Journal of Arts Humanities and Social Sciences
(GASJAHSS)

Volume- 02| Issue- 03| 2024 Homepage: https://gaspublishers.com/gasjahss/ ISSN: 3048-5002

Audit Quality and Financial Performance of Listed Deposit Money Banks in Nigeria

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DOI: 10.5281/zenodo.10783085

Abstract: The study examined how listed deposit money banks in Nigeria performed financially and how audit quality affected it. Thirteen specified deposit money banks made up the study's population, and census sampling was used to choose each bank. Over the course of 10 years, from 2013 to 2022, secondary data were gathered from the audited annual reports and accounts of Nigeria's listed deposit money banks. For this study, the ex-post facto (after-the-fact) research design was chosen. Regression analysis was applied to the data analysis. The findings showed that audit firm size had a positive but insignificant effect on financial performance, audit tenure had a negative and insignificant effect on the financial performance of listed deposit money banks in Nigeria, and audit fee and auditor independence had a significant and positive effect on financial performance as represented by earnings per share. Among other things, it is advised that deposit money banks avoid using a certain audit firm for an extended length of time, since this can lower the quality of audit services provided because the audit firm and client become more acquainted with one another over time.

Keywords: Audit Fees, Audit Tenure, Audit Firm Size, Auditor's Independence, Financial Performance, Earnings Per Share

1. INTRODUCTION

1.1 Background to the Study

The global financial crisis has caused significant economic instability, which has highlighted the necessity for dependable, high-quality financial reporting systems. Many businesses have experienced performance issues during this time, which has led some stakeholders to doubt the long-term viability of these establishments. However, it is anticipated that external audit would be important and crucial in helping businesses improve and/or achieve high-quality financial performance (Ozegb & Jero, 2022). Undoubtedly, the quality of audits has continued to be essential to many areas of regulatory and supervisory initiatives over time. Organizations, governments, and regulators place a high value on the quality of audited financial information in addition to other stakeholders (Odjaremu & Jeroh, 2019; Ivungu, Anande & Ogirah, 2019).

By ensuring that there is no material misstatement of a company's financial statements, auditing and audit procedures in general are monitoring tools that help to reduce information asymmetry and protect the welfare of diverse stakeholders (Etukudo & Azubike, 2022). Because auditors can reduce the risk of seriously misleading statements by ensuring that financial statements are prepared in compliance with established norms, regulations, and standards, stakeholders believe that auditors have a fiduciary role that significantly contributes to both financial reporting and financial performance (Oyetunji, Atanda & Adekanmbi, 2022). Considering the aforementioned, it is evident that internal consumers of financial statements have developed a strong desire to get high-quality audits for their own organizations (Akanni, Olabisi & Olawale, 2021). Furthermore, assessing an organization's overall financial success heavily depends on the veracity and integrity of its financial accounts (Amahalu & Obi, 2020).

A company's ability to generate income and use assets from its core style of business is measured subjectively by its financial performance (Guo, Yang & Zhang, 2020). It can also be used as a broad indicator of the overall financial health of a company over a specific time frame. According to Mbonu and Amahalu (2021b), financial performance is a comprehensive assessment of a business's entire status in relation to various areas, including assets, liabilities, equity, expenses, income, and overall profitability. It is assessed using a range of business-related formulas that enable users to compute precise information about the prospective efficacy of a company (Amahalu & Obi, 2020a). The degree to which financial objectives are being or have been accomplished is referred to as financial performance. It is the process of putting a firm's operations and policies into monetary terms. It is used to assess a company's overall financial health over a certain time period and can also be used to aggregately compare different industries or sectors or to compare similar companies within the same industry (DeMarzo & Zhiguo, 2021). Profit, Return on Investment (ROI), Return on Asset (ROA), Earnings per Share (EPS), and other metrics are frequently used to assess financial success. Because earnings per share (EPS) is a popular financial indicator that gives a clear picture of a company's profitability on a per-share basis, this study employed it as a proxy for financial performance. Investors can evaluate a company's financial performance in relation to its outstanding shares with ease thanks to its easy comparability across firms and industries (Asthana, Khurana & Raman, 2016).

The profit of a business is divided by the number of outstanding shares of its common stock to get at earnings per share, or EPS. The resulting figure is used to determine how profitable a company is. Companies frequently publish EPS that has been adjusted for unusual expenses and possible share dilution (Abba & Sadah, 2020). A company's perceived profitability increases with its EPS (Wijaya, 2019). A company's net profit divided by the total number of outstanding common shares is known as earnings per share, or EPS. One commonly used statistic for determining corporate value is earnings per share (EPS), which shows how much money a firm produces for each share of its stock. (Musa, Moses & Success, 2022). Because investors will pay more for a company's shares if they believe it has larger earnings relative to its share price, a higher EPS suggests more value (Ugwunta & Ugwuanyl, 2018). EPS can be calculated using a variety of methods, including a diluted basis or by eliminating exceptional items or ceased activities. Similar to other financial indicators, profits per share is most useful when contrasted with those of competitors, businesses in the same sector, or over a longer period of time. (Asthana, Khurana & Raman, 2016). Divided by the number of shares that are available, net income—also referred to as profits or earnings—is used to determine the value of earnings per share (Namakavarani, Abbas, Davood & Saeed, 2021). For shares that may be created through warrants, convertible debt, or options, a more sophisticated computation modifies the denominator and numerator (Causholli, Chambers & Payne, 2015). If the equation's numerator is modified to account for ongoing processes, it will also have greater relevance.

