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Audit Quality and Value Relevance of Listed Deposit Money Banks' Financial Report in Nigeria

[1]Ibeaja, Uzoma Friday, [2]Nosiri, Hilary Ukachukwu and [3]Okoro, Chinonso Churchill

[1]Department of Accounting, School of Business and Management Technology, Federal Polytechnic, Nekede, Owerri, Imo State, Nigeria.
[2]Department of Accounting, College of Social and Management Sciences, Gregory University, Uturu, Imo State, Nigeria.
[3]Department of Accounting, Faculty of Management Sciences, Michael Okpara University of Agriculture, Umudike, Abia State, Nigeria.

ABSTRACT

This study examined the effect of audit quality on value relevance of commercial banks' financial report in Nigeria. The study employed ex post facto research design. Data for analysis was gotten from the published financial reports of 13 listed commercial banks spanning a period of 5 years (2017 to 2021). The Ordinary Least Square (OLS) method using multiple regression model was used to analyze the data generated with the aid of Statistical Package for the Social Sciences (SPSS Version 20). Findings from the study revealed that Audit fee has a positive significant effect on value relevance of reported earnings per share of the listed commercial banks in Nigeria. Further findings revealed that Audit firm size has a positive insignificant effect on value relevance of reported earnings per share of the listed commercial banks in Nigeria and finally, it was revealed that Audit tenure has a positive insignificant effect on value relevance of reported earnings per share of the listed commercial banks in Nigeria. Based on the findings the study recommends that, commercial banks should endevour to balance the costs of audit by paying prudent fee for audit services such that it will not impede or influence the external auditors judgement on the reported financial figures in order to minimize the risk of reduced independence. Such practices if not considered that lead to audit risk of poor judgement that might distort the value relevance of financial reports of the banks thus; lead to a situation where investors base there judgement on reported earnings figures that are inappropriate.Also, commercial banks should not maintain the services of a particular audit firm over a long period of time as this impedes the quality of audit service offered as a result of the familiarity is developed between the audit firm and client overtime.

Keywords: Audit Quality, Audit Size, Audit Fee, Audit Tenure, Value Relevance and Deposit Money Banks.

INTRODUCTION

The Nigerian business environment has been perceived in some quarters as not too conducive to investors; both local and foreign [1, 2, 3]. Adjudged reasons for this assertion include the inability of financial reports to meet the needs of this group of users [4]. The prevalence of fraud, excessive earnings management and other financial crimes in the country has reduced the level of confidence reposed in these financial statements; and inability of these statements to perform their requisite functions as such adjudged to be of no value relevant for investment decision making [5]. In the light of the cost of frauds to the business and the offender, it is important to develop strategies to prevent or detect business fraud, taking a cursory look at the risk factors associated with business, giving due attention to the motives attached with it and establishing how to effectively manage it on a daily basis [5]. Hence, the auditors are looked upon as 'messiahs' in correcting this anomaly, and thereby directly, or indirectly reposing the confidence of investors in the financial reports of firms as the financial reports are adjudged to be of value relevant when the perceived audit quality on those report is high [6].

The demand for external audit services originated from the agency issues which arise out of the separation of ownership and control of firms. Firms are invariably owned by disparate shareholders but the daily operations of the firms are controlled by professional managers; who may or may not hold significant shareholdings in the firm. This means that the shareholders of the firm have a residual claim on the firm's resources and that the managers of the firm will have to communicate their stewardship of the firm's resources to shareholders; normally through the periodic issue of a set of financial statements (Securities and Exchange Commission, 2000). In order to ensure that the financial information published by firms are reliable and of value relevance to users, it is normally required that the statements are certified by an auditor - an objective and rigorous third party who performs independent examinations that give financial statements credibility with users [7]. Audit is playing an important role in developing and enhancing the global economy and business firms. Investor confidence is fundamental to the successful operation of the world's financial markets in line with decision making by managers. When making decisions about capital allocation, investors need to be assured that financial information they are given is credible and reliable. The quality of audits and audit opinions expressed on financial reports are crucial to achieving a sustained investor's confidence and providing accounting information that of value relevance. Independent auditors play a vital role in enhancing the reliability of financial information by attesting to the trustworthiness of the financial statements [7, 8, 9].

It has been advocated by auditing scholars that the main aim of an audit assignment is to produce a quality report. The emphasis here is on 'value relevant reports', hence, it is presumed that the major role of the auditor is the production of a quality report that are of value relevance; achieved through strict adherence to the principles of high audit quality. [10], asserted that audit quality is used by investors as a market assessment tool that there is probability that a given auditor will both detect material misstatements in the client's financial statements and report the material misstatements in order for the financial report not be misleading. This probability depends upon the broad concept of an auditor's professional conduct, which includes factors such as objectivity, due professionalism and conflict of interest [11].

