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MODERATING EFFECT OF AUDIT QUALITY ON FINANCIAL RISKS AND MARKET VALUE OF QUOTED DEPOSIT MONEY BANKS IN NIGERIA

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Abstract

The concern for examining moderating effect of audit quality on financial risks and market value has been rekindled by the persistent global corporate scandals and business failures of audited companies with high market value. The study selected thirteen out of the fourteen quoted deposit money banks on Nigeria Exchange Limited (NGX) through purposive sampling technique for the study period of January 2011 to 2024 December. The study adopted Ex-facto research design and the data were analysed using E-view under fixed effect panel regression model. The study result revealed capital adequacy risk was negative and significant in both direct and moderating effect on market value while credit risk was negative and significant in the direct model while the moderating effect was insignificant. In contrast liquidity risk and audit quality were insignificant to market value. The study concluded that increase in liquidity risk and capital adequacy risk influences bank performance in line with trading rate and volume of quoted banks, while increase credit risk significantly reduces market value of banks. Audit committee composition was not sufficient enough to reduce financial risks of banks. Therefore, it is recommended that the Central Bank of Nigeria and Financial Reporting Council of Nigeria should set a risks metric level for liquidity, capital adequacy and credit risks for quoted banks as well as increase the minimum membership number of financial expertise in audit committee by 50% ratio of total audit committee members. The SEC should make calculation, reporting and disclosure of financial risks mandatory for continuous enlistment of quoted banks in Nigeria.

Keywords: audit quality, financial risks, lemon theory, market value

1. Introduction

In the current business world market value is a veritable measure of financial performance, going concern and efficiency of a firm. The reported accounting market value would not only reflect the profitability and sustainability of the firm but the level of customers demands and trust in the firm operation as the sustainability of a firm is hinged on the constant customers' patronage. An increase in reported firm value generally signifies a rise in the company's financial worth, reflecting improved performance and greater investor confidence. Conversely, a decrease in firm value

can signal declining in shareholders' investment, monetary value and potential financial distress.

The primary goal upon which a firm is established is to be able to create a value by providing advantages for shareholders. Retno et al. (2012) maintained that sustainable increase of company value is the company long-term goal to maximize the owners' value. The company's value is the available value that investors can pay to have ownership of the company. Therefore, investors need assurance of their funds that have already been invested and returns from their investment. In order for the firm to increase value, there is a need to be synergy between shareholders and related stakeholders in determining the right decisions especially as regards to risks and risk management. Thus, the company would try to maximize the value of shareholders' investment by increasing the company performance (Bagh et al., 2022; Ayeni & Emeka, 2021).

The increase in market value which is the wealth maximization and rational objective of a firm is being threatened by macro and micro economic risks which is ever inherent in a business environment which can be mitigated by the audit activities provided by the corporate governance and agency arrangement. Corporate organizations especially the banking sector which has cash as its stocks on trade are exposed to several risks such as business, operating, credit, interest rate, liquidity, capital adequacy, monetary policy, corporate governance, systematic, political, legal, financial, and regulatory risks.

Risk could benefit an organization if properly analysed and managed and it can also destroy an organisation if not meticulously identified and managed. Adeyemi and Adebayo (2021) stated that risk does not connote all that bad, it also connotes opportunity as it is inside risks investors find profit. The banking sector is primarily faced and threatened by financial risks as it involves chance of financial losses arising from bank assets and it majorly comprises linked risks of liquidity, credit and capital adequacy risks. It is significance to banks safety and performance as Roy and Bandopadhyay (2021) stated that financial risks are influenced and affected directly by capital structure, credit arrangements and indirectly by other risks which include operating risks and liquidity risks. Risk is believed to determine the investment decisions and future prospects of an organization and a manager is constantly devising means to reduce risks of financial loss and business winding up (Holton, 2004).

Credit risk is the major risk faced by banks because they channel their funds in the form of loans to the public as a stock on trade to make profit and enhance bank value. There are various reasons that make debtors not fulfill their obligations to the bank. Increase in loans and advance is a sign of better trade but loans assets management is very important for bank whose operations provide loan, because the bigger the receivables the greater the risk. If a bank is in high NPL conditions, it would increase other costs and liquidity risk, thus potentially causing bank losses. Credit risk causes occurrence of losses of income resulting from financial market that reduces market value by reducing firm assets and investment collapse (WahlStron, 2009).

Bank risks are closely linked as increase in capital adequacy would reduce liquidity risk as there would more money to fund more loans and advance for profit mixamisation vice versa but higher credit risk and capital adequacy risk would reduce cashflow/earnings and increase liquidity risk with negative effect on bank market value. Ikpefan (2013) stated that not only almost every aspect of banking is either directly or indirectly influenced by the availability of capital also adequate capital

base serves as a safety net for a variety of risks to which an institution is exposed in the course of its business and it enhance investors' confidence consequently increase bank value. Adequate capital absorbs possible losses and thus provides a basis for maintaining depositor confidence consequently reduces liquidity risk and increase market value of bank (Jasim, 2024; Anetor et al., 2023).

There is direct and indirect relationship between audit quality and risk reduction in one hand and firm value on the other hand. Heil (2012) posited that quality of audit has been said to lower risk of misstatements, increase confidence in capital market (market value) which in turn lowers the cost of capital for the firms which is direct factors that increase firm value. Thus, the reliability of financial statement attracts more capital and investment to a firm that would culminates to increase financial performance.

