



## Effect of Audit Fee on Audit Quality in Nigeria Deposit Money Banks

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**ABSTRACT:** The capacity of the client company to initiate prompt payment of external auditors' fee might motivate the auditor to improve the quality of their work. This could have a significant impact on the quality of the auditor report. Therefore, this paper assesses the effect of audit fee on audit report quality. To investigate the objective, an ex-post facto research design was adopted to gather time series data from the published annual report of the 14 quoted DMBs in Nigeria for the period 2004-2023. Moreover, audit fee was proxied using the amount of payable to the audit firm by the selected DMBs. Other exogenous variables that might influence the quality of the audit report were also considered as part of the variables for the panel regression model used to investigate the objective. In addition, audit report quality was measured using the big-4 and earnings management. The descriptive statistics and panel regression analysis were used to investigate the study. The finding of the study showed that audit fee had a significant positive effect on audit report quality when the big four was used as proxy for audit quality while it was not so with the earnings management. The study concluded that prompt payment of audit fee might enhance audit quality.

**KEYWORDS:** Audit Fee, Audit Quality, Audit Rotation, Audit Tenure, Big4, Earnings Management

### 1. INTRODUCTION

Timely payment of the required external auditor fee may go a long way in motivating the external auditor to produce audit report that may meet the expectation of the shareholders of a company. As a result of this, the capacity of the external auditor to maintain a clear independence with regard to the client audit assignment may greatly depend on the prompt payment of their fees. On this note, Kadiri, Abdulminaru and Akingbade (2022) posited that audit fee greatly influences the quality of the audit report. Company intention to subvert or manipulate the external auditors' fee may discourage the external auditor in probing further and gathering necessary evidence that could aid the quality of the audited financial statement. Aliyu and Ogunmadewa (2022) argued that auditors are human, hence, they want to work and get reward for their efforts. Therefore, manipulating the auditors' fee through total refusal to pay, reduction in fee, and intention to delay the external auditors' fee may affect the quality of the external auditors work and report. It is disheartening that a great number of these smaller external audit firms have been demotivated, discouraged and manipulated by the directors of substantial number of deposit money banks in Nigeria concerning the audit fee due to the failure of the firm to cooperate with the directors in matter of falsifying audit report statement. Many of the firms have been implicated and some of them have had the audit fee reduced and others have faced with the total refusal of the DMBs to pay the required audit since the firm refused to manipulate the audit report. Akinjide (2022) argued that those who cannot cope with this situation either join the director in his unscrupulous activities or leave the audit assignment totally. This according to the author had a serious implication on the quality of the audit report. The external audit fee showed the amount a client company agreed to pay the auditors. The fee if promptly paid could influence and enhance the quality of the audit report. Thus, a qualitative audit report may be possible if the audit fee is made available promptly, regularly and as at when due otherwise the external audit may do shoddy work, hence, affecting the reputation and integrity of the external audit firm.

The capacity of the audited report to meet the expectation of shareholders is what is called audit quality. The expectation is hinged on the fact that the external audit report must as a matter of urgency be able to reveal that hiding aspects of a company not adequately represented in the prepared financial statement by the directors of the company. This hiding incidence and the ability of the external auditors to reveal same is called audit quality. Folorunsho (2022) posited that the functionality of the audit quality may depend on adequate and prompt payment of the audit fee. For the smaller audit firms accessing the audit fee may be difficult due to smaller reputation, thus, forcing them to compromise the firm independence. The big 4 audit fee are known for receiving audit fee partly or full in advance once the commitment is shown that the firm wants to do the work. This motivated the firm to always produce audit report quality that is above board.

The effect of audit fee and audit quality had been generating a significant discussion among scholars, Akintaju, Ojo and Ogunmodede (2022) argued that audit fee may make or mar the audit quality. This according to the author depends the capacity of the audited company to initiate audit fee as at when due to the external audit firms. On this note, Ogunwale (2023) opined that challenge an audit firm faces in accessing the required fee may go a long way in influencing the quality of the audited report. In the presence of prompt payment of audit fee and external audit firm prompt access to it, audit quality may surely improve. But the problem is that many smaller firm even the big 4 audit firms were sometime denied their audit fee, thus, affecting the quality of the audit work the firm carried out.

The works of Akintaju, Ojo and Ogunmodede (2022), Ashiru (2022), Ogunwale (2023) and Folawiyo and Idowu (2023) showed that audit fee influenced audit quality. These studies were carried out in quoted manufacturing companies in Nigeria, thus, addressing the gap to be filled in this present study. therefore, this study intends to investigate the effect of audit fee on the quality of audit in quoted DMBs in Nigeria. In doing this, the paper is divided into five parts; introduction, literature review, methodology, discussion of results and conclusion and recommendation.

## **2. LITERATURE REVIEW**

This section carries out the review of literature under the following sub-section, conceptual, theoretical framework and empirical review of literature.

