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AUDIT QUALITY AND EARNINGS QUALITY OF LISTED DEPOSIT MONEY BANKS IN NIGERIA

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Abstract

This study examined the effect of audit quality on earnings quality of listed deposit money banks in Nigeria, focusing on audit firm size, audit fees, and auditor tenure as determinants of discretionary accruals (earnings quality proxy). It was motivated by concerns over earnings manipulation and weak financial reporting despite regulatory oversight. The population of the study consists of all 13 listed deposit money banks on the Nigerian Exchange (NGX) Group over the period 2015–2024. However, a purposive sampling technique was employed in selecting 10 banks based on the availability of complete and consistent financial statements for the study period, continuous listing status, and exclusion of banks with incomplete or missing data. This resulted in a balanced panel of 100 firm-year observations. An ex post facto research design was adopted using panel data. Data from audited annual reports were analysed using descriptive statistics, correlation analysis, Hausman tests, and panel regression (fixed and random effects). Findings show that audit firm size has a significant negative effect on discretionary accruals ($\beta = -0.0162$; $p = 0.0000$), indicating improved earnings quality. Audit fees have an insignificant positive effect ($\beta = 0.0199$; $p = 0.2512$). Auditor tenure has a significant positive effect ($\beta = 0.0031$; $p = 0.0000$), suggesting reduced earnings quality with longer tenure. The study concludes that audit quality significantly influences earnings quality, but effects differ across audit attributes. It recommends stronger auditor rotation policies by the Financial Reporting Council of Nigeria (FRCN), engagement of high-quality audit firms, and closer monitoring of auditor tenure by audit committees to enhance reporting credibility

Keywords: audit fees, audit firm size, auditor tenure, discretionary accruals, earnings quality.

1. Introduction

Due to its significance in determining an organization's actual financial performance, earnings quality has emerged as a key issue in accounting and financial reporting literature. The degree to which reported earnings accurately depict a company's financial situation and are not intentionally manipulated by management is referred to as earnings quality (Dechow et al., 2020). While low-quality earnings are frequently linked to earnings management techniques like income smoothing and discretionary accruals, high-quality earnings are typically long-lasting, sustainable, and closely linked to cash flows (Healy & Wahlen, 1999).

The reliability of reported results has a major impact on stakeholder confidence, firm value, and investment decisions in today's capital markets. Listed deposit money banks play a vital role in Nigeria's economy by facilitating financial intermediation, mobilising savings, offering credit facilities, and fostering economic growth. These banks are heavily regulated by organisations like the Nigerian Exchange Group, the Central Bank of Nigeria, and the Financial Reporting Council of Nigeria because of their systemic significance. Banks must prepare audited financial statements in compliance with International Financial Reporting Standards (IFRS) as mandated by these regulatory bodies.

The Nigerian banking industry has continued to see instances of financial reporting errors and governance issues in spite of these regulatory systems. The 2009 banking crisis exposed widespread manipulation of financial statements, including the overstatement of assets and understatement of non-performing loans among several banks (Sanusi, 2010). Similarly, the revocation of the operating licence of Heritage Bank Plc in 2024 further raised concerns regarding corporate governance and the credibility of financial reporting in the sector.

One of the main methods for guaranteeing the accuracy of corporate financial statements is external auditing. The likelihood that an auditor would find substantial misstatements and properly report them is a typical definition of audit quality (DeAngelo, 1981). The author claims that auditor independence and competency have a major role in audit quality. Reduced earnings manipulation, increased financial statement credibility, and improved earnings quality are all anticipated outcomes of high-quality audits (Becker et al., 1998). As a result, audit-related characteristics including audit firm size, audit fees, and auditor tenure are frequently used by stakeholders as markers of audit quality.

The relationship between audit quality and earnings quality is explained by a number of theoretical stances. According to Michael C. Jensen and William H. Meckling's agency theory (1976), auditors assist in lessening the knowledge imbalance that exists between management and shareholders. According to signalling theory, businesses should hire trustworthy auditors to let investors know that their financial statements are reliable (Spence, 1973).

In a similar vein, loan credibility theory asserts that because audited financial statements have been independently reviewed by qualified auditors, they become more reliable (Hayes et al., 2005). By highlighting that accurate financial reporting benefits not just shareholders but also creditors, regulators, employees, and the public, stakeholder theory expands the significance of audit quality (Freeman, 1984).

Several proxies have been used in empirical investigations to assess audit quality. The scale of audit firms, which are sometimes divided into Big 4 and non-Big 4 audit firms, is predicated on the idea that larger audit firms have more technical know-how and are more concerned with their reputation (DeAngelo, 1981). Because higher audit compensation may be a sign of increased audit effort and better audit quality, audit fees are also employed as a proxy (Simunic, 1980). According to Johnson et al. (2002), auditor tenure is a measure of the duration of the relationship between the auditor and the client firm and can either enhance audit quality through greater familiarity or diminish independence through extended association.

