Audit Quality and Financial Performance of Deposit Money Banks in Nigeria

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ABSTRACT

This study assess the effect of audit report quality on financial performance of deposit money banks in Nigeria. The study specifically examined audit fee, audit committee size and timelines of audit report to determine the effect of audit quality on financial performance of deposit money banks in Nigeria from the period of 2012 to 2021. The study examined six deposit money banks for the period under study. The study used purposive sampling method to select six banks based on access to their financial report, consistency and readiness of the reports. The study used a pooled data technique to establish the nexus between the variables and financial performance. econometric approaches such as Augmented Dickey Fuller test, Unit Root test, Johansen, Cointegraation and Error Correction Model (ECM) to check for autocorrelation were adopted in the analysis. Multiple regressions were employed to establish the relationship between the dependent and independent variables. Descriptive method of analysis was also adopted to understand the trends of variables; correlation matrix was employed to identify the relationship between the independent variables while granger causality was used to identify the direction of influence of the variables. Findings of the study show that audit fee and audit committee size have negative and insignificant effect on return on asset of deposit money bank in Nigeria, however, timeliness of audit report has a positive effect on return on asset. The study therefore concludes that investors consider all relevant information about firm performance. Smaller audit size will cost less remuneration. The study recommends that audit committee size be kept as minimum, as possible. Deposit money banks should ensure auditors are remunerated in tune with the quality of their work. Audit reports should be timely presented to stakeholders.

Key words: Audit, audit fee, audit committee size, audit time timeliness, return on asset.

INTRODUCTION

Background to the study

Investors are usually very interested in the content of the audited financial statement of entities, hence quality audited financial statements attract investors. Financial reports are prepared to provide useful information for decision making (Dogan, Coskon and Celick, 2007). Information content of financial reports is important to the users, as they are used to provide information for assessment of the financial health and performance of companies (Ahmed and Hossian, 2010). Public companies are required to disclose quality financial information to safeguard the interest of stakeholders (Egbunike and Abiahu, 2017).

Certain factors account for the quality of an audit report; some of these are fee charged by the auditor, the number of audit committee members and delay in signing the audited report, these collectively account for business performance. This study hence investigates the relationship between audit fee, audit committee size and audit report timeliness vis-à-vis performance. Investors consider all relevant information about firm performance, and primarily rely on information from the financial statement. These include, in particular, information on fees for audit and non-audit services, subject to mandatory disclosure in the U.S. since 2001 (SEC, 2000). Audit fees have been shown to be related to corporate performance (Hay et al., 2006; Stanley,

2011). Auditors have a potentially privileged position to forecast their client's economic condition. The risk-based approach of audit planning and subsequent pricing means that clients perceived by the auditor as risky are typically assigned more labour (Bell et al., 2008), which in turn results in higher audit fees. In other words, audit fees are expected to be a sign of current and future performance (Stanley, 2011). One of the ways that firm performance can be improved is through the quality of the services rendered by auditor which is recognized in form of the fees charged for such services (Sayyar, Abdul and Elhabib, 2015).

The primary role and responsibility of audit committees is to make recommendations on the appointment and change of external auditor; it covers wider areas including the monitoring of managers and review of the company's internal control system (DeZoort et al. 2002; Aldamen et al. 2012). It has been suggested that knowledgeable audit committees help enhance the company's performance; therefore, good characteristics of audit committees are associated with good company performance (Zabri et al. 2016).

Audit timelines is influenced by several factors including the financial performance of companies. Companies with high level performance will produce financial reports that contain good news (Afify, 2009). This makes the company tends to submit financial reports more timely (Pramaharjan & Cahyonowati, 2015). In accordance with the theory of compliance that the company is driven by personal interests and responses to the success of obtaining profits (Syofiana, 2016). Previous researches have proved that companies that have high financial performance will experience shorter audit report lag (Afify, 2009; Dogan, Coskun, & Celik, 2007; Ismail & Chandler, 2004; Listiana & Susilo, 2012).

Financial performance of deposit money banks in Nigeria play important role, this is a premise to attract capital and minimize cost of capital for the banks. Any bank with high financial performance will create prestige with investors. On the other hand, investors and managers will depend on audited financial statements of banks to specify efficiency. The issue of financial performance and the strategies on how to improve it are of paramount importance for corporate organizations and investors.

Statement of the problem

Certain high-profile corporate collapses such as Enron and WorldCom have brought into question the status and credibility of the accounting and auditing profession, especially auditors "with allegation of violations of public trust" (Izedonmi, 2012). The frequency of audit failures in the world has brought a great deal of disappointment to investors and other corporate stakeholders. Audit fee charged is being linked to audit quality. Many authors have suggested that audit fee has influence on audit quality.

Audit committee mediates between management and external auditors to strengthen internal audit and to improve the quality of audit. The size of audit committee is a major determinant to the goal. Some researchers like Xie at al. (2003) argue that number of audit committee members determines their performance. Number of audit committee members has the tendency to be more committed and hence improve audit, which also translates to good firm financial performance.