Contrarily, the above assertion has not always been the case as cases of audit failures that have plummet share price and market value has become a common event, problem and wide spread over the world. Certain factors of audit quality risk (audit tenure, fee, size, opinion, inexperience, lack of independence, expertise and specialization) have been asserted to cause audit failures and firm low value. Thus, some studies are of the view that audit quality failure can be traced to over familiarity due to longevity of audit firm tenure (Haboya & Ohiokha, 2014; Francis, 2004).

The concern for the investigation into and examining of moderating effect of audit quality and financial risks and market value has been rekindled by the recent global corporate scandals and business failures of audited companies with high firm value; these events have highlighted significant issues with audit quality risk, poor risks identification, analysis and risk process as regards to market value sustainability.

This motivated the study to examined moderating effect of audit quality on financial risks and market value in the post-organisation of 2011 to 2024 of quoted deposit money banks considering their high capitalization among other sectors in Nigeria. Though they are existence of previous works in the area which include Abubakar, et al. (2021); Oroud (2023); Ogbu, et al. (2024); Opekilede and Afolabi (2023) but this study different previous studies as it further modified measurement of Tobin's-Q of market value of shares over gross up value of fixed assets to reflect the precept of the proponent of the formula-Tobins James, 1969 and the study also measured all its variables in same metric.

The following hypotheses were formulated in null form:

H_{01}: Audit quality has no significant moderating effect on financial risks and market value of quoted banks in Nigeria

H_{02}: Financial risks have no significant effect on market value of quoted banks.

2. Literature Review

Conceptualisation

Market Value

Evans and Evans (2007) defined market value as the price that would be paid by a motivated buyer to a motivated seller after a property's exposure to a market place of equal access information. This definition highlighted significance factor of market value increase of a firm which is the unarbitrary determination of firm share prices unlike commodities price that increase in inflationary period indiscriminately.

Market value according to Campbell (2012) first, is the price at which a security is trading and could presumably be purchased or sold. So, it is what investors believe a firm is worth. Motto and Sustrisno (2020) asserted that market value is

measure of how much bargaining power the company has in the eyes of investors. This indicates that higher the value of the company, the more welfare would be of shareholders to make decisions on their investment in the firm concerns. Price of share is driven by firm reputation and trading prowess which attracting shares demands. Market value is defined as monetary market measure of shareholders wealth at a particular time. It is an effective value or price of shares determine by forces of demand and supplies in arm length market.

Financial Risk

Roy and Bandopadhyay (2021) stated that financial risks are influenced and affected directly by capital structure, credit arrangements and indirectly by other risks Which include operating risks, corporate governance risk and systematic/macroeconomic risks. Hopkin (2014) defined risk to be anything that can impact the fulfillment of the objectives. Thus, government policies, host community unrest, national economy instability and insecurity amount to risk to organisation. This is why risks are both systematic and unsystematic in nature.

The banking industry that trade on risk which is credit, risk does not necessarily connote all bad as it poses gains and chance of loss. Furthermore, Alhassan, (2023) stated that it is only banks' balance sheet structure that the proportion of borrowed or deposited fund is far higher than the owners' equity. This is so banks operationally trade on risks assets. Adebayo (2021) opined risk is related to opportunity; it is a part of business activity and cannot be avoided. This definition is more business friendly collaborated to that of Adeyemo and Adebayo (2021). Risk does not all connotes bad situation because it is inside risks investors find gain, that is higher the risk, higher gain.

Adeusi et al. (2014) defined the concept of risk as something key to happening that may have an impact on the achievement of objectives and it includes risk as an opportunity as well as threat. This emphasized that risks are not to be feared as the fear of risk can manifest negative aspect of the risk but risk should be managed for success. Financial risk, it is possible chance of financial losses; and it is family risk that include leverage risk, liquidity risk, capital adequacy risk, credit risk, capital structure loss risks

Audit Quality

De Angelo (1981) defined audit quality as market assessed joint probability that an auditor would (have the ability to) discover a breach in the client's accounting system and be able to report the breach (to stake holders through the audit report). Thus, the definition pinched audit quality on two qualities or character of auditor and what could constitute important orthogonal traits audit quality; viz; the professional competence of the auditor firm that determines the likelihood of detecting misstatement.

In response Richard (2006) posited that audit quality appears as a balance between its two determinants: Audit competence and audit independence. We can see that first, where audit competence and audit independence are low, the audit quality is also low and it might not be desirable from the societal point of view in the sense of having no economic value. As low audit quality has no positive economic impact on investors decision and investments as it would create a chance of loss state to them, that is risk.

Davidson, et al. (1984) posited that audit quality connotes the accuracy of auditor's information reporting. This definition emphasizes the important mathematical accuracy of accounting as audit with figures and policies. This reflect

the meaning of the word "Free" in the free and fair terms; that audit report is free from unintended and intended economic material misstatements. Wallace (1987) asserted that audit quality is a measure of the auditors' capability to minimize bias and diligently improve accounting data.

Audit quality is to reduce risks of firms and to improve their firm value. Davidson and Neu (1993); John et al (2019) stated that the definition of audit quality is premised on the auditors' capability to detect and eliminate material manipulations as misstatements in reported profit. This is to point out to the element scenarios where many companies with high reported profit have collapsed; this is a picture of poor audit quality.

