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IMPACT OF AUDIT QUALITY ON FINANCIAL PERFORMANCE OF BANKING INDUSTRIES IN NIGERIA

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Abstract
Internal audits help ensure accountability, transparency, and public property preservation. This research focused on audit quality's impact on Nigerian banks' financial performance. The 2004-2019 study used secondary data from sampling banks' annual financial statements. Ex-post facto study design and descriptive statistics and OLS multiple regression estimation were used. Audit Company Size (AFS) and Audit Fee (AF) boost firm performance, whereas Audit Report Lag (ARL) hurts Nigerian banks' performance. Only Audit Fee (AF) was statistically insignificant (p>0.05); Audit Firm Size (AFS) and Audit Report Lag (ARL) were significant (p0.05). Without enough effort to monitor the financial performance of banking businesses in Nigeria, they will continue to stray from reporting correct profits figures by providing earnings data that appear lovely but are not genuine, deceiving investors and other stakeholders. A long association between the Auditor and his client may threaten independence and audit quality due to personal ties and familiarity. This will reduce the Auditor's vigilance and favoritism toward the company's senior managers. The audit engagement may become commonplace, leading in less effort to discover internal control flaws and risk sources.

Keywords*:* Audit, Quality, Banking, Financial Performance

Introduction

Financial statements help shareholders and others make economic and commercial decisions (Saddam, Mosab, Saleh, Jinyu and Ahmed, 2020). The data is used to evaluate financial situations, associated companies, and management. The quality of financial reporting of companies listed on the Nigerian Stock Exchange depends on the work of external auditors (Flayyih, Ali and Mohammed, 2018). A financial statement audit reduces information asymmetry and protects shareholder interests by ensuring that management has not materially misstated financial information. Most organizations and their management lack the accounting skills and materials to compile a public financial statement, according to Inayah and Prasetyo (2021).

Before making accounting choices, these organizations rely heavily on auditor guidance. This suggests auditors modify financial statements before auditing. When corporations make an accounting judgment or financial statement, they rely heavily on auditors. High reliance on the auditor means the auditor affects the financial accounts (Baatwah, Salleh, and Ahmad, 2018). According to Adenle, Anyanwu, Okafor, and Oyaleke (2022), the goal of an audit is to acquire adequate audit evidence to support the auditor's findings. The auditing process is completed with the auditor's conclusion in a signed audit report. In this report, auditors summarize audit findings and provide their opinion on the company's declared financial accounts.

Investors' importance of these reports and their substance is unclear and needs further scrutiny. Demand for audit services is caused by various causes, including the remoteness gap between financial statement users and preparers, user conflict of interest, complexity of economic activities, and expected effect of financial statements on decision making. Many factors affect banks' financial performance, including audits and management. As the channel of communication between the auditor and audit report users, the audit report must be comprehensible, objective, and acknowledged as a relevant source of information. Insufficient audit evidence might lead to incorrect conclusions, affecting the audit report's quality. Companies with a reputation for credible financial

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reporting may shift auditors to avoid capital market penalties of incorrect financial reporting. Financial statement quality and trustworthiness depend on audit quality (Siregar and Nuryanah, 2019). Audit quality is important, and auditors' reports are heavily weighted. The poor financial performance of Nigerian corporations, especially banking industries, has been linked to audit quality. Nigerian banks audit quality should positively affect financial performance. Banking industries that use a credible audit firm are expected to have efficient financial performance. It was against this background that the researcher investigate the impact of audit quality on financial performance of banking industries in Nigeria.

