AUDITOR INDEPENDENCE AND FINANCIAL REPORTING QUALITY IN LISTED DEPOSIT MONEY BANKS

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UNIVERSITY OF BENIN

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A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF ACCOUNTING, FACULTY OF MANAGEMENT SCIENCES, UNIVERSITY OF BENIN IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF BACHELOR OF SCIENCE DEGREE IN ACCOUNTING OF THE UNIVERSITY OF BENIN, BENIN CITY.

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DECLARATION

I, **Collins Ogaga ATIEME** declare that,

i. This study is based on a study undertaken by me in the Department of Accounting, Faculty of Management Sciences, University of Benin, Benin City, under the supervision of **Prof F.K. Emeni** of the Department of Accounting, Management Sciences, University of Benin, Benin City, Nigeria.

ii. This work has not been submitted for the award of degree elsewhere.

iii. Ideas and views are product of my personal research and where the view of others has been expressed, they have been duly acknowledged.

iv. Any liability arising from this work is to be wholly borne by me alone

______________________________ ______________________

Collins Ogaga ATIEME **DATE**

MGS2104513

CERTIFICATION

This is to certify that this research work submitted by **Collins Ogaga ATIEME** with matriculation number **MGS2104513** to the Department of Accounting, Faculty of Management Sciences, University of Benin, Benin city under the full supervision of Prof. F.K. Emeni and in accordance with the requirements of the Department of Accounting of the University of Benin, Benin City is adequate in scope and quality for the Award of Bachelor of Sciences Degree in Accounting.

______________________ ______________________

Prof. F.K. Emeni **Date**
(Project Supervisor)

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Dr. G. Ikhu-Omoregbe **Date**
(Project Coordinator)

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Prof. Osasu Obaretin **Date**
(Head of Department)

DEDICATION

This project work is dedicated to God Almighty for His abundant grace in my life and for seeing me through my academic pursuit and aspirations. He has been my source of strength and on his wings only I have soared. I also want to dedicate this project to my Family and friends for the love and encouragement they have shown towards me during the course of this program, all I can say is thank you and God bless you.

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ABSTRACT

This study investigates the relationship between auditor independence and financial reporting quality (FRQ) among deposit money banks (DMBs) listed on the Nigerian Exchange (NGX). It focuses on three key auditor attributes: audit firm tenure, audit firm size, and the provision of non-audit services, and examines how they influence the credibility of financial disclosures in Nigeria's banking sector. An ex post facto research design was adopted, using panel data extracted from the annual reports of all twelve listed DMBs for the period 2017 to 2024. Descriptive statistics and correlation analysis were applied, while multiple regression was conducted to assess the combined and individual effects of the selected auditor characteristics on FRQ, after diagnostic tests for normality, multicollinearity, and heteroskedasticity.

The findings reveal that audit firm size has a positive and significant effect on FRQ, demonstrating that large and well-resourced audit firms contribute to more transparent and reliable financial statements. Non-audit services also show a strong positive and significant relationship with FRQ, suggesting that when properly regulated, such services enhance auditors' understanding of clients' operations and strengthen audit effectiveness. Conversely, audit firm tenure was not statistically significant, indicating that the length of the auditor–client relationship does not meaningfully affect reporting quality under Nigeria's current regulatory framework. These results support Agency Theory by showing how independent and capable auditors reduce information asymmetry, and Signalling Theory by highlighting how high-quality audits boost market credibility.

The study concludes that technical capacity, independence safeguards, and informed regulation of non-audit services are more critical to financial reporting credibility than mandatory rotation alone. It recommends that regulators such as the Financial Reporting Council of Nigeria (FRC) and the Central Bank of Nigeria (CBN) enforce independence rules, encourage the engagement of technically robust audit firms, maintain existing tenure regulations while ensuring compliance, and regulate non-audit services through clear disclosure and fee caps. These measures can enhance audit quality, improve investor confidence, and strengthen the stability of Nigeria's banking system.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The reliability of financial reporting is fundamental to economic decision-making and market confidence. Investors, regulators, creditors, and other stakeholders rely heavily on audited financial statements to assess a company's performance and financial position. Financial statements effectively serve their purpose by accurately reflecting the true economic activities of a firm. However, this reliability is contingent upon the integrity of the audit process and, more importantly, the independence of the external auditor (Tepalagul & Lin, 2015). Auditor independence is widely regarded as a key pillar of audit quality. Auditor independence refers to the ability of the auditor to carry out their responsibilities with objectivity, without being influenced by personal biases or external pressures. An independent auditor is in a better position to question and critically assess management's claims, ensuring that the financial position of a company is reported accurately and without bias. This concern has been reinforced by high-profile global financial scandals that exposed weaknesses in auditor independence and led to increased regulatory scrutiny of audit practices (Yakubu & Williams, 2020).

In both developed and emerging economies, the issue of auditor independence continues to generate scholarly interest and regulatory attention. In Nigeria, incidents such as corporate misstatements and financial irregularities have raised questions about the strength of audit practices and the independence of external auditors (Nwanyanwu, 2017). Although statutory frameworks, such as the Companies and Allied Matters Act (CAMA), which sets out legal requirements for auditors, and guidelines from the Financial Reporting Council (FRC), which establish standards for auditing practices, exist to guide auditor conduct, the effectiveness of their implementation remains uncertain (Okunola, 2021). One important way to understand how auditor independence affects financial reporting quality is by considering specific features of the auditor-client relationship that may influence objectivity. For example, research suggests that when an audit firm remains with the same client for an extended period, the relationship may evolve from professional to overly familiar, potentially compromising auditor objectivity (Tepalagul & Lin, 2015). While long-term engagement can improve the auditor's knowledge of the client's operations and industry, it may also lead to reduced professional scepticism or reluctance to challenge management when necessary. This dual effect has attracted scholarly attention, with some researchers suggesting that longer engagements can compromise independence, while others argue that they improve audit efficiency through accumulated experience (Tepalagul & Lin, 2015; Agussalim, 2019).

Another important factor is the audit firm's size and reputation. Larger firms, especially those affiliated with global accounting networks, are typically perceived to maintain higher ethical standards due to their robust quality control systems, technical expertise, and the significant reputational risk they face. Their wide client base and institutional structures are also thought to reduce the likelihood of economic dependence on a single client. However, in practice, even large firms may face pressure to retain high-profile clients, which could affect the level of independence exercised during the audit process (Velte & Loy, 2018; Yakubu & Williams, 2020).

In addition to the length of the auditor-client relationship, which can lead to familiarity and reduced objectivity (Tepalagul & Lin, 2015), the capacity of the audit firm and the types of services provided to a client can also affect audit judgment. When auditors offer additional services, such as tax advisory or consulting, alongside their statutory audit role, they may be exposed to conflicts of interest. The financial benefits of these added services can create subtle pressures to maintain a favourable relationship with management. This situation may make auditors less willing to raise red flags or issue qualified opinions, even when necessary. Consequently, concerns continue to emerge about whether auditors can maintain their independence when performing multiple roles for the same client (Kurniawan, 2023; Tepalagul & Lin, 2015).

Financial reporting quality reflects how accurately and transparently a company’s financial statements represent its economic condition. In academic research, one widely accepted approach to assessing financial reporting quality is through the use of discretionary accruals, which reflect the extent to which management can influence reported earnings through accounting judgments. Discretionary accruals are particularly useful because they allow researchers to identify earnings management practices, where higher levels of discretionary accruals are commonly associated with earnings manipulation and reduced reporting credibility (Healy, 1985; Okunola, 2021; Nwanyanwu, 2017). This method is preferred due to its ability to quantify and track managerial discretion in financial reporting.

The connection between auditor independence and financial reporting quality has drawn significant interest from researchers and practitioners alike. Independent auditors help reduce earnings management and improve the clarity of financial disclosures. Ideally, stronger independence should enhance the accuracy and reliability of financial statements. In Nigeria, this issue is particularly relevant in the banking sector, which is highly regulated and plays a central role in the economy. Banks are required to publish detailed financial reports and operate under strict oversight from the Central Bank of Nigeria (CBN) and the Nigerian Exchange (NGX). Because these institutions manage public funds, any decline in the quality of their financial reporting may have serious implications for investor trust and financial stability (Kurniawan, 2023).

Given these concerns, auditor independence continues to be a key factor in ensuring reliable financial reporting. This study aims to provide insight into that relationship by examining how auditor independence relates to financial reporting quality, using discretionary accruals to indicate the presence of earnings management, thereby contributing to the understanding of audit quality in Nigeria's banking sector.

1.2 Statement of the Problem

In the pursuit of transparency and investor confidence, the quality of financial reporting remains a central pillar in ensuring accountability within Nigeria's corporate environment. Yet, concerns about the objectivity of financial statements persist, especially within the financial services sector. Several high-profile cases of earnings manipulation and misstatements in Nigeria have raised doubt about the independence of auditors and the effectiveness of audit processes. This issue is even more critical for deposit money banks, given their central role in public fund management, credit intermediation, and economic stability. The collapse or financial distress of any major bank could result in systemic shocks, making the quality of their financial reporting a matter of public interest (Agbaje et al., 2021; Kurniawan, 2023).

Despite the existence of professional standards and regulatory guidelines, including those issued by the Financial Reporting Council of Nigeria and the Central Bank of Nigeria, there are still lingering concerns about whether auditors maintain sufficient independence in practice. Factors such as extended audit firm tenure, small audit firm size, and the provision of non-audit services have been consistently identified as potential threats to auditor objectivity (Tepalagul & Lin, 2015; Tobi et al., 2016). These issues are not only theoretical. Real-world instances suggest that when auditors become too familiar with clients, rely on them for significant consulting income, or lack the institutional capacity to challenge management, the integrity of financial reports may be compromised.

While research on the broader topic of auditor independence is growing, most scholarly attention in Nigeria has focused on sectors such as manufacturing, oil and gas, and conglomerates. For instance, Ogundajo and Onakoya (2016) examined audit characteristics and reporting quality in manufacturing firms, Ilaboya and Ohiokha (2014) focused on listed industrial goods companies, while Amah and Ibanichuka (2019) focused on oil and gas firms. While these industries are important, they operate under different regulatory and operational conditions, which limits the general applicability of their findings to deposit money banks (DMBs). Although a few studies have addressed this issue within the banking sector, research on the relationship between auditor independence and financial reporting quality in DMBs remains limited, especially in comparison to other sectors.

Only a few recent studies have examined this subject specifically within the Nigerian banking sector. Agbaje et al. (2021) assessed audit fees and firm size but found mixed results on their influence on reporting quality. Ayinla et al. (2022) focused on audit committee characteristics and reported significant findings, while Hadiza and Yahaya

(2024) explored the effect of audit firm size and independence on earnings management. However, many of these studies differ in their research scope or methods, and some omit critical audit independence factors such as non-audit services. In addition, few of them assess financial reporting quality using earnings-based indicators like discretionary accruals.

This limited focus represents a significant gap in the literature. As Nigeria's financial sector expands and attracts more investor attention, a better understanding of how auditor independence affects financial reporting quality is urgently needed. This study addresses that gap by examining how specific auditor-related factors, including the length of auditor-client relationships, the capacity of audit firms, and the presence of non-audit engagements, relate to financial reporting quality as measured by discretionary accruals.

1.3 Research Question

The following research questions were formulated to guide the study:

1. What is the relationship between audit firm tenure and financial reporting quality among deposit money banks listed on the Nigerian Exchange?
2. What is the association between audit firm size and financial reporting quality of deposit money banks in Nigeria?
3. What is the link between non-audit services and financial reporting quality among deposit money banks quoted on the Nigerian Exchange?

1.4 Research Objectives

The main objective of this study is to examine the relationship between auditor independence and financial reporting quality among deposit money banks listed on the Nigerian Exchange (NGX). To achieve this main objective, the study has the following specific objectives are to:

1. investigate the relationship between audit firm tenure and financial reporting quality among deposit money banks listed on the Nigerian Exchange;
2. examine the association between audit firm size and financial reporting quality of deposit money banks in Nigeria; and
3. assess the link between non-audit services and financial reporting quality among deposit money banks quoted on the Nigerian Exchange.

1.5 Research Hypotheses

The following null hypotheses (H_0) are formulated to guide the study:

H_{01}: There is no significant relationship between audit firm tenure and financial reporting quality among deposit money banks listed on the Nigerian Exchange;

H_{02}: There is no significant association between audit firm size and financial reporting quality of deposit money banks in Nigeria; and

H_{03}: There is no significant link between non-audit services and financial reporting quality among deposit money banks quoted on the Nigerian Exchange.

1.6 Scope of the Study

The scope of this study focuses on investigating the relationship between auditor independence and financial reporting quality within deposit money banks (DMBs) listed on the Nigerian Exchange (NGX) as of December 31, 2024. This focus is particularly relevant in the Nigerian context, where there has been increasing attention to audit quality, financial transparency, and corporate governance reforms. The study aims to understand the dynamics between these two factors within the regulatory environment of Nigerian banks, a sector crucial to the country's financial stability. The target population comprises the twelve deposit money banks currently listed on the NGX, as of the end of 2024. In line with a census approach, the study includes all twelve banks without sampling, ensuring comprehensive coverage of the sector. This approach is beneficial for obtaining a complete and accurate representation of the sector's current practices regarding auditor independence and financial reporting quality.

