**Global Journal of Auditing and Finance** | *ISSN 1694-4445*
Published by AIR JOURNALS | *https://airjournal.org/gjaf*
16/18 Avenue des Longaniers, Quatre Bornes, Mauritius
airjournals@gmail.com, enquiry@airjournal.org

RESEARCH ARTICLE

# Effect of Audit Quality on Financial Performance of Deposit Money Banks in Nigeria

[1]Agana, John O. PhD; [2]Obasi, Ama I. PhD; [3]Ojonta, Austin B., [4]Beke, Cyrilson C., and [5]Nweze Kizito

**[1]Ebonyi State University, Abakaliki, Ebonyi State, Nigeria**
**[2]Akanu-Ibiam Federal Polytechnic Unwana, Ebonyi State, Nigeria**
**[3]University of Nigeria, Enugu Campus, Enugu State, Nigeria**
**[4]University of Lagos, Nigeria**
**[5]University of Nigeria, Nsukka**

| Accepted: February 5th, 2022 | Published: February 28th, 2022 |
|---|---|

*Citations - APA*

Agana, John O., Obasi, Ama I., Ojonta, Austin B., Beke, Cyrilson C., and Kizito Nweze (2022). Effect of Audit Quality on Financial Performance of Deposit Money Banks in Nigeria. *Global Journal of Auditing and Finance, 4(1), 1-22.*

ABSTRACT

*This empirical investigation was focused on the effect of audit quality on the financial performance of Deposit Money Banks (DMBs) in Nigeria. The specific objectives are to ascertain the effect of Audit Firm Size (AFS), Audit Fee (AF), and Audit Report Lag (ARL) on Return on Assets (ROA) of Deposit Money Banks (DMBs) in Nigeria. The study covered the period from 2004 to 2019 and utilized secondary sourced data extracted from the annual financial statements of the sampled banks. The research design adopted was ex-post facto design while analytical techniques employed were descriptive statistics and Ordinary Least Squares (OLS) multiple regression estimation mechanisms. Findings uncovered that Audit Firm Size (AFS) and Audit Fee (AF) encourage the value of firm performance while Audit Report Lag (ARL) exerts a negative influence on the performance index of deposit money banks in Nigeria. As provided by the empirical result, only the effect of Audit Fee (AF) was statistically insignificant ($p>0.05$); the effects of Audit Firm Size (AFS) and Audit Report Lag (ARL) were statistically significant ($p<0.05$). The implication of the findings is that without adequate effort to properly monitor the financial performance of Deposit Money Banks (DMBs) in Nigeria, it will continue to deviate from reporting correct earnings figures by presenting earnings figures that appear beautiful but are not true; hence investors and other stakeholders are deceived. The Auditor standing expertise notwithstanding, an overly long association between the Auditor and his client may constitute a threat to independence and hence audit quality as personal ties and familiarity may develop between the parties. This will lead to less vigilance and an obliging attitude of the Auditor towards the top Managers of the company. Apart from the threat to independence and audit quality, the audit engagement may become routine over time, resulting in the devotion of less effort to identifying the weaknesses of internal control and risk sources.*

***Keywords:*** *Performance, Deposit Money Banks, Audit Firm Size, Ordinary Least Squares*

## 1. Introduction

Financial statements are prepared to provide useful information to shareholders and other users of accounting information in making economic and business decisions (Lechukwu, 2017). The information is used to evaluate the financial conditions, the performance of related companies, and the performance of management (Ahmed and Hossain, 2010). Generally, the quality of financial reporting is dependent on the role of the external auditors in supporting the quality of financial reporting of companies quoted in the Nigerian Stock Exchange (Farouk and Hassan, 2013). The essence of a financial statement audit is to condense information asymmetry and also protect the interest of shareholders through the provision of realistic assurance that information provided in the financial statement by the management is free from material misstatement (Farouk and Hassan, 2013).

Koh, Choi, and Woo (2014) posit that most companies and their managers are deficient in accounting knowledge and the materials that are needed to prepare a financial statement that is suitable for public use. Consequently, these companies greatly rely on the advice of the auditor before they make any accounting decisions. This suggests that auditors affect the financial statement before they even commence their auditing functions (Ilaboya and Ohiokha, 2014). In this condition, companies have a high level of reliance on auditors when they make an accounting decision or make a financial statement. A high level of reliance on the auditor implies that the auditor highly affects the quality of the financial statements (Koh, Choi, and Woo, 2014, Egbunike and Abiahu, 2017).

Egbunike and Abiahu (2017) opine that the objective of an audit is to plan and perform the audit to obtain appropriate audit evidence that is sufficient to support the opinion expressed in the auditor's report. This implies that the auditing process is completed with the drafting of the auditor's opinion through an audit report prepared and signed by the auditor. In this report, auditors describe the findings of the audit and express their view on the true and fair condition of the company's financial status through its published financial statements. Yet, the importance attributed by investors to these reports and their contents is rather questionable and requires further examination.

As mentioned by Onaolapo and Ajulo (2017), the demand for audit services is triggered by many factors, including the remoteness gap between the users of the financial statements and the preparers of these statements; the conflict of interest between the users of the financial statements; the complexity of the economic transactions; and the expected effect of the financial statements on decision making. However, because the audit report is the medium of communication between the auditor and the users of the audit report, this report must be understandable, objective, and accepted by the users as a relevant source of information. Insufficient audit evidence may lead to wrong conclusions and this may affect the quality of the audit report (Illabboya and Ohiokha, 2014). Furthermore, audit quality is recognized to influence financial reporting and strongly impact investors' confidence (Levitt, 1998 cited in Onaolapo and Ajulo (2017)). Companies with a reputation for credible financial reporting are likely to change auditors when their audit quality is questioned to avoid capital market consequences of unreliable financial reporting. The quality and credibility of a financial statement depend on the quality of an audit (Okaro, Okafor, and Ofoegbu, 2015). The importance of audit qualities is significant and the weight placed on auditors' reports is substantial.

It has been argued that the dilapidated nature of companies' financial performance in Nigeria especially Deposit Money Banks (DMBs) is related to audit quality. The audit quality of DMBs in Nigeria should relate to their financial performance positively. This is because a DMB that makes effective use of an audit firm that has credibility for audit quality is expected to enjoy a reasonable degree of efficiency in its financial performance. It is against this background that the study becomes imperative.

### Statement of the Problem

There has been a serious debate among scholars: Egbunike and Abiahu (2017); Ilaboya and Ohiokha (2014); Badawi (2008); Onaolapo and Ajulo (2017); Kho, Choi, and Woo (2014); and Enofe (2010) among others on the effect of audit quality on financial performance in both developed and developing countries. However, the effect of audit quality on financial performance is not without discordant results in the empirical literature. The dominant view among scholars as well as public policymakers is that audit quality can play important role in enhancing the rate of financial performance of companies because it will enable investors to confidently rely on the information provided in the financial statement and make a decision that will enhance financial performance. However, Badawi (2008) and Enofe

(2010) posit that the quality of reported earnings and the ability of audit quality (which can be influenced by audit firm size, audit report lag, audit fee, audit specialty, audit tenure among others) to effectively constrain earnings misrepresentation and financial statement manipulations of companies across the world and Nigeria in particular, have become considerably questionable due to recent corporate accounting scandals. Differences in Audit Quality such as audit firm size, audit report lag, audit fee, audit specialty, audit tenure among others result in variations in the credibility of auditors and the reliability of the earnings reports of companies (Onaolapo and Ajulo, 2017).

The recent corporate financial scandals pose a great challenge to the veracity, credibility, utility, or value relevance of the audit function. A typical example of a financial statement malfunction is the popular case of Enron. Enron was one of the largest energy companies in the US. By fraud and bribery, Enron executives avoided income taxes, and this lead to the downfall of this multi-billion dollar firm. Also, in Nigeria, corporate scandals include the cases of Cadbury Nigeria Plc, Lever plc now Unilever in (1998) and African Petroleum in (2000) (Onaolapo and Ajulo, 2017); Savannah Bank and African International Bank, Wema Bank, Nampak, Finbank and Spring Bank (Adeyemi and Fagbemi, 2010); and more recently Intercontinental Bank Plc., Bank PHB; Oceanic Bank Plc. and AfriBank Plc. These are known publicly reported cases that resulted in misleading financial reports. There is therefore a concern about the quality of accounting income and its relationship with the quality of the auditing process which has been observed to increase over time following the periodical clusters of business failures, frauds, and litigations. The issue is whether these corporate collapses are not the outcome of poor audit quality and the inability of the audit function to arrest earnings misreporting and financial misstatements, hence, the need for the study.

**Objectives of the Study**

The study sought to evaluate the extent to which the financial performance of Deposit Money Banks in Nigeria is being influenced by audit quality. Specifically, the study seeks to:

I. determine the influence of audit firm size on the financial performance of Deposit Money Banks in Nigeria;

II. examine the effect of audit fees on the financial performance of Deposit Money Banks in Nigeria;

III. ascertain the effect of audit report lag on the financial performance of Deposit Money Banks in Nigeria.

**Research Questions**

The study was guided by the under-listed formulated research questions:

I. To what extent does audit firm size affect the financial performance of Deposit Money Banks in Nigeria?

II. What is the effect of audit fees on the financial performance of Deposit Money Banks in Nigeria?

III. What is the effect of audit report lag on the financial performance of Deposit Money Banks in Nigeria?

**Statement of Hypotheses**

The following null hypotheses have been developed with the aim of achieving the research objectives:

**Ho1**: Audit firm size does not have a significant effect on the financial performance of Deposit Money Banks in Nigeria.