Statement of the Problem

Shareholders and other users of accounting information use financial statements to make economic and business decisions (Saddam, Mosab, Saleh, Jinyu and Ahmed, 2020). Information is used to evaluate financial conditions, related company performance, and management performance. In general, external auditors support the quality of financial reporting of companies listed on the Nigerian Stock Exchange (Flayyih, Ali and Mohammed, 2018). The purpose of a financial statement audit is to reduce information asymmetry and protect shareholders' interests by ensuring that management's financial statements are accurate. Inayah and Prasetyo (2021) claim that most companies and their managers lack accounting knowledge and public-use financial statement materials. Companies rely on the auditor's advice before making accounting decisions. This suggests auditors affect financial statements before they audit. Companies rely heavily on auditors when making accounting decisions or financial statements. A high level of reliance on the auditor means the auditor affects the financial statements (Baatwah, Salleh, and Ahmad, 2018). Adenle, Anyanwu, Okafor, and Oyaleke (2022) say the goal of an audit is to obtain sufficient audit evidence to support the auditor's opinion. This means the auditing process ends with the auditor's signed audit report containing his or her opinion. In this report, auditors describe audit findings and give their opinion on the company's published financial statements. The importance investors place on these reports and their contents is questionable and needs more study. The demand for audit services is triggered by many factors, including the remoteness gap between financial statement users and preparers, user conflict of interest, complexity of economic transactions, and expected effect of financial statements on decision making. Also, financial performance in banks is affected by auditing and management factors.

The audit report is the medium of communication between the auditor and audit users, so it must be understandable, objective, and accepted as a relevant source of information. Insufficient audit evidence can lead to wrong conclusions, degrading the audit report. Companies with a reputation for credible financial reporting may change auditors if their quality is questioned to avoid capital market consequences of unreliable reporting. The quality and credibility of financial statements depend on audits (Siregar and Nuryanah, 2019). The importance of audit quality and auditors' reports is high. However, poor financial performance of Nigerian companies, especially banks, is due to poor auditing. The audit quality of Nigerian banks should improve their financial performance. This is because banking industries that use a credible audit firm are expected to have reasonable financial efficiency. In light of this, this study examined the impact of audit quality on financial performance of banking industries in Nigeria.

Purpose of the Study

The main purpose of the study was to assess the impact of audit quality on financial performance of banking industries in Nigeria. Specifically, the study sought to:

1. Determine the extent does audit firm size affect the financial performance of banking industries in Nigeria?
2. Examine the effect of audit fees on the financial performance of banking industries in Nigeria?
3. Determine the effect of audit report lag on the financial performance of banking industries in Nigeria?

Research Questions

The study was guided by the following research questions:

1. To what extent does audit firm size affect the financial performance of banking industries in Nigeria?
2. What is the effect of audit fees on the financial performance of banking industries in Nigeria?

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3. What is the effect of audit report lag on the financial performance of bankingindustries in Nigeria?

Research Hypotheses

The following null hypotheses were developed and tested at 0.05 level of significance.

Ho1: Audit firm size does not have a significant impact on the financial performance of banking industries in Nigeria.

Ho2: Audit fee does not have a significant impact on the financial performance of banking industries in Nigeria.

Ho3: Audit report lag does not have a significant impact on the financial performance of banking industries in Nigeria.

Literature Review

Audit Quality

Audit quality means recognizing misstatements and inaccuracies in financial statements (Alwardat, 2019). Audits verify that financial statements are honest and fair in all material respects. It followed GAAP. Quality is the obligation to make sound judgement. It implies ensuring the audit is conducted correctly. Audit quality relates to how auditors' independence, honesty, and objectivity affect financial statement quality (Baah and Fogarty, 2018). From the firm's standpoint, auditing is a continuous process that identifies issues affecting audit performance, analyzes conditions, formulates remedies, and monitors and improves performance. Iliemena, Rachael, and Okolocha (2019) define audit quality as the market-assessed joint chance that a specific auditor will both (a) uncover a breach in the client's accounting system and (b) disclose the breach. The definition stresses two crucial components of audit quality: (1) the audit firm's competence, which determines the likelihood of detecting a misstatement, and (2) the auditor's independence and objectivity, which decide what the auditor will do about a recognized mistake. This definition helps audit quality studies.