In a similar vein, other metrics have been used to quantify earnings quality. One of the most popular proxies for earnings management is still discretionary accruals calculated using the Modified Jones Model created by Dechow et al. (1995). As a metric of sustained profitability, earnings persistence assesses how well present earnings forecast future earnings (Penman & Zhang, 2020). In order to present a stable financial performance, management intentionally attempts to minimise variations in reported earnings by income smoothing (Tucker & Zarowin, 2006).

Previous empirical research on audit quality and earnings quality in Nigeria has yielded conflicting results. While Isah et al. (2020) observed that audit firm size had a greater impact on profits quality, Kajola et al. (2021) indicated that audit fees considerably limited earnings management among deposit money institutions. However, Soyemi et al. (2020) found that while audit firm size had little bearing on discretionary accruals, audit tenure had a considerable impact.

Additionally, despite the banking industry's crucial position in the economy, the majority of previous research focused on non-financial businesses, leaving it largely unexplored. Against this background, this study examines the effect of audit quality on the earnings quality of listed deposit money banks in Nigeria for the period 2015–2024 using audit firm size, audit fees, and auditor tenure as proxies for audit quality, while discretionary accruals, earnings persistence, and income smoothing are used as measures of earnings quality.

Despite the existence of regulatory frameworks and statutory audit requirements, investors, regulators, and other stakeholders continue to have serious concerns about the reliability of financial reporting within the Nigerian banking system. Cases of earnings manipulation and poor corporate governance persist despite the fact that listed deposit money banks are required to prepare audited financial statements in accordance with IFRS and are overseen by regulatory organisations like the Central Bank of Nigeria (CBN), Financial Reporting Council of Nigeria (FRCN), and Nigerian Exchange (NGX) Group.

A number of banks were found to have inflated profits, hidden non-performing loans, and falsified financial statements for years prior to regulatory involvement during the 2009 Nigerian banking crisis, which exposed serious flaws in financial reporting procedures (Sanusi, 2010). More recently, Heritage Bank's operating licence was revoked in 2024, underscoring the banking industry's ongoing susceptibility to reporting irregularities and governance flaws. The efficacy of external auditors in guaranteeing the accuracy and dependability of reported earnings has come under scrutiny in light of these incidents.

High-quality audits should, in theory, limit managerial opportunism and lessen earnings management techniques like income smoothing and discretionary accruals. However, there is still conflicting empirical data in Nigeria. While some research (Kajola et al., 2021; Isah et al., 2020; Soyemi et al., 2020) produced inconsequential or conflicting results, others found that audit fees and Big 4 auditors considerably increase profits quality. This discrepancy raises the possibility that different industries and institutional settings may have different relationships between audit quality and earnings quality.

Another significant gap in the literature is that, despite deposit money banks' distinct reporting features and systemic significance, the majority of earlier Nigerian studies were mostly on non-financial businesses like industrial and consumer products industries. Furthermore, earlier research mostly used discretionary accruals as the only indicator of earnings quality, neglecting other crucial factors including income smoothing and earnings persistence.

As a result, there is not enough empirical data to determine how audit firm size, audit fees, and auditor tenure affect various aspects of earnings quality in the Nigerian banking industry. In light of this, this paper examines how audit quality affects discretionary accruals, earnings persistence, and income smoothing in Nigerian listed deposit money institutions between 2015 and 2024.

The main objective of this study is to examine the effect of audit quality on the earnings quality of listed deposit money banks in Nigeria. The specific objectives are to:

i. Examine the effect of audit firm size on discretionary accruals of listed deposit money banks in Nigeria.
ii. Evaluate the effect of audit fees on discretionary accruals of listed deposit money banks in Nigeria.
iii. Assess the effect of auditor tenure on discretionary accruals of listed deposit money banks in Nigeria.

The following research questions guide the study:

i. What is the effect of audit firm size on discretionary accruals of listed deposit money banks in Nigeria?
ii. What is the effect of audit fees on discretionary accruals of listed deposit money banks in Nigeria?
iii. What is the effect of auditor tenure on discretionary accruals of listed deposit money banks in Nigeria?

The following null hypotheses are formulated for the study:

H_{01}: Audit firm size has no significant effect on discretionary accruals of listed deposit money banks in Nigeria.

H_{02}: Audit fees have no significant effect on discretionary accruals of listed deposit money banks in Nigeria.

H_{03}: Auditor tenure has no significant effect on discretionary accruals of listed deposit money banks in Nigeria.

This study examines the impact of audit quality on the earning quality of Nigerian listed deposit money banks between 2015 and 2024. During the study period, all listed deposit money banks on the Nigerian Exchange Group (NGX) are examined. While discretionary accruals, earnings persistence, and income smoothing are used to quantify earnings quality, audit firm size, audit fees, and auditor tenure serve as proxies for audit quality. Leverage, firm age, and firm size are also included in the study as control factors. The publicly available audited annual reports and financial statements of the chosen institutions are the source of secondary data.