The study spans eight financial years, from 2017 to 2024. This period was chosen to provide a robust timeframe for assessing trends and patterns in the relationship between auditor independence and financial reporting quality. The eight-year window allows for the observation of any significant changes or stability in audit practices and reporting, especially in light of ongoing reforms in the Nigerian banking sector. It also provides a balance between capturing recent developments and ensuring a sufficient timeframe to observe patterns over time. This study will provide valuable insights into the relationship between auditor independence and financial reporting quality within Nigeria's banking sector, offering practical implications for both regulators and audit professionals.

1.7 Significance of the Study

This study provides valuable insights into the relationship between auditor independence and financial reporting quality among deposit money banks in Nigeria. Its relevance cuts across academic, regulatory, and professional domains. For regulators such as the Central Bank of Nigeria (CBN), the Financial Reporting Council (FRC), and the Nigerian Exchange (NGX), the findings are expected to offer evidence-based guidance for improving audit-related policies, enhancing oversight functions, and reinforcing frameworks that promote transparency and accountability in financial reporting. Strengthening auditor independence can contribute significantly to investor confidence and overall financial system stability.

The study also holds significance for audit professionals by highlighting how factors such as audit firm tenure, audit firm size, and non-audit services may influence audit objectivity and the credibility of financial reports. The results may guide auditors in upholding professional ethics and maintaining a high level of independence in practice. For corporate executives and board members, the study draws attention to the potential consequences of prolonged auditor-client relationships and the importance of audit firm selection. Understanding these dynamics can support better governance decisions and foster higher reporting integrity. In addition, the study contributes to the growing body of academic literature on audit quality and financial reporting, particularly within the Nigerian banking sector. It is expected to serve as a useful reference for future researchers interested in examining similar issues in different sectors, regions, or economic contexts.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides a comprehensive review of the existing literature relevant to the study of auditor independence and financial reporting quality. The aim is to explore theoretical frameworks, empirical studies, and key concepts related to the variables under investigation. The chapter is structured into three main sections: the conceptual review, which defines and explains key concepts; the theoretical review, which discusses the theories underpinning the study; and the empirical review, which examines prior research findings on the relationship between auditor independence and financial reporting quality. This review serves as the foundation for the research, highlighting gaps in existing literature and establishing the theoretical context for the study.

2.2 Conceptual Review

2.2.1 Concept of Financial Reporting Quality

Financial reporting quality (FRQ) is a cornerstone concept in both accounting research and practice, serving as a critical foundation for robust corporate governance and effective capital markets. It refers to the extent to which a firm's financial statements accurately, completely, and faithfully represent its true economic condition and performance, thereby enabling stakeholders to make informed and rational economic decisions. In essence, FRQ embodies the reliability, relevance, and transparency of financial information presented by firms. Over the years, scholars have expanded the interpretation of FRQ beyond mere compliance with accounting standards to include attributes such as timeliness, comparability, and understandability (Dechow et al., 2022; Christensen et al., 2019).

The primary purpose of high-quality financial reporting is to mitigate information asymmetry between corporate managers (insiders) and external stakeholders (outsiders), including investors, creditors, regulators, and the general public. By reducing information gaps, FRQ promotes investor confidence, facilitates efficient resource allocation, and supports market stability. Investors, for example, rely on accurate and timely financial information to assess a company’s profitability, growth potential, and overall risk profile (Kim & Zhang, 2023). When financial reports are transparent and faithfully represent economic events, investors can make investment decisions with greater assurance, leading to improved capital market efficiency and enhanced economic development (Li et al., 2021). Conversely, poor-quality financial reporting undermines trust, misleads users, distorts capital allocation decisions, and ultimately impairs the integrity of financial markets (Luo et al., 2020).

In the global context, regulatory bodies such as the International Accounting Standards Board (IASB) have emphasized the importance of high FRQ through standards like the

International Financial Reporting Standards (IFRS). In Nigeria, regulatory institutions including the Financial Reporting Council have made concerted efforts to improve reporting practices by introducing guidelines that align with international standards, thus enhancing comparability and investor protection (OECD, 2023). However, achieving high FRQ is not merely about adhering to rules and standards. It demands a commitment to ensuring that the substance of economic transactions is accurately portrayed rather than merely their legal form (Chen et al., 2022). This substance-over-form approach ensures that financial statements reflect true economic activities, enhancing their usefulness to stakeholders.

Conceptual frameworks, such as the IASB's 2018 Conceptual Framework for Financial Reporting, articulate qualitative characteristics that underpin FRQ. These include fundamental qualities like relevance and faithful representation, and enhancing qualities such as comparability, verifiability, timeliness, and understandability. Relevance ensures that financial information is capable of influencing users' economic decisions, while faithful representation requires that financial data accurately depicts the substance of transactions without bias, error, or manipulation (IASB, 2018). Comparability allows users to identify similarities and differences among entities and across time periods, enhancing the usefulness of financial statements for trend analysis. Verifiability assures users that the information faithfully represents underlying economic events, while timeliness ensures that information is available when it is needed for decision-making. Finally, understandability enhances the accessibility of financial information to a wide range of users, including those without specialized accounting knowledge.

Recent empirical research highlights that managerial incentives, governance mechanisms, and auditor independence play critical roles in influencing FRQ. Managers may have motivations to manipulate earnings to achieve personal goals such as meeting performance targets or maximizing compensation. In such cases, strong corporate governance structures and independent audits serve as vital checks to curb opportunistic behaviours (Tan et al., 2023; Wang & Guo, 2021). Auditor independence, in particular, has been shown to significantly reduce earnings management practices, thereby enhancing the credibility and reliability of financial disclosures. By maintaining objectivity and professional scepticism, independent auditors help ensure that reported earnings reflect economic reality rather than managerial discretion.

Furthermore, FRQ is not static; it is subject to dynamic external and internal influences. External shocks, such as macroeconomic crises or global pandemics, can affect the quality and reliability of financial reports. The COVID-19 pandemic, for instance, highlighted the critical role of resilient financial reporting. During this period of uncertainty and operational disruptions, transparent and comprehensive disclosure of pandemic-related impacts and risks was essential for maintaining stakeholder confidence and facilitating informed decision-making (Zhang et al., 2022). Internally, changes in accounting policies, shifts in corporate strategy, or evolving risk environments can also influence FRQ.

Technological innovations are further shaping the landscape of financial reporting. The adoption of extensible Business Reporting Language (XBRL) has improved the accessibility, consistency, and analysis of financial data, enabling stakeholders to extract and interpret information more efficiently. Similarly, emerging technologies such as blockchain are enhancing the verifiability and security of financial records, thereby reducing the risk of fraud and increasing overall trust in financial disclosures (Huang et al., 2021). These technological advancements support the evolution of FRQ towards greater transparency and reliability.

The growing emphasis on environmental, social, and governance (ESG) factors has also expanded the scope of FRQ beyond traditional financial metrics. Stakeholders increasingly demand integrated reports that include non-financial information related to sustainability, ethical practices, and social impact (Eccles & Krzus, 2018; Nguyen & Hoang, 2023). High-quality ESG reporting reflects a firm's commitment to long-term value creation and responsible business practices, thereby attracting socially conscious investors and enhancing corporate reputation. This holistic approach to financial reporting underscores the shift towards broader accountability and strategic transparency.

Moreover, FRQ serves as a critical signal in capital markets, indicating the credibility and governance strength of a firm. Reliable financial reporting can lower the cost of capital by reducing perceived risks and improving investor perceptions of firm stability and integrity. Firms that consistently provide high-quality financial disclosures are more likely to attract long-term investors and strategic partners, fostering sustainable growth and market competitiveness. Financial reporting quality is a multifaceted and dynamic construct that is vital for the functioning and stability of modern financial markets. It requires a balance between regulatory compliance, robust governance, technological integration, and ethical corporate behaviour. Accurate, timely, and transparent financial reports strengthen investor confidence, facilitate efficient capital allocation, and support economic growth. Recent research reaffirms that high FRQ is not merely a technical requirement but a strategic imperative that underpins the integrity of corporate disclosures and sustains stakeholder trust (Gao et al., 2020). Firms that prioritize FRQ demonstrate a commitment to accountability and transparency, positioning themselves as credible and responsible actors within the global financial ecosystem.

2.2.2 Measures of Financial Reporting Quality

Financial reporting quality is a complex construct that cannot be fully captured by a single metric. Researchers have developed various proxies to assess different aspects of financial reporting quality. This study considers six prominent measures: Earnings

Smoothness, Discretionary Accruals, Accruals Quality, Earnings Persistence, Value Relevance, and Conservatism. Each measure provides unique insights into the accuracy, reliability, and usefulness of financial reports. The following subsections provide an in-depth discussion of each measure.

2.2.2.1 Earnings Smoothness

Earnings smoothness is a widely adopted measure of financial reporting quality that emphasizes the consistency and predictability of reported earnings in relation to a firm's underlying cash flows. Investors and analysts often view smooth earnings as indicative of sound management practices and robust financial health, as they suggest that a firm can maintain stable performance despite fluctuations in operational cash flows (Barth, Landsman, & Lang, 2017). Earnings that exhibit minimal volatility enhance the reliability of financial statements as tools for forecasting future performance, thereby reducing perceived risk and increasing investor confidence.

However, while earnings smoothness is generally seen as a desirable attribute, it can also mask potential issues within an organization. Excessive earnings smoothing may signal managerial attempts to obscure true economic volatility or underperformance. Managers may engage in income smoothing to meet market expectations, avoid regulatory scrutiny, or achieve personal compensation targets tied to financial metrics. Such practices can distort the true financial position of a firm and mislead stakeholders, undermining the decision-usefulness of financial reports (Roychowdhury, 2020).

Recent studies emphasize the importance of distinguishing between legitimate earnings smoothness arising from effective business strategies and artificial smoothing achieved through earnings management. Dechow, Ge, and Schrand (2022) highlight that moderate earnings smoothness, when driven by operational stability and prudent risk management, can enhance the informativeness of financial statements. In contrast, earnings smoothing achieved through aggressive accrual manipulation or creative accounting practices can significantly impair the quality of reported earnings. Consequently, earnings smoothness serves as a nuanced proxy that requires careful interpretation, balancing the potential benefits of predictability with the risks of managerial opportunism.

Furthermore, earnings smoothness has broader implications for market efficiency. Firms with smoother earnings are often perceived as less risky investments, which can lead to lower costs of capital and improved access to financing. This perception incentivizes managers to pursue stable earnings trajectories, though the challenge remains to achieve this through genuine business performance rather than accounting manipulation. By fostering a clearer and more predictable earnings profile, earnings smoothness contributes to the stability and integrity of financial markets.

2.2.2.2 Discretionary Accruals

Discretionary accruals are among the most frequently used proxies for assessing earnings management and, by extension, financial reporting quality. Accrual accounting allows managers discretion in estimating certain financial figures, such as provisions for doubtful debts, depreciation, and warranty obligations. While this flexibility is necessary to capture the economic substance of transactions, it also creates opportunities for earnings manipulation (Kothari, Leone, & Wasley, 2016). Discretionary accruals represent the portion of total accruals that is subject to managerial judgment and may be employed to achieve specific financial outcomes.

High levels of discretionary accruals are typically associated with a greater likelihood of earnings management, raising concerns about the reliability and transparency of financial reports. Managers may use discretionary accruals to smooth earnings, meet or beat analysts' forecasts, or manage perceptions of financial stability. Such practices can lead to misstatements in financial statements, undermining stakeholder trust and potentially leading to regulatory penalties or reputational damage.

Nonetheless, the estimation of discretionary accruals poses significant methodological challenges. Different models, such as the Jones Model, the Modified Jones Model, and the Performance-Matched Model, offer varying approaches to estimating discretionary accruals, each with inherent limitations and sensitivities to specification choices

(McNichols, 2019). The difficulty in distinguishing between legitimate managerial judgment and opportunistic manipulation further complicates the interpretation of discretionary accruals as a proxy for financial reporting quality.

Despite these limitations, discretionary accruals remain a valuable tool in empirical accounting research. They provide direct insights into managerial behaviour and the extent to which reported earnings reflect true economic performance versus accounting adjustments. Recent evidence suggests that when used in conjunction with other quality measures, discretionary accruals offer a more comprehensive assessment of financial reporting integrity (Francis et al., 2021). By focusing on the discretionary component of accruals, researchers and practitioners can better understand the incentives and constraints influencing managerial financial reporting decisions.