### **Concept of Audit Fee**

Audit fees are part of the ingredient of external auditor independence. Gladness and Ester (2020) defined audit fees as the amount paid to corporate auditors for the verification of financial reports. It is the amount paid to public auditors that represent the cost of their work and the risk of litigation. According to Muhammad and Anwar (2015), audit prices vary depending on the complexity of the audit, the risk of the engagement, the audit company, the level of skill required and other professional considerations. It comprises fees for direct work hours, other direct expenditures (such as off-center mission and transportation fees) and allocable overhead (Felice, Anna, Eugenio & Alberto, 2020). Mohammad, Safaa and Ahmad (2020) ascribed that the fees to the auditor-client contract, which took into account the audit period and services. Higher audit fees, according to Abdullahi, Norfadzilah, Umar and Lateef (2020), may be regarded as a result of the auditor's more effective monitoring, as well as a result of the audit effort (more work hours) and the auditor's independence (higher fees per hour). From the perspective of Onaolapo, Ajulo and Onifade (2017), audit fees are the fees that auditors charge their clients for serving as auditors in their professional capacity. It is the fee that the auditor charges for any work done to express an opinion on the true and fair condition of affairs or position of the client's business. The reliability of audited financial reports is a core issue in today's corporate sector. The reliability of audited financial reports determines the usability for decision-making by the users. The audit fee is an important aspect of banking service that can determine the reliability of audited financial reports. In the view of Gladness and Ester (2020), audit fee is the economic remuneration for auditors who provide audit services. In the same vein, Zayol, Kukeng and Iortule (2017) defined audit fees as a fee charged by an auditor for auditing an organization's account. According to Mohammed and Ibrahim (2018), audit fees are indicative of the economic costs of efficient auditing functions. From the auditing viewpoint, auditors seek to minimize their total costs by balancing their resource cost (the costs of doing more audit work) and future losses caused by legal liability. Tanzina, Sadia and Fatema (2019) posited that audit fee is one of the important factors that affect audit quality. By considering factors in the audit assignment such as client size, audit complexity and audit risk, the audit fee is determined by the auditor. In the view of Huasheng, Yunfei, Chenxi and Lei (2019), audit fees can be explained to be the amount charged by the auditor for an audit assignment carried out.

### **Meaning and Definition of Audit Quality**

Audit is an independent examination carried out on the books of account presented to ascertain if the reports in the books are actually what they represent. It is done to ensure that information is accurate and reliable (Zayol, Kukeng & Iortule, 2017). While quality is the degree of excellence. It is also referred to as an attribute that makes something unique. From these views, audit quality can be said to be the degree or extent to which the books of account presented are actually what they seem to be. Audit quality measures the accuracy, transparency and reliability of the financial statements presented by an organization for a specified period.

Different authors have defined audit quality from different professions. Accounting researchers have considered multiple scopes for audit quality which repeatedly result in outwardly different definitions. Pradipta and Zalukhu (2020) asserted that audit quality definition involves the following basics; the likelihood of momentous errors in the financial statements which could be decoded by an auditor, the probability that the auditor might not prepare a provisional report for the financial statements containing significant errors, the ability of an auditor to minimize the prejudiced mistakes and errors and to advance the accounting data's quality and the accuracy and precision of the auditor's report. Velte P, & Loy T (2018) defined audit quality as the financial assessment of the possibility that an auditor could detect and report the material misplacement and value in financial statements of an organization. The definition reveals the effect of the auditing function on the financial statement's information. It could be deduced that audit quality reveals the auditor's ability to control the quality of financial statements in line with accounting principles.

Egbunike and Abiahu (2017) asserted that audit quality is the correctness of information provided for an investor after auditing function in a firm. Auditors aim at preparing a reliable financial statement for both internal and external user in an organization, the audit quality decodes the audited financial statements' being free from financial and material error. This definition stresses the audit results. Tim S. (2020) stressed that audit quality is the ability of an auditor to reveal and abolish both financial and material error in an organization's financial statement. Auditors tend to suggest opinions, providing a realistic assurance on the credibility and fairness of the financial statement after revealing both financial and material misstatements. Thus, auditor's independence is important when revealing the discovered errors. Discovering and revealing both financial and material errors depend on diverse factors related to auditors' competencies such as level of training and experience, audit fees and auditor's independence. Muhammad and Anwar (2015) viewed audit quality as the appraisal of financial statements based on a market-assessed joint likelihood that the auditor finds an anomaly in the financial reports, and exposes it. Audit quality has become very popular in the corporate world after the collapse of some noteworthy corporations like Enron, Lehmann Bank and so on. In Nigeria, issues with Cadbury plc pushed the significance of the quality of audit reports to the forefront. Managers and even shareholders should strive to ensure that the financial reports they publish represent the value of their company, as overstatement or understatement have repercussions on the company. Audit quality has also been seen as an assessment by users of financial information concerning the probability that a hired auditor will see a slight discrepancy in the client's company accounting records and reveal this disparity (Ching-Chieh, 2020). This paper shall use earnings management and big-four as measure of audit quality (Okeowo, 2020).