Non-performing loans, poor risk management, and difficulties with regulatory compliance are common problems with financial performance in the banking industry (Eneisik & Micah, 2021). Meanwhile, claims have been made that through guaranteeing accurate financial reporting, evaluating risk controls, and guaranteeing compliance with industry standards, quality auditing can assist in identifying and resolving these difficulties (Ugwunta, Ugwuanyi & Ngwa 2018; Musa, 2022). In conclusion, auditing is an essential instrument for resolving problems with financial performance in the banking industry. It offers a thorough and unbiased assessment of a bank's operations, assisting in the identification and resolution of problems that would otherwise result in financial instability, noncompliance with regulations, or harm to the bank's reputation.

The likelihood that auditors will find and disclose financial statement falsification is a measure of audit quality (Oyetbamiji, 2022). According to Oyetunji, Atanda, and Adekanmbi (2022) audit quality can be defined as the accuracy of the information the auditors present to investors as well as their judgment ability, judgment freedom, appropriate judgment development, competence, and independence in order to obtain an assurance level. The evaluation of audit quality takes into account the auditor's independence, audit fees, audit tenure, and audit firm size (Agoes, 2012; Chung, Kim & Sunwoo, 2021; Eneisik & Akani, 2021; Oyetunji, Atanda & Adekanmbi, 2022).

Researchers from the western world have focused a great deal of attention on the relationship between financial performance and audit quality. Research has indicated that an organization's financial performance is impacted by the quality of its audits (Causholli, Chambers & Payne, 2015; Asthana, Khurana & Raman, 2018). Very little research has been done on the connection between audit quality and the financial performance of organizations in nations with less developed capital markets and financial institutions, despite the fact that these studies present evidence from thriving capital markets and financial institutions in developed nations. Research on audit quality and the financial performance of deposit money institutions in Nigeria is therefore obviously needed.

1.2 Statement of the Problem

In the current context, when there are significant shortcomings in Nigerian enterprises' financial performance, there have been worries regarding financial performance. Notable instances include the 2009 acquisitions of Afribank Nigeria Plc, Intercontinental Bank Plc, and Skye Bank Plc; more recently, there have been fraudulent financial actions related to the purchase of Union Bank and Polarise Bank. One major issue with the financial performance of Nigeria's banking sector is the ongoing decline in earnings per share. Concerns have been raised over the quality of auditing in light of the bank collapses, as well as potential implications for banks' earnings per share. Therefore, by investigating the impact of audit quality on the financial performance of listed deposit money banks in Nigeria, this study aims to expand the body of knowledge.

1.3 Objectives of the Study

This study's overarching goal is to investigate how audit quality affects the financial performance of Nigeria's listed deposit money banks. The study's particular goals are:

i. To examine the effect of audit fees on financial performance of listed deposit money banks in Nigeria.
ii. To examine the effect of audit tenure on financial performance of listed deposit money banks in Nigeria.
iii. To examine the effect of audit firm size on financial performance of listed deposit money banks in Nigeria.
iv. To examine the effect of auditor's independence on financial performance of listed deposit money banks in Nigeria.

2. REVIEW OF RELATED LITERATURE

2.1Conceptual Framework

This sub-section examines the concepts that relate to the topic under investigation. The concepts considered in this study are audit quality and financial performance.

2.1.1 Concept of Audit Quality

Since audit quality is a notion with many facets and is thought to be complex, there isn't a single, widely agreed definition for it. Instead, the term can be influenced by a wide range of factors that could be direct or indirect (IAASB, 2011). Suleiman, Ajadi, and Maroof (2020), on the other hand, defined audit quality as the jointly estimated market chance that a particular auditor will find and disclose a breach in the client's accounting system. The competency of auditors in identifying misstatement and their independence in reporting such misstatement are the two components of audit quality that are covered by this definition. The integrity, objectivity, intellect, competence, experience, and motivation of the staff members who carry out, oversee, and assess the work ultimately determine the audit quality of the company. According to Suleiman, Ajadi, and Maroof's (2020) definition, audit quality is directly related to the caliber of financial reporting. High quality financial reports are those in which the auditor has found and reported all accounting irregularities. The audit quality metric is the degree of assurance that no substantial error goes unnoticed and unreported. Audit quality can be understood as the likelihood that the auditors will find and disclose misstatements on a company's financial statements; it can also be understood as the accuracy of the information the auditors provide to investors and as their capacity, independence, and ability to make judgment calls that lead to an assurance level. High-quality audits are conducted in compliance with widely accepted auditing standards, according to Government Accountability Office (2006), to provide a reasonable assurance that the audited financial statements and related disclosures are presented in line with generally accepted accounting principles and are not materially misstated as a result of fraud or errors.

Banks are encouraged by audit quality to uphold and implement superior accounting standards in order to guarantee the validity and dependability of their financial reporting. According to Abdul Rasid and Elhabib (2015), high-quality audits promote excellent accounting practices, responsible corporate governance, effective financial management, and lower debt service interest, all of which increase banks' market value. According to Okolie and Izedonmi (2014), a going concern opinion on a bank's financial statement raises the firm value of the bank, so excellent audit quality on audited reports is considered essential to the operation of banks. According to Olabisi, Agbatogun, and Akinriola (2007), the issue of information asymmetry between management and users of financial reports is resolved by high confidence, trust, and credibility resulting from quality audit in banks' business environments. It has been demonstrated that a bank's market share price accurately predicts the value of its future earnings. This explains why bank investors are so interested in the banks' stated earnings. According to Healy and Wahleh (1999), bank management uses a variety of earnings management techniques to purposefully influence the bank's earnings target and raise the price or value of its shares. Financial reporting may become less credible as a result of earnings management. According to Adeyemi and Fagbemi (2010), the primary duties of an external auditor are to increase the credibility of financial reports and lower the likelihood that they contain major misstatements that were not caught or are prejudiced, deceptive, fraudulent, or incomplete.

