Benjamin, 2017). They believe that the big four auditors have a universal position to disclose any form of error, irregularities and fraud.

Flowing from this exposition, researchers have use audit firm type in terms of the big four and non-big four to proxy for audit quality (Ilaboya & Ohiokha, 2014), some used discretionary accruals (See, Dabor & Benjamin, 2017; Mustafa, CheniAhmad & Chandren,

2018). Ogungbade et al (2021). Categorized audit firm size into two: by big four and Non-Big four. The Big four which are KPMA, Price Water House Cooper (PWC) Ernest & Young (EY) and Deloitte. Ugwu et al; (2020). Conducted an empirical investigation of 15 listed deposit money bank on the Nigerian Exchange Group (NGX). The study revealed a significant and positive relationship between the audit and fees had an inverse and insignificant effect on performance. Oladejo, Olowo okere and Yinus (2020) considered the effect of the size of clients and audit firms on the level of competition (in terms of the Big 4 and Non-Big 4 audit firms) and concluded that when the size of a client increases, some small audit firms in the market may not be potentially efficient supplies to the client due to the high transaction costs associated with their low production capacity. As a result competitive for the client is weakened due to fewer efficient potential suppliers.

This study sees audit firm size as the wealth of the audit partners the size of the partner's client firm. This makes it clear if the audit firm is big or small and show the ability and capability to handle audit engagements of the clients.

2.6 Theoretical Review

2.6.1 Theory of Inspired Confidence

This theory is concerned with the role of an auditor to be an agent of inspiring confidence in users of financial statements. The auditor in his capacity provides adequate information by putting to play his competence and objectivity. It therefore means that the auditors as being independent in the auditing techniques used, thus leading to greater audit quality (Olowo-okere & Oladejo 2014).

They went on to argue that there are two circumstances in which the confidence could be betrayed if the expectation of society is exaggerated that is it exceeds what the auditor is capable

of performing conversely, it can be betrayed if the auditor under performs. He recognized that society's needs are not changing perceptions and changes in the environment (Olono Okere & Oladejo, 2014).

In Okpala (2015) we relates to social responsibility of the independent auditor and possible mechanisms for ensuring that audits meet society's need. It work highlights the importance of the social significance of auditing and the implication for how an audit should be performed. Okpala (2015) emphasizes the role of the auditor in relationship with the users of financial statements in the sense that the independent auditor act as a confidential agent for society. His framework is based on the greatest possible level of satisfaction of users of financial statement with regards to the auditor's work. In achieving this objective, the auditors both internal and external are to perform enough work to meet the expectations they have aroused in society. Internal auditor should also render such constructive role (okpala, 2015). This theory is very essential as it has a clear relationship with the study on the role of external auditors in ensuring quality financial statements of deposit money banks.

2.6.2 Lending Credibility Theory

This theory regards the primary function of auditing to be addition of credibility to the financial statements. Audited financial statements are used by management (agents) in order to enhance the principal's faith in the agent's stewardship and reduce the information asymmetry.

However, Ogunbade et al (2021) opined that audited information does not form the primary basis for investor's investment decisions. On the other hand, it is often asserted that financial statements have a function of confirming messages that was previously issued (Ogunbade et al, 2021). Another public perception is that the primary function of auditing is the addition of credibility to the financial statements, be it those of the private or public sector entities. Audited financial statements are used by management to enhance the stakeholder's faith

in management's stewardship, if stakeholders such as stockholders, government or creditors have to make their judgments based on the information they received about government business as in the case of public sector entities, they must have that it is a fair representation of the economic value and performances of the organization.

Ecaterina (2007) opined that lending credibility theory argues that the audit's primary function is to create the trustworthiness of the financial statements. Moreover, the selling points of an auditor's service that attracts clients and increases the confidence of financial statements' users is the added credibility expressed by the auditor. The theory suggests that audited financial statements can increase stakeholders' faith in management's stewardship (Ecaterina, 2007). This theory is essential as it relates to the study on the role of external auditors in ensuring quality financial statements of deposit money banks.