### **Determinants of Audit Quality**

#### **2.1.2.1 BIG 4**

Conceptually, Big 4 is a name given to the world's major professional services networks, which are four in numbers (Ernst and Young (EY), Deloitte, KPMG, and Price Water House/Cooper (PwC)). The four networks are frequently lumped together for a variety of reasons: they are all comparable in size to the rest of the market, both in terms of revenue and workforce; they are all considered equal in their ability to provide a broad range of professional services to their clients; and, among those looking to start a career in professional services, particularly accounting, they are all considered equally attractive networks to work in, due to the frequency with which they hire. Audit, assurance, taxes, management consulting, actuarial, corporate finance, and legal services are all provided by the Big Four. These four networks undertake the vast majority of public company audits, as well as a large number of private company audits. However, among the various external auditing firms, Big 4 is believed to be the largest auditing firms. These firms have the resources, including manpower to audit any organization both public and private entity (Egbunike & Abiahu, 2017). They are international auditing firms that expand the shores of more than a nation.

These firms have a global reputation, but that does not mean that they are present in all the countries of the world. In Nigeria, these firms are also there as observed by Kenny, Wasu and Rafiu (2019) aside Deloitte which is not yet registered. The big 4 audit firms in Nigeria are; Price Water House/Cooper (PWC), Ernst and Young (EY), Akintola Williams/Delliotte (AWD) and KPMG Professional group (KPMG). The big four are believed to be the most reliable auditing corporations because they cannot be bought or dissuaded with money. At times, corporations who can employ the services of any of these big four are assumed to have better-audited reports than those who hire other corporations.

### **Earnings Management**

It is not a surprise that earnings are very important to a company and also it is not unusual that the company's management has an important interest in how the company earnings are reported. In this light, the effects of the accounting choices have to be understood by all companies' management in order for them to make the best decisions possible for the company, to rightly put it learn earnings management (Trimisiu, Wasu, Peter & Festus, 2020). The independence of auditors has been questioned over time and has been heavily criticized by consumers of financial statements. In the financial statements report of business, investors, regulators, creditors, and governments have seen a surge in earnings management.

The definition of earnings management according to Jacqueline and Denny (2021) is the reasonable and legal management decision making and reporting intended to achieve stable and foreseeable financial results. Also, according to Ching-Chieh (2020), earnings management is the deliberate intervention by management on the external financial reporting process to obtain some private gains. Worth noting is, that earnings management should not be disconcerted with unlawful activities by management to manipulate companies' financial statements and report results that do not mirror economic reality. Any activity by management that misrepresents the company's financial statement is known as cooking the books which is illegal (Trimisiu, Wasu, Peter & Festus, 2020).

Earnings are considered as a signal that helps a company to direct the allocation of its resources in the capital markets and it is regarded as the one most key item in companies' financial statements which is often referred to as the net income or bottom line (Primadita, Fitriany & Kiantara, 2021). Earnings show the extent to which a company is involved in value-creation or value-added activities. In short, the present value of a company's future earnings is the theoretical value of its stocks. Therefore, an increase in a company's earnings signals an increase in its value, while a decrease in the company's earnings indicates a decrease in its value.

Earnings management can be accruals management or the manipulation of real activities which are all purposeful actions taken by management to disguise the true financial situation of a company. Accruals management is the accounting method used to represent those activities that can be used to step up the company's current earnings while real activities manipulation is when management changes the firm's main operations intending to step up the earnings in the current fiscal year (Asuzu, 2020). An example of real activities manipulations can be seen when management decreases their expenditure on discretionary research and development (R&D). To decrease the discretionary expense on R&D, management sells their fixed assets at a favorable time when prices are high to make gains and also, they increase production to reduce average cost and slash prices down. Because accruals management can be used even after the fiscal year, some managers still prefer accruals over real activities manipulations despite the advantages associated with real activities manipulation. This paper shall adopt earning management as measurement for audit quality.

### **Size of Audit Firm**

The size of an audit company is one aspect that has a significant influence on an auditor's independence. According to Bassy, Uni, Olatunbosun, Asi and Emmanuel (2020), big audit firms are less likely to settle or succumb to management pressure than smaller audit firms, possibly due to the large number of clients and income volume accrued to big firms and the fact that they would never succumb to destroying their already built past goodwill, whereas small firms are usually concerned about losing their few clients, which could further wane their meager income. In order to keep these consumers, these companies seek to provide individualized services in order to build a stronger connection with them. As a result, the likelihood of such enterprises' independence being harmed increases.

### **Control Variable**

To effectively control for the possible connection between the dependent and independent variable, this study employed audit client firm's size, financial leverage and board independence as the control variable.