2.1.2 Dimensions of Audit Quality

According to Francis (2011), audit quality is influenced by six factors, including audit inputs, audit process, accounting firms, audit markets and industry, institutions, and the financial impact of audit results. According to Kigore, Radich, and Horrision (2011), audit firm size, audit partner tenure, non-audit services provided, audit firm industry experience, and audit quality assurance review are factors that determine the quality of an audit. According to Ugwu, Aikpitanyi, and Idemudia (2020), certain characteristics of the audit firm, such as audit fees, audit tenure, audit firm size, and auditor independence, are responsible for the ability of auditors or audit firms to provide high audit quality capable of producing high financial reporting quality. Due to their widespread use and substantial influence on audit quality, the current study uses audit firm size, audit fees, audit tenure, and auditors' independence as dimensions or indicators of audit quality.

i. Audit Fees

Fees are the amount of money the auditor is paid for services rendered to clients. The amount of money auditors charge is typically determined by the amount of work they put into the engagement and the degree of risk involved (Huyghe, 2017). High audit fees are thought to indicate high-quality audits (Enofe, Chijioke, & Adeyemi, 2014). The sum that an accountant charges a client to perform particular services is known as an audit fee. Researchers have frequently questioned whether costs have an impact on audit quality, even if they may differ depending on the size of the organization or the type of service rendered.

The level of knowledge needed, the complexity of the services, the risk associated with the assignment, the public accountant firm's cost structure, and other professional factors can all affect the audit fee amount (Rahmina & Agoes, 2014). The sum that the auditor charges for completing an audit assignment might be understood as audit fees. That is, the sum that the auditor charges for any job completed to provide an opinion regarding the actual and just situation or status of the client's business. Audit fee is defined by Venkataraman, Weber, and Willenborg (2016) as the cost a public accountant charges a client for financial audit services. According to Yuniarti (2011), the costs incurred for yearly financial statement reviews and audits for the most recent fiscal year constitute the audit fee. The complexity of the services, assignment risk, the pricing structure of the public accounting firm, the necessary degree of competence, and other professional factors can all affect how much the audit fee is.

ii. Audit Tenure

The duration of an auditor's engagement with a client is referred to as the audit firm's tenure (Fatah &Naser, 2017). After maintaining client ties for a long time, there is an increased risk of losing independence. However, other people think that being in a committed and long-lasting relationship will increase one's independence. The duration of the relationship between the auditor and the customer is referred to as the auditor's tenure (Okolie, 2015). Long-term relationships between the audit firm and its customer may impair the audit's strength and cause the auditor to become less circumspect and compromise in the face of the established rapport. Furthermore, an extended engagement may lead to the auditor exerting less effort to identify risk profiles and internal control weaknesses. This is due to the fact that during the initial years of an audit engagement, the auditor's objectivity in identifying anomalies increases, but over time, it starts to decline and reaches its lowest point after several years of audit service (Martani, Rahman, Fitriany & Anggraita 2021). In developed nations, the number of years that auditors have been in their positions has significantly decreased recently. The auditor tenure in the United States has been lowered from seven to four years. Five years is the recommended engagement period in Europe. The duration of the relationship between the auditor and the customer is known as the audit tenure (Hartadi, 2009). Audit independence and audit tenure are typically related issues.

According to research by Buntara and Adhariani (2019), audit quality rises with audit tenure. This finding, however, is at odds with that of a study by Capkun, Collins, and Jeanjean (2016), which indicates that an auditor-client relationship that lasts too long may result in a decline in audit quality because it undermines the auditor's independence. Moreover, the longer the auditor-client connection, the lower the audit quality (Adeniyi & Mieseigha, 2016). But according to a US study on going-concern reports, audit reporting errors are much more common in the initial years of an auditor-client relationship (Kyriakou & Dimitras, 2018). According to Carcello and Nagy (2014) audit firm tenure as well as audit partner tenure, affects quality of reported earnings. The duration of the engagement agreed upon by the customer and the auditor is known as the audit tenure (Fatah & Naser, 2017). Regarding how auditor tenure affects audit quality, there are two schools of thought. According to one, when the auditor-client relationship grows longer, the auditor can get to know the client well and be more inclined to work in management's best interests, which would lower the quality of the audit. Mandatory audit partner rotation is supported by this viewpoint. The other viewpoint holds that as auditors work longer, they get a deeper comprehension of the operations of their customers and hone their auditing skills, which raises the caliber of the audit. Long auditor tenure has not been shown to lower audit quality, according to the majority of the literature on the subject.

iii. Audit Firm Size

Large audit firms have a reputation to uphold and will, therefore, guarantee an impartial quality audit service. As a result, the size of the audit firm has been used as a proxy for audit quality. In comparison to smaller audit firms, larger companies are better equipped to handle major corporate audits due to their superior technology, research facilities, financial resources, and personnel pool (Ayora & Ogeto, 2022). While smaller businesses are expected to give in to management demands and offer more individualized services because of their smaller client portfolios, larger enterprises are able to withstand pressure from management (Mustafa & Mohammed, 2018). As a result, one crucial factor that represents auditor independence is the size of the audit company. Therefore, smaller businesses are more dependent on the issue of retaining auditor independence than larger businesses. Numerous studies have looked into the connection between audit quality and audit firm size. Because they have a good reputation and don't want to jeopardize it, big audit companies are driven to do better audits. Additionally, they possess abundant material and human resources to draw in more qualified and specialized workers. Due to their greater experience and ability to lower their clients' risk to prosecution, large audit companies generate higher revenue. Since the size of an audit company is strongly correlated with audit quality—which is often higher than that of other audit firms—it is one of the most significant elements influencing the measurement of audit quality.