2.6.3 Reputation Rationale Theory

This theory asserts that the big audit firms have more to lose if they should provide inferior quality of audit. The theory superior quality audit firms would provide superior quality audits because of their high repute and fear of losing clients if they provide low and inferior quality audits. In other words reputable audit firms have a relationship with the superior quality audit because of huge revenue or audit fees connected with the audit and do everything possible to maintain it (DeAngel 1981). This theory is significant on the study of the role of external auditors in ensuring quality financial statements of deposit money banks.

2.7 Empirical Review

Assad, Nedal, Alshurideh and Muhammad (2020) examined the effect of financial reporting quality and audit quality on investment efficiency using regression analysis and a selection of listed firms with a total observations of 150 firm. It was found that financial reporting quality has a significant and positive relationship with investment efficiency.

Ngugen and Tran (2019) carried out a study on the determinants potentially affecting audit quality using survey design and a selection of relevant department and audit team of the state Audit office of Vietnam (SAV). It was concluded that the legal framework and auditees (strongest influencer) are two external determinations having the most impact on audit quality.

Cherson (2019) with the use of descriptive analysis also examined audit quality with some determinants. Some selected financial audit firms in Romania were considered. It was concluded that the auditor training, ethics, and professionalism are major challenges of audit quality. In the same vein, Hikmayah and Aswar (2019) focused on the effect of audit quality determinants like professional accounting ethics, auditor competence, integrity and commitment to audit quality in Jakarta province but was concluded that auditor competency and professional commitment have no significant on audit quality.

Siregar and Niryanah (2019) carried out a study to establish a direct or moderating efficiency it was discovered that the higher the financial report the higher the investment efficiency. In the same vein, from the public sector perspective, an empirical study of 36 inspectorates' local government in west Java and Banten shows that internal audit is crucial in the public sector as it will improve the financial accountability and financial reports (Zeyn 2008).

Imeji and Oladutire (2018) examined the existence of a relationship between mandatory auditor rotation and audit quality in Nigeria companies such as listed deposit money banks on the floor of the Nigerian Exchange Group as at 31st December 2016. Secondary data were used from annual reports and statement of accounts. Ordinary least square econometrics were used. They

discovered that there was a significant relationship between mandatory auditors rotation and audit quality. This study evaluates different audit quality variables and their relationship with users' confidence in financial statements for an investment decision.

Bala Amran and Shaari assessed 88 listed companies on the Nigeria Exchange Group (NGX) from 2012 – 2016. It shown that the higher the audit fees the higher the financial reporting quality. The study used discretionary accruals to represent financial reporting quality, the output of multiple regression shown that the higher audit fees the lower the level of discretionary accruals, which implies that audit fees reduces accounting manipulations and enhanced financial reporting quality. In the same vein Bhugan, Burhan-Uddin-Salma, Roudaki and Tavite (2020) concluded that risk committee reduces the discretionary accruals and increase the quality of financial reporting.

Nwanyanwu (2017) conducted a study using auditor or independence, technical training and proficiency and engagement performance to measure audit quality and employed reliability of financial reporting to measure the quality of financial reporting. The result of the correlation and regression analysis using a questionable survey revealed that the audit quality determines the quality of the financial report.

Similarly Lobo, Xie and Zhang (2018) found a negative relationship between innovation and financial reporting quality because manager find it easier to manage earnings in non-transparent information environment than when all the stakeholders have access to relevant information

CHAPTER THREE

METHODOLOGY

3.1 Research Design

Panel data for ten years is used in the study, which uses a quantitative research design (2012 to 2021 – inclusive of 2012). The study's goal, which is to evaluate the functions of the external auditor in assuring accurate financial statements of deposit money banks, provides the basis for choosing a quantitative approach. To determine the link between the relevant factors and the influence or impact of the independent variables on the dependent variable, the study employed a quantitative design.