#### **Audit Client Firm Size**

According to Sabo, A & Alfred A.k (2020), firm size is the variety and total amount of production ability and capacity possessed or services that can be rendered concurrently to its targeted customers. The firm size has a vague influence on the firm's performance in general. Bambang, Kevin and Christy (2019) asserted that larger firms are usually more diversified in nature, benefit from the economy of scale, have more capacities and resources.

### **Board Independence**

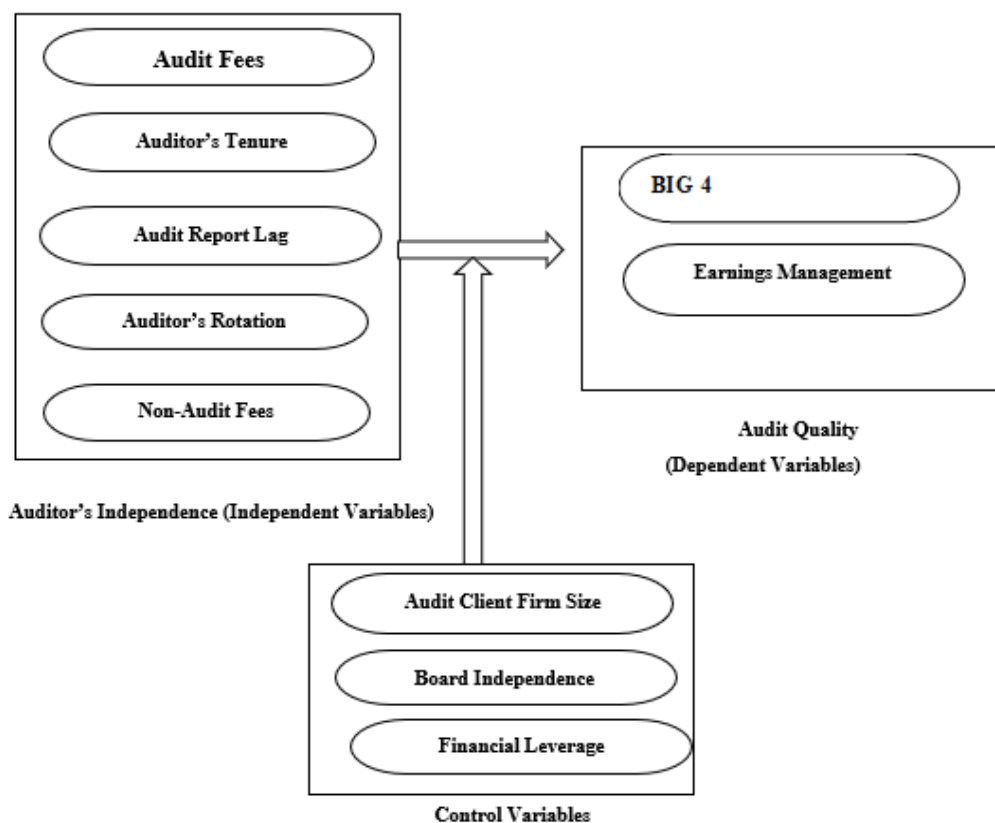
According to Rahmansyah, Wardayati and Miqdad (2021), a board is a group of individuals putting resources together to achieve a common goal. In an organization, both the executive and non-executive directors come together to a common goal. From the view of Tamrat (2015), the board of directors is simply referred to as board. The board of directors is saddled with the responsibility of employing managers and directing the operations of the organization including the preparation and presentation of financial reports. The effective and efficient administration of operations in any organization seems to be achieved with some level of objectivity on the part of the board of directors, which was the basis of the separation of decision management from decision control

#### **Financial leverage**

Financial leverage refers to a company's capacity to enhance earnings per share before interest and taxes by utilizing fixed financial expenses. Profits before interest and tax will fluctuate if a corporation does not use fixed cost-bearing securities, resulting in a change in earnings per share. If a company doesn't have any set financial expenses, such as dividends and interest, it's a sign of financial leverage (Kenny, Wasiu & Rafiu, 2019). Financial leverage allows a company to amplify its profitability before interest and taxes, resulting in higher earnings per share (Trimisiu, Wasiu, Peter & Festus, 2020)

### Conceptual Model of the Study

The relationship between auditor’s independence assurance and audit quality was depicted thus:



**Figure 1: Conceptual Framework**

Source: Researcher’s Design, 2024.