**Ho2**: Audit fee does not have a significant effect on the financial performance of Deposit Money Banks in Nigeria.

**Ho3**: Audit report lag does not have a significant effect on the financial performance of Deposit Money Banks in Nigeria.

## 2. Review of Related Literature

### Conceptual Review

**Audit Quality**

Audit quality can be defined in two dimensions: first, detecting misstatements and errors in financial statements, and second, reporting these material misstatements and errors (Enofe, Mgbame and Enabosi, 2013; Yuniarti, 2011).

The European Supreme Audit Institution (EUROSAI) extended the definition of Audit Quality in 2004 to include the degree to which a set of inherent characteristics of an audit fulfills requirements. The classic definition of audit quality that as cited by most audit researchers is that of DeAngelo (1981) which states that audit quality is the market-assessed joint probability that a given auditor will both (a) discover a breach in the client's accounting system and (b) report the breach. The definition highlights two important aspects of audit quality: (1) the competence of the audit firm that determines how likely it is that a misstatement will be detected and (2) the independence and objectivity of the auditor that determines what the auditor is likely to do about a detected misstatement. This definition has been quite useful to audit quality studies. The importance of DeAngelo (1981) definition is that audit quality is a probability that an auditor will discover and truthfully report material errors, misrepresentations, or omissions in the client's financial statements. Davidson and Neu (1993) simply posit that audit quality is the accuracy of auditor's information reporting while Wallace (1987) shows that audit quality is a measure of the auditor's ability to reduce noise and bias and meticulously improve accounting data. On this line of thought, Enofe *et al* (2013) argue that an audit quality definition is based on the auditor's ability to detect and eliminate material misstatements and manipulations in reported net income.

Also, Yuniarti (2011) asserted that high-quality auditors are more likely to discover questionable accounting practices by clients and report material irregularities and misstatements compared with low-quality auditors. Due to this, higher audit quality can better constrain earnings management, and in turn enhance the quality of financial reports (Ching, Teh, San, and Hoe, 2015). In other words, high-quality auditors give greater credibility and better quality to financial statements than low-quality auditors. Previous research in the related literature has employed various measures as proxies of audit quality (Yuniarti, 2011; Egbunike and Abiahu, 2017; Onaolapo and Ajulo, 2017; Gerayli, Yanesari and Ma'atoofi, 2011). This study used audit firm size, audit report lag, and audit fees as the construct of audit quality.

**Audit Firm Size**

Audit firm size is operationally defined as the ability of a sampled Deposit Money Banks in Nigeria to employ the services of any of the Big 4 audit firms in Nigeria. The Big 4 audit firms in Nigeria are KPMG, Ersnt & Young, Prince Waterhouse Coopers (PWC), Akintola Williams, and Delliotte (Egbunike and Abiahu, 2017; Adeniyi and Mieseigha, 2013; Enofe, et. al., 2013). Some researchers believe that the big four (KPMG, Ersnt & Young, Prince Waterhouse Coopers (PWC), Akintola Williams, and Deloitte) have better access to advance technologies and specialist staff when compared to non-big 4 firms. DeAngelo (1981) theorizes that larger firms perform better audits because they have a greater reputation at stake. In addition, because larger firms have more resources at their disposal, they can attract more highly skilled employees.

**Audit Fees**

The audit fee is the economic remuneration for auditors who provide audit services, which are agency fees according to certain standards. The audit fee includes the total cost of the audit through the overall audit work, the risk compensation, and the profit demand. During the actual audit work, the audit fee influences not only audit quality but also the development of accounting firms and the audit industry (Siheng, 2017). Theoretically, the amount of fees for audit services that a client firm pays to its audit firm reflects the level of audit work the latter has to perform in the auditing process. The definition of this level of work embodies the auditor's assessment of the process's complexity and the desired level of risk. In the work of Moutinho (2012), all other things considered, if an auditor wishes to decrease the risk of issuing a clean opinion when there are materially relevant distortions in the client's financial statements, he generally acts as the nature, extent, and timing of audit procedures, which, naturally, influence the final amount of required fees.

**Audit Report Lag**

Audit report lag is the number of days from the accounting year-end of a company and the audit report date. As an important information conciliator, an audit report is all the time a focus of audit firms, companies, regulators, and investors. According to Boyne and law (1991) cited in Yuniarti (2011), the annual report is a vehicle for discharging accountability while Bamber, Dchederbek, and Bamber (1993) conclude that audit delays are increasing function of the extent of audit work; decreasing function of incentives to provide a timely report, and increasing function of the extent to which an auditor employs a structured audit approach. Also, Dibia and Onwuchekwa (2013) unveiled that undue audit lag reduces the quality of financial reporting by not providing timely information to investors and

prospective investors. In other words, the delay in the audit report can make investors lose confidence in the report presented and compound the agency problem.

**Return on Assets (ROA)**

Return on assets (ROA) is an indicator of how profitable a company is relative to its total assets. ROA gives a manager, investor, or analyst an idea as to how efficient a company's management is at using its assets to generate earnings (Gallo, 2016). ROA tells what earnings were generated from invested capital (assets). ROA for public companies can vary substantially and will be highly dependent on the industry. This is why when using ROA as a comparative measure, it is best to compare it against a company's previous ROA numbers, or against a similar company's ROA. The ROA figure gives investors an idea of how effective the company is in converting the money it invests into net income. The higher the ROA number, the better, because the company is earning more money on less investment. ROA is most useful for comparing companies in the same industry, as different industries use assets differently. For example, the ROA for service-oriented firms, such as banks, will be significantly higher than the ROA for capital-intensive companies, such as construction or utility companies. ROA simply shows how effective your company is at using those assets to generate profit. This ratio is more useful in some industries than in others, partly because how much money your business has tied up in assets will depend on your industry.

**Theoretical Framework**

The study is anchored on agency theory and the auditor's theory of inspired confidence.

**Agency Theory**

Agency theory can be traced to Jensen and Meckling in 1976. Risk-sharing among individuals or groups was explored by Jensen and Meckling and it was discovered that risk-sharing problems usually arise as a result of the differential attitude of co-operating parties towards risk. The risk-sharing literature encompasses the agency problem that results when co-operating parties (individuals and or groups) have different objectives and attitudes to the division of labor (Jensen and Meckling, 1976). Eisenhardt (1989) further opined that agency theory was extended to the areas of management to determine how the objectives of individuals in an organization could be harmonized and used to achieve the corporate goals of the organization. During the period of 1980s, agency theory was also used extensively in managerial accounting to ascertain the inducement that exists among individuals or groups in an organization and use accounting mechanisms that are appropriate to control their behaviors and actions (Namazi, 1985; Biaman, 1990; Demski and Dye, 1999). Using appropriate mechanisms to harmonize the interest of individuals in an organization towards enhancing organizational financial performance is the main concern of the study.

Agency theory, therefore, involves the relationship or the interaction between the principal and the agent. Usually the principal; employ the agent to function on his or her behalf. The agent is expected to represent the principal in specific business activities and he or she is expected to do so without compromising the interest of the principal (Namazi, 2013). Akintoye (2010) opined that the shareholders and the management represent the principal and the agent respectively. Both the shareholder and the management are expected to maximize their satisfaction. It, therefore, implies that conflict of interest among the agent and the principal may put them apart. The incompatibility of the interest of the shareholders and the management will lead to financial losses and inefficiency in the organization. This will result in having a problem between the agent and the principal. The problem between the agent and the principal will arise when their interest is in conflict. It, therefore, becomes imperative for corporate organizations to use the audit to resolve this principal-agent problem.

The agency theory assumes that the principal and the agent are motivated by self-interest. This assumption of self-interest may result in conflict between the agent and the principal since the agent is more likely to pursue his or her objectives to the detriment of the shareholders or principal's objectives. To ensure that the agents pursue the interest of the principal, their activities need to be monitored and managed more effectively. Anthony, Sridharan, Farshid, and Braendle (2012) argue that agency theory also assumes that if the principal and the agents are mainly concerned about maximizing their wealth, agents are likely going to act their self-interest rather than the interest of the principal. To make agents act in the interest of the principals, there is the need to put in place mechanisms such as an audit to scrutinize and manage the decisions of agents to ensure the objective of such decisions aligns with shareholders' interests. In relation to the study, the agency theory is considered useful in explaining the effectiveness of corporate owners' strategy of using auditing as a means of reducing managerial excesses and waste of

organizational resources. The theory creates confidence in business dealing and enhances the euthenics of the information disclosures by the management of banks as the less informed party will have to demand information. There is thus an expected positive relationship between audit quality and financial performance based on the predictions of agency theory.

**Auditors Theory of Inspired Confidence**

The auditors' theory of inspired confidence as developed by the Limperg Institute in the Netherlands in 1985 offers a linkage between the users' requirement for credible and reliable financial reports and the capacity of the audit processes to meet those needs. It sees through the development of these needs of the public (stakeholders) and the audit processes over time. The theory of inspired confidence states that the auditor, as a confidential agent, derives his broad function in society from the need for expert and independent examination as well as the need for an expert and independent judgment supported by the examinations. Thus, accountants and auditors are expected to know and realize that the public continues to expect a low rate of audit failures. This requires that the auditors must plan and perform their audit in a manner that will minimize the risk of undetected material misstatements. The accountant is under a duty to conduct his work in a manner that does not betray the confidence that he commands (Limperg Institute, 1985).