In essence, auditing is used to provide the needed assurance for investors when relying on audited financial statements. More precisely, the role of auditing is to reduce information asymmetry on accounting numbers, and to minimize the residual loss resulting from managers' opportunism in financial reporting thus making the reports of value relevance to investors [12]. Effective and perceived qualities (usually designated as apparent quality) are necessary for auditing to produce beneficial effects as a monitoring device. In underdeveloped countries like Nigeria, the efficient practices of the auditors in their responsibilities have not yet developed very well [13]. [14], also reported that most of the external auditors in Nigeria complain audit quality in the country was very low. This raises the question of what audit quality is and the factors that determines audit quality. However, the concept of audit quality has proved difficult to define with certainty. It is not immediately or directly observable and is difficult to measure [15], Moreover, audit markets' participants have conflicting roles and different expectations that lead to different interpretations of audit quality [16]. As a result, different people tend to have different definitions and ways of measuring it, which suggests ambiguity and subjectivity in the term audit quality [19, 20]. Following, the above mostly used definition of audit quality, numerous studies were conducted in developed as well as developing economies in varying magnitude to examine the variables that influence the quality of auditing [17,18,19,20] and number of factors were discovered. Most of the studies showed that audit quality can be influenced by the type of audit firm, audit independence, audit size, audit tenure, audit rotation and audit fee. It is therefore, based on these tenets, that this study examined the effect of audit quality on value relevance of Nigerian deposit money banks' financial report. Having established that the contribution of the auditor is basically through the production of reports that are of value relevance, we investigate the factors that could influence the achievement of high audit quality and its' effect on the value relevance of deposit money banks' financial report in Nigeria

Statement of the Problem

The spate of audit failure in the world, especially the Nigerian banking failure of 2005, has brought great disappointment to users of financial report. The bane of the problem has been linked to long term of audit firm tenure which has also been linked with creative accounting that further affects the quality of financial reports thus making them less value relevant. In Nigeria audit setting, the challenge of audit tenure and audit quality reporting has not attracted much empirical study beyond mere anecdotal opinions [21, 22, 23]. In view of these studies, auditor tenure has become the focus of much debate. Should a firm replace its auditors on a regular basis, or should the auditor be allowed to build a long term relation with the client? The production of a quality audit report is perceived to foster engendered confidence in financial reports by the users of those reports. Investors in particular tend to place better trust in financial statements that are audited; as the expected independence of the auditor boosts the assurance that important investment decisions can be made on the thrust of those statements which is adjudged to be of value relevance. The increased confidence of these set of financial users tend to attract the inflow of capital which has the long-run effect of creating growth and development in the business environment as a report of the reported market figures that those intending investors are interested in [24,25,26]. However, inefficiencies on the part of management could lead to 'structured financial statements'. These financial statements ordinarily do not show the true state of affairs and financial position of the organization and hence, could jeopardize the decisions of prospective investors. Adverse results on investment would reduce the credibility of the financial statements; which would in turn reduce the level of capital flow, thereby deteriorating the state of the business environment [27, 28, 29]. These are all issues that the corporate world is faced with in regards to the quality of audit function. The onus therefore rests on the auditors to address these issues through efficient and effective execution of the audit assignment, and the resultant production of a quality report that are of value relevance.

Objectives of the Study

The main objective of the study is to examine the effect of audit quality on value relevance of deposit money banks' financial report in Nigeria. Other specific objectives include to:

i. Examine the effect of audit fee on value relevance of deposit money banks' financial report in Nigeria.
ii. Determine the effect of audit firm size on value relevance of deposit money banks' financial report in Nigeria.
iii. Examine the effect of audit tenure on value relevance of deposit money banks' financial report in Nigeria.

Research Questions

The following questions are to guide the study:

i. To what extent does audit fee affect the value relevance of deposit money banks financial report in Nigeria?

ii. What is the effect of audit firm size on the value relevance of deposit money banks financial report in Nigeria?

iii. What is the effect of audit tenure on the value relevance of deposit money banks financial report in Nigeria?

Research Hypotheses

The following hypotheses stated are tested.

$H0_1$: Audit fee has no significant effect on the value relevance of deposit money banks financial report in Nigeria.

$H0_2$: Audit firm size has no significant effect on the value relevance of deposit money banks financial report in Nigeria.

$H0_3$: Audit tenure has no significant effect on the value relevance of deposit money banks financial report in Nigeria.