3.2 Population, Sample and Sampling Technique

The study population comprises all the listed Deposit Money Banks (DMBs) in Nigeria as of 31st December 2024. There were eleven (11) listed banks on the Nigeria stock exchange as of 31st December 2024. These include Access Bank PLC, Eco Bank PLC, Fidelity Bank PLC, First Bank PLC, First City Monument Bank PLC, Guaranty Trust Bank PLC, Stanbic IBTC Bank PLC, Sterling Bank PLC, United Bank for Africa PLC, Wema Bank PLC and Zenith Bank PLC.

Being that the population size is not large, the purposive sampling technique was adopted to select banks based on the following criteria:

The Bank is listed and quoted on the floor of the Nigerian stock exchange

The Banks Final Account figures are denominated in Nigerian Naira

The Bank has regional or National status

The Bank's banking business, activities and transactions are majorly domiciled in Nigeria

The Bank has consistent data set for the study period

Out of the 11 quoted Deposit Money Banks in Nigeria taken for study, only Ecobank PLC failed criteria (ii), (iii) and (iv). Therefore, 10 DMBs were adopted as the sample population. The 10 banks out of 11 DMBs represent 91% of the population. The selected banks share marked similarities in terms of their nature of work and environment of operations. They render financial services to customers and investors who need quality financial reports to make informed economic decisions.

3.3 Method of Data Collection

The source of data for this study is secondary. The secondary data were collected from the published annual reports and accounts of the sampled banks. The annual reports are retrieved from the websites of the banks as well as the Nigerian stock exchange Fact Book. This is for a period of twelve (10) years from 2015 to 2024.

3.4 Techniques for Data Analysis and Model Specifications

The study adopted panel regression analysis to test the panel data on the role of external auditors on the financial reporting quality of deposit money banks in Nigeria. Stata version 17.0 was used as a tool for data analysis. This is because it was considered a user-friendly application which provides sophisticated data analysis.

Model specification

The formulated hypothesis will be tested using the functional description of the model, which is:

Financial reporting = f (Firm size, Audit tenure and Audit fees)

Econometrically, the panel regression models can be expressed as:

In panel data analysis, there is often a challenge which estimator is best suited to the model. Is that a fixed effect or a random effect? The generalized model for panel data is $Y_{it} = a_i + BX_{it} +$

U_{it} . It is assumed that a_i does not correlate with the explanatory variables that form the null hypothesis. That is, a_i is independent of the explanatory variable in the model against the alternative hypothesis that a_i is correlated with the independent variable and this often causes a problem with the researcher with which model or estimator that he or she should apply. So, the Hausman test postulate that when the null hypothesis is rejected, you run the analysis with fixed effect.

Decision rule: Reject the null hypothesis if $P < \alpha$ and do not reject if otherwise. Where α is the significant level (1%, 5%, 10% respectively)?

$$\text{Financial reporting}_{it} = \beta_0 + \beta_1 \text{ Firm size}_{it} + \beta_2 \text{ Audit tenure}_{it} + \beta_3 \text{ Audit fees}_{it} + \varepsilon_{it}$$

Financial reporting is the dependent variable while the independent variables are Firm size, Audit tenure and Audit fees, while ε_{it} is the error term that takes care of unaccounted factor in the model. β_0 is the intercept or constant term while β_1 to β_3 are the slope or coefficient estimate of the independent variables.

Besides, there is a need for multi-collinearity and normality test that reveal the satisfaction of the model assumptions to ensure that the ordinary least square panel model applied is fit and robust.