Sujana and Dharmawan (2023) on their work defined audit quality as a method to ensure that generally accepted auditing standards are followed in every audit; audit firms employ unique audit quality control procedures that assist in fulfilling the criteria consistently in each assignment. This definition only emphasizes the compliance to law therefore lacking in areas of the competence. Therefore, audit quality can be defined as an audit work that is free from intended and unintended material misstatements and fraud.

From the foregoing discourse audit quality is not only about the rules compliance but the character and skill put into services. Audit quality is not primarily about auditing standards but about the quality of people, their training and ethical standards. Audit quality is the level of future of financial safety of the users of audited financial statements. As audit quality relate to aftermath causes and effects on the users' resources.

Empirical Studies

Financial Risk and Market Value

Liquidity Risk and Market Value

Ayeni and Emeka (2021) investigated the effect of financial risks on the performance and market value of manufacturing companies listed in Nigeria stock exchange in the study period of 2010 to 2020. The ex-post factor research design, panel regression technique and Hausman test of fixed effect were adopted in the study with variable of liquidity risk, leverage and return on asset as the only dependent variable. The result of the study revealed that leverage risks, liquidity risk among other variables were having negative significant effect on performance. This finding implied that liquidity risk had adverse and significant effect on firm value; as liquidity increase, performance of company decreases.

Akpanuko and Etim (2024) examined the relationship between risk and value of listed banks in Nigeria where all 15 listed commercial banks in Nigeria between 2017 and 2022 were selected using census sampling technique. The secondary panel data of the banks were analysed using panel regression analytical methods and ex-post facto research design, result of the study found liquidity risk management to have significant positive relationship with market value of listed commercial banks in Nigeria. As explain in the study, the result implies that a commercial bank with a longer percentage of liquidity risk is more likely to experience greater financial performance and by extension higher market value. This also implies in this content of this study that higher risk would enhance value of firm of it is efficiently managed.

In a different finding from Mottoh and Sustrisno (2020) examined effect risk management on firm value; which include leverage, liquidity risk, profitability in Indonesia using 268 out 345 listed companies were selected for the study using purposeful sampling technique. The result showed a negative significance t-value at

0.776 meaning that it was insignificant. This means that liquidity did not influence on firm value. This mixed result of this study calls for further inferences of the result and its formula as current asset over current liability can be interpreted to reflect many scenarios as follow; high ratios value could mean much unsold stocks and receivables as well means idle cash especially in the banking industry with special balance sheet features. This by implication may influence firm value and it could reduce sales, revenue and consequently impact firm value and financial performance negatively.

Objective 1: Liquidity risk has significant effect on market value of quoted banks

Capital Adequacy Risk and Market Value

Jasim (2024) examined banks' capital adequacy impact on profitability and market value of listed using ten listed commercial banks in Iraq stock exchange between 2011 and 2018. Data were collected through the secondary means from annual accounts and other documents. The variable capital adequacy was estimated ratio of capital over risk assets of loans and advances while dependent variable was stock prices as proxy for market value, returns on assets and returns on equity. The result revealed that capital adequacy had significance negative influence on market value and profit on different model equations. This indicates that increase in capital adequacy ratio reduces profit and market value of banks. The implication of this finding is that increase in capital adequacy ratio is the reduction in capital adequacy and credit risk. It is a situation where much capital is being tie down. In a well-managed credit policy situation increase in capital adequacy risk would lead to increase in profit and market value of banks vice versa.

Contrary, Anetor et al. (2021) investigated the effect of capital adequacy risk and liquidity risk on firm value of thirteen purposive selected listed deposit banks in Nigeria stock exchange within the period of 2010 and 2019. The secondary data were collected and analysed through ex-post facto research design and Partial Least Squares Structural Equation Modeling was used to regress the data and the findings revealed that capital adequacy risk had a significant and positive effect on firm value of deposit money banks in Nigeria to both dependent variables. The finding implication is that decrease in capital adequacy risk which invariably means increase in capital adequacy ratio influence market value positively. As it shows the safety level of the bank financing and deposit money.

Opekilede and Afolabi (2023) investigated the impact of capital adequacy risk on the financial performance of microfinance banks in Nigeria using seven purposive selected microfinance banks operating at the Central Bank of Nigeria's national category were selected and their annual financial reports in period of 2012 to 2022. A panel regression model results of the analysis revealed that both capital adequacy ratio and cost-to-asset ratio have a direct significance and significant relationship and credit risk ratio has an inverse and significant relationship with return on asset respectively. This credit risk is link to capital adequacy risk with further inverse effect on market value.

Innocent et al. (2019) examined the effect of capital adequacy and credit risk on the performance of fourteen commercial banks in Nigeria selected through census sampling technique between the study period of 2008 2017. Panel random effect regression result showed that capital adequacy risk has significant positive effect on the bank's financial performance. It was concluded that capital adequacy strongly influenced, improve and grow the financial performance of commercial banks. This finding indicate that decrease in capital adequacy risk symbolize more capital

available as more loans and advance would be given out with intending more corresponding income which would consequently increase market value of banks.