REVIEW OF RELATED LITERATURE

Conceptual Review

Concept of audit quality

According to the Consultative Council of Accountancy Body (CCAB), Audit is defined as an independent examination of and expression of opinion on the financial statement of an enterprise by an appointed auditor, in pursuance of that appointment and in compliance with any relevant statutory obligation. To this end, audit is expected to improve the value of information presented in the financial statements and as a result of this, audit quality has to do with a display of professionalism, diligence and care by auditor in audit process which should lead to a true and fair view of financial statement [30]. Although audit quality does not have a universally accepted definition, different scholars in their studies explain the term audit quality. To mention but a few, [31], defines the quality of the audit to mean how well an audit detects and report material misstatements in financial statements, the detection aspects are a reflection of auditor competence, while reporting is a reflection of ethics or auditor integrity, particularly independence. [32], define audit quality as the ability of auditors to discover and reveal light material misstatements and manipulations in net income reported. This is corroborated by findings from [33] who stressed that the capability of an auditor in the protection of the interest of users of financial statement through the detection and reporting of material misstatements and diminution of information asymmetry between the users of financial statement and management explains audit quality. They further opined that the existence of audit quality is validated when a financial statement is free from information asymmetry. According to [33], in defining audit quality, actual quality and perceived quality have been contended as essential issues. While actual quality is regarded as the likelihood of reducing the associated risk of reporting a material misstatement in financial statement, perceived quality has to do with what the users of financial statement believe about the ability of auditor to reduce material misstatement.

Moreover, there are certain fundamental characteristics to watch out for when audit quality is a subject of discussion. This according to [34] include reliability (which has to do with how dependable are the auditor's findings and to what extent do the findings reflect a true and fair view of audited entity's financial statement), Significance (what value is tied to the audit?), Scope (which has to do with whether the entire aspects of the audit is properly addressed), Objectivity (what level of independence was exhibited in the audit process?), Clarity (was the audit outcome well communicated and recommendations made?), Timeliness (was the duration of the audit work too long, too short or just normal before the audit report was submitted?), Effectiveness (does the audit actually achieved its objective?) and Efficiency (was the cost of the audit outweighed by the associated benefit?). According to him, the integration of these characteristics as a whole gives quality to the audit. This implies that audit quality is prominent where these characteristics can be identified. Audit quality is debatable but difficult to understand [35], because an audit process involves implementation of testing procedures that could not be observed by users of the financial statement [36, 37]. [38], defines audit quality as a market assessed probability that a given auditor will discover a breach in client's accounting systems, and report the breach. The auditor ability to detect any error is related to the auditor competence, and willingness to report the errors is related to the auditor independence [39].

Determinants of audit quality

Audit fee

Since [40] developed a model to determine the process by which the audit fees are determined, other researches arose in the context of determining audit fees. The empirical studies on the audit fees subject showed that audited characteristics, as well as the companies' dimension and the sector complexity have a positive influence on the audit fees [41, 42, 43, 44]. It is predicted that large companies have more data to examine, so the fees charged to large companies are higher [45, 46, 47, 48]. The results of [49] meta-analysis on audit fees also confirms the positive association of the size's company, measured by total assets, and complexity with fees. These results taken together indicate that size is an extremely critical explanatory variable for any model of audit fees. The audited client's various attributes that influence the level of work and the respective fee, which the literature investigates, are the client's dimension, complexity, risk, profitability, governance, internal control and leverage [14]. If an auditor wishes to decrease the issuing risk of a positive opinion when there are materially relevant distortions in the client's financial statements, he generally acts on the nature, the extension and timing of the audit procedures, which naturally influence the fee charged [23]. Prior research also demonstrates a link between corporate governance and audit fees. [30] studied the relation between the board of directors and audit fees characteristics and found a positive relationship between audit fees and the board of directors' independence, competence and diligence. The auditors tend to assign a low risk inherent and risk control to companies characterized with a better internal corporate performance [23]. To governance performance factors affect the audit plan, the auditor should first recognize and properly assess the corporate governance and second properly use this evidence to develop the audit plan. The literature indicates that when governance structure is strong, the auditor can reduce the sample size and then reduce the extent of an expensive substantive analysis [27].

Audit tenure

Auditor Tenure is defined in this study as the length of the auditor-client relationship. A rather too long association between the auditor and his client may constitute a threat to independence as personal ties and familiarity may develop between the parties, which may lead to less vigilance on the part of the auditor and even to an obliging attitude of the latter towards the top managers of the company. Aside from this threat to independence, the audit engagement may become routine over time, and if so, the auditor will devote less effort to identifying the weaknesses of internal control and risk sources [9]. In this study we measured audit tenure (AUDTEN) as; Length of auditor-client relationship: '1' if 3 yrs^{+} and '0' if otherwise. The prolonged association between an audit firm and company-client could lead to the closeness of the auditing firm with its company-client's management which in turn makes it difficult for the auditor to freely express his professional opinion. Previous works done by [14,16], have shown that lengthy audit firm tenure leads to a reduced propensity of issuing a qualified audit report. Complacency, lack of innovation, less rigorous audit procedures, and a learned confidence may arise after long association with the company-client [34]. Professional accounting bodies like [37] and Coordinating Group on Audit and Accountant [20], also expressed concerns that the length of audit client relationship may impair audit quality. [21], sees audit quality as a level of assurance. Naturally, the purpose of an audit is to provide an assurance on the financial statements, the quality of audit is thus the degree of such assurance that there are no material misstatements in the financial statements.