Audit Firm Size

Audit firm size is operationally defined as a sampling bank's ability to hire any of Nigeria's Big 4 audit firms. KPMG, Ernst & Young, PWC, Akintola Williams, and Delliotte are Nigeria's Big 4 audit firms (Egbunike and Abiahu, 2017; lsmairat, Yusoff, Ali and Ghazalat, 2019). Some analysts feel the big four (KPMG, Ernst & Young, PWC, Akintola Williams, and Deloitte) have better access to advanced technologies and specialised employees than other firms. Larger firms do better audits, according to Oluyinka, Adeleke, and Deborah (2021). Larger organizations with more resources can recruit more skilled workers.

Audit firm size

Audit fees are agency fees for auditors who do audits. The audit price covers audit services, risk compensation, and profit demand. The audit fee effects audit quality, accounting firm growth, and the audit sector (Saddam, Mosab, Saleh, Jinyu and Ahmed, 2020). The amount of audit fees a customer pays its audit firm should reflect the degree of audit work performed. This level of work reflects the auditor's estimate of process complexity and risk. According to Adenle, Anyanwu, Okafor, and Oyaleke (2022), if an auditor wishes to decrease the risk of issuing a clean opinion when there are materially relevant distortions in the client's financial statements, he generally acts as the nature, extent, and timing of audit procedures, which influence the final amount of required fees.

Audit Report Lag

Audit report lag is the amount of days between a company's year-end and audit report date. An audit report is always a focus for audit firms, companies, regulators, and investors. Ibrahim, Mansor, and Ahmad (2020) say an annual report is a vehicle for discharging accountability and that audit delays increase with audit effort, decrease with incentives to give a timely report, and increase with a structured audit strategy. Alzoubi (2019) revealed that audit latency decreases financial reporting quality by not delivering timely information to investors. In other words, a delayed audit report can cause investors to lose faith in the agency's findings.

Return On Assets (ROA)

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ROA measures a company's profitability compared to its total assets. ROA shows how efficiently a company uses its assets to create earnings (Robin, Salim and Bloch, 2018). ROA shows investment earnings (assets). Public firms' ROA varies greatly by industry. When comparing ROA, it's ideal to use a company's past figures or a similar company's. ROA shows investors how well a company converts investments into net income. Higher ROA means the company earns more on less investment. Different industries use assets differently, therefore ROA is best for comparing companies in the same industry. ROA for service-oriented firms like banks is far higher than for capital-intensive firms like construction or utilities. ROA measures how well your organization uses assets to make money. This ratio is more beneficial in some businesses than others because of the amount of money tied up in assets.

Theoretical Framework

Agency Theory

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

Agency theory, therefore, involves the relationship or the interaction between the principal and the agent. Usually the principal; employ the agent to function on his or her behalf. The agent is expected to represent the principal in specific business activities and he or she is expected to do so without compromising the interest of the principal. Robin, Salim, Bloch (2018) opined that the shareholders and the management represent the principal and the agent respectively. Both the shareholder and the management are expected to maximize their satisfaction. It therefore, implies that conflict of interest among the agent and the principal may put them apart. The incompatibility of the interest of the shareholders and the management will lead to financial losses and inefficiency in the organization. This will result in having a problem between the agent and the principal. The problem between the agent and the principal will arise when their interest is in conflict. It, therefore, becomes imperative for corporate organizations to use the audit to resolve this principal-agent problem.

The agency theory assumes that the principal and the agent are motivated by self-interest. This assumption of self interest may result in conflict between the agent and the principal since the agent is more likely to pursue his or her objectives to the detriment of the shareholders or principal’s objectives. To ensure that the agents pursue the interest of the principal, their activities need to be monitored and managed more effectively. Oluyinka, Adeleke and Deborah (2021) argue that agency theory also assumes that if the principal and the agents are mainly concerned about maximizing their wealth, agents are likely going to act their self-interest rather than the interest of the principal. To make agents act in the interest of the principals, there is the need to put in place mechanisms such as an audit to scrutinize and manage the decisions of agents to ensure the objective of such decisions aligns with shareholders’ interests. In relation to the study, the agency theory is considered useful in explaining the effectiveness of corporate owners’ strategy of using auditing as a means of reducing managerial excesses and waste of organizational resources. The theory creates confidence in business dealing and enhances the euthenics of the information disclosures by the management of banks as the less informed party will have to demand information. There is thus an expected positive relationship between audit quality and financial performance based on the predictions of agency theory.