Table 1: Variable measurement

VARIABLES	VARIABLE ACRONYMS	VARIABLE MEASUREMENT
Financial reporting	FR	Percentage (%)
Firm size	FS	Percentage (%)
Audit tenure	AT	Days
Audit fees	AF	Billion Naira

Source: Author's computation

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

Table 2: Descriptive statistics

	N	Mean	Std. Deviation
Financial Reporting	100	11.01	2.966
Firm size	100	19.26	4.428
Audit tenure	100	13.99	4.064
Audit fees	100	15.84	3.642
Valid N	100		

Source: Author's computation using Stata software 2024

Table 2 shows that the average financial reporting for the deposit money banks under review is about 11% with a variability of about 3%. The average firm size is about 19% with a variability of about 4%. The average audit tenure for the deposit money banks under review is about 14 days with a variability of about 4 days. The average audit fee for the deposit money banks under consideration is about 16 billion Naira with a variability of about 4 billion Naira.

4.1 Hypothesis Testing

Hausman test

Hausman test ($P > 0.05$) in the appendix, we do not reject the null hypothesis and we therefore conclude that the random effect regression model would be used to run the analysis of this work.

Table 3 : Random effects regression

Financial reporting	Coefficient	Test statistic	P-value	VIF
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	estimate			
Firm size	-0.0176	-0.42	0.675	1.03
Audit tenure	0.4231	6.99	0.000	1.84
Audit fees	0.2093	3.08	0.002	1.86
Constant	2.114	1.86	0.063	
Overall P-value	P = 0.000 R-squared = 62.29%			

Source: Authors computation using Stata software

$$\text{Financial reporting} = 2.11 - 0.018 \text{ Firm size}_{it} + 0.423 \text{ Audit tenure}_{it} + 0.209 \text{ Audit fees}_{it}$$

The panel regression estimated from table 3 above shows that for an additional 1% increase in the firm size, financial reporting will decline by about 0.02%. For additional one-day audit tenure, financial reporting of the deposit money banks will increase by about 0.4% and for an additional one billion Naira increase in audit fees, the financial reporting will rise by about 0.2%. Table 3 also show that the coefficient estimate of the audit tenure and audit fees are statistically significant at a 5% level and have a positive significance on the financial reporting of the deposit money banks which support hypothesis 2 and 3. The overall panel regression ($P = 0.000 < 0.05$) indicates that the model is statistically significant at a 5% level and this indicates that there is a significant relationship between financial reporting, firm size, audit tenure and audit fees. R-squared = 62.29% indicates that 62.29% variability in the financial reporting of the deposit money banks can be explained by the firm size, audit tenure and audit fees. This suggests that the model is adequate and it is very appropriate for the future prediction of financial reporting. The variance inflation factors (VIF) for all the independent variables in the panel model are less than 5 (that is, $VIF < 5$) which means that the fitted model does not suffer from the problem of multicollinearity. The normality test using Shapiro-Wilk, as seen in the appendix, shows that the

data are normally distributed ($P > 0.05$). This satisfies the panel regression assumption and this makes the model robust and reliable.