### Theoretical Framework

This study was hinged on stakeholder’s theory. This theory was established to overcome the limitations of the shareholder theory, which limited the beneficiaries of a firm to include only the shareholders. It was established by Freeman in 1984. According to Freeman (1984), stakeholder is any entity or personality whose actions influence the performance of the firm, and by the firm’s performance, their activities are also influenced. This theory gives a wider perspective on people and entities concerning which a firm needs to consider when carrying out its activities. Stakeholders include shareholders, managers, employees, customers, auditors, investors and even the government. Thus, the basic assumption of this theory is that firms are associated with various stakeholders who have interests and/or are influenced by firms’ actions, and managers need to resolve their differences and address their concerns to produce value and attain long-term survival. Stakeholders’ theory has been developed and justified based on its descriptive correctness, instrumental influence and normative soundness. From its descriptive correctness, the theory tells a practical situation between the firm, stakeholders and managers. This angle stakeholder theory sees the managers/directors of the firm has been responsible for the payment of the audit fee, hence, it is the duty of this category of stakeholder to ensure that the audit firm received its fee promptly. From instrumental power, there is a belief that the stakeholders’ interests must be deliberated on by the managers so that the firm’s objective function would be attained (Ogbeifun & Olorunsola, 2020). In continuation, normative soundness prescribes to managers what they must do, that is, their duties and responsibilities. However, it appears that most stakeholders, especially the non-financial stakeholders are not aware of what their responsibilities and duties are to the firm.

### Empirical Review

Carp and Istrate (2021) carried out a study in Romania to evaluate the effect of some characteristics of the auditors and of the audited companies on audit quality for listed firms from 2007–2019, using of discretionary accruals. Multiple regression analysis was the selected method of data analysis. The findings proved beyond doubt that the auditor’s Big 4 membership added an increase in discretionary accruals, while decreasing the quality of the audit. It was also seen that the transition to IFRS did not have a significant influence on the quality of the audit. Both the reviewed study and the current study share similarity in that they both examined audit quality as their outcome variable. However, the geographical location served as a basis for uniqueness for the current study since it would be carried out in Nigeria unlike the reviewed study that was undertaken in Romania.

A study was undertaken in two countries, Botswana and Uganda by Gladness and Ester (2020) in order to ascertain effect of audit quality on firm performance of listed companies on the stock exchanges for five years from 2014-2018. The study used auditor size and audit fees as proxies for audit quality, while return on assets and Tobin's Q were measures of firm performance. Regression analysis was the chosen method of data analysis. The study also controlled for complexity, risk and growth of the companies. Findings displayed that audit quality had a negative and insignificant effect of firm's financial performance. Implicitly, audit fees had a negative and insignificant effect of firm's financial performance. The reviewed study and the current study examined audit quality as a variable in their study, which grants them similarity. However, the outcome variable and the predictor variable in both studies serve as uniqueness for the current study. That is the current study uses auditor's independence assurance as its predictor variable unlike the reviewed study that used audit quality as its independent variable. Furthermore, the current study uses audit quality as its dependent variable while the reviewed study used firm's performance as its dependent variable.

In Nigeria, Abdullahi, Norfadzilah, Umar and Lateef (2020) examined the influence of audit quality on the financial performance of listed companies Nigeria. Multiple regression was utilized to analyse the data. From the findings it was uncovered that audit fee had a positive and insignificant relationship with ROA. Furthermore, auditor size had a significant positive relationship with ROA. Also, auditor independence had a positive and statistically significant influence on ROA. The geographical location is a common denominator of the current study and the reviewed study. However difference lies in the fact that the current study uses auditor's independence assurance as its independent variable unlike the reviewed study that used audit quality as its independent variable. In the same vein, the current study uses audit quality as its outcome variable unlike the reviewed study that used financial performance as its outcome variable.

**3. METHODOLOGY**

This study was carried out in Nigeria. An ex-post facto research design was adopted for this study since it is considered suitable for a study with a quantitative dataset. The design was considered appropriate because investigation started after the fact has occurred without the interference of the researcher and also for the fact that data needed for study already exist. The population covered all the Deposit Money Banks in Nigeria (Check appendix I). According to the information gotten from the statistical bulletin of Central Bank of Nigeria (2022), there were 21 Deposit Money Banks in Nigeria The sample size covered all the quoted Deposit Money Banks (see appendix II) in Nigeria and this was achieved using purposive sampling technique. According to the information gathered from Nigeria Stock Exchange, there are 14 quoted banks in Nigeria. Secondary data were used and it will be generated from the published financial reports of all the sampled Deposit Money Banks for a period of 20 years, from 2004-2023. This study was investigated with the aid of dynamic panel regression analysis.

**Model Specifications**

To examine auditors' fee and audit quality in DMBs in Nigeria, the model used by Babatolu, Aigienohuwa and Uniamikogbo (2016) was adapted with some modifications. The functional model of Babatolu, Aigienohuwa and Uniamikogbo (2016) was given thus:

$$AUDQUA_{it} = f(AUDFEE_{it}, AUDFIRMRO_{it}, AUDTENURE_{it}) \dots \dots \dots (3.1)$$

Where:

- AUDQUA is Audit Quality,
- AUDFEE is Audit Fee
- AUDFIRMRO is Audit Firm Rotation
- AUDTENURE is Audit Tenure

“it” represents the combination of time and individuality.