The basic assumption of the theory of inspired confidence is that the duties and responsibilities of the auditors are a derivation from the confidence that is bestowed by the public on the success of the audit process and the assurance that the opinion of the accountant conveys. Since this confidence determines the existence of the process, a betrayal of the confidence logically means a termination of the process or function. Carmichael (2004) in discussing the social significance of the audit stated that when the confidence that society has in the effectiveness of the audit process and the audit report is misplaced, the value relevance of that audit is destroyed. Therefore, auditors are expected to maintain reasonable quality assurance especially given that an audit failure is effectively a career-ending event.

Both agency theory and auditors' theory of inspired confidence provide assurance to the owners and management of companies and investors and stakeholders, and along with financial reporting, corporate governance, and regulations, supports confidence in the capital markets.

**Empirical Review**

Some scholars have researched audit quality and financial performance in Nigeria and abroad with inconsistent approaches and findings. Abdilla, Mardijuwono, and Habiburrochman (2019) analyzed the factors that affect an auditor's efficiency in completing the audit process proxy by audit report lag. The factors used in this study are selected by looking at the characteristics of the company and the characteristics of an auditor. Company characteristics were proxy by the audit committee effectiveness, financial condition; accounting complexity, and profitability, whereas auditor characteristics were proxy with auditor reputation, audit tenure, and auditors industry specialization. Populations of this study were all manufacturing companies listed on the Indonesian Stock Exchange for the period of 2014–2016. A multiple linear regression method was used to analyze this study. Hypothesis testing was done by statistical t-test (partial). The results showed that partially variables of the audit committee effectiveness and profitability had a significant negative effect on audit report lag while the variable financial condition had a significant positive effect on audit report lag. Meanwhile, variables of the accounting complexity, auditor reputation, audit tenure, and auditors' industry specialization did not show significant influence on audit report lag.

Ogbodo and Akabuogu (2018) examined the effect of audit quality on the financial performance of selected banks in Nigeria. The study specifically examined the effect of audit firm size on return on assets of Nigerian banks; determined the extent audit committee independence affects return on equity of Nigerian banks and ascertained the effect of the audit committee on the profit margin of Nigerian banks. Three research questions and hypotheses were formulated in line with the objectives of this study. The population of the study consists of sixteen deposit money banks quoted on the Nigerian Stock Exchange. Data for the study were extracted through the financial statement of the banks from 2008 to 2017 and was tested with a regression statistical tool using the Scientific Package for Social Sciences (SPSS) Version 20. Based on the data analyzed, the study found that firm size has significant effects on return on assets of quoted Nigerian banks; also that audit committee independence has a significant effect on return on equity of quoted Nigerian banks. The study also found that audit committee size has

significantly affected the profit margin of quoted Nigerian banks. Based on this, the study recommended among others that companies should make use of the services of audit firms with unquestionable track records of audit quality and reputation; hence the debate on audit quality is not a settled matter.

Egbunike and Abiahu (2017) examined the effect of audit firm reports on the financial performance of money deposit banks in Nigeria covering the period 2010 through 2014. The study used ex post facto and correlational research design while the data collected were analyzed using multiple regression analysis. The study found that audit quality has a significant effect on the return on assets of Nigerian banks; audit fee and audit report lag had no significant influence on return on asset, earning per share, and net profit margin of Nigerian banks. The study recommended mandatory rotation of auditors as a significant factor in safeguarding auditor's independence and improving the quality of audit; and the establishment of corporate governance principles that address issues relating to board independence and committee sizes to guide activities in the banking sector.

Onaolapo and Ajulo (2017) examined the effect of audit fees on audit quality in Nigeria using a sample of listed cement companies on the floor of the Nigerian Stock Exchange. In specific terms, the study investigates the relationship between audit fee, audit tenure, client size, leverage ratio, and audit quality. The Ordinary Least Square Model estimation technique was employed to analyze the relationship between the explanatory variables and the dependent variable. Secondary data derived from the published annual reports of the selected companies for six years (2010-2015) was used for the study. Findings from the study show that audit fee, audit tenure, client size, and leverage ratio exhibit a joint significant relationship with audit quality given coefficient of determination (R2) being 0.6006 and a combined p-value of 0.001 and Fcalc=7.14. This implies that the predictive power of the independent variables as used to explain changes in audit quality is about 60%. Audit fee in particular shows a significant positive impact on audit quality with at and p-values of (4.04 and 0.001) respectively as well as a high positive correlation coefficient of 0.7513 with audit quality. The study recommends that Government through the various professional bodies should develop robust policies that will help improve audit quality in Nigeria.

Ilechukwu, (2017) examined the effect of audit fees on audit quality using a sample of selected firms from the consumer goods sector in Nigeria within the period of 2011 and 2016. The core explanatory variables employed were the audit fee and audit tenure. Added to these explanatory variables were the control for firm size, profitability, and leverage. The pooled data OLS regression technique was employed for data analyses. The results showed that audit fees and other explanatory variables determine 38% of the audit quality of the selected firms. Specifically, the study found that audit fees, client profitability, and financial leverage have a positive but insignificant effect on audit quality in the consumer goods sector of quoted firms in Nigeria. However, audit tenure and client size have a significant positive effect on audit quality in the consumer goods sector of quoted firms in Nigeria. The study thus concludes that the quality of firm audit is significantly enhanced by the length of audit tenure and client size, much more than the amount of audit fee, firm profit, and leverage. It is recommended that firms should contract audit firms for longer than three years to encourage the quality of audit reports.

Fitriany and Anggraita (2016) investigated the economic bonding between auditor and client by examining the association between abnormal audit fees and audit quality. The study employed the natural log of actual fees paid to auditors for their financial statement audits as a dependent variable while the independent variables included total assets (firm size), number of business segments, number of geographic segments, inventory and receivables, number of employees, firm report a loss, leverage, return on assets, firm liquidity, the use of the Big4 auditors, tenure, book-to-market ratio, and sales change. The multiple regression model showed that positive abnormal audit fees are negatively associated with audit quality and imply that the audit fee premium is a significant indicator of compromised auditor independence due to the economic auditor–client bonding. Audit fee discounts could also increase audit quality, maybe due to the mandatory audit firm rotation and high audit market competition in Indonesia, so that the auditor must keep their independency and high audit quality to maintain a good reputation.

Okolie and Izedonmi (2014) inquired whether Audit Quality has any significant relationship with Market Value per Share of companies in Nigeria. Archival data were extracted from annual reports of 57 companies quoted on the Nigerian Stock Exchange (NSE) between 2006 and 2011. Audit Quality was estimated using Audit Firm Size, Audit Fees, Auditor Tenure, and Audit Client Importance. Market Price per Share (MPS) was derived directly from CSCS Cash – Craft. Multiple regression analyses were conducted on the data. The results of the tests show that Audit

Quality exerts significant influence on the MPS of quoted companies in Nigeria. To improve the quality of audit and minimize earnings manipulations by firms in Nigeria, the study recommended that regulatory agencies - professional accountancy bodies, Financial Reporting Council of Nigeria, the National Assembly, and Securities and Exchange Commission should issue authoritative standards and framework for audit quality; companies should improve their earnings quality only through sales growth, cost control, and cost reduction strategies; companies in Nigeria should present distinct statements of earnings quality while auditors should conduct earnings quality assessment and issue Integrated Audit Quality Assurance Report by adapting or adopting current best practices statutorily backed by earnings monitoring of companies in Nigeria.

Dibia and Onwwuchekwa (2013) studied an examination of the audit report lag of companies quoted in the Nigeria stock exchange for the period 2008 to 2011. The investigation was conducted on a pooled sample of 60 firms across industries (Construction, Breweries, Oil & Gas, Health care, Packaging, Insurance, Publishing, Food Products, Automobiles, Hotel & Tourism, Real Estate, Mortgage, ICT, Agro-Allied, Building Materials, Conglomerates, Courier and Banking). The results show that the age of a company and total asset has a significant impact on audit report lag in Nigeria. However, the result indicates that Firm size and firm switch have no significant relationship with audit report lag in Nigerian companies. The recommended that further research area on audit report lag should increase the sample size and also the number of years under investigation. Also, Policymakers should look into the audit report lag of quoted companies in Nigeria and formulate policies to enforce compliance. This will assist in boosting investors' confidence and also guide them in taken timely quality decisions either to invest or de-invest.

Moutinho (2012) examined the relationship between audit fees and firm performance using a sample of US publicly traded non-financial firms covering the period from 2000 to 2008. The study employed a fixed-effects model to estimate firm operating performance. The model included standard control variables such as size, leverage, sales growth, and research and development intensity. The study found a significant relationship between audit fees and firm performance. The study recommended the need to increase audit fees to enhance firm performance.

Yuniarti (2011) examined audit firm size, audit fee, and audit quality of 24 Bandung firms in 2009 using the ordinary least square regression method that was stated in its multiple forms. The study found that higher audit fee increases and improve audit quality due to auditor's effort. The study recommended that accounting firms should enhance the amount of audit fees that lead to higher audit quality.