2. Literature Review

Conceptual Review

Earnings Quality

The degree to which reported earnings accurately reflect a company's actual financial performance and economic situation is known as earnings quality. According to

Dechow et al. (2010), high-quality revenues are dependable, sustained, predictable, and able to help stakeholders make wise financial decisions. When management manipulates accounting figures through arbitrary accounting decisions that do not accurately reflect the organization's underlying economic realities, the quality of earnings is called into doubt.

Because banks operate with highly leveraged financial structures and maintain significant financial assets and liabilities that call for managerial judgement in valuation and disclosure, earnings quality is especially crucial in the banking industry (Beatty & Liao, 2014). As a result, banks have more opportunity to manipulate results through methods including income smoothing, loan loss provisions, and fair value adjustments.

Scholars have identified several dimensions through which earnings quality can be measured. These consist of income smoothing, earnings persistence, and discretionary accruals. Using accrual-based manipulations, discretionary accruals quantify the degree of administrative discretion in financial reporting (Dechow et al., 1995). While income smoothing quantifies the intentional reduction in reported earnings fluctuations across accounting periods, earnings persistence demonstrates the sustainability and predictability of earnings over time (Penman & Zhang, 2020; Tucker & Zarowin, 2006).

Audit Quality

The likelihood that auditors will find and accurately identify substantial misstatements in financial statements is known as audit quality (DeAngelo, 1981). In general, auditor competence, independence, professional scepticism, and adherence to auditing standards are linked to audit quality.

Researchers use a number of proxies to quantify audit quality because it is not directly observable. According to DeFond and Zhang (2014), common proxies include audit firm size, audit fees, auditor tenure, auditor independence, and auditor industry specialism. As aspects of audit quality, this study focuses on audit firm size, audit fees, and auditor tenure. By limiting opportunistic earnings management tactics, high-quality audits are anticipated to improve the reliability of financial statements. Quality audits are crucial in boosting stakeholders' trust in reported results in the banking sector, where financial reporting is highly complex.

Audit Firm Size

One of the most popular indicators of audit quality is audit firm size. DeAngelo (1981) asserts that because major audit companies have significant reputational capital to safeguard, they have greater incentives to preserve audit quality. According to Francis et al. (1999), large firms, especially the Big 4 audit firms, typically have more advanced audit procedures, more experienced staff, higher technical expertise, and greater industry specialism.

According to empirical research, Big 4 audit firms have lower degrees of earnings management and higher-quality financial reporting. Nigerian results, however, are still inconsistent. According to certain studies (Kajola et al., 2021; Isah et al., 2020), the association between Big 4 auditors and earnings management is negligible.

Audit Fees

The compensation given to external auditors for their audit services is known as audit fees. Higher audit fees, according to Simunic (1980), typically indicate increased audit effort, thorough testing, and better audit quality. Higher audit fees are therefore frequently anticipated to improve the quality of financial reporting and lessen earnings manipulation. However, high audit fees may also foster financial ties between clients and auditors, which could compromise auditor independence (Alzoubi, 2018).

There is still conflicting empirical data regarding the connection between audit fees and earnings quality. Higher fees may increase auditor compliance with management interests, according to some research, whereas other studies revealed that higher fees improve earnings quality (Jayeola et al., 2022).

Auditor Tenure

The term "auditor tenure" describes how long an auditor has consistently audited a specific customer. There has been much discussion on the connection between auditor tenure and audit quality. Long tenure proponents contend that longer auditor-client relationships increase auditors' understanding of the client's activities, which boosts audit efficacy (Johnson et al., 2002).

On the other hand, because of familiarity risks and an overabundance of intimacy between auditors and management, extended employment may compromise auditor independence. Long auditor tenure may therefore encourage earnings management techniques and lessen professional suspicion.

There is still inconsistent empirical data. Longer auditor tenure has been shown in certain studies to enhance earnings quality, while in others, it has been found to decrease auditor independence and raise discretionary accruals (Soyemi et al., 2020; Okolie, 2014).

Discretionary Accruals

The portion of accruals attributable to managerial discretion as opposed to regular company activities is known as discretionary accruals. The most popular model for calculating discretionary accruals is still the Modified Jones Model, which was created by Dechow et al. in 1995.

Reduced earnings quality and increased earnings manipulation are indicated by higher discretionary accruals. Both industrialised and emerging economies, including Nigeria, have made substantial use of the approach.

Theoretical Review

Agency Theory

Jensen and Meckling (1976) develop agency theory to explain the connection between managers (agents) and shareholders (principals). According to the hypothesis, information asymmetry and the separation of ownership from control may lead managers to pursue personal goals that clash with those of shareholders.