Auditors Theory of Inspired Confidence

The auditors’ theory of inspired confidence as developed by the Limperg Institute in the Netherlands in 1985 offers a linkage between the users’ requirement for credible and reliable financial reports and the capacity of the

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

The basic assumption of the theory of inspired confidence is that the duties and responsibilities of the auditors are a derivation from the confidence that is bestowed by the public on the success of the audit process and the assurance that the opinion of the accountant conveys. Since this confidence determines the existence of the process, a betrayal of the confidence logically means a termination of the process or function (Boskou, Kirkos & Spathis 2019). Elvira (2018) in discussing the social significance of the audit stated that when the confidence that society has in the effectiveness of the audit process and the audit report is misplaced, the value relevance of that audit is destroyed. Therefore, auditors are expected to maintain reasonable quality assurance especially given that an audit failure is effectively a career-ending event. Both agency theory and auditors' theory of inspired confidence provide assurance to the owners and management of companies and investors and stakeholders, and along with financial reporting, corporate governance, and regulations, supports confidence in the capital markets.

Methodology

The study's research design is ex-post facto. The researcher chose this design because she doesn't want to modify or control the variables. Secondary data were used. The statistics were gathered from the individual consolidated annual reports of ten (10) selected Nigerian banks: Unity Bank, Zenith Bank, Fidelity Bank, FCMB, Sterling Bank, Eco Bank, Wema Bank First Bank, Guaranty Trust Bank and United Bank of Africa. These banking industries were chosen based on their financial performance and the availability of financial statements. The Ordinary Least Squares (OLS) multiple regression was employed to evaluate panel data since it is the Best Linear Unbiased Estimator (BLUE) for estimating this type of model. SPSS version 24.0 helped. Data reliability and validity were tested using multicollinearity.

Model Specification

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

$$y = a + x + e\ldots \quad (1)$$

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

$$ROA = f(AFS, AF, ARL) \ldots \quad (2)$$

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

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

$$ROAt = a + b1\ AFSt + b2\ AFt + b3\ ARL + et \ldots \quad (3)$$

In a bid to control all the variable values in the equation (3), we rewrite equation (3) as; $ROAt = a + b1AFSt + b2AFt + b3ARLt + b4MISt + et \ldots$ (4)

Where; a = Constant parameter; b1 to b4 = parameters to be estimated; t = periods 2004 - through 2019; et = error term.

Decision Rule

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In taking the decision, p-value was used. For the p-value approach, the researcher obtained a p-value using the computed test statistic and at the two-tailed test. Null hypothesis (Ho) is rejected in favour of alternative hypothesis (H1) if p-value ≤ 0.05.

Results and Interpretations Descriptive Results

Table 1: Descriptive Statistics

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

Source: Author's Computation, 2022

Table 1 illustrates the mean return on assets (ROA), audit firm size (AFS), audit fee (AF), and audit report lag (ARL) of banking industries in Nigeria. The table above illustrates the series' standard deviation. Return on assets (ROA), audit firm size (AFS), audit fee (AF), and audit report lag (ARL) for Nigerian banking industries are.0427128,.2545658,.4362706, and.2649579, respectively. The minimum return on asset (ROA), audit firm size (AFS), audit fee (AF), and audit report lag (ARL) of banking industries in Nigeria are -.4500,.0000, 6.7767, and 1.1139, while the maximum values are.0800, 1.0000, 8.7709, and 2.7612.