An experimental study by [23] tends to establish a connection between audit tenure and competence. As perceived by US audit committee members, the likelihood that the auditor will detect an anomaly increases in the first years of his mandate, and then decreases gradually, reaching its weakest level after 20 years of service. Hence, as a whole, a negative association is commonly assumed between auditor tenure and the quality of audit.

Audit firm size

As noted by [12], the size of an audit firm has been used as a surrogate for audit quality, meaning that larger audit firms have a bigger reputation to safeguard and therefore will ensure a more independent quality audit service; they have better financial muscles, research facilities, superior technology and more talented employees to undertake large company audits. Their larger client portfolios enable them to resist management pressure, whereas smaller firms provide more personalized services due to limited client portfolios and are expected to succumb to management requirements (Lys and Watts, 1994). In this research work we measured audit firm size (AUDFSZ); by the likelihood that a sampled company employs the service of one of the Big 4 audit firms (Akintola Williams Deliotte, Pricewaterhouse Coopers, Ernst and Young, KPMG). A dummy value of 1 is used if a firm uses any of the Big 4 audit firm and 0 if otherwise. [19], in [23] stated that audit quality is often tied to an audit firm scale. [25] maintains that big audit firms have a superior audit quality, since they already have invested in large audit technology and staff training, and thus they are more competent and more accurate in detecting the problems related to misstatement and going concern assumptions than small audit firms. [27] mentions two key reasons for why big audit firms are more independent that small ones, namely: (1) separation of a department that delivers audit services and one that delivers non-audit services and (2) the revenues gained by an accounting firm is influenced by not only one client. [29] stated that if both auditors and their clients have equally relatively small size, then there is a high probability that the income of the auditors relies on the audit fee they gain from their clients. Conversely, big audit firms incline to be more independent of their clients, either the clients are big or small in size.

Value relevance of financial reports

Value relevance research is motivated by the fact that listed firms use financial statements as one of the major medium of communication with their shareholders and public at large [8]. Investors usually depend on financial reports prepared by the management of such firms. For making the financial reporting to be effective, information contained in the financial reports should be relevant and reliable [8]. Value relevance refers to the ability of information disclosed in the financial statements to capture and summarize value of a firm and give future earnings proficiency of the firm [12]. Value relevance can be measured through the statistical relations between information presented by financial statements and stock market values [13]. As stated in [15] a business enterprise specifically a company is a conscious, deliberate and purposeful creation for satisfying the domain of aspiration of the society at large. It is an independent and a separate legal entity. The survival stability and growth of such entity within society largely depend on the wealth created by it through the collective efforts of all the stakeholders; providers of loan capital, employees and the government. All these stakeholders are the parties to whom the result of operations of business is communicated. To satisfy the information needs of these users, the conventional financial accounting system generates data relating to financial performance through Comprehensive Income Statement giving emphasis on the interest of shareholders only. From the perspective of an actual or potential equity investor it is desirable that a firm's financial statement information in general and accounting information in particular be usable in generating indications of equity value. Accrual accounting is designed to measure performance over past periods. While accrual accounting mostly deals with the history, Valuation is about the future [16]. According to traditional valuation theory based on economic theory, the value of a stock or earnings per share is equal to the present value of future net dividends. Hence, the principal purpose of accounting is not to facilitate valuation. The trade-off between the relevance and reliability principles is also likely to influence the value relevance of accounting information. For example, the historical cost basis of accounting is fairly reliable, but historical costs might lack relevance [17]. Abandonment of the revenue-recognition principle might increase the relevance of accounting information, but it would surely result in decreased reliability. Similarly, income measurement based on fair values of assets might increase the relevance of accounting information, but might result in decreased reliability. The reliability principle is one of the main reasons why financial statements lack forward-looking information that influence market values [19].

Audit quality and value relevance of financial reports

Audit quality produces qualitative financial reports which in turn prevent financial crises [20]. In another development; [24] viewed audit quality from the perspective of providing assurance that the financial statements will contain no material misstatements. By extrapolation, the reliability of financial statements is reflected in audit quality practices adopted in their preparation. Similarly, [27] documents that perceptions of audit quality are vital as they determine the credibility of audit reports. In addition, audit quality when considered in conjunction with auditor independence; impact the confidence level which users of financial statements have in financial reports [26]. [29], illustrated a reduced stock market response to earnings reports when qualified opinions are issued and found that, if auditor quality is endangered, audit reports provide a lower level of assurance to users of financial statements. In other words, qualified audit reports as a consequence of poor audit quality, lead to reduction in the demand for shares of an organization in the stock exchange.