By ensuring that financial statements are reliable and devoid of significant misstatements, external auditing acts as a monitoring mechanism that lessens agency conflicts. It is anticipated that competent auditors will limit opportunistic earnings management and enhance the quality of results. The intricacy and opaqueness of banking processes make the theory extremely applicable to this industry.

Agency Theory serves as the main foundation for this study. Because it specifically addresses the monitoring role of external auditors in lowering managerial opportunism and profits manipulation, the theory offers the best explanation for the relationship between audit quality and earnings quality. Higher audit quality increases monitoring efficacy, lessens information asymmetry, and boosts financial statement credibility, according to agency theory. Agency Theory is the best conceptual underpinning for the study since it focuses on how audit quality proxies affect earnings quality indicators among listed deposit money banks in Nigeria.

Signaling Theory

Spence (1973) introduced signaling theory, which was subsequently expanded to accounting and financial reporting situations. According to the notion, businesses convey financial strength and transparency to external stakeholders by using reliable signals.

The hiring of respectable auditors, especially Big 4 organisations, is an indicator that a company's financial accounts are reliable. Stronger commitment to open reporting and financial integrity may be indicated by companies paying greater audit fees and upholding good audit partnerships.

Stakeholder Theory

According to Freeman's (1984) stakeholder theory, businesses have obligations to their customers, creditors, employees, regulators, and society at large in addition to shareholders. Depositors and regulators are just two of the many stakeholders in the banking industry who are impacted by financial reporting. As a result, audit quality becomes crucial for safeguarding stakeholders' interests through accurate and trustworthy financial reporting.

Empirical Review

Audit Firm Size and Discretionary Accruals

Kajola et al. (2021) examined the relationship between audit quality and earnings management among eleven Nigerian deposit money banks covering the period 2007–2018. Using random effects generalised least squares regression, the study found that audit firm size had a positive but insignificant effect on earnings management. The study concluded that although audit quality plays an important role in constraining earnings manipulation, audit firm size alone may not significantly reduce discretionary reporting behaviour.

Isah et al. (2020) investigated the effect of audit quality on real earnings management among thirteen Nigerian deposit money banks between 2012 and 2018 using multiple regression analysis. The findings revealed that audit firm size significantly constrained earnings management practices. The study concluded that larger audit firms possess stronger monitoring mechanisms capable of reducing managerial manipulation of earnings.

Ogundunmade and Adepoju (2025) assessed the impact of audit quality on discretionary accruals among seven Nigerian deposit money banks covering 2013–2023 using bias-adjusted least squares regression. The findings showed that Big 4 affiliation significantly reduced discretionary accruals. The study concluded that large audit firms enhance earnings quality through improved audit competence and independence.

Suleiman et al. (2024) examined audit quality and earnings management among twelve Nigerian deposit money banks from 2013 to 2023 using the generalised method of moments (GMM). The findings revealed that Big 4 affiliation significantly reduced earnings management. The study concluded that stronger audit quality mechanisms associated with large audit firms improve financial reporting quality in Nigerian banks.

Almarayeh et al. (2020) examined the relationship between audit quality and earnings management among Jordanian listed firms using panel regression and the Modified Jones Model. The findings revealed that Big 4 auditors significantly reduced both accrual-based and real earnings management. The study concluded that audit firm size improves financial reporting credibility and limits discretionary accrual practices. Mwangi (2024) investigated audit quality and earnings management among Kenyan listed firms using descriptive and inferential statistics. The findings showed that audit firm size significantly constrained earnings management. The study concluded that larger audit firms are more effective in detecting and discouraging discretionary accounting practices.

The reviewed studies generally suggest that audit firm size, particularly Big 4 affiliation, contributes to the reduction of discretionary accruals and earnings management through stronger independence, expertise, and monitoring capacity. However, some studies reported insignificant relationships, thereby creating room for further investigation within the Nigerian banking sector.

Audit Fees and Discretionary Accruals

Kajola et al. (2021) examined the relationship between audit quality and earnings management among Nigerian deposit money banks between 2007 and 2018 using random effects GLS regression. The findings revealed that audit fees negatively and significantly affected earnings management. The study concluded that higher audit fees improve audit effectiveness and reduce discretionary accrual manipulation.

Abu et al. (2023) investigated audit quality and discretionary accruals among fifty Nigerian non-financial firms from 2017 to 2020 using panel regression analysis. The findings indicated that audit fees negatively affected discretionary accruals. The study concluded that adequate audit compensation enhances audit quality and constrains managerial discretion in financial reporting.

Isah et al. (2020) studied the effect of audit quality on real earnings management among Nigerian deposit money banks using multiple regression analysis. The findings revealed that audit fees had a positive but insignificant effect on earnings management. The study concluded that audit fees alone may not necessarily guarantee improved earnings quality.

Mwangi (2024) examined audit quality and earnings management among Kenyan listed firms using descriptive and inferential statistics. The findings showed that audit fees significantly constrained earnings management practices. The study concluded that higher audit fees are associated with greater audit effort and improved monitoring quality.