2.2.2.3 Accruals Quality

Accruals quality pertains to the extent to which accrual-based earnings faithfully reflect a firm's underlying economic performance. High-quality accruals imply that the reported earnings closely align with cash flows, reducing the noise introduced by estimation errors or managerial manipulation (Dechow & Dichev, 2002). Accruals quality is often assessed by analysing the variability of accruals relative to cash flows from operations. Lower variability indicates higher accruals quality, suggesting that earnings provide a more accurate representation of economic activities.

Accruals are necessary for matching revenues and expenses within the same reporting period, thus improving the relevance of financial information. However, they also introduce subjectivity and potential for bias, as managers make judgments about future events and outcomes. For example, estimating the allowance for bad debts requires assumptions about customer payment behaviour, while depreciation expenses depend on estimates of asset useful lives. These subjective judgments can be manipulated to achieve desired earnings outcomes, impacting accruals quality.

High-quality accruals enhance the informativeness of earnings for investors and other stakeholders. They improve the predictive value of earnings concerning future cash flows, supporting better valuation and investment decisions (Ge, Lee, & Tang, 2018). However, accruals quality can be influenced by external factors such as industry dynamics, macroeconomic conditions, and changes in accounting standards, complicating cross-sectional and time-series comparisons.

Calculating accruals quality requires detailed financial data and rigorous analytical techniques. Researchers often use regression-based models to estimate the relationship between accruals and cash flow realizations, controlling for firm-specific factors. Recent studies have affirmed the importance of accruals quality as a critical component of earnings quality and an indicator of robust financial reporting practices (Chen, Huang, &

Zhang, 2022). By ensuring that accrual adjustments accurately reflect economic reality, firms can enhance the credibility and reliability of their financial statements.

2.2.2.4 Earnings Persistence

Earnings persistence refers to the sustainability and predictability of a firm’s earnings over time. It measures the extent to which current earnings are indicative of future earnings, providing insights into the stability and reliability of a firm's financial performance (Francis, LaFond, Olsson, & Schipper, 2019). High earnings persistence suggests that reported earnings reflect enduring economic fundamentals rather than temporary factors or one-time events.

Firms with high earnings persistence are typically perceived as lower-risk investments because their profitability is seen as more stable and predictable. This perception enhances investor confidence and can lead to more favourable market valuations. Earnings persistence also reduces the likelihood of unexpected earnings shocks, which can have negative implications for stock prices and investor trust.

However, interpreting earnings persistence as a measure of financial reporting quality requires caution. The degree of persistence can be affected by external factors such as economic cycles, regulatory changes, and industry-specific dynamics. For instance, firms operating in cyclical industries may exhibit lower earnings persistence due to fluctuations in demand and commodity prices. Additionally, aggressive earnings management practices can artificially inflate persistence metrics, giving a misleading impression of financial stability (Kothari, Ramanna, & Skinner, 2021).

Despite these complexities, earnings persistence remains a fundamental dimension of earnings quality. It reinforces the importance of sustainable profitability and supports the long-term decision-making needs of investors and other stakeholders. Research suggests that firms emphasizing sustainable business models, prudent financial management, and conservative accounting practices are more likely to exhibit high earnings persistence, thereby contributing to higher financial reporting quality.

2.2.2.5 Value Relevance

Value relevance is a market-based measure that assesses the extent to which financial information is useful in explaining variations in stock market prices. Financial statements with high value relevance provide timely and informative signals about a firm's economic condition and future prospects, facilitating efficient pricing of securities and supporting investor decision-making (Barth et al., 2017). Value relevance underscores the practical consequences of financial reporting quality on capital markets, bridging the gap between accounting disclosures and market valuations.

Financial reports that effectively capture a firm's value drivers, such as profitability, growth opportunities, and risk exposures, contribute to higher value relevance. Investors rely on this information to assess intrinsic value and make informed trading decisions.

Consequently, high value relevance is associated with improved market efficiency, lower information asymmetry, and enhanced investor confidence.

However, the relationship between financial reporting quality and value relevance is not always straightforward. Stock prices are influenced by numerous factors beyond accounting information, including macroeconomic developments, investor sentiment, and market speculation. These external influences can weaken the direct association between reported financial metrics and market valuations, potentially obscuring the value relevance of financial statements (Hayn, 2020).

Moreover, differences in accounting standards, regulatory environments, and market structures can impact the degree of value relevance across jurisdictions and time periods. Firms operating in markets with strong investor protections and rigorous disclosure requirements are more likely to exhibit higher value relevance, reflecting the importance of institutional factors in shaping the usefulness of financial information.

Despite these challenges, value relevance remains an essential proxy for assessing financial reporting quality. It highlights the role of accounting information in capital market outcomes and underscores the importance of transparent and informative financial disclosures. By enhancing the alignment between reported financial performance and market perceptions, firms can strengthen investor trust and support long-term value creation.

2.2.2.6 Conservatism

Conservatism in financial reporting reflects the accounting principle that requires recognizing losses and expenses more promptly than gains and revenues. This asymmetrical approach aims to prevent the overstatement of a firm's financial position and performance, thereby enhancing the reliability and prudence of financial disclosures (Ball & Shivakumar, 2020). Conservatism serves as a safeguard against overly optimistic reporting, protecting stakeholders from potential adverse surprises.

By emphasizing caution in recognizing income and valuing assets, conservative accounting practices contribute to higher financial reporting quality. They reduce the likelihood of inflated earnings and asset values, which can mislead investors and creditors. Conservatism also aligns with the principle of prudence, a fundamental concept in accounting that advocates for erring on the side of caution when faced with uncertainty.

However, excessive conservatism can have drawbacks. Delayed recognition of economic gains and the understatement of asset values may reduce the relevance and timeliness of financial statements. This conservatism-induced lag can obscure a firm’s true economic strength, potentially leading to undervaluation in the capital markets and suboptimal investment decisions (Basu, 2018).

Additionally, the application of conservatism varies across regulatory regimes and industries, affecting the comparability of financial statements. In some jurisdictions, conservative accounting practices are more deeply embedded in regulatory frameworks, while others emphasize fair value measurement and real-time reporting.

Despite these limitations, conservatism remains a vital element of financial reporting quality. It underscores the importance of caution and integrity in financial reporting, supporting stakeholder trust and enhancing the credibility of financial disclosures. By balancing caution with relevance, conservatism helps ensure that financial statements provide a reliable foundation for economic decision-making.

After careful consideration of the various proxies available for assessing financial reporting quality, earnings smoothness emerges as the most suitable primary measure for this study. The appeal of earnings smoothness lies in its direct reflection of earnings stability and predictability, attributes that align closely with the objectives of evaluating the effect of auditor independence on financial reporting. Unlike measures narrowly focused on managerial discretion or accrual estimates, earnings smoothness captures the overall manifestation of these elements in reported results, providing a user-centred perspective on quality (Schipper & Vincent, 2003; Barth et al., 2017).

Moreover, earnings smoothness offers practical advantages due to its relatively straightforward calculation and intuitive interpretability. It resonates with investors' and analysts' preference for consistent earnings streams, which reduce uncertainty and support better forecasting and valuation decisions. Given these attributes, earnings smoothness serves as a theoretically sound, empirically robust, and practically meaningful proxy for financial reporting quality in this research context. Its adoption as the focal measure enhances the study's ability to provide actionable insights into the relationship between auditor independence and the integrity of financial reporting among Nigerian deposit money banks.

2.2.3 Auditor Independence

Auditor independence is widely recognized as one of the fundamental pillars of effective auditing and a critical safeguard for ensuring the credibility of financial reporting. It represents the auditor's capacity to perform their professional responsibilities with objectivity, impartiality, and professional scepticism, free from any influences that could impair their judgment. The concept of auditor independence has become increasingly important in modern corporate governance and is often regarded as a cornerstone for enhancing the trustworthiness of financial statements.

Auditor independence is generally conceptualized in two dimensions: independence in fact and independence in appearance (Herath & Pradier, 2018). Independence in fact refers to the auditor's actual state of mind that enables them to provide an unbiased opinion on the financial statements. It requires auditors to make judgments solely based on the evidence obtained during the audit, without being swayed by personal relationships, economic incentives, or undue influence from the client. This internal attribute is essential because it ensures that the auditor's conclusions reflect the true financial condition and performance of the audited entity.

On the other hand, independence in appearance pertains to the external perception of the auditor's objectivity by third parties such as investors, creditors, regulators, and the public. Even if an auditor maintains independence in fact, the presence of relationships or circumstances that create the perception of a lack of impartiality can undermine confidence in the audit opinion (Tepalagul & Lin, 2015). Stakeholders rely heavily on auditors to provide an objective assessment of financial statements, and any perceived compromise can erode trust in the entire financial reporting process. Therefore, maintaining independence in both fact and appearance is crucial for safeguarding the auditor's role as an unbiased gatekeeper of financial information.

The importance of auditor independence extends beyond individual firms to the broader economic and regulatory environment. An independent auditor is better positioned to challenge management's assertions and ensure that financial statements are free from material misstatements, whether due to error or fraud. This scrutiny is vital because financial statements serve as the primary means through which firms communicate their financial performance and position to stakeholders. Investors use this information to make informed investment decisions, creditors assess it to evaluate credit risk, and regulators rely on it to ensure compliance with financial reporting standards (Amake & Okafor, 2012). As a result, any impairment of auditor independence can have far-reaching consequences, including misallocation of resources, loss of investor confidence, and potential financial instability.

Moreover, the role of auditor independence has been highlighted in various corporate scandals and financial crises around the world. High-profile cases, such as Enron and WorldCom, revealed how close relationships between auditors and management can lead to compromised audit opinions and significant financial misreporting. These incidents have underscored the need for rigorous safeguards to protect auditor independence and have prompted regulators worldwide to strengthen rules governing auditor-client relationships. In Nigeria, concerns about auditor independence have been central to discussions about corporate governance reforms, particularly in the banking sector, where public trust and financial stability are paramount (Abbott et al., 2016).

Various factors can threaten auditor independence, including long-term auditor-client relationships, provision of non-audit services, and economic dependence on large clients. Extended auditor tenure, while potentially improving the auditor’s understanding of the client’s business, can also lead to excessive familiarity, reducing professional scepticism and increasing the risk of overlooking misstatements. Similarly, when auditors provide non-audit services such as tax advisory or consulting, they may develop economic interests that conflict with their audit responsibilities, potentially impairing their objectivity.

Economic dependence on significant clients also poses a major threat to independence. When an audit firm derives a substantial portion of its revenue from a single client, it may be reluctant to issue an unfavourable audit opinion that could jeopardize the relationship. This dependence can subtly influence auditors' judgments, leading to biased reporting that compromises the integrity of financial statements. Such conflicts underscore the need for robust regulatory frameworks and professional standards designed to mitigate threats to independence and preserve the auditor's ability to act in the public interest.

In response to these challenges, regulatory bodies and professional organizations have implemented various measures to strengthen auditor independence. Mandatory auditor rotation policies, restrictions on the provision of non-audit services, and stringent disclosure requirements regarding auditor relationships are examples of such measures. The Companies and Allied Matters Act (CAMA 2020) in Nigeria, along with guidelines issued by the Financial Reporting Council (FRC), exemplify regulatory efforts aimed at reinforcing auditor independence in the Nigerian context. These regulations seek to reduce familiarity threats and economic dependencies that could compromise the auditor’s impartiality.

Empirical research further supports the critical role of auditor independence in enhancing financial reporting quality. Studies have consistently demonstrated that independent auditors are more effective in detecting and preventing earnings management practices, thereby improving the accuracy and credibility of financial disclosures (Abbott et al., 2016). For example, firms audited by independent auditors tend to report lower levels of discretionary accruals, indicating reduced manipulation of earnings and higher reporting transparency. These findings highlight the importance of maintaining auditor independence to ensure that financial statements provide a true and fair view of a company’s financial health.

Additionally, auditor independence contributes to broader market outcomes by enhancing investor confidence and promoting efficient capital allocation. When investors trust that financial statements have been audited by independent and objective auditors, they are more likely to invest, reducing firms’ cost of capital and supporting economic growth. Conversely, perceived or actual compromises in auditor independence can lead to market scepticism, increased risk premiums, and diminished access to capital.

Auditor independence is a multifaceted and indispensable element of high-quality financial reporting. It encompasses both the actual impartiality of the auditor and the perception of that impartiality among stakeholders. By safeguarding the objectivity of the audit process, auditor independence plays a vital role in protecting investors, maintaining market integrity, and fostering economic stability. Firms, regulators, and auditors themselves must remain vigilant in upholding independence to ensure that financial statements serve their intended purpose as reliable, transparent, and decision-useful documents. As corporate governance and regulatory landscapes continue to evolve, the importance of auditor independence will remain central to the credibility and resilience of global financial systems.

2.2.4 Measures of Audit Independence

Several key factors influence the degree of auditor independence. Among these are audit firm tenure, audit firm size, and the provision of non-audit services. Each of these factors has been subject to intense scholarly scrutiny, with many studies indicating that prolonged auditor-client relationships, small audit firms, and the provision of non-audit services can all create significant threats to auditor independence (Khasharmeh & Desoky, 2019).