iv. Auditors' Independence

The term "auditors independence" describes the auditors' capacity to remain neutral and objective throughout the audit (DeAngelo, 2017). Independence should be shaped to have the quality of not being subject to bias, influence, or persuasion in order to uphold the highest ethical standards for the auditing profession (Lan, Georgus, Ioannis & Ekaterini, 2015). The value of audit services will be significantly reduced in the lack of independence. According to Frederick and Patrick (2016), the independence of auditors is acknowledged as the cornerstone of the public accounting profession and their privilege to self-govern. Users of financial data, stakeholders, and the general public give the accounting profession authority and privilege. Consequently, in exchange for their special professional privilege, auditors are required to carry out their tasks for the benefit of the public. By offering a documented, reasonable guarantee from an impartial source that the audit report will present an accurate and fair picture in compliance with an accounting standard, the independence of the auditors on the report serves to increase its credibility (Akintayo & Akosile, 2022). An auditor's independence can be shown in three primary ways. These are the independences of reporting, investigation, and programming (Olagunju, 2017).

In essence, programming independence safeguards the auditor's capacity to decide on the best course of action while carrying out an audit. Auditors ought to have the liberty to tackle a task in whatever way that they deem most appropriate. Furthermore, the auditing industry is dynamic; new methods are continually being created and improved, and auditors must choose which ones to employ. There cannot be any kind of hindrance to the auditors' intended strategic methods. The auditor's freedom to use the tactics however they see fit is safeguarded by investigative independence (Babatolu, 2018). In essence, all financial data pertaining to a company's assets and obligations must be freely accessible to auditors. Any questions about a firm's accounting and business practices must be addressed by the company. The client's organization is not permitted to impose any limitations on the gathering of audit evidence, as it is a crucial procedure (Aderibigbe, 2015). The freedom of the auditors to decide whether or not to make any material publicly available is safeguarded by reporting independence. Directors of the company will work to stop the auditors from disclosing any instances in which they have misled shareholders by fabricating accounting information (Adeyemi & Okpala, 2017). The independence of the auditor is most likely to be jeopardized in circumstances similar to this one (Chijioke, Emmanuel & Noshikare, 2016).

2.1.3 Concept of Financial Performance

Financial performance in the context of deposit money banks refers to the assessment of how well these banks are managing their financial resources and generating returns for their stakeholders (Amahalu & Obi, 2020a). Key components of financial performance include profitability, liquidity, asset quality, capital adequacy, and earnings per share.

Deposit money banks aim to generate profits through various financial activities, such as lending, investment, and fee-based services. The net income, return on assets (ROA), and return on equity (ROE) are crucial indicators of a bank's profitability. Higher ROA and ROE generally signify efficient use of assets and effective equity management (Gladson-Nwokah & Acee-Eke, 2017). Maintaining adequate liquidity is essential for deposit money banks to meet short-term obligations. Liquidity ratios, such as the current ratio and quick ratio, assess a bank's ability to cover its short-term liabilities with liquid assets. Striking a balance between profitability and liquidity is crucial for sustainable financial performance.

The quality of a bank's assets is a critical factor in determining its financial health. Non-performing loans (NPLs) and the loan loss provision ratio indicate the level of risk associated with the bank's loan portfolio (Katsikeas, Leonidou & Zeriti, 2016). Effective risk management practices help in maintaining a healthy asset quality and minimizing potential losses. Adequate capital is vital for absorbing unexpected losses and ensuring the stability of deposit money banks. The capital adequacy ratio (CAR) measures the proportion of a bank's capital to its risk-weighted assets. Regulatory authorities set minimum capital requirements to safeguard the stability of the banking system.

Efficiency ratios, such as the cost-to-income ratio, assess how well a bank is managing its operational costs in relation to its revenue. Lower cost-to-income ratios indicate more efficient operations, contributing to better financial performance revenues (Obisanma, Amah & Okocha, 2022). Deposit money banks are exposed to various risks, including credit risk, market risk, and operational risk. Effective risk management strategies and controls are crucial for maintaining financial stability and protecting the interests of depositors and other stakeholders.

In summary, evaluating the financial performance of deposit money banks involves a comprehensive analysis of their profitability, liquidity, asset quality, capital adequacy, efficiency, risk management practices earnings per share. These indicators collectively provide insights into the bank's ability to generate sustainable returns while managing risks and ensuring the safety of depositor funds. Accounting measures include profit, Return on Investment (ROI) Return on Asset (ROA) Earnings per Share (EPS) among others. This study adopted Earnings per Share (EPS) as a proxy for performance.

2.13.1 Earnings Per Share (EPS)

Earnings Per Share (EPS) is a financial metric that measures the portion of a company's profit allocated to each outstanding share of common stock (Causholli, Chambers & Payne, 2015). In the context of deposit money banks, EPS is a crucial indicator of the bank's profitability and its ability to generate returns for its shareholders. EPS is calculated by dividing the net income attributable to common shareholders by the weighted average number of outstanding shares during a specific period. EPS reflects the amount of profit available to each common shareholder after accounting for dividends on preferred stock. It provides insight into how much of the earnings are available for distribution to common shareholders. A higher EPS is generally considered favorable, as it indicates that the bank is generating more profit per share (Namakavarani, Abbas, Davood & Saeed, 2021). This can contribute to an increase in shareholder value and, in turn, may positively impact the bank's stock price.

Investors often use EPS as a key metric when evaluating the financial performance of deposit money banks. A consistent or increasing EPS over time is indicative of the bank's ability to generate sustainable profits and can influence investor confidence (Asthana, Khurana & Raman, 2016). Changes in EPS can influence the stock prices of deposit money banks. Positive EPS growth or beating analyst expectations may lead to an increase in stock prices, while declining or lower-than-expected EPS can have a negative impact.