Figure 1: Graph of deposit money banks financial reporting

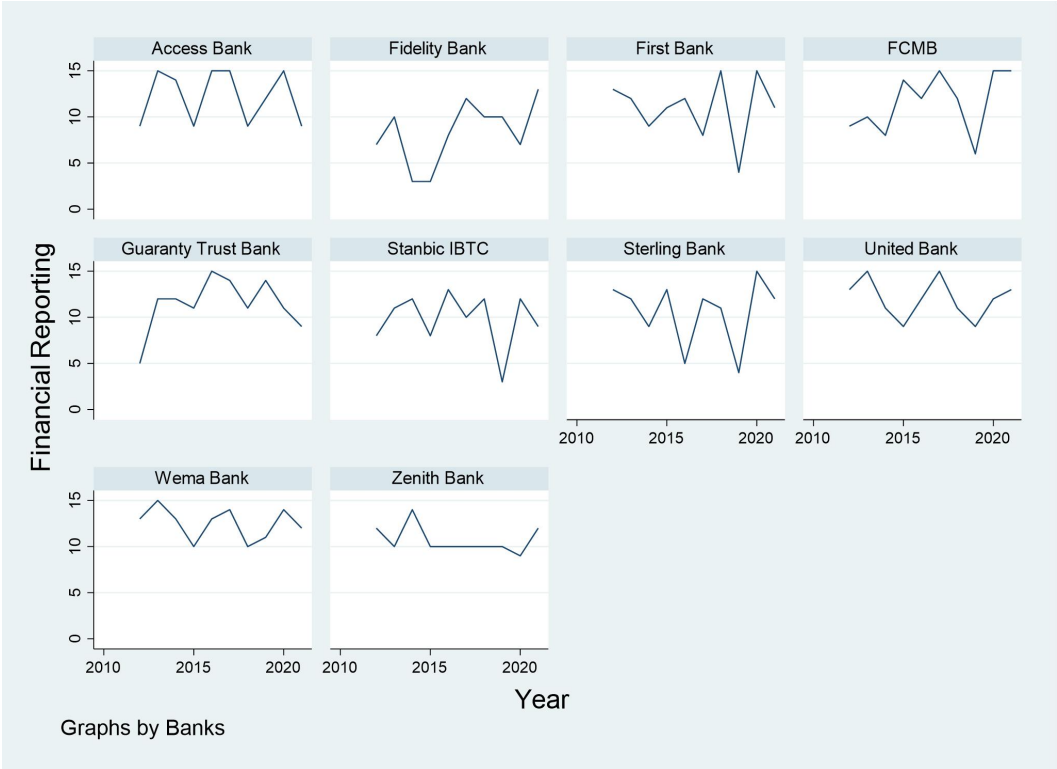


Figure 2: Graph of deposit money banks Firm size



Figure 3: Graph of deposit money banks Audit tenure



Figure 4: Graph of deposit money banks Audit fees

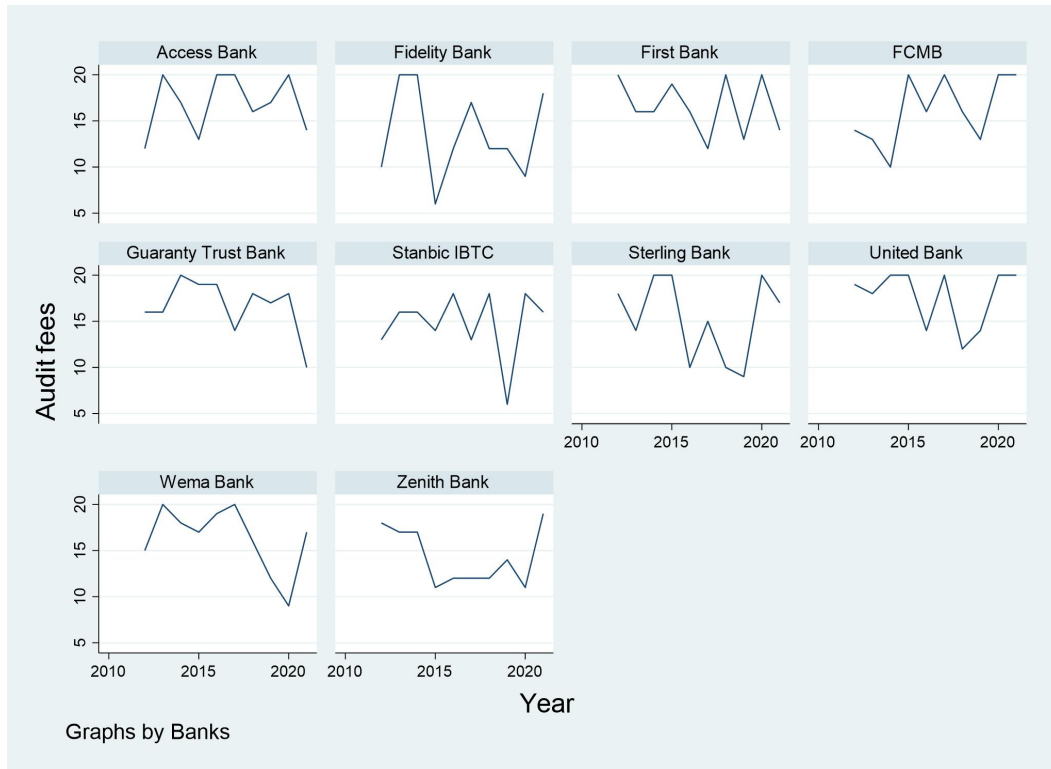


Figure 1 shows that access banks tend to demonstrate a peak in the financial reporting compared with the other deposit money under review. Figure 2 shows that access and guaranty trust banks tend to have the highest growth in firm size when compared with the additional deposit money banks under review. Figure 3 shows that access banks reveal the peak in the audit tenure when compared with the other deposit money banks under review. In the same vein, figure 4 shows that access banks tend to exhibit the highest audit fees when compared with the additional deposit money banks under review.

4.2 Discussion of findings

Based on the analysis conducted for this research study, the following are the notable findings.

According to Table 2, the deposit money banks under consideration had an average financial reporting ratio of roughly 11%. About 19% of firms are typical in size. For the deposit money

banks under evaluation, the typical audit period is 14 days. For the deposit money banks under consideration, the average audit charge is over 16 billion Naira.

Additionally, Table 3 demonstrates that a panel regression model was estimated. The coefficient estimates of audit tenure and audit fees are statistically significant at a 5% level and have a positive significant impact on the financial reporting of deposit money banks, supporting Hypotheses 2 and 3. A strong association exists between financial reporting, firm size, audit tenure, and audit fees, according to the overall panel regression, which shows that the model is statistically significant at a 5% level. R-squared = 62.29% implies that business size, audit tenure, and audit fees can account for 62.29% of the variance in the deposit money institutions' financial reporting. This shows that the model is suitable and very acceptable for forecasting financial reporting in the future.