Umaru, (2011) examined the impact of audit firms' attributes on the financial reporting quality of quoted building material firms in Nigeria. The study employed a correlation research design using a sample of four listed building material firms for the period of ten years (2002-2011). The Ordinary Least Square (OLS) multiple regression techniques were employed in the analysis of the panel data collected for the study. The study found that audit compensation and audit firm independence have a significant and positive impact on the financial reporting quality of quoted building material firms in Nigeria at a 99% confidence level.

Oladipupo (2011) investigated the extent of audit lag in Nigeria covering forty selected companies. Both univariate and multivariate analyses were performed on the data collected. The study observed that; audit delay ranged from 16 to 284 days; Nigeria listed companies take approximately four months on the average beyond their balance sheet date before they are finally ready for the presentation of the audited accounts to the shareholders; That profitability, total assets, total debt, total equity, audit fees, and industry type have no significant impact on audit delay.

## 3. Methodology

### Research Design and Data Sources

The research design adopted in the study is an *ex-post facto* research design. Justification for the choice of this design is that the researcher does not intend to manipulate or control the variables subject to investigation. Data used in this study were secondary sourced data. The data were extracted from the individual consolidated annual reports of ten (10) selected Deposit Money Banks (DMBs) in Nigeria, namely: First Bank, Guaranty Trust Bank, United Bank of Africa, Unity Bank, Zenith Bank, Fidelity Bank, FCMB, Sterling Bank, Eco Bank and Wema Bank covering the period of 2004-2019. These banks were selected based on their financial performance over the years and the availability of financial statements for the period covered in the study.

**Methods of Data Analysis**

The Ordinary Least Squares (OLS) multiple regression techniques were used to analyze the panel data because it is considered to be the Best Linear Unbiased Estimator (BLUE) that is appropriate for estimating a model of this nature. This was aided by Statistical Package for Social Sciences (SPSS) version 20.0. Moreover, some preliminary tests such as multicollinearity were carried out to test the reliability and validity of data.

**Model Specification**

The regression model is as specified by Frances Galton (1974) thus;

$y = a + x + e$… (1)

Therefore, rewriting the model in line with equation 1 above, the study has that:

ROA = f(AFS, AF, ARL) … (2)

Where; ROA = Return on Asset; AFS = Audit Firm Size; AF = Audit Fee; ARL = Audit Report Lag

To empirically examine the effect of audit quality on financial performance, the study hypothesized that financial performance proxy as Return on Assets (ROA) depends behaviorally on the various audit quality constructs. Thus, such behavioural influence was given as;

$ROA_t = a + b_1 AFS_t + b_2 AF_t + b_3 ARL + e_t$ … (3)

In a bid to control all the variable values in the equation (3), we rewrite equation (3) as;

$ROA_t = a + b_1 AFS_t + b_2 AF_t + b_3 ARL_t + b_4 BankSize_t + e_t$ … (4)

Where; a = Constant parameter; $b_1$ to $b_4$ = parameters to be estimated; t = periods 2004 through 2019; $e_t$ = error term.

**Table 3.1: Variable Description and Measurement**

| S/N | Variables | Definitions | Type of Variable | Measurement | Construct validity source |
|---|---|---|---|---|---|
| 1 | ROA | Return on Asset | Dependent | Net income/Total assets | Egbunike and Abiahu (2017) |
| 2 | AFS | Audit Firm Size | Independent | Measured using dummy variables. Banks that are audited by the Big Four were scored 1, whereas banks audited other than the Big Four were scored 0. | Siheng (2017) |
| 3 | AF | Audit Fee | Independent | Natural Log of the Audit Fees Paid by the company | Yuniarti (2011) |
| 4 | ARL | Audit Report Lag | Independent | Measured by counting the number of days after the closing date of the company's book up to the date of signing of the independent auditor's report by the auditor stated in the company's audited financial statements. | Carslaw and Kaplan (1991) |
| 5 | Bank Size | Bank Size | Control | Natural log of Bank Total Assets | Gerayli, Yanesari, and Ma'atoofi, (2011) |

**Decision Rule**

In taking the decision, p-value was used. For the p-value approach, the researcher obtained a p-value using the computed test statistic and at the two-tailed test. Null hypothesis ($H_o$) is rejected in favour of alternative hypothesis ($H_1$) if p-value ≤ 0.05.

**4. Results and Interpretations**

**Descriptive Results**

**Table 4.1: Descriptive Statistics**

| Variables | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|
| **ROA** | -.4500 | .0800 | .012125 | .0427128 |
| **AFS** | .0000 | 1.0000 | .930818 | .2545658 |
| **AF** | 6.7767 | 8.7709 | 8.010446 | .4362706 |
| **ARL** | 1.1139 | 2.7612 | 1.916505 | .2649579 |

***Source: Author's Computation, 2020***

Table 4.1 above shows the mean for return on asset (ROA), audit firm size (AFS), audit fee (AF), and audit report lag (ARL) of Money Deposit Banks (MDBs) in Nigeria are .012125, .930818, 8.010446, and 1.916505 respectively. The table above further shows the standard deviation which is the measure of spread in the series. The standard deviation for return on asset (ROA), audit firm size (AFS), audit fee (AF), and audit report lag (ARL) of Money Deposit Banks (MDBs) in Nigeria are .0427128, .2545658, .4362706, and .2649579 respectively.

The minimum values for return on asset (ROA), audit firm size (AFS), audit fee (AF), and audit report lag (ARL) of Money Deposit Banks (MDBs) in Nigeria are -.4500, .0000, 6.7767, and 1.1139 respectively while the maximum values for return on asset (ROA), audit firm size (AFS), audit fee (AF), and audit report lag (ARL) of Money Deposit Banks (MDBs) in Nigeria are .0800, 1.0000, 8.7709, and 2.7612 respectively.

**Table 4.2: Empirical Result of Ordinary Least Square Method**

| Variables | Coefficient | Std. Error | t-stat. | Sig. Value |
|---|---|---|---|---|
| **(Constant)** | -.004 | .078 | -.048 | .962 |
| **AFS** | .025 | .013 | 1.982 | .049 |
| **AF** | .012 | .009 | 1.304 | .194 |
| **ARL** | -.056 | .012 | -4.574 | .000 |

***Source: SPSS version 20.0***

Table 4.2 shows the ordinary least square regression coefficients of the independent variables. The results showed that the p values of the coefficients of audit firm size, and audit fee showed positive values of .025, and .012 respectively and they are statistically significant at a 5% level of significance except for the auditor's fee which is not statistically significant. This implies that a one percent increase in audit firm size and auditor's fee will result in a 2.5%, and 1.2% increase respectively in the return on asset (ROA) of Deposit Money Banks (DMBs) in Nigeria within the estimated model over the years. The result in table 4 further showed that the p values of the coefficients of audit report lag showed a negative value of .056 and is statistically significant 5% level of significance. This suggests that a one percent increase in the number of days an audit firm uses to submit their audit report after the end of the accounting year will result in a 5.6% decrease in return on asset (ROA) of Deposit Money Banks (DMBs) in Nigeria within the estimated model over the years.

**Table 4.3: Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | R Square Change | F Change | df1 | df2 | Sig. F Change |
| 1 | .388[a] | .150 | .128 | .0400044 | .150 | 6.805 | 4 | 154 | .000 |

***Source: SPSS version 20.0***

Table 4.3 shows that the adjusted coefficient of determination ($R^2$) offers a better explanation of the variations in ROA, as the value is 12.8 percent shows that the explanatory variables (AFS, AF, ARL, and TA) can jointly explain approximately 13% variation in the ROA while other variables not captured in the model account for the rest. Also, the p-value of the F-statistics < 0.001 shows that the model is well fit, assembled, and combined in the specification. The result of the OLS equally attests to this as the probability value is equally significant at 0.01%. Consequently, the study rejects the null hypothesis and concludes that audit firm quality affects the return on asset (ROA) of Deposit Money Banks in Nigeria.

**Discussion of Results**

**Effect of Audit Firm Size on Return on Asset (ROA) of Deposit Money Banks in Nigeria**

The t-statistics results show that audit firm size affects return on asset (ROA) of Deposit Money Banks in Nigeria positively and significantly over the study period 2004 through 2019. This is because the t-statistics calculated value of 1.982 was greater than the t-statistics critical value of 1.962 at two tails test 5% level of significance. Also, at a 5% level of significance, the study reports a significant and positive effect of audit firm size on return on asset (ROA) of Deposit Money Banks in Nigeria as revealed in table 4 above since the p-value of .049 is less than .05. The inference of the result is that a one percent increase in audit firm size will cause a 2.5% increase in return on asset (ROA) of Deposit Money Banks in Nigeria. This is consistent with the findings of Ogbodo and Akabuogu (2018); Egbunike and Abiahu (2017); Okolie and Izedonmi (2014); Farouk and Hassan (2014) and Umaru, (2011) who report a similar outcome in Nigeria. This result is further corroborated by the work of Ziaee (2014). Ziaee (2014) studied the effect of audit quality on the financial performance of listed companies in the Tehran Stock Exchange covering the period 2008 through 2012 and the result of the study showed that audit quality affects the financial performance of companies in Tehran, Iran significantly.