Theoretical Review

The study anchored on agency theory with the support of other theories which includes; signaling theory, stakeholder theory and police man theory. The various theories are discussed below:

Agency theory

Agency theory and the theory of the firm as we know it today are mainly developed within the Chicago school of economics. The agency theory is based on the relationship between the principal (owners) and the agent (managers). The separation of ownership from management in modern corporations provides the context for the function of the agency theory. Modern organizations have widely dispersed ownership, in the form of shareholders, who are not normally involved in the management of their companies. Modern corporations 'day today activities performed in the organization are managed by mangers (agents) on behalf of shareholders to achieve the overall organization's objectives mostly wealth maximization. In the case of agency relationship usually agents (managers) motivated by their personal interests and they do to satisfy their own personal benefit rather than maximize shareholders 'value. Therefore, in the modern corporation, share ownership is widely held and managerial actions depart from those required to maximize shareholder returns. [14], argued that, Since the relationship between the stockholders and manager of a corporation fit the definition of a pure agency relationship it should be no surprise that the issues associated with the separation of ownership and control' in the modern diffuse ownership corporation are intimately associated with the general problem of agency. [19], integrate elements from agency theory, the theory of property rights and the theory of finance to develop a theory of the firm. Since principals do not have access to all available information at the time a decision is being made by an agent, the principals are unable to determine whether the agent's actions are in the best interest of the firm. To reduce the likelihood of this problem (adverse selection) and to limit the possible divergence from their interests by the agent, the principals can limit these divergences by appointing independent external auditors. For instance, managers may want to buy luxury products such as lavish offices and company cars, since the costs incurred by the owners. This increases organizations cost which includes cost of contracts, looses due to inappropriate decisions made by the agent and cost of monitoring actions of agents. The effect of such behaviors are ultimately reflected on the firms' earning.

Empirical Review

[1], offered proof on the direct influence of audit quality on the financial performance of listed companies Nigeria. They employed 84 companies listed on the NSE with 756 samples for the period of nine years which is from 2010 to 2018 based on panel data approach. Their results reveal that audit fee shows a positively and insignificant relationship with ROA. This implies that if there is decrease in the amount paid to auditors for audit services, then financial performance of listed companies in Nigeria will increase. Consistent with the agency theory. Their results reveal that audit fee shows a positively and insignificant relationship with ROA. This positive figure implies that a percentage increase in firms audited by Big4, then financial performance (ROA) will also increase. Auditor independence is also seen to be positive and statistically significantly related to the ROA. Finally, auditor independence is found to be more powerful than auditor size on the financial performance. [7], examined the effect of audit quality on firm value in manufacturing companies listed on the Indonesian Stock Exchange in 2013 to 2017. The population in their study includes all manufacturing companies listed on the Indonesian Stock Exchange. Sampling was carried out using a purposive sampling method and their research data were tested using multiple regression analysis. The results from their study show that audit quality has a positive effect on firm value in manufacturing companies on the Indonesian Stock Exchange.

[16], examined the impact of audit quality on accounting conservatism in Turkey. Using three different measures of

accounting conservatism and correlation analysis, they reported that audit quality, in terms of brand name auditor and industry specialist auditor, is positively related to conservatism. Their results hold after controlling for operating cash flow, leverage, firm age and sales growth. Overall, their evidence is consistent that accounting conservatism complements firms in the Turkish business environment that engage with high quality auditors to mitigate agency costs. [14], investigated the effects of audit reports on financial information reported in Tehran Stock Exchange. Their method of research was practical in goal and is descriptive in nature. The types of auditor and auditor's assessment (audit organizations or institutions) were proposed as independent variables and financial information (stocks return) was proposed as dependent variable. They used 117 accepted companies in Tehran Stock Exchange during 2009-2014 as statistical sample. Their research hypotheses were tested by fitting of linear regression models of combined data. The results of their studies showed that the type of auditor and auditor's assessment have a significant relationship with stocks return (financial information). [16], ascertained the determinants of audit quality and quality of financial reports with a focus on selected Deposit Money Banks listed on the floor of Nigeria Stock Exchange from 2010-2015. This study made use of secondary data obtained from fact books, annual reports and account of selected banks under study. The relevant data were subjected to statistical analysis using Pearson coefficient of correlation, Ordinary Least Square (OLS) and Granger causality test with the aid of E-view 9.0. The result of this study revealed that there is a positive and statistically significant relationship between audit fees, audit tenure, audit firm size and audit quality. It was also empirically verified that audit fees, audit tenure, audit firm size have a statistically significant relationship with financial reports quality of banks listed on the floor of Nigerian Stock Exchange at 5% level of significance. The study recommends among others that auditor-client relationship should not exceed 3 years, because the auditor may develop close relationship with the client and become more likely to act in favour of management, resulting in reduced objectivity and audit quality.