However, some modifications were done to reflect the stated objectives of this study. The modifications are stated thus:

While the study of Babatolu, Aigienohuwa and Uniamikogbo (2016) captured audit quality with total number of staff in audit team, this study added another two metrics and they were BIG-4 and earnings management.

The model was controlled with board independence, financial leverage and audit client firm size.

It must be noted that these modifications are predicated on the reviewed studies through which the researcher was able to know the nitty-gritty of the explained and explanatory variable. The new functional model and the linear representations are stated thus:

Model III:

$$EAM_{it} = f(AUT_{it}, AUF_{it}, AUR_{it}, ASF_{it}, AUL_{it}, BOI_{it}, FIL_{it}, ACS_{it}) \dots \dots \dots (3.6)$$

The linear representation of the model is given thus:

$$BIG - 4_{it} = \delta_0 + \delta_1AUT_{it} + \delta_2AUF_{it} + \delta_3AUR_{it} + \delta_4ASF_{it} + \delta_5AUL_{it} + \delta_6BOI_{it} + \delta_7FIL_{it} + \delta_8 + ACS_{it} + \epsilon_{1t} \dots \dots \dots 3.5$$

$$EAM_{it} = \delta_0 + \delta_1AUT_{it} + \delta_2AUF_{it} + \delta_3AUR_{it} + \delta_4ASF_{it} + \delta_5AUL_{it} + \delta_6BOI_{it} + \delta_7FIL_{it} + \delta_8 + ACS_{it} + \epsilon_{1t} \dots \dots \dots 3.7$$

Where:

- TNE = Total Number of Staff in Audit Team
- BIG-4: Deloitte, Ernst & Young, KPMG, and PricewaterhouseCoopers

EAM = Earnings Management

AUT = Audit Tenure

AUF = Audit Fee

AUR = Audit Firm Rotation

ASF = Non-audit Service Fee

AUL = Audit Report Lag

BOL = Board Independence

FIL = Financial Leverage

ACS = Audit Client Firm Size

“it” represents the combination of time and individuality.

Variables Identifications, Measurements, Sources and A-priori Expectation

**Table 3.4: Variables Identifications and Measurements.**

S/N	Variables	Measurements	Sources	A-priori Expectations
	Independent			
1	Audit Tenure	Length of auditor-client relationship. ‘1’ if 3 years+ and ‘0’ if otherwise.	Babatolu, Aigienohuwa and Uniamikogbo (2016) and Ogungbade, Adekoya and Olugbodi (2020)	+
2	Audit Fee	Natural Log of the Audit Fees Paid by the company.	Babatolu, Aigienohuwa and Uniamikogbo (2016) and Ogungbade, Adekoya and Olugbodi (2020)	+
3	Audit Firm Rotation	‘1’ if there is audit firm rotation and ‘0’ if otherwise	Babatolu, Aigienohuwa and Uniamikogbo (2016) and Sabo and Alfred (2020)	+
4	Non-Audit Service Fee	Natural log of Consultancy fees	Nwafor and Amahalu, (2021)	-
5	Audit Report Lag	Measured in days. The total number of days it took the external auditors to complete the audit process.	Chang and Yong (2015)	+
	Dependent			
6	BIG-4	Audit quality is equal to one (1) if a company is audited by one of the Big 4 audit firms and zero (0) if otherwise	Salawu, Okpanachi, Yahaya and Dikki (2017).	
7	Earnings Management	Discretionary accruals	Jacqueline and Denny (2021)	
	Control			
8	Board Independence	The ratio number of non-executive directors over the total number of directors	Patrick and Peace (2020)	+
9	Financial Leverage	Total Debts /Equity	Babatolu, Aigienohuwa and Uniamikogbo (2016)	+

10	Audit Client Firm Size	Natural log of company Total Assets.	Babatolu, Aigienohuwa and Uniamikogbo (2016)	+
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#### 4. DISCUSSION OF RESULTS

##### Descriptive Statistics

This provides the summary of the variables used in the study statistically through average mean, standard deviation, minimum and maximum.

**Table 1: Descriptive Statistics**

Variables	Obs	Mean	Standard Deviation	Minimum	Maximum
TNE	280	25.58929	4.352632	15	34
BIG 4	280	.5678571	.496261	0	1
EAM	280	.6691071	.5267554	.21	5.89
AUT	280	.5642857	.496738	0	1
AUF	280	7.236621	.190885	6.798	7.5358
AUR	280	.775	.41833	0	1
ASF	280	6.877843	.2183931	6.053	7.278
AUL	280	151.2929	22.29325	110	194
BOI	280	.6438214	.153728	0	.91
FIL	280	17.33261	12.72475	1.95	101.44
ACS	280	7.22878	.9214054	3.371	9.07

**Source: Data Analysis, 2024.** Where BIG 4 is Deloitte, Ernst & Young, KPMG, and PricewaterhouseCoopers, EAM is Earnings Management, AUT is Audit Tenure, AUF is Audit Fee, AUR is Audit Firm Rotation, ASF is Non-audit Service Fee, AUL is Audit Report Lag, BOI is Board Independence, FIL is Financial Leverage, ACS is Audit Client Firm Size.