**Effect of Audit Fee on Return on Asset (ROA) of Deposit Money Banks in Nigeria**

The t-statistics results show that audit fee does not affect the return on asset (ROA) of Deposit Money Banks in Nigeria significantly over the study period 2004 through 2019. This is because the t-statistics calculated value of 1.304 was less than the t-statistics critical value of 1.962 at two tails test 5% level of significance. Also, at a 5% level of significance, the study reports the insignificant and positive effect of audit fees on return on asset (ROA) of Deposit Money Banks in Nigeria as revealed in table 4 above since the p-value of .194 is far greater than .05. This suggests that audit fee (AF) has a positive and insignificant impact on the return on asset (ROA) of Deposit Money Banks in Nigeria. The implication is that a unit variation in the audit fee of auditors of commercial banks will result in a corresponding 1.2% upward movement in the return on asset (ROA) of Deposit Money Banks in Nigeria. This is consistent with the findings of Egbunike and Abiahu (2017); and Oladipupo (2011) who reported similar outcomes.

**Effect of Audit Report Lag on Return on Asset (ROA) of Deposit Money Banks in Nigeria**

The t-statistics results show that audit report lag influences return on asset (ROA) of Deposit Money Banks in Nigeria significantly over the study period 2004 through 2019. This is because the t-statistics calculated value of 4.574 was greater than the t-statistics critical value of 1.962 at two tails test 5% level of significance. Also, at a 5% level of significance, the study reports a significant and negative effect of audit report lag on return on asset (ROA) of Deposit Money Banks in Nigeria as revealed in table 4 above since the p-value of .000 is less than .05. The result of the study showed that the coefficient of audit report lag (ARL) is negative and significant (-0.056, p< 0.01). This suggests that audit report lag (ARL) has a significant and negative impact on the return on asset (ROA) of Deposit Money Banks in Nigeria. The implication is that a one percent increase in the number of days an audit firm uses to sign their audit report after the end of the accounting year will result in a 5.6% decrease in return on asset (ROA) of Deposit Money Banks (DMBs) in Nigeria within the estimated model over the years. This is consistent with the findings of Lee and Jang (2008) who report a similar outcome.

**5. Conclusion and Recommendations**

**5.1 Conclusion**

The objective of this study was to prove the need and significance of audit firm quality as a predictor towards achieving a higher level of return on assets of Deposit Money Banks (DMBs) in Nigeria. This study tested the hypotheses that were carefully developed from the related works of literature reviewed. Hence, the statistical

findings indicate that audit firm size, and audit fee are positively related to return on assets of Deposit Money Banks (DMBs) in Nigeria. The statistical finding further showed that audit report lag is negatively related to the return on assets of Deposit Money Banks (DMBs) in Nigeria. By implication, this study provides empirical evidence for the theoretical association hypothesized from the literature. In a nutshell, the study concludes that the return on asset (ROA) of Deposit Money Banks (DMBs) in Nigeria is significantly influenced by audit firm quality.

**5.2 Recommendations**

Based on the findings of the study, the study recommends as follows:

1. There is a need to continue to engage audit firms within the big 4 auditing firms in Nigeria to continue to influence the return on assets of Deposit Money Banks (DMBs) in Nigeria significantly and positively;
2. There is a need for Deposit Money Banks (DMBs) in Nigeria to improve the fees that accrue to auditors to continue the positive effect it has on their ROA;
3. There should be an effective and prompt submission of signed audited annual reports i.e. there should not be more than 31days delay in signing and submitting the audited annual report to continue to influence the return on asset (ROA) of Deposit Money Banks (DMBs) in Nigeria significantly and positively.

**References**

Abdilla, M. R., Mardijuwono, A.W., & Habiburrochman, H. (2019). The effect of company characteristics and auditor characteristics to audit report lag. *Asian Journal of Accounting Research,* 4(1): 129-144.

Abedalgader, A., Ibrahim, T. R. & Baker, R. A. (2010). Do tenure and firm size contribute to audit quality? *Journal of Managerial Auditing,* 26(3): 317-334.

Adeniyi, S. I. & Mieseigha, L. C. (2013). Audit tenure assessment of its effects on audit quality in Nigeria. *International Journal of Academic Research in Accounting, Finance and Management Science,* 3(3): 275-283.

Adeyemi, S. B. & Fagbemi, T. O. (2010). Audit quality, corporate governance, and firm characteristics in Nigeria. *International Journal of Business and Management,* 5(5): 169 – 179.

Adeyemi, S.B., Okpala, O., & Dabor, E. L. (2012). Factors affecting audit quality in Nigeria. *International Journal of Business and Social Sciences,* 3(20): 198-209.

Ahmed, A. A. & Hossain, M. S. (2010). Audit Report lag: A study of the Bangladeshi listed companies. *ASA University Review,* 4(4): 49-56.

Anthony, B., Sridharan V. G., Farshid, N., & Braendle, U. C. (2012). The theoretical foundations of corporate governance. Retrieved May 6, 2020, from http://virtusinterpress.org/additional_files/book_corp_govern /sample_chapter02.pdfben.

Badawi, I. M. (2008). Motives and consequences of fraudulent financial reporting; paper presented at the 17th annual convention of the global awareness society international, May 2008, San Francisco, USA.

Baiman, S. (1990). Agency research in managerial accounting: A second look. *Accounting, Organization and Society,* 15(4): 341-371.

Balsam, S., Krishnan, J. & Yang, J. S. (2003). Auditor industry specialization and the earnings response coefficient, working paper.

Bamber, E., L. Bamber & Schoderbek, M. (1993). Audit structure and other determinants of audit report lag: an empirical analysis. *Journal of Practice & Theor*y, 12(1): 1-23.

Carey, W. P. (2006). Fallout from corporate scandals: Enron q & a. http://knowledge.wpcare.asu. Retrieved: February 27th, 2010.

Carmichael, D. R. (2004). The Pcaob and the social responsibility of auditors. *Accounting Horizons,* 18(2): 127 – 133.

Carslaw, C. and Kaplan, S. (1991). An examination of audit delay: further evidence from New Zealand; *Journal of Accounting and Business Research,* 22(85): 21-32.

Chijoke, O. M., Emmanuel E. & Nosakhare, P. O. (2012). Audit partner tenure and audit quality: an empirical analysis; *European Journal of Business and Management,* 4(7): 154-163.

Ching, Teh, San & Hoe, 2015). The effect of audit report lag and management discretionary report lag on analyst forecasts: evidence from Korea; *Investment Management and Financial Innovations,* 12(1): 318-329.

Choi, J. H., Kim, J. B., Liu, X. & Simunic, D. A. (2008). Audit pricing, legal liability regimes, and big 4 premiums: Theory and cross-country evidence. *Contemporary Accounting Research,* 25(1): 55-99.

Choi, J. H., Kim, J. B., Liu, X. & Simunic, D. A. (2009). Cross-listing audit fee premiums: Theory and evidence. *The Accounting Review*, 84: 1429-1463.

Copley, P. A. (1991). The association between municipal disclosure practices and audit quality; *Journal of Accounting and Public Policy,* 10 (4): 135 – 150.

Cramer, D. (1998). Fundamental Statistics for Social Research, London: Rutledge.

Davidson, R. A. & Neu, D. (1993). A note on the association between audit firm size and audit quality. *Contemporary Accounting Research,* 9(2): 479 – 488.

DeAngelo, L. E. (1981). Auditor size and audit quality. *Journal of Accounting and Economics,* 3(3): 183– 199.

Demski, J. S. & Dye, R. A. (1999). Risk, return, and moral hazard. *Journal of Accounting Research,* 37(1): 27-55.

Dibia, N. O. & Onwuchekwa, J. C. (2013). An examination of the audit report lag of companies quoted in the Nigeria stock exchange. *International Journal of Business and Social Research,* 3(9): 8-16.

Egbunike, F. C. & Abiahu, M. C. (2017). Audit firm report and financial performance of money deposit banks in Nigeria. *The Nigerian Accountant, January/March,* 25-39.

Eisenhardt, K. M. (1989). Agency theory: An assessment and review. *International Journal of Management*, 5(1): 341 - 353.

Enofe, A. (2010). Reaping the fruits of evils: How scandals help reshape the accounting profession. *International Journal of Business, Accounting, and Finance,* 4(2): 53 – 69.

Enofe, A. O., Mgbame, C., Aderin, A. & Ehi-Oshio, O. (2013). Determinants of audit quality in the Nigerian business environment. *Research Journal of Finance and Accounting,* 4(4): 36 – 43.

Enofe, D. O., Mgbame, C. O. & Enabosi, O. C. (2013). Corporate governance and audit quality in Nigeria. *ESUT Journal of Accountancy,* 4(1): 138-145.

Fagbemi, T.O. & Uadiale, O.M. (2011). An appraisal of the determinants of timeliness of audit report in Nigeria: Evidence from selected quoted companies, paper presented at the 2011 New Orleans International Academic Conference, USA.

Farouk, M. A. & Hassan, S. S. (2014). Impact of audit quality and financial performance of quoted cement firms in Nigeria. *International Journal of Accounting and Taxation,* 2(2): 1-22.

Field, A. P. (2009). *Discovering Statistics using SPSS*, SAGE, London.

Fitriany and Anggraita (2016). Impact of abnormal audit fee to audit quality: Indonesian case study; *American Journal of Economics,* 6(1): 72-78.

Gerayli, M. S., Yanesari, A. M. & Ma'atoofi, A. R. (2011). Impact of audit quality on earnings management: Evidence from Iran. *International Research Journal of Finance and Economics,* 66.

Geriesh, L. (2006). Organizational culture and fraudulent financial reporting. *The CPA Journal*, Retrieved April 27, 2020, from http://nysscpa.org/cpajournal.

Gujarati, D. (2003). *Basic Econometrics*, McGraw Hill, New York.