[13], analyzed the effect of the length of the audit firm on opportunistic earnings management by audit client managements. Hence, in this case the credibility of external audit work will be questionable. In order to test their hypotheses, the authors use the quadratic form approach, with some modifications. The population of the study encompassed all firms whose stock was publicly traded on the Amman Stock Exchange throughout the years (2002-2006). Their statistical analysis of data showed that audit firm tenure affects the audit quality adversely (negatively). Audit quality deteriorated when audit firm tenure was extended as a result of the growth in the magnitude of discretionary accruals. As it was stated in this paper, extended audit firm tenure impair external audit quality since over time personal relationship between the auditor and the client surely and slowly impairs the auditor's judgment over time and developed confidence in the client over time introduces complacency, hinders the auditor's ability to design creative and rigorous audit programs and exercise the required professional skepticism, rendering the auditor less vigilant to subtle anomalies.

[9], examined the influence of audit quality practices on financial reporting in Nigeria, drawing evidence from auditing firms. Data were collected through questionnaire. Univariate, bivariate and multivariate analyses were performed using descriptive statistic, Pearson Product Moment Coefficient of Correlation and stepwise multiple regression. Findings from their study indicated a statistically significantly positively strong relationship between the measures of audit quality (auditor independence, technical training and proficiency and engagement performance) and financial reporting (measured in terms of reliability of financial report). Auditor independence has the highest explanatory power of variations in reliability of financial report of 47.9%. In addition, the regression model with only auditor

independence produces the highest value of reliability of financial report. They asserted that given the existence of technical training and proficiency and engagement performance, auditor independence is a prime audit quality in financial reporting.

[8], carried out research in order to investigate the factors affecting audit quality in Nigeria. A Combination of archival method and survey research methods was used. Survey research method was used to gather information from respondents concerning their opinions on certain aspects of audit quality in Nigeria. The targeted respondent groups were shareholders, auditors, analysts, brokers, regulators, management, academician and others. Randomly selected 430 respondents and forty annual reports were the sample size in the study. The study used both primary and secondary data. The primary data were supplied by 430 respondents across several stakeholders in the fields of financial reporting and auditing. The secondary data were generated from the financial statements of forty annual reports of companies quoted on the Nigerian Stock Exchange. The researchers test their hypothesis and analyzed the data using SPSS, version 17. The tests revealed that, multiple directorships are the most significant in affecting audit quality in Nigeria. However, the study did not find audit firm rotation to be a significant factor for enhancing audit quality in Nigeria.

Similarly [8] examined determinants of audit quality in Nigerians business environment. The objective of this study was to analyze the determinants of audit quality in the Nigerian business environment. The study used primary data. Data collection instrument was questionnaires that were constructed using the likert scale. In order to gather the needed information Questionnaires were distributed to randomly selected 100 samples of a cross-section of financial report users; consisting mainly of investors, financial analysts and credit institutions. A regression model was used to analyze the existence of significant relationships between audit quality and the audit firm related characteristics. The result indicates that Audit firm size, board independence (measured by percentage of nonexecutive directors) and ownership structure were found to be positively related to audit quality; however, only board independence exhibited a significant relationship with audit quality. Audit tenure exhibited a negative relationship with audit quality which was also not significant. Unlike most of previous studies this study considered both audit firm-specific and company related factors which is the purpose of concurrent researcher and crucial ongoing issue.

[11], carried out research on factors affecting audit quality in the case of Jordan commercial banks. The purpose of the study was to identify the most important factors affecting audit quality in Jordanian Commercial Banks (JCBs). The study implemented quantitative method of research design. The target populations of the study were external auditors who have an experience of auditing Jordan commercial banks and internal auditors and financial officers of JCBs. The research instrument was questionnaires; distributed over a random sample of external auditors who have experience with banks audit and a random sample of internal auditors in Jordanian commercial banks in order to obtain needed data about their opinions about the most important factors affecting audit quality, and the best measures of audit quality. The data transformed into a quantified numbers to assist in examining the study objectives. The researchers implemented a number of statistical techniques and procedures that help to examine research hypotheses. These techniques include reliability and validity test, frequency analysis, independent sample t-test, descriptive statistics, correlation matrix, linear regression, and simple regression. All statistical procedures were estimated using Statistical Package for Social Sciences (SPSS). The final conclusions of the authors ‘indicate a positive and significant correlation between audit quality and audit efficiency, the reputation

of auditing office, auditing fees, the size of audit firm, and the proficiency of auditor.

METHODOLOGY

Research Design

The study adopts *ex-post facto* design. This design is because the researcher has no control over the exogenous variable and whatever occurred before the research.

Population of the study

The population of the study is based on deposit money banks that are listed on the Nigerian stock exchange as at 2021.The population of the study is made up of all the 14 deposit money banks listed on Nigeria stock exchange as at 2021.

Sample size and sampling technique

Twelve (12) deposit money banks listed on the floor of Nigeria Stock Exchange is selected amongst the deposit money banks listed on Nigeria Stock Exchange. The 12 listed deposit money banks represents the sample size for this study, for a five (5) years period spanning from 2017-2021.

Source of Data

The data for this research is secondary data; annual reports and accounts of the selected deposit money banks is use for the period of the study (2017 – 2021) to generate data.