Objective 2: Capital Adequacy risk is having significant effect on market value of quoted banks

Credit Risk and Market Value

Situorang and Augustine (2019) analysed the influence of credit risk on firm value with performance as a mediating variable between 2013 and 2019. 28 listed banking firms from Indonesia Stock Exchange were selected through purposive sampling technique out of 35 banks that made up of the population of the study at the end of December, 2018. Structural Equation Modelling result revealed that credit risk has significant negative influence on firm value as mediating variable. In the same vein credit risk measured in the ratio of non-performing loans to total assets loan of the banks (NPL) had significant negative effect on firm value of commercial banks in Indonesia. This implied that credit risk decreases both performance and firm value.

Aruwa and Musa (2014) examined the effects of credit risk, and operational risk and on the performance of deposit money banks in Nigeria between 1997 and 2011 using all the banks as the population and the sample of the study. The secondary data and descriptive and ordinary least square result of the study revealed high R2 of 91% and F-statistics of 000 and credit risk had positive relationship with performance but at insignificant level. Meaning that increase in credit risk would increase profit of deposit money banks in Nigeria. This implied, though increase in loans with it likely increase in nonperforming loans does not outweigh the aggregates payments from loans with its profit margin therefore it would increase profit of the banks.

In a supportive finding from work of Kayode, et al. (2015) examined the impact of credit risk on banks' performance in Nigeria. Panel estimation was carried out on the six selected banks using the random effect model framework. Findings from the study showed that credit risk is negatively and significantly related to bank performance, measured by return on assets (ROA) which means that an increased exposure to credit risk would reduce bank profitability.

Contrarily, Nwanna and Oguezue (2017) examined the nexus between credit management and profitability (ROA) of Deposit Money Banks (DMBs) in Nigeria context for the period of 2006 to 2015. Secondary data used were sourced from Central Bank of Nigeria Statistical Bulletins and the Annual Reports of all the existing DMBs studied. Multiple regression result found that loans and advances and loan loss provision had positive and insignificant effect on profitability,

Objective 3: Credit risk has positive significant effect on market value of quoted banks

Audit Quality and Market Value

Ogbu et al. (2024) ascertained effect of audit quality on firm value of financial services companies listed in the Nigeria stock exchange using samples of 35 out of 49 companies through purposive sampling technique between the study period of 2011 and 2021. The audit quality variables include audit tenure (AT), firm size, audit opinion and audit fees (AF) while the market value measured in Tobin-q. Panel regression and the descriptive analysis result showed that audit firm size measured in Big-four and audit fees had negative significance influence on market value, audit tenure had a positive insignificance effect while audit opinion had negative insignificance effect on market value of financial services in Nigeria. This implied audit quality affect performance and risks differently. Though the study analysed major audit quality variables but the period of the study examined lack significant

economic event. Thus, this study looked at the policy risk effect and audit tenure effect of post reorganization of the banking sector in Nigeria on market value of banks.

Soyemi et al. (2022) investigated the influence of audit quality on financial performance of sample of 40 listed nonfinancial firms in Nigeria for ten-year period (2009 to 2018) and 58 firms were selected using stratified sampling technique. The ordinary least square result revealed significant and positive influence of audit tenure on performance. But insignificant and positive relationship exists audit committee financial expertise and audit committee experience and cash flow (performance/firm value).

Onobruke et al. (2025) examined effect of audit quality on the market value of twelve out of fourteen purposively selected quoted deposit money bands (DMBs) in Nigeria, in the post Code of corporate governance of 2018 implementation. Audit quality proxy of audit firm size was separately measured in binary of the big-four and audit firm asset value. auditor remuneration and audit committee to market value of modified Tobin-q of the DMBs. The results revealed that the two firm size measurement proxies had negative and positive significance audit quality effect on market value. Therefore, bigger audit firms offer better audit services and influence audit quality and market of banks better. In the same vein, high remuneration of auditors without corresponding audit services reduce market value of banks as such wages has exceeded the banks benefits from hired services.

Contrarily, Ishaku (2020) examined the relationship between audit quality and market value of listed insurances companies between the period of 2015 and 2019 using samples of 14 out of the population of 30 listed insurance firms in Nigeria proxing market value Tobin-q formula value. The results revealed AFS and AT were negatively insignificant while AF was positively significant at 6%. This study suggests that longer stay of auditor in a client firm would reduce market value of firm. This negative influence of auditor tenure could be due compromise, lack of independence and expertise on the part of auditor as longer stay supposed to afford the auditor better learning curve on the client work to enhance better audit services.

Moreso, Ado et al. (2020) examined the influence of audit quality on performance using 84 non-financial firms for 9 years spanning 2010 to 2018. This culminated into 756 datasets. Thereafter, multiple regression analysis results showed a positive and significant influence of auditor size and independence to financial performance of ROA.

Objective 4: Audit quality has direct significant effect on market value of quoted banks

Audit Quality, Financial Risks and Market value

Abubakar et al. (2021) examined moderating effect of audit quality on financial performance and firm value for the study year of 2019. Out of 161 listed public traded companies in the Nigerian stock exchange 154 were selected as sample for the study through purposive sampling techniques. The firm value of the dependent variable was proxy by market share price of the company; audit quality of moderating variable was measured by binary dummy variable of the big four audit firm. The data were analysed with aid of stata and multiple regression technique and the result this indicated that audit quality has strong moderating effect and direct influence on the dependent and independent variables of the study.