EPS allows for comparisons between different banks and financial institutions. Investors may use EPS to assess which banks are more profitable on a per-share basis, helping them make informed investment decisions Ugwunta & Ugwuanyl, 2018). In some cases, potential dilution from stock options, convertible securities, or other instruments may impact the calculation of EPS (Musa, Moses & Success, 2022). Banks may provide both basic EPS (without considering potential dilution) and diluted EPS (including potential dilution) to give a more comprehensive picture.

Banks often focus on maximizing shareholder value, and EPS is one of the key metrics used by management to communicate their financial performance to investors and stakeholders. In conclusion, Earnings Per Share is a fundamental metric in assessing the financial performance of deposit money banks. It provides valuable insights into profitability, shareholder value, and investor confidence, making it an essential tool for both investors and bank management (Wijaya, 2019).

2.1.4 Audit Quality and Financial Performance

The public's perception of the outside auditor as an impartial professional is the foundation for the public's confidence in a company's financial statements. The concept of independence encompasses an impartial and unbiased mental state (Donatella, Haraldsson & Tagesson, 2019). Therefore, the policies and procedures of the audit firm as well as the attitudes of the individuals performing assigned audit duties influence the degree of independence that auditors possess (Geiger & Kumas, 2018). The term "audit independence" describes the impartiality with which an auditor carries out his duties (Amahalu & Beatrice, 2017). Therefore, the degree of integrity and objectivity demonstrated by auditors and their separate audit teams throughout the auditing process serves as an example of auditor independence.

Audit independence is a crucial consideration in the audit and reporting of financial information. It alludes to the objective mindset that an auditor employs when rendering decisions. Throughout the audit process, auditors can remain free from influence, persuasion, or bias because independence ensures autonomy. An auditor's lack of independence allows for prejudice and a low degree of objectivity. It is implied that if an auditor is not independent, they are unlikely to disclose a breach even if one is found. Since it would be inconsistent with integrity and objective standards, independence is a conduct expected of auditors. An auditor who does not have a personal stake in performing their work is expected to act in this manner. Since improving the reliability of accounting records as a management claim is one of the main goals of external audit, a public accountant's view could be erroneous and subjective if they are not impartial toward their client (Buntara & Adhariani, 2019).

The term "audit tenure" refers to the duration of the client-auditor relationship. Extended durations between auditors and clients may compromise the auditor's objectivity since the parties' familiarity and personal relationships may deepen, leading to the investigator becoming less focused (Kyriakou & Dimitras, 2018). In addition to the risk to independence, the audit appointment might eventually become routine, in which case the auditor's time spent looking for risk factors and weaknesses in internal control would decrease (Capkun, Collins & Jeanjean, 2016). The well-known big English retailer Tesco serves as evidence for claims that a stronger relationship between auditors and senior management over time may give rise to worries about the expected deterioration or reduction of audit independence. According to reports, Tesco's management inflated profits by ₤263 million in 2015. This misstatement was not revealed by the auditors who had served as the company's auditor for an estimated 32 years in a row (Buntara & Adhariani, 2019). The audit firm's implicit reluctance to reveal Tesco's misreporting was a consequence of their long-standing relationship with the company's management.

Though audit tenure has attracted good number of researchers in accounting, we notice that emphasis has been on how tenure affects the objectiveness and outcomes of audit exercise – independence and quality respectively (Martani, Rahman, Fitriany & Anggraita 2021). In this light, longer duration of auditor tenure has been linked to lower quality of audit work.

Audit firms are service–driven professional and expertise-intensive organizations set up to uphold high-quality reporting among public entities. Results from extant researches suggests that the size of audit firms have been used as proxy for audit quality given that larger audit firms are known with a reputation of upholding and guaranteeing impartial and high-quality audit services. In comparison to smaller audit firms, the financial resources of large audit firms alongside their research facilities, technologies, and ability to attract talented workforce provides a platform for them to have larger client base and higher capacity to resist management pressure; thereby reducing their overall dependency level on a single or group of clients when necessary. This is not the case for smaller audit (often referred to as non-big 4) firms whose focus is to offer more individualized services due to their smaller client bases which may compel them to give in to management demands where situations abound (Chen, Cheng & Liu, 2021).

2.1.5 Hypotheses of the Study

In line with the study objectives, the following null hypotheses shall be tested in the study

$H0_1$: Audit fees have no significant effect on financial performance of listed deposit money banks in Nigeria.

$H0_2$: Audit tenure has no significant effect on financial performance of listed deposit money banks in Nigeria.

$H0_3$: Audit firm size has no significant effect on financial performance of listed deposit money banks in Nigeria.

$H0_4$: Auditor's independence has no significant effect on financial performance of listed deposit money banks in Nigeria.

2.2 Theoretical Framework

This study adopted agency theory due to its ability to explain explicitly the relationship between audit quality and financial performance.

2.2.1 Agency Theory

Jensen and Meckling introduced agency theory in 1976. According to the agency theory, there is a link between principals and agents, such as when an owner appoints a third party to act as their agent or steward in order to carry out a task on their behalf. When this service is rendered, the agent is given some decision-making authority. An effective and productive economy is supported by the principal's distribution of responsibilities and the ensuing division of labor. Such delegation, therefore, also necessitates the principal having faith in the agent to operate in the principal's best interests. According to Estitemi and Omwenga (2016), the principals are unable to assess whether the agent's choice is in the best interests of the company since they do not have access to all the information that is accessible at the time the agent makes his decision. The proprietors choose to implement a monitoring procedure, such as auditing, to regulate the agent's actions when making choices on behalf of the company in order to prevent moral hazard. They characterize auditing as a bonding expense that the agent pays to a third party in order to meet the principals' desire for transparency. To safeguard their financial interests, the principals bear any additional costs associated with operating the company. The fundamental goal of the audits is to support and strengthen the public's and users' confidence in financial information. Understanding the role of an auditor in producing high-quality reports for the business requires an understanding of the principal-agent relationship as it is portrayed in agency theory. This is due to the fact that whereas principals entrust their agents to behave in their best interests, the agents' motivations differ due to information asymmetries between principals and agents. It is possible for principals to have misplaced trust in their agents, in which case they should implement procedures or safeguards to bolster that trust, including audits. An effective economic theory of accountability that aids in explaining the evolution of audit quality generally is the agency theory. Our work is grounded in agency theory because it is a helpful theory of accountability that sheds light on how audit methods have evolved.