Khalil (2022) examined audit fees and discretionary accruals among Pakistani listed firms using the Modified Jones Model. The findings revealed a positive relationship between audit fees and discretionary accruals, suggesting the possibility of economic bonding between auditors and clients. The study concluded that excessive audit fees may impair auditor independence and reduce earnings quality in developing economies.

The empirical evidence on audit fees and discretionary accruals remains mixed. While several studies support the argument that higher audit fees enhance audit quality and reduce earnings management, others suggest that excessive dependence on client fees may compromise auditor independence. This inconsistency justifies further empirical examination within Nigerian deposit money banks.

Auditor Tenure and Discretionary Accruals

Soyemi et al. (2020) examined the relationship between audit quality and earnings management among thirty Nigerian non-financial firms from 2008 to 2018 using fixed effects ordinary least squares regression. The findings showed that auditor tenure significantly influenced discretionary accruals. The study concluded that prolonged auditor-client relationships affect the auditor's ability to constrain earnings management.

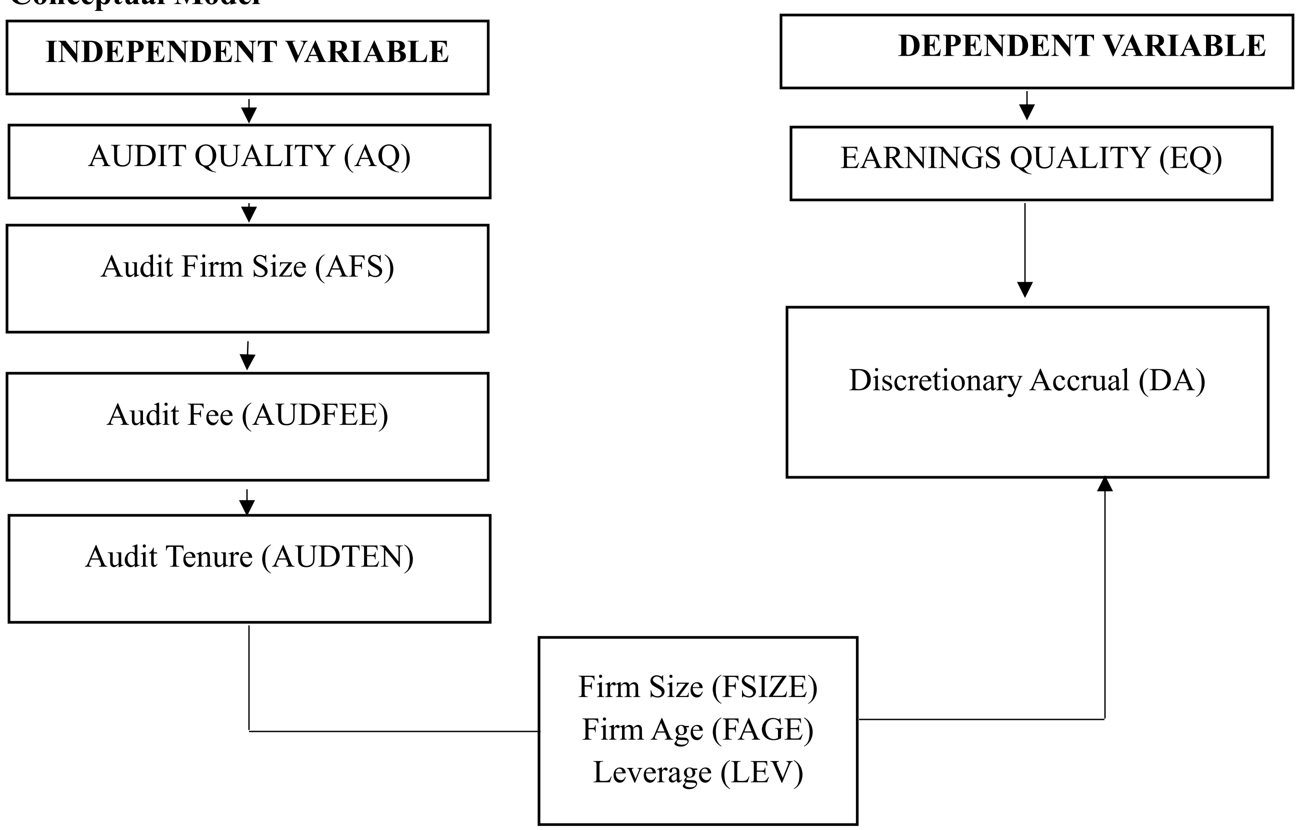
Qawqzeh et al. (2018) conducted a systematic review of global literature on auditor tenure and audit quality. The review concluded that moderate auditor tenure enhances audit quality through knowledge accumulation and better understanding of client operations, while excessively long tenure may impair auditor independence and reduce audit effectiveness.