Data Analysis Technique

This study employed the ordinary least square (OLS) using multiple regression model to understand the interaction among the variables and estimating the relevant data. The OLS is the best linear unbiased estimator that takes into consideration homogeneity of pooled data collected in an environment with shared characteristics; it will be used to test various hypotheses on the effect of audit quality on value relevance of listed deposit money banks financial report in Nigeria.

Model Specification

Using multiple regression analysis, the model is specified as follows

$EPS = \int(AF, AFS, AT,)$

Then the econometric function of the above

$EPS = \beta_0 + \beta_1 AF_{it} + \beta_2 AFS_{it} + \beta_3 AT_{it} + e$

Where;

AF = audit fee

AT = audit tenure

AFS = Audit firm size

EPS = Earnings per share

β_0 =Intercept term

β_{1} - β_3 =Slope co efficient

e = error term

Decision rule: Accept the null hypothesis if the calculated significance level is greater than 0.05

RESULTS AND DISCUSSION

Data Analysis

This section analyzed the data presented in the previous section with the aid of statistical package for social sciences (SPSS, version 21). The analysis of data is presented in the subsequent sections:

Descriptive statistics

The descriptive statistics for both the dependent and independent variables are presented in table 1 below:

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
EPS	60	.06	8.60	1.8542	2.08024
AF	60	7.26	8.78	8.1350	.44604
AFS	60	.00	1.00	.9167	.27872
AT	60	.00	1.00	.8667	.34280
Valid N (listwise)	60				

Source: SPSS Version 21 Output (Appendix II)

Table 1 presents the descriptive statistics of all the variables. N represents the number of observations and therefore the number of observation for the study is 60.The Value relevance measured by the reported Earnings Per Share (EPS) has a mean of 1.8542 with a deviation of 2.08024. The EPS also revealed a minimum and maximum value of 0.06 and 8.60 respectively. The high deviation of the reported EPS from the pooled mean figure signifies that, if there are other factors like market shocks or policies not considered in this study, the reported earnings per share of the DMB in Nigeria will either increase or decreases by 2.08024 units. The result revealed the value of 8.1350 and 0.44604 as mean and standard deviation values for Audit Fee (AF). It also revealed a minimum and maximum value of 7.26 and 8.78 respectively for AF. The reported deviation of AF value from the mean is low which reflects the fact that the DMB in Nigeria almost certainly has uniform structure of Audit Fee they pay to the audit firms. For Audit Firm Size (AFS) the minimum value is 0.00 while the reported maximum value is 1.00 which depicts that not all the banks were audited by the big 4 audit firms in Nigeria. Again the mean value recorded is 0.9167 with a standard deviation is 0.27872 which explains the fact that more DMB operating in Nigeria are audited by the big 4 audit firms. Finally, Audit Tenure (AT) revealed a minimum and maximum value of 0.00 and 1.00 while its' mean and standard deviation is 0.8667 and 0.34280. This shows that the commercial banks in Nigeria at a point switched the audit firms and the tenures were not up to three years. But the low deviation from the mean depicts that most commercial banks maintained the services of the same audit firm over a long period of time.

Correlation analysis

This section of the chapter presents in the table below the result of the correlation analysis between the independent variables to further validate the Tolerance statistic and VIF result.

Table 2: Model Correlations

		AF	AFS	AT
AF	Pearson Correlation	1		
	Sig. (2-tailed)			
	N	60		
AFS	Pearson Correlation	.162	1	
	Sig. (2-tailed)	.216		
	N	60	60	
AT	Pearson Correlation	.054	.118	1
	Sig. (2-tailed)	.681	.368	
	N	60	60	60

Source: SPSS Version 21 Output (Appendix II)

Table 2 shows the Pearson correlation for all the independent variables to ensure the test for multicolinearity of the independent variable since they consist of unranked data. Correlation considers two variables at a time to determine how they relate to each other. These types of checks are necessary because high correlation cause problems about the relative contribution of each predictor to the success of the model (Guajariti & Sangeeta, 2007). The correlation matrix above shows the absence of multicollinearity among the explanatory as earlier show in the VIF and Tolerance statistic of the variables. All the variables show a low correlation (0.162 & 0.054) with the highest correlation estimated at 0.162. This is less than 0.75 which is considered harmful for the purpose of analysis [12, 16].

Regression of the estimated model summary

This section of the chapter presents the results produced by the model summaries for further analysis.

Table 3: Model Summary

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

Source: SPSS Version 21 Output (Appendix II)

Table 3 presents the regression result between Audit fee, Audit firm size, Audit tenure and Earnings per share. From the model summary table above, the following information can be distilled. The R value of 0.394 shows that, there is a weak relationship between AF, AFS & AT and EPS at 39.4%. Also the R^2 stood at 0.155.The R^2 otherwise known as the coefficient of determination shows the percentage of the total variation of the value relevance (EPS) that can be explained by Audit quality (AF, AFS & AT). Thus the R^2 value of 0.155 indicates that 15.5% of the variation in the value relevance of reported earnings per share can be explained by a variation in audit quality variables; audit fee, audit firm size and audit tenure while the remaining 84.5% (i.e. 100-R^2) could be accounted by other variables not included in this model like audit independence.