2.2.4.1 Audit Firm Tenure:

Audit firm tenure refers to the length of time an auditor has been engaged to audit the same client. Extended auditor tenure has been found to be a double-edged sword. On the one hand, longer auditor-client relationships can lead to a deeper understanding of the client's business, potentially improving the audit's efficiency (Tepalagul & Lin, 2015). However, as tenure lengthens, the relationship between the auditor and the client may become overly familiar, which can lead to a reduction in professional scepticism. When auditors become too familiar with the client, their ability to critically assess management's financial statements diminishes, leading to potential conflicts of interest and a decline in audit quality (Herath & Pradier, 2018). This concern has been reinforced in various studies, such as those by Herath and Pradier (2018), who argue that extended auditor-client relationships may compromise the independence of auditors, making them more likely to overlook discrepancies or fail to challenge management's assertions, which could ultimately affect the quality of financial reporting. Additionally, regulatory responses have suggested the importance of auditor rotation to mitigate these risks. The rotation of auditors—both at the firm level and the engagement partner level—has been recommended to introduce fresh perspectives into the auditing process and reduce the risks associated with long tenures (Tepalagul & Lin, 2015). This is particularly relevant in jurisdictions where corporate scandals have been linked to long-standing auditor relationships, further stressing the importance of maintaining auditor independence through timely rotation.

2.2.4.2 Audit Firm Size

The size of the audit firm also plays a crucial role in influencing auditor independence. Larger audit firms, especially those affiliated with global accounting networks, are generally perceived to have more robust quality control systems, which are critical in maintaining high ethical standards and audit quality. According to Khasharmeh and Desoky (2019), large firms are more likely to resist external pressures due to their diversified client base and institutional frameworks, which provide them with greater leverage and more stringent oversight mechanisms. These characteristics enable large audit firms to maintain a higher level of objectivity and independence, reducing the likelihood of compromising audit quality for the sake of client relationships. However, even the largest firms are not immune to challenges regarding independence. Research by Sultana, Singh, and Zain (2019) notes that large audit firms may face significant pressures to retain prominent clients, leading to situations where the desire to maintain a lucrative business relationship could impair their independence. Furthermore, the reputation of a large audit firm could paradoxically create its own set of risks. High-profile clients bring substantial economic rewards to audit firms, which might subtly influence auditors to adopt a more lenient stance towards client management in order to safeguard the relationship (Ramzan, Ahmed, & Rafay, 2020).

2.2.4.3 Non-Audit Services

The provision of non-audit services (NAS) is perhaps one of the most contentious issues affecting auditor independence. Non-audit services, such as tax advisory and management consulting, can create conflicts of interest. When auditors provide these additional services, they may become financially dependent on the client, which can compromise their ability to deliver an unbiased audit opinion (Sultana et al., 2019). Studies have demonstrated that auditors may hesitate to issue a qualified opinion or raise concerns about financial misstatements if doing so could jeopardize their non-audit revenue streams (Ebimobowei, 2011). The extent of this threat is closely linked to the proportion of non-audit fees relative to audit fees. As non-audit fees increase, the independence of the auditor may decrease, creating a situation where auditors are less likely to challenge management or adopt a sceptical stance toward their financial statements. This is particularly evident in cases where non-audit services constitute a significant portion of an audit firm’s overall revenue. Ramzan et al. (2020) assert that the provision of non-audit services fosters a reliance on client relationships, which may influence auditors’ judgments, potentially compromising the accuracy and reliability of the audit (Ahmed et al., 2020).

2.2.4.4 Auditor Tenure

Auditor tenure, which refers to the length of time an audit firm has been engaged to audit a company's financial statements, plays a significant role in determining auditor independence. This factor has been a subject of intense debate in both academic and regulatory circles due to its potential to influence the quality of audits and the objectivity of auditors. Research has shown that long auditor-client relationships may result in decreased professional scepticism and lead to a reduced willingness of auditors to challenge management's assertions, particularly in firms with long-standing relationships (Tepalagul & Lin, 2015). Over time, auditors may become more familiar with their clients, which can foster a sense of affinity that might cloud their judgment (Herath & Pradier, 2018). This situation can lead to a compromise in independence, where auditors may hesitate to report financial misstatements or concerns due to the pressure to maintain a positive relationship with the client (Tepalagul & Lin, 2015).

Conversely, some scholars argue that long-term auditor tenure allows for the development of a deeper understanding of a client's operations and financial environment, which can improve audit efficiency and effectiveness (Adeniyi et al., 2023). This relationship could lead to better identification of financial irregularities and enhanced audit quality due to the accumulated knowledge of the client over time.

In response to concerns about the potential for auditor tenure to undermine independence, regulatory bodies in some jurisdictions have introduced mandatory audit firm rotation policies. For example, the European Union mandates audit firm rotation after ten years to mitigate the risks associated with long auditor-client relationships (Tepalagul & Lin, 2015). However, critics argue that forced rotation could reduce the effectiveness of audits by limiting the auditor's deep knowledge of the client, which is critical for understanding complex transactions (Herath & Pradier, 2018). Recent studies have further explored the implications of auditor tenure in the context of audit quality. For example, Adeniyi et al. (2023) found that longer auditor tenures were associated with better identification of financial irregularities, but they also cautioned that familiarity threats could lead to biased reporting. Additionally, research by Khasharmeh & Desoky (2019) underscores that the reduced scepticism associated with long-tenure auditors can ultimately harm financial transparency in the long term.

2.2.4.5 Audit Firm Size

The size of the audit firm is often considered a critical determinant of auditor independence and the overall quality of the audit process. In general, larger audit firms, particularly those affiliated with global accounting networks, are perceived to maintain higher audit quality due to their larger resources, broader client portfolios, and more stringent quality control systems (Abbott et al., 2016). These firms benefit from significant institutional structures and regulatory compliance frameworks that help them maintain their independence and ensure that the financial statements they audit are accurate and reliable. Large audit firms have distinct advantages that foster a stronger commitment to independence. One of the primary benefits is their ability to resist client pressures due to the size of their client base and reputation risk. When audit firms are financially dependent on a variety of clients, they are less likely to be influenced by a single client (Herath & Pradier, 2018). The diversified nature of their portfolios helps mitigate the risk that an auditor will be economically dependent on one particular client, which is a significant concern when evaluating auditor independence. The potential for loss of reputation is another reason why large audit firms maintain high standards of professional ethics. Given the size and global presence of these firms, market forces exert significant pressure to maintain objectivity and ethical standards.

The resource base of larger firms is also an important factor in maintaining independence. Larger firms are able to invest in technology, specialized knowledge, and trained personnel, which collectively enhance the audit process (Okoye et al., 2023). This enables them to conduct thorough audits with better accuracy and professionalism. Furthermore, large firms often have global standards for auditing practices, providing a more consistent approach to maintaining audit quality across various markets and industries. This consistent approach helps to ensure that auditors remain independent from client pressures, as the firm's global reputation is at stake. Despite the significant advantages large firms have in maintaining independence, they are not free from challenges. One of the most notable challenges is the pressure to maintain high-profile clients. Large audit firms often engage with high-revenue clients, and the financial significance of these clients can create subtle conflicts of interest. According to Sultana et al. (2019), when a significant portion of an audit firm's revenue comes from a small group of clients, the economic dependence on those clients may compromise the auditor's willingness to issue objective reports, especially when the client's financial reporting practices are questionable. Large audit firms may face internal pressures to retain these clients, which could affect their independence when reporting financial issues that might alienate the client (Khasharmeh & Desoky, 2019).

Additionally, global networks of audit firms face complex issues of coordination and interdependence between offices, which could also potentially affect their independence. While the global structure of these firms often ensures high standards of auditing, differences in the local regulatory environment may lead to variations in the audit approach or quality control mechanisms. This is particularly problematic when large audit firms work with multinational clients, which may attempt to influence the audit outcome to minimize tax liabilities or report more favourably than is warranted by the financial statements (Ramzan, Ahmed, & Rafay, 2020). Recent studies have examined the relationship between audit firm size and auditor independence. For instance, Abbott et al. (2016) found that large audit firms tend to have more robust independence safeguards in place due to their substantial internal controls, reputation management processes, and diversified client bases. However, the study also noted that reputation concerns within large firms sometimes lead to leniency in audits, especially when working with high-profile clients, suggesting that the financial incentives tied to client retention can pose risks to audit objectivity.

Additionally, research by Yakubu & Williams (2020) highlights that while larger audit firms generally produce higher-quality audits, they are still vulnerable to economic dependence on their clients, particularly in industries where clients have substantial financial power. This suggests that while firm size is an important factor in maintaining independence, other mechanisms such as audit committees and independent regulators—must also be employed to ensure that auditors remain objective.

2.2.4.6 Non-Audit Services

The provision of non-audit services (NAS) by auditors is a significant issue when it comes to auditor independence. Non-audit services encompass a range of services such as tax advisory, consulting, and management consulting, all of which can create potential conflicts of interest for auditors. The concern arises when audit firms provide both audit and non-audit services to the same client, leading to the possibility that the auditor's objectivity and impartiality may be compromised by their reliance on non-audit fees. The core issue with the provision of non-audit services is that auditors may become economically dependent on the fees generated from these services, which can threaten their independence (Tepalagul & Lin, 2015). Audit firms that rely heavily on non-audit fees may be less inclined to challenge management's assertions or issue a qualified opinion on the financial statements if it could jeopardize their ability to continue providing lucrative non-audit services (Herath & Pradier, 2018).

For example, tax advisory services can lead auditors to overlook tax-related accounting manipulations or errors in financial reporting, as auditors may feel pressured to maintain a favourable relationship with management to retain the non-audit service contract (Abbott et al., 2016). Similarly, when audit firms offer consulting services, there is a risk that the client management may influence the auditors' decisions to ensure that the audit report is more lenient, particularly in situations where the company may be engaged in questionable financial practices (Sultana et al., 2019). To address the potential conflict of interest arising from non-audit services, many regulatory bodies have implemented restrictions and guidelines limiting the scope of services that audit firms can provide to their audit clients. For instance, the Sarbanes-Oxley Act in the United States prohibits audit firms from providing certain non-audit services to their audit clients, such as internal auditing and management consulting, in order to reduce the risk of auditor dependence on the client for non-audit revenue (Sultana et al., 2019). Similarly, the European Union has imposed restrictions on the amount of non-audit fees an audit firm can receive from a single client, further limiting the potential for economic dependence. Empirical research continues to explore the effects of non-audit services on auditor independence and audit quality. A study by Almaqtari, Farhan, and Alahdal (2024) found that the proportion of non-audit fees to total audit fees was negatively associated with audit quality, suggesting that auditors providing non-audit services may be more prone to compromise independence. Similarly, Meilani & Susanti (2024) emphasized that the greater the reliance on non-audit service fees, the more likely auditors are to overlook material misstatements or fail to challenge client management's financial practices, resulting in lower-quality audits.

Moreover, Quick & Toledano (2023) demonstrated that non-audit services create a moral hazard for auditors, where they may be unwilling to issue clean opinions or raise concerns in the audit report for fear of losing future non-audit contracts. This is especially problematic in high-stakes financial environments, such as the banking sector, where the potential financial rewards from non-audit services can outweigh the long-term benefits of maintaining audit integrity (Tepalagul & Lin, 2015).

2.2.5 Regulatory Frameworks Enhancing Auditor Independence

Recognizing the critical role of auditor independence, regulatory frameworks such as the Companies and Allied Matters Act (CAMA 2020) and guidelines from the Financial Reporting Council (FRC) of Nigeria have been designed to reinforce auditor objectivity and improve financial reporting standards (Arinze et al., 2023). CAMA 2020 introduced stricter provisions aimed at safeguarding auditor independence. For instance, the Act restricts auditors from providing certain non-audit services to audit clients and mandates auditor rotation for specific public interest entities to mitigate the risks associated with prolonged auditor-client relationships (Ola & Ijwo, 2023). These provisions are intended to reduce familiarity threats and economic dependence that could compromise the auditor's ability to exercise professional scepticism. Similarly, the Financial Reporting Council (FRC) has issued extensive guidelines to ensure the ethical behaviour of auditors. The FRC’s Code of Corporate Governance emphasizes that external auditors must maintain objectivity, must not allow personal relationships or commercial interests to interfere with their professional duties, and must disclose any threats to independence to appropriate stakeholders (Ibietan-Oladiran & Etim, 2024). Furthermore, studies such as those by Abdullahi (2023) have shown that firms subject to stricter compliance with CAMA and FRC regulations report fewer instances of restatements and audit failures. This suggests that regulatory enforcement has a direct positive impact on audit quality and financial statement reliability. In addition, the framework governing financial reporting in Nigeria has been harmonized with international best practices through the adoption of International Financial Reporting Standards (IFRS), reinforcing the role of auditor independence in promoting comparability and transparency (Anuforo et al., 2024).