Mwangi (2024) investigated audit quality and earnings management among Kenyan listed firms using descriptive and inferential statistics. The findings revealed mixed results regarding auditor tenure and earnings management. The study concluded that the effect of auditor tenure on discretionary accruals depends on the balance between auditor experience and independence.

Suleiman et al. (2024) examined audit quality and earnings management among Nigerian deposit money banks using the generalised method of moments (GMM). The findings showed that audit rotation significantly reduced earnings management practices. The study concluded that periodic auditor change improves auditor independence and limits discretionary accrual manipulation.

The reviewed studies indicate that auditor tenure exerts both positive and negative effects on discretionary accruals. While longer tenure may improve auditor competence through accumulated client knowledge, excessively prolonged relationships may weaken auditor independence and increase the likelihood of earnings manipulation. This mixed evidence necessitates further investigation within the Nigerian banking industry.

Conceptual Model



Source: Researcher's Conceptual Model (2026)

3. Methodology

Research Design

This study adopts an ex post facto research design. This design is appropriate because it relies on historical financial data obtained from published audited annual reports of listed deposit money banks in Nigeria, without manipulating any variables. The study observes and analyses the causal relationship between audit quality variables and earnings quality as they naturally occur over time. Specifically, a longitudinal panel data approach is employed, covering the period 2015–2024. This enables the analysis of both cross-sectional differences among banks and time-series variations within each bank.

Population and Sample of the Study

The population of the study consists of all deposit money banks listed on the Nigerian Exchange Group (NGX) as at 31 December 2024. The population comprises thirteen (13) banks, including Access Holdings Plc, Zenith Bank Plc, Guaranty Trust Holding Company Plc, United Bank for Africa Plc, First Bank Holdings Plc, Ecobank Transnational Incorporated, Fidelity Bank Plc, Stanbic IBTC Holdings Plc, Sterling Financial Holdings Company Plc, Union Bank of Nigeria Plc, Unity Bank Plc, Wema Bank Plc, and Jaiz Bank Plc. Heritage Banking Company Limited is excluded due to license revocation and loss of listing status as of June 2024.

The sampling method used is a census (total enumeration). Due to the manageable population size and the availability of comprehensive financial data throughout the study period, all thirteen specified deposit money banks are included in the analysis. By using a census, sampling bias is eliminated and the results are more representative. Ten (10) years (2015–2024) are covered by the study, yielding a balanced panel dataset of 100 firm-year observations (10 banks × 10 years). This sample size is in line with earlier empirical research in the Nigerian banking industry and is deemed sufficient for panel regression analysis.

Method of Data Analysis

Stata 17 software was used for data analysis. Both descriptive and inferential statistical methods are used in the investigation. The features of the variables are described using descriptive statistics (mean, standard deviation, minimum, maximum, skewness, and kurtosis). Multicollinearity is evaluated and the correlations between variables are examined using correlation analysis (Pearson correlation matrix).

Panel data regression techniques, including Fixed Effects (FE) and Random Effects (RE) models, are used for hypothesis testing. The best estimator between FE and RE is found using the Hausman specification test. To guarantee the robustness of the results, diagnostic tests are also carried out, such as tests for multicollinearity (VIF), heteroscedasticity, autocorrelation, and residual normality. Every hypothesis is examined at a significance level of five percent.

Measurement of Variables

Discretionary accruals are used in this study as a stand-in for earnings quality, and audit firm size, audit fees, and auditor tenure are used to measure audit quality. In order to account for other factors that can affect earnings quality, a set of firm-specific characteristics is also added as control variables.

The Modified Jones Model, created by Dechow et al. (1995), is used to measure the dependent variable, discretionary accruals (DA). It is calculated as the absolute value of discretionary accruals obtained from total accruals, revenue changes, receivables changes, and property, plant, and equipment. Both income-increasing and income-decreasing earnings management are guaranteed to be recorded by using the absolute value. In this context, higher values of discretionary accruals indicate lower earnings quality, while lower values suggest higher earnings quality.

Audit firm size (AFS), audit fees (AUFEE), and auditor tenure (AUTEN) are the independent variables that reflect audit quality. When a bank is audited by any of the Big Four audit firms (Deloitte, PricewaterhouseCoopers, Ernst & Young, or Klynveld Peat Marwick Goerdeler (KPMG)), the audit firm size is assessed as a dummy variable with a value of 1; otherwise, it is 0. The perceived quality gap between big multinational audit firms and smaller audit firms is captured by this variable. The natural logarithm of the total audit compensation reported in the financial statements is used to calculate audit fees.

To improve data normality and lessen skewness, the log transformation is used. The number of years in a row that a bank has hired the same external audit firm is known as auditor tenure. reflecting the length of the auditor–client relationship. Three control variables are also included in the study. Firm size (FSIZE), which represents the impact of bank scale on earnings reporting behaviour, is calculated as the natural logarithm of total assets. The number of years from incorporation is used to calculate firm age (FAGE), which indicates the bank's degree of institutional maturity and experience. Lastly, the amount of financial risk and possible pressure on management to manipulate earnings because of debt commitments are captured by leverage (LEV), which is calculated by dividing total debt by total equity.