Heninger, W. G. (2001). The association between auditor litigation and abnormal accruals. *The Accounting Review,* 76(1): 111 – 126.

Ilaboya O. J. & Ohiokha F. I. (2014). Audit firm characteristics and audit quality in Nigeria. *International Journal of Business and Economics Research,* 3(5): 187-195.

Ilechukwu, F. U. (2017). Effect of audit fee on audit quality of listed firms in Nigeria. *International Journal of Trend in Research and Development,* 4(5): 319-326.

Iyoha, F. O. (2012). Company attributes and the timeliness of financial reporting in Nigeria. *Business Intelligence Journal,* 5(1).

Jensen, M. C. & Meckling, W. H. (1976). Theory of firm: managerial behaviour, agency costs, and ownership structure. *Journal of Financial Economics*, 3(1): 305-50.

Koh, Y., Choi, W., & Woo, S. (2014). The relationship between an auditing firm's characteristics and incidence rate of its clients subject to Aaer's; *The Journal of Applied Research,* 30(5): 1313-1328.

Lee, H. & Jahng, G. (2008). Determinants of audit report lag: evidence from Korea: An examination of auditor-related factors. *Journal of Applied Business Research*, 24(2): 27-44.

Moutinho, V. N. (2012). Audit fees and firm performance; *Dissertação do Mestrado em Finanças e Fiscalidade, Faculdade de Economia University do Porto, 1-29.*

Namazi, M. (1985). Theoretical developments of principal-agent employment contract in accounting: the state of the art. *Journal of Accounting Literature*, 4(1): 113-163.

Namazi, M. (2013). Role of the agency theory in implementing management's control. *Journal of Accounting and Taxation,* 5(2): 38-47.

Ogbodo, O. C. & Akabuogu, N. J. (2018). Effect of audit quality on the financial performance of selected banks in Nigeria. *International Journal of Trend in Scientific Research and Development (IJTSRD),* 3(1): 99-112.

Okaro, S. C. Okafor, G. O., & Ofoegbu, G. N. (2015). The effect of joint audit on audit quality-the perceptions of accountants, auditors, and accounting academics, paper presented at the African Accounting and Finance Association (AAFA), 2015 conference at Mauritius. DOI: 10.13140/rg.2.1.2695.6009.

Okolie, A. O. & Izedonmi, I. O. (2014). The impact of audit quality on the share prices of quoted companies in Nigeria. *Research Journal of Finance and Accounting,* 5(1), 19-39.

Oladipupo, A. O. (2011). Impact of corporate international linkage on the incidence of audit delay in Nigeria. *JORIND,* 9(1).

Onaolapo A. A., & Ajulo, O. B. (2017). Effect of audit fees on audit quality: evidence from cement manufacturing companies in Nigeria. *European Centre for Research Training and Development UK,* 5(1): 6-17.

Siheng, L. (2017). An empirical study: Auditors' characteristics and audit fee. *Open Journal of Accounting,* 6(2): 1-36.

Teoh, S. H. & Wong, T. J. (1993). Perceived auditor quality and earnings response coefficient. *The Accounting Review*, 68(2): 346 – 366.

The European Supreme Audit Institution (EUROSAI). Guidelines on audit quality, revised version for the consideration of contact committee of the heads of the SAIS of the European Union held in Luxembourg, 6 – 7th (December).

Wallace, W. A. (1987). The economic role of the auditor in free and regulated markets: a review; *Research in Accounting Regulation,* 1: 7- 34.

Watts, R. & Zimmermann, J. L. (1986). *Positive Accounting Theory*. Prentice Hall, Inc. Englewood Cliff.

Wells, J. (2005). *Principles of Fraud Examination* (1st ed.). Hboken, NJ: John Wiley and Sons, Inc., New York

Yuniarti, R. (2011). Audit firm size, audit fee, and audit quality. *Journal of Global Management,* 2(1): 84-97.

Ziaee, M. (2014). The Effect of audit quality on the performance of listed companies in the Tehran stock exchange. *International Letters of Social and Humanistic Sciences,* 21: 36-43.

**Appendices**

**Appendix 1: Processed Data**

| Bank/Year | | ROA | Audit Fee | Audit Size | ARL | Total Asset |
|---|---|---|---|---|---|---|
| **Ecobank** | 2004 | 0.023762 | 6.90309 | 1 | 2.071882 | 10.57567345 |
| 2005 | | 0.024658 | 7 | 1 | 2.120574 | 10.83028461 |
| 2006 | | 0.02694 | 7.544068 | 1 | 1.892095 | 11.12087555 |
| 2007 | | 0.023924 | 7.929419 | 1 | 1.897627 | 11.49331288 |
| 2008 | | -1.2E-05 | 8 | 1 | 1.892095 | 11.63595222 |
| 2009 | | -0.01007 | 8 | 1 | 2.049218 | 11.65864281 |
| 2010 | | 0.003564 | 7.954243 | 1 | 2.09691 | 11.65728442 |
| 2011 | | 0.017553 | 8.041393 | 1 | 2.269513 | 12.04219223 |
| 2012 | | 0.005889 | 8.079181 | 1 | 2.049218 | 12.12231911 |
| 2013 | | 0.00798 | 8.113943 | 1 | 2.053078 | 12.16459403 |
| 2014 | | 0.016771 | 8.176091 | 1 | 2.017033 | 12.24868963 |
| 2015 | | 0.006339 | 8.176091 | 1 | 1.977724 | 12.25118837 |
| 2016 | | 0.003196 | 8.30103 | 1 | 1.986772 | 12.25731923 |
| 2017 | | 0.011042 | 8.39794 | 1 | 1.892095 | 12.26239437 |
| 2018 | | 0.013877 | 8.39794 | 1 | 1.944483 | 12.2915531 |
| 2019 | | 0.013877 | 8.39794 | 1 | 1.944483 | 12.2915531 |
| **FBN** | 2004 | 0.035508 | 7.447158 | 1 | 1.959041 | 11.49483612 |
| 2005 | | 0.032276 | 7.50515 | 1 | 1.954243 | 11.57691235 |
| 2006 | | 0.031503 | 7.556303 | 1 | 1.94939 | 11.73089931 |
| 2007 | | 0.02406 | 7.556303 | 1 | 1.939519 | 11.8824568 |
| 2008 | | 0.026147 | 7.875061 | 1 | 1.934498 | 12.06649775 |
| 2009 | | 0.000719 | 7.954243 | 1 | 2.245513 | 12.24857546 |
| 2010 | | 0.013762 | 8.130334 | 1 | 1.954243 | 12.29164808 |
| 2011 | | 0.009327 | 8.130334 | 1 | 1.954243 | 12.39294972 |
| 2012 | | 0.025678 | 8.322219 | 1 | 1.954243 | 12.44258543 |
| 2013 | | 0.018285 | 8.477121 | 1 | 1.869232 | 12.51142571 |
| 2014 | | 0.022731 | 8.39794 | 1 | 1.851258 | 12.5429338 |
| 2015 | | 1.11E-05 | 8.556303 | 1 | 1.973128 | 12.52275387 |
| 2016 | | 0.014074 | 8.623249 | 1 | 2.056905 | 12.55117933 |
| 2017 | | 0.007776 | 8.623249 | 1 | 2.053078 | 12.69460388 |
| 2018 | | 0.008522 | 8.39794 | 1 | 2.0086 | 12.71952784 |
| 2019 | | 0.010866 | 8.39794 | 1 | 2.0086 | 12.76397434 |
| **FCMB** | 2004 | 0.010467 | 6.875061 | 1 | 2.017033 | 10.37541209 |
| 2005 | | 0.015546 | 7.146128 | 1 | 2.056905 | 10.71027199 |
| 2006 | | 0.026652 | 7.60206 | 1 | 2.056905 | 11.02780319 |
| 2007 | | 0.022092 | 7.60206 | 1 | 2.021189 | 11.41963509 |
| 2008 | | 0.029493 | 7.954243 | 1 | 2.056905 | 11.66764988 |
| 2009 | | 0.001455 | 7.954243 | 1 | 1.857332 | 11.66283439 |
| 2010 | | 0.014271 | 8 | 1 | 1.908485 | 11.72433608 |
| 2011 | | -0.0195 | 8 | 1 | 1.80618 | 11.77325492 |
| 2012 | | 0.017176 | 8.30103 | 1 | 1.851258 | 11.94954301 |
| 2013 | | 0.045845 | 8.30103 | 1 | 1.919078 | 11.11886693 |
| 2014 | | 0.041019 | 8.477121 | 1 | 1.857332 | 11.11915783 |
| 2015 | | 0.001986 | 8.477121 | 1 | 1.869232 | 12.05065675 |
| 2016 | | 0.009764 | 8.39794 | 1 | 1.892095 | 12.05350892 |
| 2017 | | 0.005289 | 8.39794 | 1 | 1.954243 | 12.05303834 |
| 2018 | | 0.007015 | 8.39794 | 1 | 1.799341 | 12.12500461 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 2019 | | 0.008557 | 8.39794 | 1 | 1.792392 | 12.18398415 |
| **Fidelity** | 2004 | 0.033159 | 6.776701 | 1 | 2.045323 | 10.44015438 |
| 2005 | | 0.035384 | 6.776701 | 1 | 1.954243 | 10.54348882 |
| 2006 | | 0.026356 | 7.30103 | 1 | 2.045323 | 11.07912986 |
| 2007 | | 0.019158 | 7.30103 | 1 | 1.653213 | 11.33674876 |
| 2008 | | 0.024359 | 7.69897 | 1 | 2.004321 | 11.72682679 |
| 2009 | | 0.004556 | 7.755875 | 1 | 2.021189 | 11.70257159 |
| 2010 | | 0.012192 | 7.812913 | 1 | 1.80618 | 11.67944607 |
| 2011 | | 0.008058 | 7.875061 | 1 | 1.954243 | 11.86894288 |
| 2012 | | 0.019603 | 8.053078 | 1 | 1.94939 | 11.96111722 |
| 2013 | | 0.007141 | 8.09691 | 1 | 1.934498 | 12.03391287 |
| 2014 | | 0.011622 | 8.176091 | 1 | 2.021189 | 12.07445987 |
| 2015 | | 0.011288 | 8.176091 | 1 | 1.880814 | 12.0905127 |
| 2016 | | 0.007498 | 8.176091 | 1 | 1.944483 | 12.11332187 |
| 2017 | | 0.012883 | 8.30103 | 1 | 1.934498 | 12.13963166 |
| 2018 | | 0.01333 | 8.30103 | 1 | 1.892095 | 12.2354989 |
| 2019 | | 0.013446 | 8.30103 | 1 | 1.812913 | 12.32511258 |
| **GTB** | 2004 | 0.03389 | 7.267172 | 1 | 1.176091 | 11.07808776 |
| 2005 | | 0.03175 | 7.439333 | 1 | 1.20412 | 11.22504476 |
| 2006 | | 0.025913 | 7.556303 | 1 | 1.230449 | 11.48441454 |
| 2007 | | 0.027203 | 7.720159 | 1 | 1.414973 | 11.67976319 |
| 2008 | | 0.030454 | 8.026329 | 1 | 1.633468 | 11.96464487 |
| 2009 | | 0.023382 | 8.123241 | 1 | 1.724276 | 12.0085625 |
| 2010 | | 0.034227 | 8.358053 | 1 | 1.90309 | 12.02806785 |
| 2011 | | 0.032165 | 8.358053 | 1 | 2.033424 | 12.20646228 |
| 2012 | | 0.052622 | 8.401401 | 1 | 1.845098 | 12.20960005 |
| 2013 | | 0.044921 | 8.409257 | 1 | 1.770852 | 12.27975037 |
| 2014 | | 0.041931 | 8.477121 | 1 | 1.763428 | 12.32768751 |
| 2015 | | 0.041406 | 8.518514 | 1 | 1.748188 | 12.35748303 |
| 2016 | | 0.047525 | 8.60206 | 1 | 1.78533 | 12.41719593 |
| 2017 | | 0.056188 | 8.676694 | 1 | 1.732394 | 12.45100753 |
| 2018 | | 0.061537 | 8.69897 | 1 | 1.724276 | 12.43337319 |
| 2019 | | 0.056542 | 8.740363 | 1 | 1.770852 | 12.49097605 |
| **Sterling** | 2004 | 0.073933 | 7.176091 | 1 | 2.021189 | 10.35381136 |
| 2005 | | 0.003735 | 7.30103 | 1 | 2.037426 | 10.6446632 |
| 2006 | | 0.008769 | 7.361728 | 1 | 2.130334 | 11.04006577 |
| 2007 | | 0.004252 | 7.544068 | 1 | 2.152288 | 11.16427751 |
| 2008 | | 0.027582 | 7.812913 | 1 | 2.346353 | 11.37383651 |
| 2009 | | -0.03239 | 7.877947 | 1 | 1.908485 | 11.31310934 |
| 2010 | | 0.016097 | 7.832509 | 1 | 1.939519 | 11.41427043 |
| 2011 | | 0.009207 | 7.90309 | 1 | 1.94939 | 11.70279896 |
| 2012 | | 0.011984 | 8.079181 | 1 | 1.80618 | 11.76359714 |
| 2013 | | 0.011691 | 8.255273 | 1 | 1.799341 | 11.84990883 |
| 2014 | | 0.010921 | 8.297761 | 1 | 1.792392 | 11.91621143 |
| 2015 | | 0.012875 | 8.297761 | 1 | 1.78533 | 11.90279208 |
| 2016 | | 0.006237 | 8.298853 | 1 | 1.908485 | 11.9194991 |
| 2017 | | 0.007911 | 8.332438 | 1 | 1.913814 | 12.02889563 |
| 2018 | | 0.008719 | 8.342423 | 1 | 1.863323 | 12.03578023 |
| 2019 | | 0.00872 | 8.32838 | 1 | 1.845098 | 12.06651563 |
| **UBA** | 2004 | 0.020043 | 7.477121 | 1 | 2.348305 | 11.31974297 |