2.2.6 Auditor Independence and Financial Reporting Quality

The relationship between auditor independence and financial reporting quality has long been a subject of academic inquiry and regulatory attention, particularly in environments where transparency and corporate governance are paramount. Auditor independence is the cornerstone of the audit profession's credibility and, by extension, of the reliability of financial statements produced by companies (Ibietan-Oladiran & Etim, 2024). Financial statements audited by independent auditors are expected to present an unbiased view of a firm's financial position, thus enhancing investor confidence and facilitating efficient capital markets. In the Nigerian context, where issues of corporate misgovernance and financial misreporting have been notable concerns, strengthening auditor independence through legal and regulatory frameworks, such as the Companies and Allied Matters Act (CAMA) and the guidelines issued by the Financial Reporting Council (FRC), has been prioritized (Arinze, Uchechukwu, & Nnachi, 2023). Auditor independence, both in appearance and fact, is widely regarded as essential for improving the quality of financial reporting. Independent auditors are better positioned to objectively assess management’s representations and to detect instances of earnings manipulation, misstatements, and fraud (Ofor, Okeke, & Sunday, 2023). Studies have consistently demonstrated that when auditors maintain independence, financial statements tend to exhibit lower levels of discretionary accruals, suggesting less earnings management and higher reporting credibility (Damugum & Bajuri, 2024).

Research by Abdullahi (2023) affirms that auditor independence fosters higher financial reporting quality by reducing managers' ability to manipulate earnings to meet personal or corporate targets. Furthermore, Quick and Toledano (2023) emphasized that independent auditors are less likely to succumb to client pressure, thereby issuing audit opinions that truly reflect a firm's financial situation, without bias. Additionally, empirical studies have demonstrated a positive association between auditor independence and the accuracy, transparency, and reliability of financial disclosures (Anuforo, Joel, & Ndirmbitah, 2024). In environments where auditors maintain their professional scepticism, they are more likely to detect irregularities, propose adjustments, and insist on accurate financial disclosures, even in the face of resistance from management. Conversely, auditors compromised by conflicts of interest—either through long-term relationships, provision of non-audit services, or financial dependence—are less likely to exercise due diligence in detecting material misstatements (Elugom & Erume, 2023).

The significance of maintaining auditor independence becomes even more critical in high-stake industries such as banking, where misreporting can have systemic consequences. The study by Abdullahi and David (2024) highlights that in the Nigerian banking sector, auditor independence significantly impacts corporate survival, as banks are closely monitored by regulators and depend on public trust. Recent empirical studies continue to affirm the critical role of auditor independence in ensuring high-quality financial reporting. For example, Elugom and Erume (2023) demonstrated that firms audited by independent external auditors reported significantly lower discretionary accruals, suggesting less earnings management. Similarly, Josiah and Imafidon (2023) found that independent auditors contributed to improved earnings quality and financial statement transparency among Nigerian listed banks. Moreover, Ofor et al. (2023) emphasized that stronger independence correlates positively with reduced incidences of earnings manipulation and financial statement restatements, particularly in deposit money banks. Their study highlights that auditors who maintained a strict adherence to ethical guidelines produced audits that exhibited a higher degree of credibility and were more informative for stakeholders. Arinze et al. (2023) also observed that compliance with CAMA provisions and FRC ethical guidelines significantly improved financial reporting outcomes, suggesting that regulatory oversight plays an instrumental role in safeguarding auditor independence. The study by Abdullahi and David (2024) adds that corporate governance mechanisms, when properly enforced through regulatory frameworks, amplify the role of auditors as watchdogs rather than mere rubber-stampers of management decisions. In this context, regulatory bodies act as critical enablers of auditor independence, ensuring that auditors prioritize their public duty over client retention.

2.3 Empirical Review

2.3.1 Audit Firm Tenure and Financial Reporting Quality

Akuoko-Sarpong et al. (2024) explore the impact of audit firm tenure on financial reporting quality, particularly within emerging economies where governance structures and regulatory oversight are still evolving. The study underscores that long audit firm tenures can create familiarity between auditors and clients, potentially leading to complacency and a decline in professional scepticism. Over time, auditors may develop personal relationships with client personnel, reducing their willingness to rigorously challenge management assertions. However, the study also highlights that longer tenures enable auditors to develop a deeper understanding of a client's operations, internal controls, and industry-specific risks, which can enhance audit accuracy and efficiency. This duality illustrates the complex trade-off between the benefits of experience and the risks of reduced independence. The researchers conclude that while extended tenure can improve audit effectiveness through accumulated knowledge, it must be carefully managed to prevent threats to independence, especially in contexts like Nigeria, where strong regulatory enforcement is critical.

Yusuf et al. (2023) investigate the effect of audit firm tenure on audit quality within Nigeria's banking sector. The study reveals mixed outcomes, noting that both short and long audit tenures present distinct challenges and benefits. Short tenures may hinder auditors from fully understanding the complexity of banking operations, limiting their ability to detect subtle misstatements or fraudulent activities. Conversely, extended tenures foster familiarity and operational insight but can also result in complacency and a decline in objectivity. The findings emphasize that maintaining a balance between tenure length and auditor independence is essential to preserving the integrity of financial reports. The study suggests the use of robust internal controls and periodic evaluations, along with possible regulatory measures such as mandatory audit partner rotation, to mitigate the risks associated with prolonged auditor-client relationships.

Meilani et al. (2024) examine the relationship between audit firm tenure and financial reporting quality in Indonesian companies. The study finds that longer tenures enhance auditors' knowledge of the client's business environment and operational intricacies, thereby improving risk assessments and audit precision. However, the study also cautions that extended tenures can compromise auditor independence as personal relationships with management deepen. This loss of objectivity may lead to a higher risk of unreported material misstatements. The researchers recommend policies that combine the benefits of tenure-related learning with mechanisms to protect independence, such as mandatory rotation and enhanced oversight, which are particularly important in developing economies where market discipline may be weaker.

Amanamah (2024) analyses the impact of long audit firm tenures on financial reporting in Ghana, highlighting the risks of reduced transparency. The study suggests that while continuity in auditor-client relationships can improve operational efficiency, excessive familiarity may undermine professional scepticism. This accommodation can make auditors less likely to challenge questionable accounting practices, potentially compromising the reliability of financial statements. The study emphasizes the heightened importance of regulatory interventions in contexts where oversight is limited. Measures such as mandatory audit rotation and restrictions on non-audit services are recommended to mitigate these risks, ensuring that auditors maintain the necessary objectivity to safeguard financial transparency.

Sabandar et al. (2024) provide a comprehensive analysis of audit firm tenure in Southeast Asia, illustrating how extended auditor tenures can negatively affect financial reporting quality. The study finds that long tenures may lead to reduced independence, increasing the likelihood of lenient stances on contentious accounting issues and facilitating earnings management. The researchers advocate for mandatory audit firm rotation as a practical strategy to counteract these familiarity threats. By introducing new perspectives, rotation can help restore professional scepticism and enhance the objectivity of audits. This approach is particularly relevant to sectors like banking, where credible financial reporting is crucial for maintaining public trust and systemic stability.

2.3.2 Audit Firm Size and Financial Reporting Quality

Adewumi et al. (2023) examine the relationship between audit firm size and financial reporting quality in Nigerian-listed companies, emphasizing that larger audit firms are more likely to deliver high-quality and reliable financial statements. The study argues that larger firms possess greater human and technological resources, which enable them to implement rigorous audit methodologies and maintain higher professional standards. This comprehensive resource base allows large audit firms to conduct thorough risk assessments, apply more advanced analytical techniques, and maintain stronger internal quality controls. According to the study, these capabilities significantly reduce the risk of earnings manipulation and other forms of financial misreporting. The findings also highlight that large audit firms are better positioned to withstand management pressures due to their established reputations and diversified client portfolios, making them less economically dependent on individual clients. Consequently, they are less likely to compromise on audit quality to maintain business relationships, thereby enhancing financial transparency and credibility in the Nigerian corporate environment.

Rajgopal et al. (2023) investigate the impact of audit firm size on financial reporting quality, providing evidence that larger audit firms tend to produce more accurate and reliable financial disclosures. The study asserts that firms with substantial resources and technical capacity can enforce more stringent auditing practices and maintain independence more effectively. Large audit firms often have access to a wider pool of experienced professionals and specialized expertise, which enhances their ability to detect complex financial irregularities and mitigate the risks of earnings management. Additionally, their global networks and adherence to international auditing standards further strengthen their ability to deliver high-quality audits. The study emphasizes that these advantages make larger audit firms more capable of upholding the integrity of financial statements, thereby fostering greater investor confidence and contributing to more efficient capital markets. The findings underscore the importance of audit firm size as a critical determinant in safeguarding financial reporting quality, particularly in environments where corporate governance challenges are prevalent.

Kyriakou et al. (2024) explore the relationship between audit firm size and earnings management, suggesting that larger audit firms are more effective at preventing financial misstatements due to their robust technical skills and advanced internal quality control mechanisms. The study indicates that larger firms are typically subject to stricter regulatory oversight and have more comprehensive training programs for their staff, which contribute to greater audit diligence and precision. By implementing standardized auditing procedures and leveraging cutting-edge technologies, large audit firms can more effectively identify and address potential areas of earnings manipulation. The study also notes that these firms are more likely to enforce a strong culture of independence and professional scepticism, which are essential for detecting and deterring management bias in financial reporting. Overall, the findings suggest that the presence of large audit firms can lead to enhanced transparency and greater stakeholder trust, reflecting the critical role of audit firm size in supporting high standards of financial reporting.

Fariha et al. (2024) analyse the impact of audit firm size on financial reporting quality in emerging market contexts, arguing that larger audit firms are better positioned to enforce higher standards and ensure the integrity of financial disclosures. The study emphasizes that large audit firms often have more robust independence policies and are less economically reliant on individual clients. This reduced dependence minimizes the risk of conflicts of interest and enables auditors to maintain objectivity even when faced with management pressure. Furthermore, the study highlights that large audit firms are more likely to have established global affiliations, which facilitate access to international best practices and continuous professional development opportunities for their staff. These factors collectively contribute to more thorough and reliable audits, thereby enhancing the overall quality of financial reporting. The findings are particularly relevant to emerging markets, where institutional weaknesses and governance challenges can increase the likelihood of financial misstatements. By reinforcing audit quality, large audit firms play a pivotal role in promoting financial market stability and investor protection.

Meilani et al. (2024) investigate how audit firm size influences financial reporting quality in Indonesian companies, concluding that larger audit firms, owing to their extensive resources and advanced auditing systems, are more likely to produce higher-quality audits and accurate financial statements. The study suggests that these firms possess superior audit methodologies and access to cutting-edge technologies, which enable more effective detection of misstatements and fraudulent activities. Moreover, large audit firms often implement continuous monitoring systems and periodic peer reviews to maintain high-quality standards and ensure compliance with regulatory requirements. The study also points out that large firms are better positioned to uphold auditor independence, as they can resist client pressures more effectively and are less likely to prioritize client retention over audit integrity. This independence is crucial for providing unbiased and transparent financial reports, which are essential for informed decision-making by investors, creditors, and regulators. The findings underscore the critical importance of audit firm size in enhancing financial reporting credibility, particularly in jurisdictions with evolving regulatory environments.

2.3.3 Non-Audit Services and Financial Reporting Quality

Elswah et al. (2024) examine the effect of non-audit services on audit quality and financial reporting, concluding that the provision of excessive non-audit services can undermine audit quality and financial reporting reliability due to potential conflicts of interest. The study emphasizes that when audit firms provide significant non-audit services, such as tax advisory, consulting, or IT services, they may develop close economic relationships with their clients. These relationships can compromise auditor independence, as auditors might become reluctant to challenge management aggressively for fear of losing lucrative non-audit contracts. The study advocates for a strict separation between audit and non-audit services to preserve auditor independence and safeguard the integrity of financial statements. By maintaining this separation, audit firms can ensure that their primary responsibility remains to deliver objective and high-quality audits, which is essential for maintaining stakeholder trust and enhancing market confidence.

Furiady et al. (2022) discuss the impact of non-audit services on financial reporting quality, offering a nuanced perspective on how these services can sometimes enhance, rather than impair, reporting outcomes. The study argues that when auditors manage non-audit services effectively and retain their independence, these services can contribute positively to the financial reporting process. For instance, non-audit services such as tax planning or systems consulting can provide auditors with a more comprehensive understanding of a client’s business operations, internal controls, and risk environment. This deeper insight can enable auditors to design more effective audit procedures and improve the accuracy of financial reports. However, the study stresses the importance of establishing clear boundaries and regulatory frameworks to prevent the erosion of auditor objectivity. Effective oversight and transparency in disclosing the nature and scope of non-audit services are critical for balancing potential benefits with the risk of conflicts of interest.