Model Specification

The following econometric model is specified in order to accomplish the goal of investigating the effect of audit quality on discretionary accruals of listed deposit money banks in Nigeria.

$$DA_{it} = \beta_0 + \beta_1 AFS_{it} + \beta_2 AUFEE_{it} + \beta_3 AUTEN_{it} + \beta_4 FSIZE_{it} + \beta_5 FAGE_{it} + \beta_6 LEV_{it} + \varepsilon_{it}$$

Where: DA_{it}= Discretionary accruals of bank *i* at time *t*; AFS_{it}= Audit firm size; $AUFEE_{it}$= Audit fees; $AUTEN_{it}$= Auditor tenure; $FSIZE_{it}$= Firm size; $FAGE_{it}$= Firm age; LEV_{it}= Leverage; β_0= intercept; $\beta_1 - \beta_6$= coefficients; ε_{it}= error term. In order to ascertain the effect of audit quality variables on earnings quality as represented by discretionary accruals, this model is developed using panel data approaches (Fixed or Random Effects).

4. Results and Discussion

This section presents the empirical analysis of the study, which examines the effect of audit quality on earnings quality (proxied by discretionary accruals) of listed deposit money banks in Nigeria over the period 2015–2024. The analysis is structured into descriptive statistics, inferential statistics, hypothesis testing, and discussion of findings.

Descriptive Analysis

Table 1

Descriptive Statistics

Variable	Mean	Median	Max	Min	Std. Dev.	Obs.
DA	0.0720	0.0718	0.1182	0.0351	0.0167	130
AFS	0.9385	1.0000	1.0000	0.0000	0.2412	130
AUFEE	21.1978	21.4943	22.1272	19.2070	0.8178	130
AUTEN	9.0923	9.0000	15.0000	1.0000	3.9423	130
FSIZE	21.4877	21.8309	23.3163	18.5088	1.2987	130
FAGE	48.9615	33.5000	130.0000	9.0000	32.8851	130
LEV	5.5109	5.5894	10.8395	1.5000	2.0507	130

Source: Researcher's Computation (2026)

According to the descriptive data, the mean value of discretionary accruals (DA) is 0.0720, meaning that managerial discretion influences roughly 7.2% of earnings adjustments. This suggests that Nigerian deposit money banks have a moderate level of earnings management. With a mean of 0.9385 for audit firm size (AFS), nearly all studied banks are audited by Big 4 audit firms, indicating a highly concentrated audit market.

Bank-to-bank variation in audit fees (AUFEE) is comparatively large, indicating variations in audit pricing systems that are probably influenced by business size and complexity. Concerns with auditor independence may arise since the average auditor tenure (AUTEN) is approximately nine years, implying lengthy audit-client connections. Control variables such as firm size (FSIZE), firm age (FAGE), and leverage (LEV) show expected variations consistent with the banking sector structure in Nigeria.

Inferential Statistics

Table 2

Hausman Test (Model Specification Test)

Test Summary	Chi-Sq. Statistic	D.F	Prob.
Cross-section random	50.5445	6	0.0000

Source: Researcher's Computation (2026)

Table 3

Fixed Effects Regression (Dependent Variable: DA)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AFS	-0.0162	0.0017	-9.7321	0.0000
AUFEE	0.0199	0.0172	1.1534	0.2512
AUTEN	0.0031	0.0003	11.4479	0.0000
FSIZE	0.0214	0.0106	2.0108	0.0468
FAGE	-0.0043	0.0011	-3.9119	0.0002
LEV	-0.0003	0.0007	-0.3955	0.6933

Source: Researcher's Computation (2026)

Model Summary: $R^2 = 0.2852$ | Adj. $R^2 = 0.2503$ | F-stat = 7.3816 (p = 0.0000)

The fixed effects model is validated by the Hausman test, which shows a correlation between explanatory factors and unobserved bank-specific traits. According to the regression results, discretionary accruals are significantly impacted negatively by audit firm size (AFS), suggesting that Big 4 auditors lessen earnings manipulation. Longer auditor-client relationships appear to boost discretionary accruals, as evidenced by the considerable beneficial effect of auditor tenure (AUTEN). The statistical insignificance of audit fees (AUFEE) suggests that they have no significant impact on the quality of earnings. For panel data in accounting research, the model accounts for roughly 28.5% of the systematic variation in discretionary accruals.