Audit timeliness, which is the period of delay between a company accounting year-end and the date audit report is completed have the potential to affect the financial performance of a firm. Since the shareholders and potential shareholders will postpone their transaction on share (Ng and Tai, 1994).

This study therefore, investigates the effect of audit fee, audit committee size and audit time lag in financial performance of deposit money banks in Nigeria.

Objectives of the study

The general objective of this study is to examine the effect of audit report quality on financial performance of Deposit Money banks in Nigeria. Specifically, the study is set out to:

(i)   determine the effect of audit fee on returns on assets of deposit money banks in Nigeria
(ii)   ascertain the effect of audit committee size on return on assets of deposit money banks.
(iii)   examine the effect of audit report timelines on return on assets on deposit money banks in Nigeria.

Research questions

The following research questions have been raised to address the specific objectives of the study.

(i)   What is the effect of audit fee on return on assets of Deposit Money banks in Nigeria?
(ii)   What is the effect of audit committee size on return on assets of Deposit Money Banks in Nigeria?;
(iii)   What is the effect of audit report timeliness on return on assets of Deposit Money Banks in Nigeria.?

Research hypotheses

The following hypotheses have been formulated to address the objectives of the study.

(i) H_{o1}: Audit fee has no significant effect on return on assets of Deposit Money banks in Nigeria.
(ii) H_{o2}: Audit committee size has no significant effect on return on assets of Deposit Money banks in Nigeria.
(iii) H_{o3}: Audit report timliness has no significant effect on return on assets of Deposit Money Banks in Nigeria.

REVIEW OF RELATED LITERATURE

This section x-rays the concept of audit fees, audit committee size and audit timeliness in relation to financial performance of deposit money banks in Nigeria.   It also reviews the relevant theories that underpin this study and a display of empirical evidence relating to the study.

Conceptual framework

Audit quality

Audit quality is much dependent on the perception of the stakeholders. Asiriuwa, Aromwanm Uwaigbe and Uwaigbe (2018) defined audit quality as the market assessed joint probability that the auditor discovers an anomaly in the financial statement and discloses it. It quality can be defined as absence of material misstatement in the audit report, completion of audit task as required by the firm, a report that can be challenged and be successfully defended in the court of law and reports that comply with laid down professional standards (Enefo Nbgame, Okunega & Edea (2013). Generally audit quality is when an audit report brings advantage to all the stakeholders concerned.

Audit Fees

There is a significant branch of literature dedicated to the understanding of audit pricing. In 1980, Simunic developed a representative model of the process by which audit fees are determined, and since then various authors have continued to bring forth empirical results that show which factors concur to the setting of audit fees. Theoretically, the amount of fees for audit services that a client firm pays to its audit firm reflects the level of audit work the latter has to perform in the auditing process. The definition of this level of work embodies the auditor's assessment of the process's complexity and the desired level of risk. In other words, all other things considered, if an auditor wishes to decrease the risk of issuing a clean opinion when there are materially relevant distortions in the client's financial statements, he generally acts on the nature, extent and timing of audit procedures, which, naturally, influence the final amount of required fees (Moutinho, 2012). Additionally, increasing audit efforts are determined by the audit firm's likelihood of incurring in future, losses due to the engagement with that specific client (e.g., Bell, Doogar, & Solomon, 2008; Choi, Kim, & Simunic, 2008; Simunic & Stein, 1996). Those losses include litigation costs, sanctions from regulatory entities and image and reputation damages. There is empirical evidence that when there is a perception of high levels of liability exposure, audit firms adjust their required fees (Simunic & Stein, 1996). Audit fees areinfluenced by the litigation environment (i.e. the legal regimes of different countries) where the audit firms operate on (Choi, Kim, & Simunic, 2008); in the face of increasing litigation costs, big audit firms have avoided engagements with risky clients (Jones & Raghunandan, 1998). Empirical studies carried out by Omokhudu and Toluwa

(2018); Čalopa, Kokotec and Kokot (2020) Gusni, Sofia and Sherina (2021); Hanady (2021) shows that audit fee may reduce the returns of firms since it is a cost that is incurred in the course of business operations.

Audit Committee Size

The Sarbanes-Oxley Act (SOX 2002, section 2) defines an audit committee as "a committee (or equivalent body) established by and amongst the board of directors of an issuer for the purpose of overseeing the accounting and financial reporting processes of the issuer and audits of the financial statements of the issuer". A competent, committed, independent, and tough-minded audit committee has been described as "one of the most reliable guardians of the public interest" (Levitt, 2000). The primary role and responsibility of audit committees is to make recommendations on the appointment and change of external auditor; it covers wider areas including the monitoring of managers and review of the company's internal control system (DeZoort et al. 2002; Aldamen et al. 2012). It has been suggested that knowledgeable audit committees help enhance the company's performance; therefore, good characteristics of audit committees are associated with good company performance (Zabri et al. 2016).