Sabandar et al. (2024) investigate the relationship between non-audit services and financial reporting quality in emerging market contexts, highlighting that when managed appropriately, non-audit services can actually enhance financial transparency and improve the quality of financial disclosures. The study notes that in certain cases, non-audit services help strengthen a firm’s internal control systems and promote better compliance with financial regulations. This can lead to more accurate and comprehensive financial reporting, which benefits investors and other stakeholders by providing clearer insights into a firm's economic performance and financial health. Nevertheless, the study cautions that the positive impact of non-audit services is contingent on maintaining auditor independence and implementing robust governance structures. Without proper safeguards, the provision of non-audit services could deteriorate audit quality by creating financial dependencies and conflicts of interest that compromise the auditor's ability to act objectively.

Elswah et al. (2024) also discuss how non-audit services might compromise the objectivity of auditors, especially in companies with weak governance structures and inadequate regulatory oversight. The study indicates that in such environments, auditors may prioritize the retention of non-audit service engagements over their responsibility to provide unbiased audit opinions. This prioritization can lead to less rigorous audit procedures and an increased likelihood of financial misreporting. The study calls for stricter regulatory frameworks to limit the scope and value of non-audit services provided by audit firms. By enforcing tighter restrictions, regulators can help ensure that auditors remain independent and focused on their primary duty of protecting public interest through high-quality financial reporting. The study further recommends enhanced disclosure requirements, enabling stakeholders to assess potential conflicts of interest and make more informed evaluations of audit quality.

Amanamah et al. (2024) explore the impact of non-audit services on financial reporting quality, emphasizing the challenges these services pose to auditor independence. The study suggests that while non-audit services can provide valuable business insights and operational improvements that indirectly enhance financial reporting quality, they also introduce significant risks. One of the main concerns is that auditors who provide substantial non-audit services may become financially dependent on their clients, leading to a reduced willingness to issue adverse audit opinions or to rigorously investigate potential misstatements. The study argues that this dependence undermines the fundamental principle of auditor independence, which is critical for maintaining the credibility of financial statements. To mitigate these risks, the study advocates for clear regulatory guidelines that delineate acceptable non-audit services and impose caps on the proportion of fees that audit firms can earn from non-audit engagements relative to total client fees.

2.4 Theoretical Review

The application of theory is critical for understanding the relationship between auditor independence and financial reporting quality. Theories provide a conceptual foundation for analysing how external audits influence transparency, reliability, and the credibility of corporate financial statements. The quality of financial reporting is shaped by several mechanisms, including audit firm tenure, audit firm size, and the provision of non-audit services, which collectively impact the ability of auditors to remain objective and independent.

This theoretical review examines three prominent theories that are essential for understanding auditor independence and financial reporting quality: Agency Theory, Signalling Theory, and Institutional Theory. Among these, Agency Theory serves as the primary framework for this study, as it directly addresses issues of accountability, oversight, and conflict of interest between management and shareholders that necessitate independent external auditing. Signalling Theory and Institutional Theory provide complementary perspectives, illustrating how firms use audit quality to communicate with external stakeholders and conform to regulatory expectations.

2.3.1 Agency Theory

Agency Theory, developed by Jensen and Meckling (1976), explains the principal-agent relationship that exists between shareholders (principals) and managers (agents) within a corporate governance framework. The theory suggests that due to the separation of ownership and control, managers may act in their own interests rather than prioritizing shareholders' objectives, leading to agency conflicts. These conflicts create information asymmetry, where managers have access to more information than shareholders and may engage in opportunistic behaviours, including earnings manipulation or misrepresentation of financial performance.

Agency Theory posits that strong governance mechanisms, such as independent external auditing, are necessary to mitigate agency conflicts and ensure accountability. Auditors serve as monitoring agents, ensuring that managers' financial reports are accurate, complete, and reflect the true economic position of the firm. In this context, auditor independence becomes essential in preventing bias and maintaining the credibility of financial reporting.

Specifically, in the Nigerian context, where weak corporate governance practices and financial reporting irregularities have been noted, Agency Theory provides a strong theoretical justification for the critical role of auditor independence (Abdullahi & David, 2024). Independent auditors act on behalf of shareholders to verify management's financial disclosures, thereby reducing the risk of agency costs arising from earnings manipulation and financial misstatements.

This study applies Agency Theory as its primary theoretical framework because it explains how audit firm characteristics such as tenure, size, and service scope influence the auditor's ability to remain independent and thus uphold the quality of financial reporting. Effective external auditing, grounded in Agency Theory principles, enhances transparency, reduces information asymmetry, and fosters investor confidence in financial disclosures.

2.3.2 Signalling Theory

Signalling Theory, introduced by Spence (1973), focuses on how entities convey important information to reduce information asymmetry between themselves and external stakeholders. The theory suggests that firms with better internal quality and financial health will attempt to signal this to the market through credible and observable actions, thereby differentiating themselves from lower-quality firms. In the context of financial reporting, audited financial statements serve as a signal to investors, regulators, and the public regarding the firm's financial integrity. Auditor independence strengthens this signal by assuring stakeholders that the financial information presented is accurate, objective, and free from management bias (Quick & Toledano, 2023). Audited reports issued by independent auditors communicate the company's commitment to transparency and good governance practices. When firms engage independent auditors and comply with strict audit quality standards, they send a positive signal that they prioritize accountability and investor protection. On the other hand, compromised auditor independence may send a negative signal, leading to investor scepticism and reduced firm value (Anuforo et al., 2024). Applying Signalling Theory to this study provides a broader understanding of why auditor independence is vital for firms operating in dynamic capital markets like Nigeria. Firms that maintain high audit quality through independent external audits are better positioned to attract investors, build reputational capital, and sustain long-term growth.

2.3.3 Institutional Theory

Institutional Theory, developed by DiMaggio and Powell (1983), emphasizes the influence of institutional environments such as regulatory agencies, professional bodies, and societal norms on organizational behaviour. The theory suggests that firms conform to regulatory pressures and industry expectations to gain legitimacy, acceptance, and stability. In the context of auditing, Institutional Theory explains why firms and audit practitioners align with regulatory standards such as the Companies and Allied Matters Act (CAMA 2020) and Financial Reporting Council (FRC) guidelines. These regulatory frameworks impose structures that promote auditor independence and enhance financial reporting quality (Ibietan-Oladiran & Etim, 2024). Audit firms comply with institutionalized norms, such as mandatory auditor rotation policies and restrictions on non-audit services, to demonstrate ethical conduct and maintain their legitimacy. Firms that align with these institutional expectations are viewed as more credible, socially responsible, and trustworthy by investors, regulators, and the public (Elugom & Erume, 2023). In Nigeria, regulatory bodies such as the FRC and Central Bank of Nigeria (CBN) have continued to refine institutional frameworks to safeguard auditor independence, thereby improving the quality and credibility of financial reporting in the corporate sector.

This review has explored three major theories that inform the study of auditor independence and financial reporting quality: Agency Theory, Signalling Theory, and Institutional Theory.

Agency Theory serves as the primary framework, explaining how auditor independence is critical for reducing agency costs and ensuring the credibility of financial statements.

Signalling Theory provides insight into how independent audits communicate firm transparency and trustworthiness to the market, while Institutional Theory highlights the influence of regulatory frameworks and societal expectations on maintaining auditor objectivity. Together, these theories offer a comprehensive foundation for analysing how audit firm characteristics impact auditor independence and financial reporting quality within the Nigerian banking sector. They collectively strengthen the study's focus on enhancing transparency, improving regulatory compliance, and building investor confidence through high-quality financial disclosures.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter outlines the methodology employed to achieve the study's objectives and ensure the accuracy and reliability of the findings. It provides a detailed description of the research design, population, sampling techniques, sample size determination, data sources, data analysis techniques, and the operationalization of variables. This section ensures transparency and clarity in the research process.

3.2 Research Design

The research design adopted for this study is the ex-post facto research design. This design is appropriate for the study as it involves analysing existing data from events that have already occurred. Specifically, the study relies on secondary data sourced from the annual reports of deposit money banks listed on the Nigerian Exchange (NGX), covering the period from 2017 to 2024. The ex-post facto design is beneficial because it allows for the examination of historical data to understand the relationship between auditor independence and financial reporting quality, without manipulating the variables involved. This design is particularly suitable as it enables the exploration of naturally occurring data and offers insights into the influence of factors such as audit firm tenure, audit firm size, and non-audit services on financial reporting quality.

3.3 Population of the Study

The population for this research consists of all 12 deposit money banks listed on the Nigerian Exchange (NGX) as of December 31, 2024. These banks are crucial to Nigeria's economic stability and are legally required to maintain and publish financial reports. The focus of the study is specifically on these 12 deposit money banks, ensuring that the study reflects the financial practices of the major players in the Nigerian banking sector during the study period. This comprehensive population provides a clear and accurate representation of current practices regarding auditor independence and financial reporting quality within the Nigerian banking sector.

3.4 Sampling and Sample Size

In this study, a census approach was employed to select the banks for inclusion. Since the study is focused on all deposit money banks listed on the Nigerian Exchange (NGX) as of December 31, 2024, no sampling is necessary. Instead, the study includes all twelve banks listed on the NGX. The decision to use a census ensures comprehensive coverage of the sector and eliminates any potential biases that might arise from sampling. The inclusion of all twelve banks provides a more complete and accurate representation of current practices regarding auditor independence and financial reporting quality in Nigeria's banking sector.

3.5 Sources of Data

This study utilizes secondary data, which were obtained from the annual financial reports of the NGX-listed deposit money banks for the period 2017 to 2024. These reports were selected for their accessibility, reliability, and the detailed financial metrics they provide, such as capital expenditure, audit fees, tax expenses, and investment patterns all essential for understanding how auditor independence affects financial reporting quality. The reports were accessed from the Nigerian Exchange website, as well as directly from the banks' official websites and public filings, ensuring the accuracy and relevance of the data used.

3.6 Model Specification

This study focuses on examining the relationship between auditor independence and financial reporting quality among deposit money banks listed on the Nigerian Exchange (NGX). The model adopted in this research is adapted and modified from the work of Imafidon, Josiah, and Agbo (2023), who investigated audit independence and financial statements quality in Nigerian listed banks.

The original model presented by Imafidon et al. (2023) is specified as:

$$JOSA_{it} = \beta_0 + \beta_1 AUDF_{it} + \beta_2 JOTA_{it} + \beta_3 AUDT_{it} + \beta_4 AUDO_{it} + \beta_5 FAO_{it} + e_{it}$$

Where:

JOSA = Jones discretionary accruals (proxy for financial reporting quality)

AUDF = Auditors' Fee

JOTA = Joint Auditor

AUDT = Auditor Tenure

AUDO = Auditor Opinion

CFOA = Cash Flow from Operating Activities

i = Cross-sectional unit (individual bank)

t = Time period

e = Stochastic error term

This study modifies the original model by focusing on key auditor independence proxies relevant to the Nigerian banking context, namely audit firm tenure, audit firm size, and non-audit services. Financial reporting quality is proxied using discretionary accruals estimated via the Modified Jones Model.

Functional Form:

FRQ = f(AFT, AFS, NAS)

Where:

FRQ = Financial Reporting Quality (measured by Earnings Smoothness)

AFT = Audit Firm Tenure (measured in years)

AFS = Audit Firm Size (measured as a binary variable for Big Four or Non-Big Four firms)

NAS = Non-Audit Services (measured as a ratio of non-audit fees to total audit fees)

Econometric Model:

$FRQ_{it} = \beta_0 + \beta_1 AFT_{it} + \beta_2 AFS_{it} + \beta_3 NAS_{it} + \epsilon_{it}$

Where:

β0 = Constant term (intercept)

FRQit = Financial Reporting Quality for bank i in year t (measured by Earnings Smoothness)

AFTit = Audit Firm Tenure for bank i in year t (measured in years)

AFSit = Audit Firm Size for bank i in year t (measured as a binary variable for Big Four or Non-Big Four firms)

NASit = Non-Audit Services for bank i in year t (measured as a ratio of non-audit fees to total audit fees)

β1, β2, β3 = Coefficients for the independent variables

ϵit = Error term for bank i in year t

A Priori Expectations:

1. **β1 (AFT - Audit Firm Tenure)**: **Positive**

$\beta_1 > 0$: Longer audit firm tenure may improve familiarity and lead to better audit outcomes, but overly long tenure could impair independence..

2. **β2 (AFS - Audit Firm Size)**: **Positive**

$\beta_2 > 0$: Larger audit firms (Big Four) are expected to enhance reporting quality due to better expertise and independence safeguards.

3. **β3 (NAS - Non-Audit Services)**: **Negative**

$\beta_3 < 0$: Higher reliance on non-audit services may compromise auditor independence and reduce reporting quality.

3.7 Measurement of Variables

The operationalization of variables defines how each variable in the study is measured and observed. This study investigates the relationship between auditor independence and financial reporting quality in Nigerian deposit money banks listed on the Nigerian Exchange (NGX). The dependent variable, financial reporting quality, is measured using Earnings Smoothness, which reflects the stability and predictability of earnings over time relative to cash flows, capturing the reliability of reported earnings. The independent variables remain audit firm tenure, audit firm size, and non-audit services.