Table 2: Empirical Result of Ordinary Least Square Method

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

Source: SPSS version 24.0

Table 2 displays independent variable OLSR coefficients. The results showed that the p values of audit firm size and audit fee coefficients are statistically significant at a 5 percent level of significance, except for the auditor's fee, which is not. This means that a 1% increase in audit firm size and auditor's fee will boost return on asset (ROA) of banking industries in Nigeria by 2.5% and 1.2% correspondingly over time. Table 2 shows that the p values of audit report lag coefficients are negative and significant at the 5% level. This shows that a 1% increase in the number of days an audit firm takes to submit their audit report after the end of the accounting year will result in a 5.6% fall in return on asset (ROA) of banking industries in Nigeria over time.

Table 3: Model Summary

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

Table 3 shows that the adjusted coefficient of determination (R2) offers a better explanation of ROA variations. The value of 12.8% shows that the explanatory variables (AFS, AF, ARL, and TA) can jointly explain about 13% of the ROA variation, while other variables not captured in the model account for the rest. The F-statistics

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p-value 0.001 suggests the model is well-fitted, constructed, and integrated. OLS confirms this, as the likelihood value is 0.01 percent. The analysis contradicts the null hypothesis and concludes that audit firm quality influences Nigerian bank ROA.

Discussion of Results

Effect of Audit Firm Size on Return on Asset (ROA) of banking Industries in Nigeria

The t-statistics show that audit firm size affects Nigerian Deposit Money Banks' ROA favorably and significantly from 2004 to 2019. The t-statistics calculated value of 1.982 was greater than 1.962 at a 5 percent level of significance. At a 5% level of significance, the study reveals a substantial and positive influence of audit company size on return on asset (ROA) of Deposit Money Banks in Nigeria, as shown in table 2. The p-value of.049 is less than.05. A 1% increase in audit firm size increases Nigerian banking industries' ROA by 2.5%. This matches the findings of Ogbodo and Akabuogu (2018) and Hind, Dua, and Essia (2021) in Nigeria.

Effect of Audit Fee on Return on Asset (ROA) of banking Industries in Nigeria

The t-statistics show that audit fee does not effect Deposit Money Banks' ROA in Nigeria from 2004 to 2019. The t-statistics computed value of 1.304 was less than the threshold value of 1.962 at 5% significance. Also, at a 5% level of significance, the study reveals an insignificant and positive influence of audit fees on return on asset (ROA) of banking industries in Nigeria (table 2) since the p-value of.194 is significantly greater than.05. This implies audit fee (AF) has a positive and minor impact on Nigerian bank ROA. A unit change in auditors' audit fees will result in a 1.2% increase in Nigerian banks' return on assets (ROA). Adenle, Anyanwu, Okafor, and Oyaleke (2022) found comparable results.

Effect of Audit Report Lag on Return on Asset (ROA) of Banking Industries in Nigeria

The t-statistics show that audit report latency affects bank ROA in Nigeria from 2016 to 2020. Because t-statistics determined value of 4.574 was greater than 1.962 at two tails test 5% level of significance. At a 5% level of significance, the study finds a substantial and negative influence of audit report lag on return on asset (ROA) of banking industries in Nigeria, as seen in table 2 above as the p-value is less than.05. The audit report latency coefficient is negative and significant (-0.056, p 0.01). This shows audit report lag (ARL) negatively affects Nigerian Deposit Money Banks' ROA. A 1% increase in the number of days an audit firm uses to sign their audit report after the end of the accounting year will result in a 5.6% decrease in return on asset (ROA) of banking Industries in Nigeria over the years. Robin, Salim, and Bloch (2018) found a similar result.

Conclusion

This study aimed to prove the importance of audit firm quality as a predictor of bank ROA in Nigeria. This study tested hypotheses based on reviewed literature. Statistically, audit firm size and audit fee are positively related to Nigerian banking industries' return on assets. The statistics showed that audit report latency affects Nigerian banks' return on assets. This study gives empirical evidence for the literature-hypothesized link. The study concludes that audit firm quality affects bank ROA in Nigeria.

Recommendations

The study's findings suggest the following:

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

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