In further examination, Oroud (2023) investigated moderating effect of audit quality on firm performance indicators and firm returns/value using 95 firms listed in

Amman stock exchange of Jordan out of population of 855 through proportional sampling techniques to select from different sectors between 2013 and 2021 study period. Audit quality was measured in three moderating variables for three equation model of audit firm size, auditor's opinion and audit fees against stocks returns. Expo facto research design and panel correlation regression model result showed that audit firm size and audit fees had positive significant effect on financial firm performance and stocks returns as a moderating variable.

Based on the above quest Abdullahi et al. (2020) examined the moderating effect of audit quality on firm value measured in financial performance of manufacturing firm in Nigeria for the period of 2004 to 2018 using six companies from the population of six companies for the study. The study adopted fixed effect model and correlation research design and ordinary least squares multiple regression the study result revealed showed moderating significant negative effect on firm value proxy in performance of the firms. This could also be inferred that increase audit quality could reduce sharp malpractice and window dressing of accounts that could unnecessarily increase in firm value.

Amaliah et al. (2022) carry out study to determine enterprise risk management effect on financial performance on firm value moderated with good corporate governance between study period of 2015 to 2014. Firm value was proxy with Tobin-q formula modified version of Chung and Pruitts (1994) formula and moderated regression analysis (MRA) result of the study showed positive and significant effect of risk management on firm value among other findings.

Objective 5: Audit quality is having moderating significant influence on market value of quoted banks

Theoretical Framework

George A. Akerlof in 1970, propounded the market lemon theory that laid the foundation and to explain the asymmetry of information between the seller of a product and the buyer about the quality of the product. This uncertainty of market mechanism about the quality of the product would make the buyer to pay same price for bad product referred to as 'lemon' or poor audit quality as he would have paid for the good product if the buyer had knowledge of their quality like the seller resulting adverse selection where bad product could drive away good product for poor patronage. This explains the difficult getting good auditor, audit quality and poor risk identification.

Thus, the issue of audit failure, conflict of interest of agents and principal. poor risk denitrification and management are caused by the quality uncertainty of the mechanism this also giving birth to problem of adverse, information asymmetry and moral hazards by company management. This theory is further supported and explained by agency theory by Jensen and Meckling in 1976 that due information asymmetry conflict of interest exist between agents with more information and principal as the agent would prioritise his personal interest over his principal as both of them are utility maximise. Therefore, principal should incur monitoring costs to align the interest of agents to the principal interests.

Signaling theory was propounded by Michael Spence in 1973 to support the above theory that due to information asymmetry and quality uncertainty seller and service providers or auditor and company should show case their good product for better selection. The company managers are expected to provide the same information about the state of the company to all parties, this is called signaling theory (Amaliah, et al, 2022). As stated by Palm Rose (1988) that auditors that specialize in particular

industry perform higher audit quality than non-specialist. This would consequently influence firm value of banks/companies.

3. Methodology

The study employed Ex-Post Facto research design. The population of this study is all the fourteen (14) quoted Deposit Money Banks (DMBs) in Nigerian Exchange (NGX) Group Plc as at 31st December, 2024 but through purposive sampling technique thirteen (13) quoted DMBs that operated for fourteen years study from 2011 to 2024 were selected. The secondary data were extracted from the financial statement and Annual accounts of the banks and the share price were collected from both Annual banks and Nigeria Exchange Group website. The data of the variable were further proxied into ratios of same metric as indicated in the table below.

Variables Measurement

This study used the approximation of Tobin-Q-Ratio as a proxy of market value. Thus, the study adapted the formula as used in the works of Tyokoso et al. (2017); Alsmady et al. (2023) and modified it as follow to reflect the tenet of the Proponent idea:

MFV=Tobin's-Q=MVE+ Debts/Book Value of Fixed Assets(1+R) + Current Assets

It is worthy to note that all the variables factor are in ratio measurement of 100% value to put all the variables measurement on the same level

Table 1

Variable Measurement

Variable Name	Proxy	Measurement	Sources
Market Value	MVQ	Modified Tobins-Q formula of market value of shares over gross up value of fixed assets plus current assets	Tahir & Razali (2011) Chung & Pruitt (1994)
Liquidity Risk	LIR	Bank value of liquid assets to short term deposits of the bank	Akpanuko & Etim (2024)
Capital Adequacy Risk	CARP	Shareholders capital to banks risk weighted assets/loans and advances	Jasim (2024); Opekilede & Afolabi (2023)
Credit Risk	CRR	Total value of non-performing loans to total loans.	Jonathan & Michael (2018)
Audit Quality	FE	Number of financial expertise in audit committee to total members	Musa (2022)
Moderating audit quality	FE*V	Ratio of number of financial expertise times ratio of financial risks	Owoeye, et al. (2023)

Source: Authors Compilation, 2026

Model Specification

In order to empirically examine the moderating effect of audit on risks and market value of quoted Nigerian banks the study adapted multiple linear regression models of Alsmay, (2023); Akpanuko and Etim (2024) and they are formulated as follows: $MVQ_{it} = B_0 + B_1, LIR_{it} + B_2CAR_{it} + B_3CRR_{it}\ B_4AQ_t + e_{it}$ Eq1

$MVQ_{it} = B_0 + B_1, LIR_{it} + B_2CAR_{it} + B_3CRR_{it} + B_4AQ_t + B_5, LIR*AQ_{it} + B_6CAR*AQ_{it} + B_7CRR*AQ_{it} + e_i$

Where: MVQ= Tobins-q modified market value of banks; $B_{0=}$ the constant or Intercept; B_{1-} $B_{7=}$ is the regression coefficient or slope of the independent variables. $it_=$ is panel data effect function; i- unit of bank time and $e_{it=}$ the error term.