Below is the final operationalization of these variables:

Table 3.1: Operationalization of Variables

1	Earnings Smoothness (Financial Reporting Quality)	Dependent	Measured as the ratio of the standard deviation of cash flows from operations to the standard deviation of earnings. Higher smoothness indicates more stable earnings and higher financial reporting quality.	Adapted from Barth et al. (2017); Roychowdhury (2020)	Positive (Greater smoothness implies higher quality)
2	Audit Firm Tenure	Independent	Length of the auditor-client relationship measured in years from the start of the first engagement.	Agussalim (2019)	Positive (Longer tenure improves understanding and quality)
3	Audit Firm Size	Independent	Binary variable: 1 if audit firm is one of the Big Four, 0 otherwise. This is a proxy for audit quality linked to firm size and resources.	Velte & Loy (2018)	Positive (Larger firms improve audit quality)
4	Non-Audit Services	Independent	Ratio of non-audit fees to total audit fees, sourced from auditor's reports or financial statements.	Furiady et al. (2022)	Negative (Excessive non-audit services may impair independence)

Source: Researcher's Compilation (2025)

3.8 Method of Data Analysis

This study employs a panel data approach, combining both time-series and cross-sectional data from 2017 to 2024, to analyse the relationship between auditor independence and financial reporting quality among deposit money banks listed on the Nigerian Exchange (NGX). The panel data approach allows for controlling unobserved heterogeneity across both time and individual banks, which improves the reliability and generalizability of the results.

The primary analytical method used in this study will be Ordinary Least Squares (OLS) regression, which is appropriate for estimating the relationships between the independent variables (audit firm tenure, audit firm size, and non-audit services) and the dependent variable (financial reporting quality). However, it is important to note that OLS regression relies on several key assumptions, including normality of the residuals, no multicollinearity among the independent variables, homoscedasticity, and linearity. Should these assumptions be violated, alternative methods will be considered, such as:

- **Robust standard errors** to account for heteroscedasticity,
- **Generalized Least Squares (GLS)** or **Fixed Effects/Random Effects Models** if unobserved heterogeneity significantly affects the results,
- **Instrumental Variable (IV) regression** if endogeneity is detected.

To ensure that the data meets the necessary assumptions, a series of diagnostic tests will be conducted:

- **Normality** of residuals will be assessed using skewness and kurtosis tests.
- **Multicollinearity** will be examined using the Variance Inflation Factor (VIF).
- **Heteroscedasticity** will be checked using the Breusch-Pagan test.
- The **Hausman test** will be employed to determine whether to use the fixed effects or random effects model, depending on the suitability of each for the data.

Descriptive statistics will first be applied to summarize the data, followed by correlation analysis to examine the strength and direction of the relationships between the independent and dependent variables. Then, multiple regression analysis will be conducted to assess the statistical significance, strength, and direction of the relationships between the independent variables (audit firm tenure, audit firm size, and non-audit services) and financial reporting quality. This will allow for an understanding of how these factors collectively influence the quality of financial reporting in Nigerian deposit money banks.

All analyses will be performed using EViews 9 software to ensure the accuracy and robustness of the findings.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter presents the data analysis and interpretation of the empirical findings of the study. The analysis is based on the results obtained from the statistical and econometric tests conducted using EViews 9.0. The aim is to assess the relationship between audit characteristics and financial reporting quality among the sampled firms. This chapter covers descriptive statistics, correlation analysis, multicollinearity test (Variance Inflation Factors), heteroskedasticity test, Hausman specification test, redundant fixed effects test and Regression analysis. Each of these is examined and interpreted in the sections that follow.

4.2 Information of the Firms

This study covers all twelve deposit money banks (DMBs) listed on the Nigerian Exchange (NGX) as of December 31, 2024: Access Bank, Guaranty Trust Bank (GTBank), Zenith Bank, Stanbic IBTC Bank, Fidelity Bank, United Bank for Africa (UBA), Wema Bank Plc, Sterling Bank, First Bank of Nigeria Holdings Plc, Eco Bank, First City Monument Bank Plc (FCMB), and Union Bank. Most of these banks engage Big Four audit firms (KPMG, PwC, Ernst & Young, and Deloitte), reflecting strong commitments to audit quality and transparency. Audit firm tenure varies among the banks, with some maintaining long-term auditor relationships while others adopt periodic changes to reinforce independence. Additionally, a few banks engage their auditors for non-audit services, which may affect auditor objectivity and financial reporting quality. Including all twelve banks ensures comprehensive sector coverage and provides a robust foundation for examining the impact of auditor independence on financial reporting quality in Nigeria's banking industry.

4.3 Data Presentation

Table 4.1 Descriptive Statistics

	FRQ	AFT	AFS	NAS
Mean	0.696250	0.864583	0.989583	0.163646
Median	0.690000	1.000000	1.000000	0.161500
Maximum	0.900000	1.000000	3.000000	0.202000
Minimum	0.500000	0.000000	0.000000	0.146000
Std. Dev.	0.102024	0.343964	0.911849	0.009096
Skewness	0.124827	-2.131019	0.439195	2.022195
Kurtosis	2.017171	5.541242	2.158066	8.481733
Jarque-Bera	4.113118	98.49151	5.921689	185.6259
Probability	0.127893	0.000000	0.051775	0.000000
Sum	66.84000	83.00000	95.00000	15.71000
Sum Sq. Dev.	0.988850	11.23958	78.98958	0.007860
Observations	96	96	96	96

Source: Researcher's Computation (2025), Eviews 9.0

Table 4.1 presents the descriptive statistics for the variables used in this study: Financial Reporting Quality (FRQ), Audit Firm Tenure (AFT), Audit Firm Size (AFS), and Non-Audit Services (NAS). For FRQ, there are 96 observations, with a mean value of 0.696, suggesting that, on average, the sampled banks maintain a moderately high level of financial reporting quality throughout the study period. The minimum and maximum values of 0.500 and 0.900 indicate some variability in reporting practices among the banks. The standard deviation is 0.102, which implies relatively low dispersion around the mean. The skewness value of 0.125, which is close to zero, suggests that the distribution is approximately symmetric, while the kurtosis value of 2.017 is below the benchmark value of 3, indicating a platykurtic distribution with lighter tails. The Jarque-Bera probability of 0.128 supports the null hypothesis of normal distribution at the 5% significance level.

Regarding audit firm tenure, there are also 96 observations, with a mean value of 0.865, reflecting a general tendency among banks to retain their auditors for longer periods. The minimum value is 0.000, and the maximum is 1.000, suggesting that while some banks change auditors frequently, others maintain longer relationships. The standard deviation of 0.344 shows moderate variability across the sample. The skewness of -2.131 exceeds the ±1 benchmark, indicating a highly negative skewness, meaning the distribution is concentrated toward higher tenure values. The kurtosis value of 5.541 is above 3, suggesting a leptokurtic distribution with heavier tails. The Jarque-Bera probability is 0.000, indicating that audit firm tenure does not follow a normal distribution at the 1% significance level.

Audit firm size has 96 observations, with a mean value of 0.990, implying that most banks in the sample engage large (Big Four) audit firms. The minimum and maximum values are 0.000 and 3.000, showing variation in auditor choices and potential reclassifications. The standard deviation is 0.912, reflecting high dispersion in audit firm size across the banks. The skewness value of 0.439 falls within the acceptable ±1 range, indicating moderate skewness and approximate symmetry. The kurtosis value of 2.158 is below the benchmark of 3, suggesting a platykurtic distribution. The Jarque-Bera probability of 0.052 suggests that audit firm size approximately follows a normal distribution at the 5% significance level.

For non-audit services, there are 96 observations, with a mean value of 0.164, indicating a moderate level of reliance on non-audit services among the sampled banks. The minimum value is 0.146, and the maximum is 0.202, suggesting a relatively narrow range. The standard deviation of 0.009 indicates very low variability. The skewness value of 2.022 is above the ±1 benchmark, indicating a highly positive skewness and suggesting that the distribution is skewed toward lower values. The kurtosis value of 8.482 is significantly higher than 3, indicating a leptokurtic distribution with heavy tails and pronounced peakedness. The Jarque-Bera probability of 0.000 implies that non-audit services do not follow a normal distribution at the 1% significance level.

Table 4.2 Correlation Analysis

Correlation	**FRQ**	**AFT**	**AFS**	**NAS**
FRQ	1.000000			
AFT	0.188374	1.000000		
AFS	0.272619	-0.105229	1.000000	
NAS	0.346587	0.203199	0.174690	1.000000

Source: Researcher's Computation (2025), EViews 9.0

Table 4.2 presents the Pearson correlation coefficients among the dependent variable (Financial Reporting Quality; FRQ) and the independent variables (Audit Firm Tenure; AFT; Audit Firm Size; AFS; and Non-Audit Services; NAS). The results show that FRQ has a positive correlation with AFT (0.188), indicating a weak direct relationship between audit firm tenure and financial reporting quality. FRQ also shows a positive correlation with AFS (0.273), suggesting that banks audited by larger firms tend to exhibit higher financial reporting quality, although the relationship remains relatively weak. Similarly, FRQ has a positive correlation with NAS (0.347), implying that higher levels of non-audit services are associated with higher reported financial reporting quality; this should be interpreted with caution due to potential independence concerns. The correlations among the independent variables remain weak, with the highest being between NAS and AFT (0.203), followed by NAS and AFS (0.175), and a slightly negative correlation between AFT and AFS (-0.105). These low correlation values among the independent variables suggest that multicollinearity is unlikely to distort the regression analysis; thus, their inclusion together in the same model is justified.

Table 4.3 Variance Inflation Factors

Variable	Coefficient Variance	Uncentered VIF
AFT	0.000290	7.817778
AFS	4.05E-05	2.271917
NAS	0.011782	9.852387

Source: Researcher's Computation (2025), Eviews 9.0

The Variance Inflation Factor (VIF) results in Table 4.3 provide further assessment of multicollinearity. A VIF below 10 is generally considered acceptable, while values above this threshold suggest multicollinearity concerns. In this case, AFS has a low VIF of 2.27, indicating no multicollinearity issue. However, AFT and NAS have higher VIFs of 7.82 and 9.85, respectively. Although these values do not exceed the critical threshold, they are relatively high and may signal a potential concern. Careful interpretation of coefficients for AFT and NAS is therefore necessary, and the results should be evaluated alongside other diagnostics.

Table 4.4 Heteroskedasticity Test

F-statistic	3.332314	Prob. F(2,93)	0.0400
Obs*R-squared	6.419572	Prob. Chi-Square(2)	0.0404
Scaled explained SS	12.27487	Prob. Chi-Square(2)	0.0022

Source: Researcher's Computation (2025), Eviews 9.0

Table 4.4 displays the results of the heteroskedasticity test using the Breusch-Pagan approach. The F-statistic (3.33) and the Obs*R-squared value (6.42) are both statistically significant at the 5% level, with p-values of 0.0400 and 0.0404, respectively. Additionally, the Scaled Explained Sum of Squares (12.27) yields a p-value of 0.0022, which is also significant. These findings indicate the presence of heteroskedasticity in the regression residuals, meaning that the variance of the error terms is not constant. This violation of the classical OLS assumption can result in inefficient estimates and misleading standard errors. To correct for this issue, robust standard errors should be applied in the regression analysis to ensure valid statistical inference.

Table 4.5 Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	3.231394	3	0.3573

Source: Researcher's Computation (2025), Eviews 9.0

Table 4.5 presents the results of the Hausman specification test, which is used to determine whether a fixed effects or random effects model is more appropriate for the panel data analysis. The test produced a Chi-square statistic of 3.231 with a corresponding p-value of 0.3573. According to the decision rule for the Hausman test, if the p-value is less than 0.05, the null hypothesis is rejected, and the fixed effects model is preferred; if the p-value is greater than 0.05, the null hypothesis is not rejected, indicating that the random effects model is more suitable. In this case, since the p-value exceeds the 5% significance level, the null hypothesis is not rejected, suggesting that the random effects model is preferable as it is more efficient and consistent under these conditions. However, theoretical justifications and further diagnostics must be considered when making the final model choice.

Table 4.6 Redundant Fixed Effects Tests

Effects Test	Statistic	d.f.	Prob.
Cross-section F	77.588359	(11,81)	0.0000
Cross-section Chi-square	234.771116	11	0.0000

Source: Researcher's Computation (2025), Eviews 9.0

In contrast to the Hausman test, the redundant fixed effects test in Table 4.6 shows strong evidence supporting the use of a fixed effects model. The cross-section F-statistic (77.588) and cross-section Chi-square statistic (234.771) are both highly significant with p-values of 0.0000. This indicates that fixed effects significantly improve the model, suggesting that unobserved heterogeneity across cross-sections (firms) plays a vital role. Although the Hausman test recommends a random effects model, the strong significance of the redundant fixed effects test, combined with theoretical considerations regarding firm-specific characteristics, supports the use of a fixed effects model. Therefore, the fixed effects model is preferred, as it accounts for unobserved differences among banks and provides more reliable and robust estimates for this study.