Additionally, figure 1 demonstrates that access banks typically exhibit a surge in financial reporting when compared to the other deposit money being examined. In contrast to the extra deposit money banks under consideration, Figure 2 demonstrates that access and guaranty trust banks typically see the fastest growth in company size. Comparing access banks to the other deposit money banks under investigation, Figure 3 demonstrates that access banks expose the audit tenure at its highest. In a similar line, figure 4 demonstrates that as compared to the additional deposit money banks under evaluation, access banks typically exhibit the highest audit fees.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In the study the role of external auditors in ensuring quality financial statements of money deposit banks, this deals with summary of findings on the study conclusion and recommendations.

5.2 Summary of findings

The study finds that there is statistical significant relationship between financial reporting firm size, audit tenure and audit fees.

It also shows the variability in the financial reporting in the deposit money banks explained by firm size, audit tenure and audit fees suggesting that the future predictions of financial reporting

The study also reveals that the variance inflation factors for all the independent variables in the panel are less than 5 (that is, VIF 5) showing that the fitted model does not suffer from the problem of multi-collinearity.

5.3 Conclusion

The study examined the effect of audit quality on the quality of financial reporting of deposit money banks in Nigeria using Audit fees, Audit firm size and Audit tenure as proxies for audit quality and using one of the qualitative characteristics of financial statements (relevance) as a measure of financial reporting quality. The study found out that there is statistical significant relationship between financial reporting, firm size, audit tenure and audit fees. The model used was found to be adequate and appropriate for the future predictions.

5.4 Recommendations

The following recommendations are considered for the study:

We recommend that big audit firms reasonable audit tenure and audit fees should be encouraged to improve financial reporting quality. The study also suggest that future study should consider measuring financial reporting quality in terms of faithful representation comparability, verifiability and understandability of financial statement defined by the International Accounting Board (IASB)

The study also suggest that deposit money banks should display appropriate disclosure and transparency to demonstrate a peak in the financial reporting, audit tenure and audit fees.

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