The time series cross-sectional data were analysed using Ordinary Least Multiple Regression (OLS) in a Panel regression model with the aid of E-Views. This for fact that the variables of the study were many therefore it fit into this model or analytical tool with its BLUE character for efficient result. The Panel regression model /OLS was used to examine the linear relationship between dependent variable and independent variables of the study as in the work of Abubakar, et al. (2021). The study carried out pre and post diagnosis tests as well as tests for distribution normality of data and goodness of fit of the data through testing position of skewness alongside with the Kurtosis Test.

4. Results and Discussions

Hausman Test

Based on the result of the Hausman test, this study accepts alternative hypotheses which states that Fixed effect is appropriate as stated in table 2.

Table 2

Hausman (1978) Specification Test- Fixed Effect Model

Parameters	Coefficient
Chi-square test value	17.37998
P-value	0.0151

Source: E-Views, 2026

The Hausman table reveals P-vale coefficient of 0.015/1%, which is less than 0.05 implying that Fixed effect model is more appropriate. This showed that the firms' specific level effects were more important moderating and influencing effect of risks on market value of quoted deposit money banks in Nigeria as measured in Modified Tobin-Q formula of 1969

Table 3

Descriptive Statistics

	MVQ	LIR	CAR	CRR	AQ_	AQ_LIR	AQ_CAR	AQ_CRR
Mean	0.960147	0.210971	0.220309	0.121556	0.268134	0.357035	0.061298	0.036243
Median	0.945672	0.198101	0.262727	0.052568	0.2	0.308102	0.069456	0.013849
Maximum	2.536072	0.51102	0.980999	6.7	0.6	1.639571	0.389412	2.23311
Minimum	0.092107	0.019174	-5.045333	0.001495	0	0	-1.012233	0
Std. Dev.	0.238704	0.100115	0.569329	0.534707	0.111384	0.194253	0.140566	0.183886
Skewness	3.008913	0.807396	-6.366938	10.99255	0.740408	2.256179	-4.575023	10.54099
Kurtosis	22.01388	3.894068	52.25227	130.585	3.160513	14.03623	32.25998	119.501

Source: E-Views, 2026

The table two above revealed approximate mean value of 0.960, 0.210, 0.220, 0.121, 0.268, 0.357, 0.061 and 0.036 respectively for MVQ, LIR, CAR, CRR, AQ, AQ*LIR, AQ*CAR AND AQ*CRR and with their corresponding standard deviation value of 0.238, 0.100, 0.569, 0.534, 0.111, 0.194, 0.140 and 0.183 respectively. The figures of the standards deviations of respective variable are not higher than mean of

each variable meaning the data are normally distributed, even further considering minimum and maximum values.

Table 4

Correlation Test

	MVQ	LIR	CAR	CRR	AQ_	AQ*LIR	AQ*CAR	AQ*CRR
MVQ	1	-0.151187	-0.786284	-0.177244	-0.036779	-0.13855	-0.735347	-0.17461
LIR	-0.151187	1	0.339611	-0.011497	-0.041568	0.185304	0.333822	-0.008869
CAR	-0.786284	0.339611	1	0.01765	0.033317	0.213318	0.884648	0.01383
CRR	-0.177244	-0.011497	0.01765	1	0.060977	0.031042	0.026491	0.915793
AQ_	-0.036779	-0.041568	0.033317	0.060977	1	0.739617	0.192425	0.106525
AQ*_LIR	-0.13855	0.185304	0.213318	0.031042	0.739617	1	0.376063	0.063813
AQ*CAR	-0.735347	0.333822	0.884648	0.026491	0.192425	0.376063	1	0.033029
AQ*CRR	-0.17461	-0.008869	0.01383	0.915793	0.106525	0.063813	0.033029	1

Source: E-Views, 2026

The table shows correlations matrix of the independent variables. It could be seen that correlations among variables is between 0.91 and 0.011 which is not up to 1, that is no presence of correlation coefficient more than .91 as a result there is no problem of multicollinearity.

Table 5

Direct Fixed Effect Panel Regression Results

Variable	Coef.	St. Err.	t-statistics	p-value	Sign
C	1.057469	0.041375	25.5579	0	***
LIR	-0.063766	0.147096	-0.4335	0.6652	*
CAR	-0.358657	0.02185	-16.4147	0	***
CRR	-0.071289	0.018609	-3.830902	0.0002	***
AQ	0.014312	0.100114	0.142956	0.8865	*
Durbin-W.	1.5736		R-sq	0.736236	
F-statistics	28.6104		Adj. R-s	0.710503	
F-Prob	0.0001		Root MSE	0.122593	