The adjusted R^2 of 0.110 indicates that if the model is adjusted and audit independence considered for this study, this result will deviate from it by only 0.045 (i.e. 0.155 – 0.110). This means there will be a deviation from the current result by 4.5%. This deviation is not too high above the error term of 5% to say that the result of this study does not reflect the true nature of the effect of audit quality on value relevance of deposit money banks financial reports in Nigeria. The table further shows the Fisher significant value of 0.023 with a variation of change at 3.437 units which indicates that the set of independent variables were as a whole contributing to the variance in the dependent at 3.437 significant level thus the model is statistically significant.

Furthermore, the regression result as presented in table 3 above to determine the relationship between AF, AFS, AT and EPS shows that when the independent variables are held stationary; the EPS variable is estimated at -13.001. This simply implies that when all variables are held constant in the long-run, there will be a decrease in the value relevance of reported *EPS* of listed deposit money banks up to the tune of 13.001 units occasioned by short run factors not considered. After adjustment for short run (Beta), a unit increase in AF will lead to an increase in value relevance of reported EPS of the banks by 38.7% as investors will perceive the increase in fee to be an index of increased audit quality. Similarly a unit increase in AFS will lead to an increase in the value relevance of reported earnings per share by 3.8%. Also a unit increase in AT will lead to a decrease (Bounce back) in the value relevance of reported EPS by 1.4%. The low insignificance variation of AFS and AT induced on the perceived investors reaction to the reported EPS is because most investors are more interested in reported figures than qualification of audit quality thus; the reports on audit firm size and tenure as captured by the banks is of no value relevance to the investors.

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.

$H0_1$: *Audit fee has no significant effect on the value relevance of deposit money banks financial report in Nigeria.*

Given that the accepted significant level is 0.05 and the calculated value for Audit fee (0.003) is less than the significant level, we therefore reject the Null hypothesis and accept the alternative thus; Audit fee has a significant effect on the value relevance of deposit money banks financial report in Nigeria.

$H0_2$: *Audit firm size has no significant effect on the value relevance of deposit money banks financial report in Nigeria.*

Given that the accepted significant level is 0.05 and the calculated value for Audit firm size (0.761) is greater than the significant level, we therefore accept the Null hypothesis and reject the alternative thus; Audit firm size has no significant effect on the value relevance of deposit money banks financial report in Nigeria.

$H0_3$: *Audit tenure has no significant effect on the value relevance of deposit money banks financial report in Nigeria.*

Given that the accepted significant level is 0.05 and the calculated value for Audit tenure (0.908) is greater than the significant level, we therefore accept the Null hypothesis and reject the alternative thus; Audit tenure has no significant effect on the value relevance of deposit money banks financial report in Nigeria.

CONCLUSION

This study was carried out with the broad objective of examining the effect of audit quality on value relevance of deposit money banks financial report in Nigeria. The study has three proxies that represent audit quality and each was used to form a research hypothesis aimed at answering the research questions the study was set to solve considering the value relevance of reported earnings per share by the deposit money banks. Based on the findings of this study from the test of the three research hypotheses earlier formulated in the study, the researcher has therefore come to the following conclusions outlined in respect to each hypothesis:

i. Audit fee has a positive significant effect on value relevance of reported earnings per share of the listed deposit money banks in Nigeria.
ii. Audit firm size has a positive insignificant effect on value relevance of reported earnings per share of the listed deposit money banks in Nigeria.
iii. Audit tenure has a negative insignificant effect on value relevance of reported earnings per share of the listed deposit money banks in Nigeria.

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

i. This study recommends that deposit money banks should endevour to balance the costs of audit by paying prudent fee for audit services such that it will not impede or influence the external auditors judgement on the reported financial figures in order to minimize the risk of reduced independence. Such practices if not considered that lead to audit risk of poor judgement that might distort the value relevance of financial reports of the banks thus; lead to a situation where investors base there judgement on reported earnings figures that are inappropriate.
ii. A careful plan should be put in place in selecting the audit firm that is involved in auditing the affairs of the deposit money banks so as to further enhance the quality of audit service. Also, investors shuold be well informed about the available audit frim to chose from and information about the various audit firms be made available to them to enable them chose the right audit firm beyond the big 4 audit firm in Nigeria since the big 4 nomenclature does not significant affect the value relevance of reported earnings.
iii. It is further recommended that, deposit money banks should not maintain the services of a particular audit firm over a long period of time as this impedes the quality of audit service offered as a result of the familiarity is developed between the audit firm and client overtime.

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