Hypotheses Testing

Table 4

Summary of Hypotheses Results

Hypothesis	Statement	Variable	p-value	Decision
H_{01}	Audit firm size has no significant effect on discretionary accruals	AFS	0.0000	Rejected
H_{02}	Audit fees have no significant effect on discretionary accruals	AUFEE	0.2512	Not Rejected
H_{03}	Auditor tenure has no significant effect on discretionary accruals	AUTEN	0.0000	Rejected

Source: Researcher's Computation (2026)

H_{01} is rejected because the findings of the hypothesis test show that audit firm size has a significant effect on discretionary accruals. Similar to this, auditor tenure has a big impact on discretionary accruals, which leads to H_{03} denial. Nevertheless, H_{02} is not rejected because audit fees do not have a statistically significant effect.

Discussion of Findings

The results of this study offer compelling empirical evidence about the correlation between audit quality and earnings quality among Nigerian listed deposit money banks.

First, discretionary accruals are significantly impacted negatively by audit firm size (Big 4 vs. non-Big 4). This implies that Big 4 audit firms reduce managerial opportunism in financial reporting by applying more stringent monitoring pressure. This result is consistent with previous empirical research that shows Big 4 auditors improve the quality of financial reporting in emerging markets (Ogundunmade and Adepoju, 2025; Suleiman et al., 2024). Additionally, it supports the traditional audit theory (DeAngelo, 1981), which contends that big audit firms have more incentives to maintain audit quality since they have more reputational capital.

Second, the study revealed that audit fees had no discernible impact on discretionary accruals. This outcome is in line with the findings of Isah et al. (2020), who also noted that firm size, rather than audit effort or quality, is a major factor influencing audit fees in Nigerian institutions. The implication is that because audit fees seem to reflect economic magnitude rather than audit intensity, they could not be a good indicator of audit quality in the Nigerian banking industry.

Third, there is a strong positive correlation between auditor tenure and discretionary accruals, suggesting that longer audit engagements are linked to lower profits quality. This is in line with Johnson et al. (2002), who contend that extended auditor-client ties may diminish auditor independence, and supports the familiarity threat concept. Similar findings were observed by Soyemi et al. (2020) and Okolie (2014), who discovered that longer audit tenure reduces the efficacy of audit monitoring in Nigeria.

The paper adds to the current discussion on audit regulation by demonstrating that audit fees have little informative value when evaluating audit quality in the Nigerian banking sector, and that while auditor size enhances earnings quality, extended auditor tenure may weaken it.

5. Conclusion and Recommendations

The study comes to the conclusion that the earnings quality of listed deposit money banks in Nigeria is significantly but unevenly influenced by audit quality. In particular, audit firm size turns out to be a powerful governance tool that improves the quality of earnings by lowering discretionary accruals. This bolsters the agency theory, which contends that competent auditors limit managerial opportunism and lessen knowledge asymmetry.

On the other hand, since longer auditor-client relationships are linked to better earnings management, auditor tenure seems to reduce audit effectiveness. The familiarity threat hypothesis, which contends that extended auditor interaction may compromise independence and objectivity, is supported by this study. However, there is no discernible correlation between audit fees and earnings quality, suggesting that in the Nigerian banking industry, audit costs are more indicative of business size and complexity than audit effort or quality.

The study comes to the conclusion that, although audit firm size enhances profits quality, auditor tenure may have the opposite effect, and audit fees have no effect on earnings quality in Nigerian listed banks.

Based on the findings of the study, the following recommendations are made:

(i) To lessen the detrimental impact of extended auditor tenure on earnings quality, regulatory bodies including the Central Bank of Nigeria (CBN) and the Financial Reporting Council of Nigeria (FRCN) should reinforce their obligatory auditor rotation procedures. To preserve auditor independence while guaranteeing continuity, a rotation time of seven to ten years is advised.

(ii) In order to improve audit quality and industry competition, regulators and pertinent stakeholders should assist the growth and capacity building of smaller audit firms in addition to encouraging the involvement of respectable audit firms in the banking sector.

(iii) To make sure that extended auditor tenure does not compromise the validity and dependability of financial reporting, audit committees of listed deposit money institutions should routinely assess auditor independence and track the duration of auditor participation.

(iv) When evaluating the dependability of the financial statements of listed deposit money banks in Nigeria, investors, shareholders, and financial analysts should take into account auditor attributes including audit firm size and auditor tenure.

(v) Since the results showed that audit fees have little effect on discretionary accruals among listed deposit money institutions in Nigeria, regulatory bodies and stakeholders should give audit fees less weight as a gauge of audit quality.

Suggestions for Further Studies

Future research should investigate if audit fees, especially at extreme fee levels, have a non-linear connection with earnings quality. The effect of joint audit agreements on earnings quality in the Nigerian banking industry may also be investigated by researchers. To provide more comprehensive empirical insights, future research could also include alternative metrics of profits quality such real earnings management, earnings smoothness across longer accounting cycles, and accounting conservatism. To ascertain if the discovered linkages are specific to Nigeria or may be applied to other growing financial systems, comparative research across emerging economies is equally advised. Furthermore, rather than depending just on firm-level proxies, future research should examine audit quality at the audit partner or engagement level when data becomes available.

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