Presented in Table 1 is the description of the balanced dataset that spanned across 20 years and the quoted 14 deposit money banks in Nigeria. The descriptive statistics depicts that the average value alongside the standard deviation for all the variables are 25.5829(4.352632) for TNE, 0.5678571(.496261) for BIG 4, 0.6691071(.5267554) for EAM, 0.5642857(0.496738) for AUT, 7.236621(0.190885) for AUF, 0.775(0.41833) for AUR, 6.877843(0.2183931) for ASF, 151.2929(22.29325) for AUL, 0.6438214(0.153728) for BOI, 17.33261(12.72475) for FIL and 7.22878(0.9214054) for ACS. From the report, it can be deduced that the standard deviations are less than the average mean value all through indicating a low variation across the sampled firms. The minimum and maximum values are as follows; 15(34), 0(1), 21(5.89), 0(1), 6.798(7.558), 0(1), 6.053(7.278), 110(194), 0(.91), 1.95(101.44) and 3.371(9.07) for TNE, BIG 4, EAM, AUT, AUF, AUR, ASF, AUL, BOI, FIL and ACS respectively

##### Analysis of the effect of auditor's fee and audit report quality of Deposit Money Banks in Nigeria (Earning Management).

**Table 4 Results of Regression Estimate and Diagnostic Tests of model**

**Dependent Variable: EAM**

VARIABLES	(1) OLS	(2) FE	(3) RE	(4) FGLS
AUT	.0833398 (.0646094)	.0560892 (.0621976)	.0639459 (.0622661)	.0000862 (.0423126)
AUF	-.4329654** (.2019446)	-.1709601 (.2168133)	-.3010238*** (.1193925)	-.0643765 (.159237)
AUR	-.0213934 (.0779018)	.1160562 (.0729547)	.072069 (.0736475)	-.06349*** (.0620048)
ASF	.0729511 (.1725164)	-.361305** (.058373)	-.1838595 (.1808972)	-.0671872 (.0977181)
AUL	-.0002604 (.0014475)	.0024992* (.0013249)	.0016104 (.001349)	.00035 (.0006019)
BOI	-.3732346*** (.2169859)	.3013451 (.209769)	.072658 (.2096828)	.0658448 (.1206164)

FIL	-.0029155 (.0005222)	-.0051834 (.0024009)	-.0044416*** (.0004121)	-.0017534*** (.0004663)
ACS	-.0447773*** (.015277)	-.0933961 (.0351464)	-.0738561** (.0348444)	-.0293091*** (.0034081)
Constant	3.924039*** (1.286913)	4.462542*** (1.216385)	4.340582*** (1.229328)	1.646805** (.0229285)
Observations	280	280	280	280
R-squared	0.4520	0.5069	0.6236	
Adj. R-Squared	0.3240	0.4962	0.5885	
F-Stat	F(8,271) = 1.86 Prob > F = 0.00	F(8,256) = 33.43 Prob > F = 0.009	Wald chi <sup>2</sup> (8) = 18.49 Prob>chi <sup>2</sup> = 0.0178	Wald chi <sup>2</sup> (8) = 46.05 Prob>chi <sup>2</sup> = 0.0000
Pesaran CD Test	-	0.516 {0.6043}	-	-
Hausman Test	-	Chi2(8) = 19.04 Prob>chi <sup>2</sup> = 0.0146	-	-
Breusch-Pagan LM Test	-	-	chi <sup>2</sup> (01) = 96.50 = 0.0000	Prob>chi <sup>2</sup> -
Modified Wald Test for Heteroskedasticity	-	chi <sup>2</sup> (14) = 1835.32 Prob>chi <sup>2</sup> = 0.000	-	-
Woodridge Test for Autocorrelation	-	F(1,13) = 149.127 Prob > F= 0.0000	-	AR (1) = 0.6014

Standard errors in parentheses \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Deciding on the appropriate estimation technique to be employed for this hypothesis, the Hausman test conducted favours the fixed effect. The chi-square statistic for the Hausman test is 19.04 with the probability value of 0.0146, which is less than 5% significant value. Though the Breusch and Pagan LM test with chi-squares statistic of 96.50 and p-value of 0.000 failed to align with the result of Hausman test as it favours random over Pooled OLS effect. However, the Hausman test result takes precedence and fixed effect estimation is considered appropriate. The Pesaran CD test with pro-value of 0.6043 indicates evidence of non-cross-sectional dependence while the Modified Wald Test for Heteroskedasticity shows that the variance of the error terms is not constant over time, that is, absence of homoskedasticity. Consequently, the Feasible Generalised Least Squares (FGLS) is considered appropriate to remove the violations of the OLS assumptions and for interpretation of our hypothesis. The FGLS revealed that AUT, AUL and BOI exert a positive but insignificant effect on audit quality in terms of earnings per share of quoted deposit money banks in Nigeria. On the contrary, AUF, AUR, ASF, FIL and ACS have a negative effect on earnings per share, though, the negative effect is only significant for AUR, FIL and ACS against the insignificant negative effect of AUF and ASF. The Wald chi<sup>2</sup>(8) of 46.05 along with p-value of 0.000 reveals that the model is fit.