3. METHODOLOGY

The impact of audit quality on the financial performance of Nigerian listed deposit money banks was examined in this study. Earnings per share reflected financial performance, while audit fee, audit firm size, audit tenure, and auditor independence signified audit quality. For this study, the ex-post facto (after-the-fact) research design was used. Thirteen (13) quoted deposit money banks that were regularly listed and engaged in trading on the Nigerian Exchange (NEG) floor between January 1, 2013, and December 31, 2022, and whose financial statements are readily available and have been regularly filed to NEG for the study period, make up the population of this research.They include: First Bank Plc, Eco Bank Plc, FCMB Bank Plc, Fidelity Bank Plc, Access Bank Plc, Sterling Bank Plc, Union Bank Plc, United Bank of Africa Plc, Wema Bank Plc, Zenith International Plc, and Unity Bank Plc. All 13 of the mentioned deposit money banks were sampled using census sampling, which was implemented. Over the course of 10 years, from 2013 to 2022, secondary data were gathered from the audited annual reports and accounts of Nigeria's listed deposit money institutions. In order to analyze the secondary data that was gathered, this study used STATTA to help with the inferential and descriptive statistical analyses. The independent variable's effect on the dependent variable was demonstrated using regression analysis, and the study's hypotheses were tested at the 0.05 level of significance using the t-test, which indicates the significance/insignificance level of effect. The researcher's rule of thumb was to reject the null hypothesis if the computed significance level was less than 0.05 and to accept it otherwise.

Using regression analysis, the model for the study is specified as follows:

EPS = ʃ(AF, AFS, AT, AIN)

Then the econometric function of the above is thus:

$EPS = \beta0 + \beta1AFit + \beta2AFSit + \beta3ATit + \beta4AINit + e$

Where;

EPS = Earnings per share

AF = Audit fee

AFS = Audit firm size

AT = Audit tenure

AIN = Auditor's independence

$\beta0$ =Intercept term

$\beta1$ –$\beta4$ =Slope co efficient

e = error term

4. DATA PRESENTATION AND ANALYSIS

4.1Results Presentation and analysis

This section of the chapter is devoted to presentation of results of the descriptive statistics, correlation results, robustness statistics and regression results.

4.1.1 Descriptive Statistics

Table 4.1 presents summary statistics of all variables in table 4.1. The statistics discussed here are mean and standard deviation.

Table 4.1: Descriptive Statistics

Variable	Obs	Mean	Std Dev.	Min	Max.
EPS	352	2.41e+07	3.12e+07	116787	1.28e+08
AF	352	.2575655	.4657368	1.17	3.489663
AFS	352	.1170254	.1214755	2.10	.6221015
AT	352	.4211131	.3249428	.0031121	.9507896
AIN	352	.3123311	.2343113	.2333341	1.232222

Source: STATA output, 2024

Based on financial success as assessed by earnings per share (EPS) as shown in table 4.1, the dependent variable for this study had an expected minimum value of N0.16 and a maximum value of N 18.7. With a standard deviation of N 3.22, the projected average EPS for the research period is N 2.41. This suggests that the companies are good at maintaining high rates of profitability because their EPS is more than 1.

Regarding the AF ratio, Table 4.1 also shows a mean value of 0.2575 with a fluctuation of 0.4657. Throughout the study period, the AF ratio had minimum and maximum values of 1.17 and 3.42, respectively. These figures suggest that while some sampled listed deposit money institutions charge a high audit fee, others charge a modest audit price. Since the audit cost is tiny in relation to earnings per share, it appears that this outcome provides proof that listed deposit money institutions have generally placed their owners at low risk.

Table 4.1 further shows that the ratio of audit firm size to total EPS has a mean value of 0.1170 with a range of 0.1214. Throughout the study period, this ratio's lowest and maximum values were 2.10 and 0.4221, respectively. According to these figures, certain sampled listed deposit money banks have a preference for small audit firm sizes, whereas other banks have a preference for large audit firms. This study appears to provide evidence that the sampled listed deposit money institutions favor modest audit company sizes on average.

Additionally, the audit tenure to EPS ratio showed a 0.3249 standard deviation and a mean of 0.4238, respectively. This finding could be taken to mean that the auditors of the listed deposit money institutions had, on average, a moderate length of service with the banks.

Finally, the auditor's independence to the EPS ratio showed a value of 0.2343 for the standard deviation and 0.3123 for the mean. This finding could mean that, generally speaking, audit firms are autonomous and subject to minimal external influence.

4.1.2 Diagnostic Tests
4.1.2.1 Correlation Matrix

The Pearson correlation coefficient results, which show the linear relationship between the explanatory factors and the explained variable as well as between the explanatory variables themselves, are shown in this subsection. The Pearson correlation of two-tailed significance is used to calculate the correlation values.

Table 4.2: Result of Correlation Matrix

Control Variables		AF	AFS	AT	AIN
AF	Correlation	1			
	Significance (2-tailed)				
	Df	0			
AFS	Correlation	-.065	1		
	Significance (2-tailed)	.221			
	Df	169	0		
AT	Correlation	.039	.105	1	
	Significance (2-tailed)	.468	.050		
	Df	169	169	0	
	Correlation	.061	.108	.023	1
AIN	Significance (2-tailed)	.421	.114	.234	
	Df	169	169	169	0

Source*:* Researcher's Compilation, 2024.