Source: E-Views, 2026

Table 6

Moderating Fixed Effects Regression Results

Variable	Coef.	St. Err.	t-statistics	p-value	Sign
C	1.018924	0.043294	23.53474	0	***
LIR	-0.028369	0.145881	-0.194468	0.8461	*
CAR	-0.27369	0.038071	-7.188866	0.000	***
CRR	-1.0576	0.53388	-1.980971	0.0492	**
AQ	0.250656	0.161833	1.548862	0.1234	*
AQ*LIR	-0.080093	0.090952	-0.880615	0.3798	*
AQ*CAR	-0.434412	0.162712	-2.669823	0.0084	***
AQ*CRR	-0.78207	0.682009	-1.146716	0.2532	*
Durbin-W.	1.71032		R-sq	0.753037	
F-statistics	25.83789		Adj. R-s	0.723892	
Prob > F	0.000		Root MSE	0.118625	
Heteroskedasticity, prob.>chi2				0.1802	
Heteroskedasticity, F-prob. (7,173)				0.9738	

Source: E-Views, 2026

Effects Specification ***, ** and * significant at 1%, 5% and 10% respectively

Table 5 & 6 above present the results of direct and moderating Fixed Effects models. The result showed that the P-value of both F- statistics are 0.0000 which is far less than 5%, this showed that the models are 100% fit and that the models are statistically significant as it implied that all the independent variables are statistically significant.

The direct and moderating effect models R-square value of 0.72 and 0.75 mean that independent variables contributed 72% and 75% respectively to the outcome of the dependent variables. It also indicated that 72 percent and 75 percent of the variations in firm value of listed banks was caused by the direct effect and moderating effect audit quality of risks factors of liquidity (LIR), capital adequacy (CAR), credit risks (CRR), moderating factor of Audit quality measured in ratio off number of audit committee financial expertise to total number of audit committee (AQ) and other moderated independent variables (LIR*AQ, CAR*AQ & CRR*AQ).

The respective adjusted R square of 0.71 /71% and 0.73/73% implied that any variations that could have occurred as a result of the introduction of additional independent variable to the two models are taken care of and can only influence the R square to the down point of .71%. and 73% respectively.

In summary, the regression results provide the following:

$H_{2, 3, \& 6}$: the alternative hypotheses are accepted that capital adequacy risk has both direct and moderating significance effect on market value and credit risk has direct significant effect on market value of listed banks.

$H_{1, 4, 5, \& 7}$: the null hypotheses are accepted that liquidity risk, audit quality has no direct and moderating significant effect on market value of quoted banks.

Table 7

Variance Inflation Factor

	Var.	C	LIR	CAR	CRR	AQ	AQ* LIR	AQ* CAR	AQ* CRR
Coff	Variance	0.0017	0.0132	0.0606	0.0245	0.0077	0.0308	0.5169	0.0606
Uncentered	VIF	16.61	6.6795	6.8179	19.213	11.874	6.6729	6.810	6.1879
centered	VIF	NA	1.2206	6.0144	2.8064	2.6951	5.6017	6.1166	6.1044

Source: E-Views, 2026

As revealed in the table 7 above the Variance Inflation Factor (VIF) which give insight whether there is correlation among variables (LIR, CAR, CRR, AQ, LIR*AQ, CAR*AQ & CRR*AQ) showed VIF values ranged from 1.22 to 6.11, with mean VIF of 4.36 which is less than 10 the general benchmark for multicollinearity. This indicated multicollinearity is absence or not significant in this model.

Also, the 1/VIF which represents the tolerance level showed similar values pattern ranged from 0.0017 to 0.5169 which are close to 1; mean variables are less correlated but far higher than 0 meaning no severe multicollinearity among variables. The Breush-Pagan-Godfrey test for Heteroskedasticity as shown above in table above was performed on the residuals and the results showed observed Chi2 0.1802 and prob. 0.9738 which are in excess of 5% or 0.05 which led us to reject the presence of heteroskedasticity in the residual.

Moderating Effect of Audit Quality on the Apriori Expectations

As indicated in the tables 6 results Audit quality has no direct and moderating effect on market value of banks thus not meeting the apriori expectation; only capital adequacy risk independents variable was significant in both equations but result the R-square of the moderating model increased by 3% that is from 72% to75% explaining effect of risks on bank value in Nigeria. Both model equations were significantly fit with F-prob. of 0.0001 but the moderating model equation is more statistically fit and appropriate as it had higher R-square of 75% but with less significant variables of one. Therefore, audit quality has no strong and moderating effect on risks and market value of DMBs

Moderating Effect of Liquidity Risk (LIR) and Market Value

The regression line which read: MVQ=1.018924-0.028369LIR-0.27369CAR-1.0576CRR+0.250656AQ-0.080093AQ*LIR-0.434412AQ*CAR-0.78207AQ*CRR showed that liquidity was found to have no direct positive and moderating negative significant effect on firm value of DMBS with p-value of 0.8461% and 0.3798 which are both higher than 5% the tolerance level respectively, meaning that the null hypothesis is accepted that audit quality has not both liquidity risk direct and moderating effect on market value. This means that decrease in liquidity risk would increase and decrease market value of quoted banks by .028 and 0.08 units or kobo respectively.