| | | | | | |
|---|---|---|---|---|---|
| 2005 | 0.018692 | 7.60206 | 1 | 2.380211 | 11.39607375 |
| 2006 | 0.013472 | 7.770852 | 1 | 1.740363 | 11.93005253 |
| 2007 | 0.01799 | 7.875061 | 1 | 1.690196 | 12.04231872 |
| 2008 | 0.026315 | 7.90309 | 1 | 1.612784 | 12.18187016 |
| 2009 | 0.009201 | 7.90309 | 1 | 1.913814 | 12.14640063 |
| 2010 | 0.001513 | 7.954243 | 1 | 1.959041 | 12.15613465 |
| 2011 | -0.0099 | 8 | 1 | 2 | 12.21892 |
| 2012 | 0.024508 | 8.252853 | 1 | 2.10721 | 12.28624646 |
| 2013 | 0.020963 | 8.255273 | 1 | 1.929419 | 12.34584737 |
| 2014 | 0.017138 | 8.30103 | 1 | 1.924279 | 12.36900386 |
| 2015 | 0.021496 | 8.462398 | 1 | 1.863323 | 12.3456358 |
| 2016 | 0.01872 | 8.503791 | 1 | 1.919078 | 12.40476275 |
| 2017 | 0.01412 | 8.506505 | 1 | 1.851258 | 12.46713819 |
| 2018 | 0.01143 | 8.544068 | 1 | 1.869232 | 12.55525229 |
| 2019 | 0.01517 | 8.568202 | | 1.939519 | 12.61663229 |
| **Unity** 2004 | 0.018991 | 7.628389 | 1 | 2.418301 | 10.40986552 |
| 2005 | 0.012345 | 7.628389 | 1 | 2.378398 | 10.52086823 |
| 2006 | 0.010459 | 7.628389 | 1 | 2.436163 | 11.11737628 |
| 2007 | 0.003547 | 7.875061 | 1 | 2.693727 | 11.30799637 |
| 2008 | -0.03637 | 8 | 1 | 2.017033 | 11.56119782 |
| 2009 | -0.06174 | 8 | 0 | 1.963788 | 11.40959178 |
| 2010 | 0.040677 | 8.096416 | 0 | 1.845098 | 11.48461574 |
| 2011 | 0.007224 | 7.812913 | 0 | 1.939519 | 11.57162353 |
| 2012 | 0.015617 | 7.90309 | 0 | 1.863323 | 11.5973882 |
| 2013 | -0.05595 | 7.90309 | 0 | 1.857332 | 11.60598267 |
| 2014 | 0.025871 | 7.90309 | 0 | 1.832509 | 11.61627078 |
| 2015 | 0.010577 | 7.90309 | 0 | 1.94939 | 11.64671832 |
| 2016 | 0.004432 | 7.90309 | 0 | 1.944483 | 11.69256638 |
| 2017 | -0.09532 | 7.90309 | 0 | 1.579784 | 11.19453239 |
| 2018 | 0.00538 | 7.90309 | 0 | 1.591065 | 11.37286818 |
| 2019 | 0.004265 | 7.90309 | 0 | 1.60206 | 11.38163759 |
| **WEMA** 2004 | 0.013541 | 7.079181 | 1 | 2.075547 | 10.85384317 |
| 2005 | 0.008623 | 7.176091 | 1 | 2.136721 | 10.99082288 |
| 2006 | -0.05497 | 7.361728 | 1 | 2.761176 | 11.07957579 |
| 2007 | 0.015472 | 7.447158 | 1 | 2.758912 | 11.21769849 |
| 2008 | -0.44791 | 7.812913 | 1 | 2.70927 | 11.11027507 |
| 2009 | -0.01467 | 7.875061 | 1 | 2.146128 | 11.15468478 |
| 2010 | 0.079936 | 7.875061 | 1 | 2.017033 | 11.30780534 |
| 2011 | -0.03652 | 7.875061 | 1 | 2.403121 | 11.34681939 |
| 2012 | -0.02051 | 7.954243 | 1 | 2.269513 | 11.39041328 |
| 2013 | 0.004825 | 7.954243 | 1 | 1.792392 | 11.51966064 |
| 2014 | 0.006201 | 7.954243 | 1 | 1.755875 | 11.58270218 |
| 2015 | 0.005866 | 8.041393 | 1 | 1.90309 | 11.59850962 |
| 2016 | 0.006153 | 8.079181 | 1 | 1.954243 | 11.62451005 |
| 2017 | 0.00598 | 8.079181 | 1 | 1.869232 | 11.58521227 |
| 2018 | 0.007029 | 8.123008 | 1 | 1.954243 | 11.67935134 |
| 2019 | 0.007392 | 8.146128 | 1 | 2.049218 | 11.84816177 |
| **Zenith** 2004 | 0.02685 | 7.255273 | 1 | 1.113943 | 11.28628013 |
| 2005 | 0.021703 | 7.418301 | 1 | 1.255273 | 11.5181407 |
| 2006 | 0.01888 | 7.672098 | 1 | 1.230449 | 11.78426428 |