#### Analysis of the effect of auditor's independence and audit report quality of Deposit Money Banks in Nigeria (BIG 4).

**Table 5: Logistic Regression Result**

Series: BIG4 AUT AUF AUR ASF AUL BOI FIL ACS

Variable	Odds Ratio	Std Error	Z-Score	Probability
AUT	7.66066	6.871893	2.27	0.023
AUF	1.70e+17	1.27e+18	5.31	0.000
AUR	.5063464	.5735918	0.60	0.548
ASF	93.72997	212.666	2.00	0.045
AUL	.9745872	.0169993	1.48	0.140
BOI	2.268211	5.816336	0.32	0.749
FIL	1.07128	.0606324	1.22	0.224
ACS	3.176535	1.530415	2.40	0.016
Constant	8.3e-142	5.2e-140	5.21	0.000
Pseudo R-square	0.8462			
LR chi2(8)	324.08			
Prob > chi2	0.0000			

Source: Author's Computation (2024). Variables are as defined in chapter three.

The logistic regression estimates in table 5 shows that all the predictors have positive relationship with audit quality captured with BIG 4 of quoted deposit money banks in Nigeria. However, the positive effect is significant for AUT, AUF, ASF and ACS with the odds ratio alongside their probability values of 7.66066( $p=0.023<0.05$ ) for AUT, 1.70e+17( $p=0.000<0.05$ ) for AUF, 93.72997( $P=0.045<0.05$ ) for ASF and 3.176535 ( $p=0.016<0.05$ ) for ACS against the significant positive effect of AUR, AUL, BOI, and FIL with the odds ratio and probability values of 0.5063464( $p=0.548>0.05$ ) for AUR, 0.9745872( $p=0.140>0.05$ ) for AUL, 2.268211( $p=0.749<0.05$ ) for BOI and 1.07128 ( $p=0.224>0.05$ ) for FIL. The reported pseudo r-square was 0.8462 which implies that 85% of the systematic variation in audit quality can be explained by all the predictor variables. The LR Chi-square and its significant value was given to be 324.08 and 0.000 respectively reflect the model is reliable, fit and dependable. Thus, the model adequately describes the model and there is no misspecification of the model.

**Table 6: Diagnostic Test**

Null Hypothesis	Test Method	F-statistics	Probability
No Normality	Jarque-Bera	0.362	0.472
No serial correlation	Breusch-Godfrey	0.751	0.325
No conditional heteroskedastic	White (Chi-Square)	0.587	0.215

**Source:** Data Analysis (2022)

Table 6 reports the result of the diagnostic tests. Statistically, the F-statistic of 0.362 and p-value of 0.472 suggests that the model is normally distributed at the 5% level of significance. The result of the Breusch-Godfrey LM test, which reveals a F-statistic of 0.751 and a p-value of 0.325 demonstrates the absence of no serial correlation with the variables. The result shows that there is no issue regarding conditional heteroscedasticity, since the F-statistic is 0.587 with a p-value of 0.215.

#### **Validation of Hypothesis**

This section validates all the tested hypotheses. Hypotheses were tested based on the significance of the reported coefficient estimate corresponding to variables of interest in this study. Also, it must be noted that 5% is the yardstick for the level of significance.

### **5. CONCLUSIONS AND RECOMMENDATIONS**

#### **Conclusions**

This study found that audit fees and audit quality were significantly related. The study therefore concluded that audit fee improved the quality of the audit reporting when the big-four audit was used as proxy for the audit quality considering the logistic regression result. As a result of this, one might conclude that big-4 audit was a good measure of the quality of audit report in the Nigerian deposit money banks since the variable was significant with the variable of the external audit fee.

#### **RECOMMENDATIONS**

**The following recommendations are made.**

- Audit fee was found to have a significant positive effect on audit quality captured with total number of employees in audit firm and BIG 4. However, became insignificant for earnings management. On this note, it is recommended that the regulating body of auditing practice should adopt measures to regulate and control the audit pricing strategy in order to strike a balance and reduce over charging and undercharging which several schools of thoughts have suggested to impair the independence of the auditor. With this, the independence level of an auditor will not be starved toward achieving higher quality of audit function.
- More so, the directors/management of the selected DMBs must ensure that the audit fee of the external audit is paid promptly in order to motivate the external audit firm to carry out effective audit work that may show the truth financial state of the company.

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