Moderating Effect of Capital Adequacy Risk (CAR) and Market Value

The regression line above revealed that the alternative hypothesis is accepted that audit quality had both direct (CAR) and moderating (AQ*CAR) effect of capital adequacy risks on market value of quoted banks as they were statistically significant to market value at p-value of 0.000% and 0.0084% which is less than 5% tolerance level. It thus indicated that for every unit decrease in capital adequacy risk (CAR) and moderated with audit quality (AQ*CAR) market value would decrease by 0.27 and

0.43 units or kobo respectively; implying the content and context of capital adequacy measurement formula and the consequent product.

Moderating Effect of Credit (CRR) and Market Value

Contrarily, the result revealed direct negative significant and moderated negative insignificant effect of credit risk (CRR) on market value of quoted banks at p-value of 0.31 and 0.57 respectively which are both more than t-value of 0.05/5%. This means that the alternative hypothesis is accepted that (CRR) had only direct significant influence on market value, as increase in one unit of credit risk would cause decrease of 0.04 and 0.25 unit or kobo market value of quoted banks respectively.

Audit Quality (AQ) and Market Value

The above regression line further showed that audit quality (AQ) had no statistical positive significant effect on market value of quoted banks at p-value of 0.250656 which is more than the t-value of 0.05/5%. The result implied that for every unit improvement in audit quality (AQ) that is number of financial expertise, market value of quoted banks improved by 0.0.12 unit.

Discussion of Findings

Liquidity risk (LIR) had insignificant positive direct effect and negative moderating effect on market value respectively. The result of the work implied by the content and context of liquidity risk measurement of liquid assets over short time deposit value; that decrease in the measurement value means decrease in liquidity risk, vice versa. Therefore, the study is inferred that increase in liquidity would increase market value but does not have direct influence on market value of quoted banks in Nigeria. In contrast when it is moderated with audit quality, it would reduce market value of banks this could be due to the ability of audit quality to remove inefficiency and manipulation associated with current assets and liabilities trading and window dressings.

The negative and insignificant effect of liquidity risk effect on market value of banks is due to low trading activities or rate of turnover of current assets and liability since they are items on trade of the banks. Thus, increase liquidity risk with low rate of banks asset turn over or without corresponding trading activities reduce market value of quoted banks.

By the study result, capital adequacy risk (CAR) was found to have negative significant of both direct and moderated effect on market value of quoted banks. It can be professed by the measurement context of capital adequacy risk that increase in the product value means decrease in capital adequacy risk with affinity implication of low trading and capital tying down existential problem. Thus, decrease and increase in capital adequacy risk reduces and increase market value of quoted banks without corresponding or optimum trade activities level or rate of turn over at the particular operational time of the banks.

Capital adequacy risk is directly linked to other risk and marketing problem as such is the major risk that influence market value as it has informative effect on stakeholders' patronage on banks operation. This is line with Market lemon and Signaling theories that emphasizes effect of uncertainty of market mechanism and publicity of information about firms' assets. Therefore, capital adequacy risk is major factor influences market value banks according to optimum trading activities of the banks.

Credit risk (CRR) is directly positive significant in influencing market value and indirectly negative insignificant influencing market value of quoted deposit

money banks in Nigeria. By the content of its measurement, is implied that increase credit risk is very sensitive to reduces market value as it directly causes leakages of banks resources, liquidity and financing problem and manifestation of market problem which stare investors.

Thus, credit risk is as a result of marketing problem and poor marketing strategies and process. It is professed that credit risk is not directly and effectively influenced by audit quality or supervisory activities of audit committee of quoted banks in Nigeria as it is majorly a marketing problem outside the cover of audit committee. Therefore. Credit risk is the most sensitive risk factor reduces market value of quoted banks.

Audit quality (AQ) measured in number of financial expertise to total number of members of audit committee is not relevant factor influencing market value of quoted banks both direct and average moderated effect on market value. Though, audit quality found to have both direct and moderated positive effect on market value; that is, increase in audit quality would enhance market value of banks but audit quality activities do not have enough of exertion or significance influence on market value.

This can be inferred that number of financial expertise in audit committee are too inadequate to exert diligence influence on bank operation to reduce or have control over financial risks, Thus, audit committee supervision does not exert enough diligence and control influence to reduce financial risks to increase market value of quoted banks as their activities preceded the risks existence and negative effect of risks on bank operation. It also suggests that financial risk activity is outside operation of audit committee control. Therefore, due to paucity membership number of financial expertise in audit committee it does not reduce risks to enhance market value of quoted banks.

5. Conclusion and Recommendations

Audit quality does not reduce financial risks to enhance market value of banks due to paucity of financial expertise, as such audit quality has no moderating effect on financial risks and market value of DMBs in Nigeria. Increase in liquidity risk and capital adequacy risk influences market value of banks according to the trading rate and volume of quoted banks. Credit risk significantly reduces market value of banks, as it is the most sensitive banks risks variable reducing market value of banks.

In line with the findings, the study recommends that the Central Bank of Nigeria and Financial Reporting Council of Nigeria should set a risk metric level of liquidity, capital adequacy and credit risks for quoted banks as well as specify the volume and rate turn-over to particular current assets, shareholders fund and to allowable non-performing loan value and advances for quoted banks.

CBN and FRCN should increase the minimum membership number of financial expertise in audit committee to 50% ratio of total audit committee members for quoted banks. The security exchange commission should make calculation, reporting and disclosure of financial risks mandatory for continue enlistment of quoted banks in Nigeria.

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