| | | | | | |
|---|---|---|---|---|---|
| 2007 | 0.019808 | 7.857332 | 1 | 1.20412 | 11.94642324 |
| 2008 | 0.027688 | 8.033424 | 1 | 1.477121 | 12.22538735 |
| 2009 | 0.011674 | 8.255273 | 1 | 1.778151 | 12.19678283 |
| 2010 | 0.018629 | 8.255273 | 1 | 1.90309 | 12.25272151 |
| 2011 | 0.019041 | 8.326336 | 1 | 2.383815 | 12.33627417 |
| 2012 | 0.039314 | 8.39794 | 1 | 1.939519 | 12.38683521 |
| 2013 | 0.028976 | 8.517196 | 1 | 1.819544 | 12.45919535 |
| 2014 | 0.02701 | 8.592177 | 1 | 1.763428 | 12.5345108 |
| 2015 | 0.02634 | 8.650308 | 1 | 1.819544 | 12.57406914 |
| 2016 | 0.026585 | 8.686636 | 1 | 1.531479 | 12.6318227 |
| 2017 | 0.032067 | 8.70757 | 1 | 1.778151 | 12.68427592 |
| 2018 | 0.033394 | 8.728354 | 1 | 1.491362 | 12.69508266 |
| 2019 | 0.032751 | 8.770852 | 1 | 1.612784 | 12.73520538 |

***Note: ROA = Return on Assets, ARL = Audit Report Lag***

**Appendix 2: SPSS Regression Results**

| **Variables Entered/Removed[a]** | | | |
|---|---|---|---|
| **Model** | **Variables Entered** | **Variables Removed** | **Method** |
| 1 | BANK SIZE, AUDIT FIRM SIZE, AUDIT REPORT LAG, AUDITOR'S FEE[b] | . | Enter |
| a. Dependent Variable: RETURN ON ASSET | | | |
| b. All requested variables entered. | | | |

| **Descriptive Statistics** | | | | | |
|---|---|---|---|---|---|
| | **N** | **Minimum** | **Maximum** | **Mean** | **Std. Deviation** |
| **Return on Asset** | 160 | -.4500 | .0800 | .012125 | .0427128 |
| **Audit Firm Size** | 159 | .0000 | 1.0000 | .930818 | .2545658 |
| **Auditor's Fee** | 160 | 6.7767 | 8.7709 | 8.010446 | .4362706 |
| **Audit Report Lag** | 160 | 1.1139 | 2.7612 | 1.916505 | .2649579 |
| **Bank Size** | 160 | 1.0425 | 10.9908 | 1.790068 | 2.5182875 |
| **Valid N (listwise)** | 159 | | | | |

| **Descriptive Statistics** | | | | | |
|---|---|---|---|---|---|
| | **N** | **Skewness** | | **Kurtosis** | |
| | **Statistic** | **Statistic** | **Std. Error** | **Statistic** | **Std. Error** |
| **Return on Asset** | 160 | -8.192 | .192 | 87.046 | .381 |
| **Audit firm size** | 159 | -3.428 | .192 | 9.874 | .383 |
| **Auditor's fee** | 160 | -.638 | .192 | .101 | .381 |
| **Audit Report Lag** | 160 | .012 | .192 | 2.685 | .381 |
| **Bank Size** | 160 | 3.260 | .192 | 8.746 | .381 |
| **Valid n (listwise)** | 159 | | | | |

| **Residuals Statistics[a]** | | | | | |
|---|---|---|---|---|---|
| | **Minimum** | **Maximum** | **Mean** | **Std. Deviation** | **N** |
| **Predicted Value** | -.043848 | .049795 | .012075 | .0166042 | 159 |
| **Residual** | -.4143978 | .0758577 | 0E-7 | .0394948 | 159 |
| **Std. Predicted Value** | -3.368 | 2.272 | .000 | 1.000 | 159 |

| | | | | | |
|---|---|---|---|---|---|
| **Std. Residual** | -10.359 | 1.896 | .000 | .987 | 159 |
| a. Dependent Variable: RETURN ON ASSET | | | | | |

| **Correlations** | | | | | | |
|---|---|---|---|---|---|---|
| | | **Return on Asset** | **Audit Firm Size** | **Audit Fee** | **Audit Report Lag** | **Bank Size** |
| Pearson Correlation | RETURN ON ASSET | 1.000 | .135 | .070 | -.312 | .065 |
| | AUDIT FIRM SIZE | .135 | 1.000 | .054 | .104 | .079 |
| | AUDITOR'S FEE | .070 | .054 | 1.000 | -.157 | -.578 |
| | AUDIT REPORT LAG | -.312 | .104 | -.157 | 1.000 | .209 |
| | BANK SIZE | .065 | .079 | -.578 | .209 | 1.000 |
| Sig. (1-tailed) | RETURN ON ASSET | . | .045 | .190 | .000 | .209 |
| | AUDIT FIRM SIZE | .045 | . | .250 | .096 | .160 |
| | AUDITOR'S FEE | .190 | .250 | . | .024 | .000 |
| | AUDIT REPORT LAG | .000 | .096 | .024 | . | .004 |
| | BANK SIZE | .209 | .160 | .000 | .004 | . |
| N | RETURN ON ASSET | 159 | 159 | 159 | 159 | 159 |
| | AUDIT FIRM SIZE | 159 | 159 | 159 | 159 | 159 |
| | AUDITOR'S FEE | 159 | 159 | 159 | 159 | 159 |
| | AUDIT REPORT LAG | 159 | 159 | 159 | 159 | 159 |
| | BANK SIZE | 159 | 159 | 159 | 159 | 159 |

| **Coefficient Correlations[a]** | | | | | | |
|---|---|---|---|---|---|---|
| **Model** | | | **Bank size** | **Audit Firm Size** | **Audit Report Lag** | **Auditor's Fee** |
| 1 | Correlations | Bank Size | 1.000 | -.121 | -.133 | .571 |
| | | Audit Firm Size | -.121 | 1.000 | -.096 | -.127 |
| | | Audit Report Lag | -.133 | -.096 | 1.000 | .058 |
| | | Auditor's Fee | .571 | -.127 | .058 | 1.000 |
| | Covariances | Bank size | 2.474E-006 | -2.418E-006 | -2.571E-006 | 8.128E-006 |
| | | Audit firm size | -2.418E-006 | .000 | -1.503E-005 | -1.463E-005 |
| | | Audit report lag | -2.571E-006 | -1.503E-005 | .000 | 6.413E-006 |
| | | Auditor's fee | 8.128E-006 | -1.463E-005 | 6.413E-006 | 8.178E-005 |
| a. Dependent Variable: RETURN ON ASSET | | | | | | |

| **Model Summary[b]** | | | | | |
|---|---|---|---|---|---|
| **Model** | **R** | **R Square** | **Adjusted R Square** | **Std. Error of the Estimate** | **Durbin-Watson** |
| 1 | .388[a] | .150 | .128 | .0400044 | 2.121 |
| a. Predictors: (Constant), BANK SIZE, AUDIT FIRM SIZE, AUDIT REPORT LAG, AUDITOR'S FEE | | | | | |
| b. Dependent Variable: RETURN ON ASSET | | | | | |

| **ANOVA[a]** | | | | | | |
|---|---|---|---|---|---|---|
| **Model** | | **Sum of Squares** | **df** | **Mean Square** | **F** | **Sig.** |
| 1 | **Regression** | .044 | 4 | .011 | 6.805 | .000[b] |
| | **Residual** | .246 | 154 | .002 | | |
| | **Total** | .290 | 158 | | | |

a. Dependent Variable: RETURN ON ASSET
b. Predictors: (Constant), BANK SIZE, AUDIT FIRM SIZE, AUDIT REPORT LAG, AUDITOR'S FEE

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | Collinearity Statistics | |
|---|---|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | | Tolerance | VIF |
| 1 | **(Constant)** | -.004 | .078 | | -.048 | .962 | | |
| | **Audit firm size** | .025 | .013 | .150 | 1.982 | .049 | .970 | 1.031 |
| | **Auditor's fee** | .012 | .009 | .120 | 1.304 | .194 | .653 | 1.530 |
| | **Audit report lag** | -.056 | .012 | -.349 | -4.574 | .000 | .946 | 1.058 |
| | **Bank size** | .003 | .002 | .195 | 2.102 | .037 | .642 | 1.558 |

**Collinearity Diagnostics**

| Model | Dimension | Eigenvalue | Condition Index | Variance Proportions | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | (Constant) | Audit firm size | Auditor's fee | Audit report lag | Bank size |
| 1 | 1 | 4.333 | 1.000 | .00 | .00 | .00 | .00 | .01 |
| | 2 | .602 | 2.684 | .00 | .00 | .00 | .00 | .63 |
| | 3 | .052 | 9.144 | .00 | .98 | .00 | .03 | .00 |
| | 4 | .013 | 18.503 | .02 | .01 | .03 | .91 | .06 |
| | 5 | .001 | 69.069 | .98 | .00 | .97 | .05 | .29 |

a. Dependent Variable: RETURN ON ASSET