None of the independent variables have a high correlation, as indicated by the correlation matrix (0.75), which is displayed above. This demonstrates that there is no problem with collinearity among the independent variables.

4.1.3 Model Robustness Checks

In order to address the regression analysis technique's assumptions, robustness checks on the model were carried out. The tests carried out for this investigation are listed below:

Table 4.3: Ramsey RESET

F(4, 137)	0.52
Prob> f	0.6686

Source: *Researcher's Compilation, 2024.*

The result of the Ramsey RESET shows that the prob>f is greater than 0.05 which implies that the model used in the study is correctly specified.

Table 4.4: Multicollinearity Test

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	AF	.991	1.009
	AFS	.910	1.098
	AT	.959	1.042
	AIN	.943	1.002

Source*: STATA output, 2024*

The multicolinearity test results, which determine if the independent variables have a high degree of correlation with one another and could influence the estimation of the regression parameters, are shown in Table 4.4. The degree of correlation between the variables was examined using the Variance Inflation Factor (VIF). There is no multicollinearity issue in the data set, as shown by the VIF values for the independent variables in Table 4.4, which are all below 2.

4.1.4 Regression Results

The regression findings based on the random effect model are shown and discussed in this section. The analysis is shown in Table 4.7 thus:

Table 4.5: Regression Table

R	**R2**	**R^2 A**	**F Change**	F Change Sig
0.394	0.155	0.110	3.437	0.023
		DW	**Constant**	
		0.630	-13.001	
	AF	**AFS**	**AT**	**AIN**
VIF	1.033	1.044	1.020	1.043
Tolerance	0.968	0.958	0.980	0.975
Beta	0.387	0.038	-0.014	0.164
Sig.	0.003	0.761	0.908	0.061

Source: *Researcher's Compilation, 2024.*

The results of the relationship between the financial performance measured by earnings per share (EPS) and the audit fee (AF), audit firm size (AFS), audit tenure (AT), and auditors independence (AIN) are shown in Table 4.5. The information below can be extracted from the regression table above.

There is a modest correlation between AF, AFS, AT, AIN, and EPS at 39.4%, as indicated by the R value of 0.394.

Additionally, the R^2 was 0.155.The percentage of the total variance of the value relevance (EPS) that can be explained by audit quality (AF, AFS, AT, & AIN) is displayed by the R^2, also known as the coefficient of determination. Therefore, the R^2 value of 0.155 indicates that variations in audit quality variables, such as audit fee, audit firm size, audit tenure, and auditors independence, can account for 15.5% of the variation in the value relevance of reported earnings per share. Other variables not included in this model, however, could account for the remaining 84.5% (i.e. $100R^2$). The adjusted R^2 of 0.110 indicates that if the model is adjusted and one other audit quality determinant is considered for this study, this result will deviate from it by only 0.045 (i.e. 0.155 – 0.110). This indicates a 4.5% departure from the present outcome. The study's findings do not fully capture the true nature of the impact of audit quality on the value relevance of deposit money banks' financial reports in Nigeria, as the deviation is not significantly more than the error term of 5%. The model is statistically significant since the table also reveals the Fisher significant value of 0.023 with a variation of change at 3.437 units, indicating that the set of independent variables was contributing to the dependent's variance overall at the 3.437 significant level.

Furthermore, the EPS variable is evaluated at -13.001 when the independent variables are held constant, according to the regression result shown in Table 4.5 above to ascertain the association between AF, AFS, AT, AIN, and EPS. This simply means that, over the long term, and due to factors that are not taken into account in the short term, there will be a decline in the reported EPS value relevance of listed deposit money institutions of up to 13.001 units while all other variables remain constant. A unit rise in AF will result in a 38.7% increase in the value relevance of the banks' reported EPS after accounting for the short run (Beta). This is because investors would interpret the fee increase as a sign of higher audit quality. In a similar vein, a 3.8% increase in reported earnings per share's value relevance will result from a unit increase in AFS. Additionally, a 1.4% drop (Bounce back) in the reported EPS's value relevance will result from an increase of one unit in AT. Once more, a 16.4% rise in reported EPS's value relevance will result from a unit increase in AIN. Because most investors are more interested in reported figures than in the qualifications of audit quality, the reports on audit firm size and tenure as captured by the banks are of no

value or relevance to the investors, which explains the low insignificance variation of AFS and AT on the perceived investors reaction to the reported EPS.

4.2 Test of Research Hypotheses

The hypotheses formulated in chapter one will be tested in this section in line with the decision rule in chapter three.

H0₁: *Audit fee has no significant effect on financial performance of listed deposit money banks in Nigeria.*

We reject the null hypothesis and accept the alternative because the calculated value for the audit fee (0.003) is less than the significant level as shown in Table 4.5 and the accepted significant level is 0.05. As a result, the audit fee significantly affects the financial performance (earnings per share) of listed deposit money banks in Nigeria.

H0₂: *Audit firm size has no significant effect on financial performance of listed deposit money banks in Nigeria.*

We therefore accept the null hypothesis and reject the alternative, stating that audit firm size has no significant impact on the financial performance (earnings per share) of listed deposit money banks financial reports in Nigeria. This is because the accepted significant level is 0.05 and the calculated value for audit firm size (0.761) is greater than the significant level as presented in Table 4.5.

H0₃: *Audit tenure has no significant effect on financial performance of listed deposit money banks in Nigeria.*

We therefore accept the null hypothesis and reject the alternative, stating that audit tenure has no significant impact on the financial performance (earnings per share) of deposit money banks' financial reports in Nigeria. This is because the accepted significant level is 0.05 and the calculated value for audit tenure (0.908) is greater than the significant level as shown in Table 4.5.