Table 4.7 Regression Analysis (Robust Standard Errors)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.363756	0.076690	4.743230	0.0000
AFT	0.011403	0.010691	1.066544	0.2893
AFS	0.009243	0.003416	2.705380	0.0083
NAS	1.915651	0.473712	4.043919	0.0001

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.932296	Mean dependent var	0.696250
Adjusted R-squared	0.920594	S.D. dependent var	0.102024
S.E. of regression	0.028749	Akaike info criterion	-4.117796
Sum squared resid	0.066949	Schwarz criterion	-3.717117
Log likelihood	212.6542	Hannan-Quinn criter.	-3.955835
F-statistic	79.67052	Durbin-Watson stat	0.556743
Prob(F-statistic)	0.000000		

Source: Researcher's Computation (2025), Eviews 9.0

Table 4.7 presents the regression results assessing the impact of Audit Firm Tenure (AFT), Audit Firm Size (AFS), and Non-Audit Services (NAS) on Financial Reporting Quality (FRQ), using a fixed effects model with robust standard errors. The R-squared value of 0.9323 indicates that approximately 93% of the variation in financial reporting quality is explained by the independent variables and firm-specific fixed effects. The model is statistically significant overall, as evidenced by the F-statistic of 79.67 and its corresponding p-value of 0.0000, indicating that the explanatory variables collectively have a strong influence on FRQ. The adjusted R-squared of 0.9206 further confirms the model's robustness, accounting for the number of predictors. The standard error of the regression (0.0287) suggests a close fit of the model to the data, although the Durbin-Watson statistic (0.5567) indicates the presence of positive autocorrelation, which may affect estimator efficiency.

Regarding individual coefficients, Non-Audit Services (NAS) has the largest and most statistically significant effect on FRQ, with a coefficient of 1.9157 and a p-value of 0.0001. This implies that greater involvement of auditors in non-audit services is associated with higher perceived financial reporting quality, possibly due to increased familiarity and deeper understanding of client operations. Audit Firm Size (AFS) is also positively and significantly related to FRQ (coefficient = 0.0092; p = 0.0083), suggesting that larger firms tend to demonstrate better financial reporting practices, likely driven by stricter regulatory scrutiny and stronger internal controls. Audit Firm Tenure (AFT), on the other hand, shows a positive but statistically insignificant relationship with FRQ (coefficient = 0.0114; p = 0.2893), indicating that the length of the auditor-client relationship does not have a meaningful impact on reporting quality in this context. This finding aligns with prior studies suggesting that prolonged auditor tenure does not necessarily translate into higher audit effectiveness. Overall, these results support the significance of audit firm size and non-audit service provision in enhancing financial reporting quality, even after adjusting for heteroskedasticity.

4.2 Test of Hypotheses

Hypothesis One (H01): There is no significant relationship between audit firm tenure and financial reporting quality among deposit money banks listed on the Nigerian Exchange.

From the regression analysis in Table 4.7, Audit firm tenure (AFT) has a coefficient of 0.0114 with a p-value of 0.2893, which is greater than the conventional significance level of 0.05. This indicates that the relationship between audit firm tenure and financial reporting quality is statistically insignificant. Therefore, we fail to reject the null hypothesis (H01). The implication of this result is that extended audit firm tenure does not have a discernible effect on the quality of financial reporting within the sampled banks. This could suggest that prolonged audit relationships neither enhance nor impair auditor independence in the Nigerian banking sector, potentially due to effective regulatory oversight and existing corporate governance practices..

Hypothesis Two (H02): There is no significant association between audit firm size and financial reporting quality of deposit money banks in Nigeria.

The regression result shows that Audit firm size (AFS) has a positive coefficient of 0.0092 with a p-value of 0.0083, which is statistically significant at the 1% level. This implies a significant positive relationship between audit firm size and financial reporting quality. Consequently, we reject the null hypothesis (H02). This finding suggests that larger audit firms, likely due to their greater expertise, resources, and reputation, contribute more effectively to enhancing the quality of financial reports. It reinforces the idea that clients audited by bigger audit firms are more likely to adhere to stringent accounting standards and practices.

Hypothesis Three (H03): There is no significant link between non-audit services and financial reporting quality among deposit money banks quoted on the Nigerian Exchange.

Non-Audit Services (NAS) have a coefficient of 1.9157 and a p-value of 0.0001, which is highly significant at the 1% level. This denotes a strong and positive association between NAS and financial reporting quality. Thus, the null hypothesis (H03) is also rejected. The result implies that the provision of additional, non-audit services by audit firms may improve the quality of financial reporting—perhaps due to the auditors' broader understanding of the client's systems and operations. However, while the statistical outcome is positive, it should be interpreted cautiously, considering the ongoing debates about whether such services impair auditor independence or strengthen auditor insight.

4.3 Discussion of Findings

The findings from the regression analysis offer valuable insights into how specific audit characteristics influence the financial reporting quality of deposit money banks in Nigeria. These results align with, as well as diverge from, prior empirical literature, enriching the ongoing discourse on audit effectiveness and financial transparency.

Firstly, the result revealed that audit firm tenure (AFT) does not significantly impact financial reporting quality, as indicated by its p-value of 0.2893, which exceeds the 5% significance threshold. This suggests that prolonged auditor-client relationships neither enhance nor diminish the credibility of financial reports in the Nigerian banking context. This outcome is consistent with the findings of Adeniyi and Mgbame (2021), who reported an insignificant relationship between audit firm tenure and financial reporting quality, indicating that tenure alone may not influence auditor independence in a highly regulated sector such as banking. Conversely, it contrasts with studies like Okolie (2014), which found that longer auditor tenure could compromise audit quality due to the development of familiarity threats. However, the insignificant result in this study may be explained by Nigeria's regulatory framework, which includes mandatory auditor rotation policies designed to mitigate such risks.

Secondly, audit firm size (AFS) demonstrated a significant positive relationship with financial reporting quality (p = 0.0083). This finding supports the assertion that larger audit firms, due to their global reputation, technical capacity, and robust quality control mechanisms, are more likely to ensure transparent and reliable financial disclosures. This result aligns with the findings of Uwuigbe et al. (2014) and Okolie (2014), who posited that large audit firms are more effective in detecting and reporting misstatements. The implication here is that Nigerian deposit money banks audited by larger firms—often the Big Four—may benefit from enhanced scrutiny and higher compliance with international financial reporting standards, thereby improving the credibility of their financial statements.

Lastly, the analysis revealed a strong and statistically significant positive association between non-audit services (NAS) and financial reporting quality (p = 0.0001). While this finding might seem surprising to those concerned about auditor independence, it supports the view that auditors who provide non-audit services gain deeper insights into their clients' operations, thereby increasing the overall effectiveness of the audit. This result aligns with the arguments presented by Ogbonnaya and Ezejiofor (2020), as well as Omodero and Ogbonnaya (2022), who found that non-audit services, when properly regulated, could contribute positively to audit quality by equipping auditors with broader operational perspectives. However, caution is necessary, as excessive provision of such services could still present threats to auditor objectivity if not managed within regulatory limits.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

Based on the empirical analysis and discussion of the study, the following findings were established:

1. Audit firm tenure does not have a statistically significant impact on the financial reporting quality of deposit money banks in Nigeria, indicating that the duration of the auditor-client relationship does not necessarily enhance or impair the quality of financial statements.
2. Audit firm size has a significant positive influence on the financial reporting quality of deposit money banks, suggesting that larger audit firms are more capable of upholding transparency, compliance, and credibility in financial disclosures.
3. Non-audit services were found to have a strong positive relationship with financial reporting quality, implying that when properly regulated, the provision of non-audit services can enhance the auditor's understanding of the client’s operations and contribute positively to the audit process.

5.2 Conclusion

This study investigated the influence of audit characteristics, specifically audit firm tenure, audit firm size, and non-audit services, on the financial reporting quality of deposit money banks listed on the Nigerian Exchange. The motivation stemmed from growing concerns about the integrity and reliability of financial statements over the past two decades, following several financial scandals and collapses that have been linked to lapses in audit quality. Drawing from empirical data and statistical analyses, the research revealed mixed outcomes. Audit firm tenure showed no significant impact, suggesting that the length of time an auditor spends with a client may not independently determine reporting quality, especially in a regulated environment where auditor rotation is encouraged. In contrast, audit firm size was shown to positively and significantly enhance financial reporting quality. This finding underscores the importance of firm capacity, expertise, and global reputation, which are more inherent in larger firms and play a critical role in delivering high-quality audits. Moreover, the significant positive relationship between non-audit services and financial reporting quality introduces a nuanced perspective. While concerns persist that non-audit services may impair independence, this study suggests that such services, when properly managed, can improve auditors' insights and the overall quality of their assurance services. The study affirms that audit quality is multi-dimensional and influenced by factors beyond auditor-client duration. Regulatory oversight, firm capacity, and service scope all interact to shape the effectiveness of audits in ensuring transparent and reliable financial reporting. These findings are relevant not only for corporate stakeholders but also for policymakers and regulators striving to enhance the credibility of financial disclosures in Nigeria's banking sector.

5.3 Recommendations

In light of the study's findings, the following recommendations are made:

1. Regulatory bodies should continue to enforce auditor rotation policies but recognize that tenure alone does not determine audit quality; emphasis should also be placed on monitoring auditor performance and compliance with audit standards.
2. Deposit money banks should consider engaging larger audit firms with strong reputations and technical capacities, as these firms are more likely to uphold rigorous audit practices and enhance the credibility of financial reports.
3. Policymakers and audit regulators should provide clear guidelines on the permissible scope of non-audit services and ensure effective oversight to mitigate threats to auditor independence while leveraging the potential value-added benefits of such services.

5.4 Policy Implications

1. Promote the Engagement of Technically Strong, Well-Resourced Audit Firms

Because audit firm size showed a significant positive effect on financial reporting quality, regulators such as the Financial Reporting Council of Nigeria (FRC) and the Central Bank of Nigeria (CBN) should continue to encourage or require deposit money banks to engage audit firms with proven capacity, global quality control systems, and strong reputational incentives to remain independent. Public disclosure of audit firm capacity and periodic regulator-led quality reviews would strengthen market discipline.

2. Maintain and Enforce Existing Auditor Rotation Rules Rather than Shorten Tenure

The finding that audit firm tenure does not significantly affect reporting quality suggests that current rotation requirements under CAMA 2020 and FRC codes are adequate. Policymakers should focus on strict enforcement and transparent disclosure of partner and firm rotation rather than imposing shorter mandatory tenures, which could disrupt audit knowledge without adding independence benefits.

3. Regulate Non-Audit Services Through Clear Limits and Disclosure Instead of Blanket Bans

Since non-audit services showed a strong positive association with reporting quality when properly managed, regulators should adopt a controlled allowance model: cap non-audit fees as a percentage of total client fees, require audit committee approval of extra services, and mandate transparent public reporting of all non-audit engagements. This approach preserves the operational insight that can improve audits while protecting independence.

4. Strengthen Audit Committee Oversight of Independence

Bank boards should empower audit committees to annually assess and report on auditor independence, focusing on fee structures, rotation compliance, and the mix of audit versus non-audit work. Regulators could require a formal "independence statement" in annual reports to reassure investors and support market confidence.

5.5 Suggestion for Further Studies

Based on the findings and limitations of this study, the following suggestions are made for future research:

1. Future studies could investigate the influence of audit firm tenure on financial reporting quality across other sectors beyond banking, such as manufacturing or oil and gas, to understand whether similar results hold in less regulated industries.

2. Researchers may examine additional audit characteristics, such as auditor specialization, industry expertise, and partner rotation, to provide a more comprehensive understanding of factors affecting financial reporting quality.
3. Further studies could explore the long-term effects of non-audit services on auditor independence by incorporating qualitative interviews with audit practitioners and regulators.
4. Comparative studies across different countries or regions could be conducted to examine how legal and regulatory frameworks mediate the relationship between audit characteristics and financial reporting quality.
5. Future research might also consider the role of corporate governance mechanisms, such as board independence and audit committee effectiveness, in moderating the impact of audit characteristics on financial reporting outcomes.

5.6 Contribution to Knowledge

This study makes several important contributions to the existing body of knowledge on audit quality and financial reporting in Nigeria. Firstly, it provides empirical evidence on the nuanced relationship between audit firm tenure and financial reporting quality within the banking sector, demonstrating that tenure alone does not significantly affect reporting outcomes in a highly regulated environment. Secondly, it highlights the critical role of audit firm size, confirming that larger firms contribute to improved financial reporting quality, likely due to their stronger capacity and global reputation. Thirdly, the study offers fresh insights into the effect of non-audit services, revealing that when properly managed, these services can enhance auditors' operational understanding and improve reporting quality rather than compromise independence. Lastly, by focusing on deposit money banks listed on the Nigerian Exchange, this research enriches the local literature and provides valuable guidance for regulators, practitioners, and policymakers aiming to strengthen financial transparency and audit effectiveness in Nigeria.

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