H0₄: *Auditor's independence has no significant effect on financial performance of listed deposit money banks in Nigeria.*

We reject the null hypothesis and accept the alternative, which states that auditor independence significantly affects the financial performance (earnings per share) of listed deposit money banks in Nigeria, given that the accepted significant level is 0.05 and the calculated value for auditor's independence (0.041) is less than the significant level as presented in Table 4.5.

4.3 Discussion of Findings

The main objective of this study is to examine the effect of audit quality on financial performance (earnings per share) of listed deposit money banks in Nigeria. In line with this four objectives were specified and the finding from the test of hypotheses formulated is discussed below.

According to the first test of the hypothesis, listed deposit money banks in Nigeria's financial performance (profits per share) are significantly impacted by audit fees. This result is consistent with that of Amahalu and Ezechukwu (2017), who conducted research from 2010 to 2015 to determine the factors influencing audit quality and how it affects the quality of financial reports of particular Deposit Money Banks listed on the Nigeria Exchange Group floor. According to the study's findings, audit fees—a proxy for audit quality—have a positive and statistically significant correlation with banks' reported earnings.

The results of the second particular objective test indicate that the size of the audit firm has no discernible impact on the earnings per share (EPS) of Nigeria's listed deposit money banks. The findings of Augustine and Famous's (2014) study, which examined the relationship between audit quality and market value per share of Nigerian companies, are at odds with this one. They used audit firm size, audit fees, auditor tenure, and audit client importance to estimate audit quality in their study. On the data, several regression analyses were performed. Their tests' findings demonstrated that the market value per share of Nigerian listed businesses is significantly impacted by audit quality. The disparity in the industries that were the subject of the two studies' examinations may be the cause of this disagreement.

The third hypothesis' test result showed that the audit tenure had no discernible impact on the earnings per share (EPS) of Nigeria's listed deposit money institutions. The results of Al-Thuneibat, Al-Issa, and Ata-Baker (2017), who examined the impact of the audit firm's duration on opportunistic earnings management by audit client managements, are in conflict with this. With a few changes, the authors employed the quadratic form technique. All companies whose stock was offered for public trading on the Amman Stock Exchange throughout the period of 2002 to 2006 comprised the study's population. Their statistical examination of the data revealed a negative (adverse) relationship between audit firm longevity and audit quality. As the size of discretionary accruals increased, audit quality declined when the audit firm's term was prolonged. The disparity in the locations that the research looked at could be the cause of this disagreement.

The test's final result for the fourth hypothesis showed that the financial performance (profits per share) of Nigeria's listed deposit money banks is significantly impacted by the independence of the auditor. This supports the conclusions of Oyetunji *et al.* (2022), who evaluated the effect of independent auditors on the dependability of deposit money banks' financial statements in Nigeria with a focus on their applicability to both current and prospective customers. Regression analysis and pure error statistics were used in the study to evaluate the importance of auditor independence in reporting.While the regression's result indicates that the independence of the auditors is important in their report, the pure error statistic's result of 0.00, which is below the 0.05 threshold and indicates that there was no auto-correlation and that the auditors' independence is significant, further supported the importance of the auditors' independence. The fact that both studies are conducted on Nigerian listed deposit money banks may be the cause of this agreement.

5. CONCLUSIONS

The impact of audit quality on the financial performance of Nigerian listed deposit money banks was examined in this study. Earnings per share reflected financial performance, while audit fee, audit firm size, audit tenure, and auditor independence signified audit quality. The information was gathered between 2012 and 2020 from the listed banks' annual reports and accounts. Regression analysis was performed on the data. The key conclusions that resulted from testing the study's research hypotheses are summarized as follows: The financial performance (profits per share) of listed deposit money banks in Nigeria is positively impacted by audit fees (Beta = 0.387; P = 0.003). The size of an audit firm positively but marginally affects financial performance (earnings per share) of listed deposit money banks in Nigeria (Beta = 0.038; P= 0.761); The financial performance of listed deposit money banks in Nigeria (earnings per share) is negatively impacted by audit tenure (Beta = -0.014 P= 0.908); on the other hand, the financial performance of listed deposit money banks in Nigeria (beta = 0.164 P= 0.041) is positively impacted by the independence of the auditor. Based on the study's findings, which show that practically all of the audit quality indicators are positive, it can be said that listed deposit money banks in Nigeria's financial performance is positively correlated with audit quality. The conclusion also states that independent auditors and audit fees are more important than audit firm size and audit tenure.

6. RECOMMENDATIONS

In consonance with this study's findings, the following recommendations become imperative:

In order to limit the risk of diminished independence, this study advises deposit money institutions to try to balance the expenses of audit by paying reasonable fees for audit services in a way that will not obstruct or influence the external auditors' judgment on the reported financial numbers. If such activities are not taken into account, there is a risk of poor audit judgment that could distort the value and relevance of the banks' financial reports, putting investors in a position where they must base their decisions on unsuitable reported profits data.

In order to improve the quality of audit services even further, a thorough plan should be implemented when choosing the audit firm to audit the deposit money banks. Additionally, investors should be well-informed about the audit firms from which to select, and information about these firms should be made available to them so that they can select the best audit firm outside of Nigeria's Big 4 audit firms, given that the Big 4 nomenclature has little bearing on the reported earnings' value.

Furthermore, it is advised that deposit money banks avoid hiring a certain audit firm for an extended length of time, since this can lower the quality of audit services provided because the audit firm and client become more acquainted with one another over time.

Given the beneficial impact of auditor independence on financial performance, it is critical to continuously assess the legal and ethical guidelines governing auditor independence in practice. This will help policymakers in their work on assignments related to, among other things, companies' tax obligations.

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