Anderson et al, (2004) argue that if the size of a team is large, individual members may be more vulnerable to the pressures and more subject to follow the others' opinion without giving another argument. In this case, the audit committee members are not likely willing to question the potential errors in the accounting reports of the internal review process, which in turn can lead to a greater chance of presenting again later. Conversely a small team will facilitate the exchange of information in the firm and a better discussion between members, to assist management to identify potential errors in financial reporting and reduce the incidence of restatement of the minimum size requirements. A large committee may suffer from the problem of free riders. From previous studies, the performance of the audit committee was determined by the number of audit committee members. These variables have been tested in previous studies conducted by (Xie et al., 2003). The results showed that small size of the audit committee devoted more resources to oversee financial reporting and internal control systems within a firm hence high performance (Anderson et al, 2004.) and facilitate discussions between the audit committee members (DeZoort and Salterio, 2001). Empirical evidence shows that companies with greater audit committee size prefer to suspicious auditor switches (Archambeault and DeZoort, 2001) and more likely to have lower costs of debt (Anderson et. al, 2004). Since the exchange, the effect now requires their registrants to have at least three directors on the audit committee, hence a strong relationship between audit committee size and firm performance.

Researches done to investigate the relationship between firm performance and the features of audit committee are little; the first research conducted on the relationship was carried out by Forker (1992). The author argued that audit committee is an effective monitoring mechanism to enhance the quality of corporate disclosure and reduce agency costs. The existence of an audit committee significantly influences the amount of corporate disclosure (HO and Wong, 2001). Barakoet (2006) established a positive relationship between audit committee size and level of voluntary disclosure.

Audit Report Timeliness

Audit report timeliness, which is the number of days from fiscal year end to audit report date. Inordinate audit timeliness jeopardizes the quality of financial reporting by not providing timely information to investors (Mohamad Nor, Shafie & Wan-Hussin, 2010). Delayed disclosure of an auditor's opinion on the true and fair view of financial information prepared by the management exacerbates information asymmetry and increases the uncertainty in investment decisions. Consequently, this may adversely affect investors' confidence in the capital market (Mohamad-Nor, Shafie & Wan-Hussin, 2010). Givoly and Palmon (1982) assert that audit timeliness is the single most important determinant of timeliness in earnings announcement, which in turn, determines the market reaction to earnings announcement (Chambers & Penman, 1984; Kross & Schroeder, 1984). Knechel and Payne (2001) suggest that an unexpected reporting timeliness may be associated with lower quality information.

Financial performance

Financial performance measures the ability of an organization to effectively use its assets obtained from its primary mode of business to raise revenues (Grimsley, 2018). According to Verma (2021), financial performance has to do with ascertaining the outcome of policies and operations of a firm in monetary term. Maka and Suresh (2018) states that financial performance of a company shows how efficient management are able to utilize the resource to achieve the company's desired results and meet budgetary expectations.

Financial performance is proxied by some indices which include profit after tax, return on asset, return on equity, return on capital employed, gross and net profit margins, earning per share etc. These indices just as Dabo et al (2018) asserted, are made available from the annual financial statement of the firms and provide information suitable for decision making to the users of financial statement.

Return on Assets (ROA)

Return on assets (ROA) is an indicator of how profitable a company is relative to its total assets. ROA gives a manager, investor, or analyst an idea as to how efficient a company's management is at using its assets to generate earnings (Gallo, 2016).Some investors add interest expense back into net income when performing this calculation because they'd like to use operating returns before cost of borrowing. ROA tells what earnings were generated from invested capital (assets). ROA for public companies can vary substantially and will be highly dependent on the industry. This is why when using ROA as a comparative measure, it is best to compare it against a company's previous ROA numbers or against a similar company's ROA. Remember that a company's total assets are the sum of its total liabilities and shareholder's equity. Both of these types of financing are used to fund the operations of the company. Since a company's assets are either funded by debt or equity, some analysts and investors disregard the cost of acquiring the asset by adding back interest expense in the formula for ROA. In other words, the impact of taking more debt is negated by adding back the cost of borrowing to the net income, and using the average assets in a given period as the denominator. Interest expense is added because the net income amount on the income statement excludes interest expense. An analyst that chooses to ignore the cost of debt will use this formula: ROA = (Net Income + Interest Expense) / Average Total Assets The ROA figure gives investors an idea of how effective the company is in converting the money it invests into net income. The higher the ROA number, the better, because the company is earning more money on less investment. Let's evaluate the ROA for three companies in the retail industry (Macy, Penney & Sears, 2017). ROA is most useful for comparing companies in the same industry, as different industries use assets differently. For example, the ROA for service-oriented firms, such as banks, will be significantly higher than the ROA for capital intensive companies, such as construction or utility companies. "ROA simply shows how effective your company is at using those assets to generate profit." This ratio is more useful in some industries than in others, partly because how much money your business has tied up in assets will depend on your industry.

THEORETICAL FRAMEWORK

Agency theory

The agency theory was developed by Jensen and Meckling in the year 1976. The theory is a principle used to explain and resolve issues in the relationship between business principals and their agents. The theory acknowledges the need of accountability in modern society and the role of audit in providing reasonable assurance and unbiased opinion to users of financial statements, about an organization.

In order to bridge the gap in information asymmetry and improve the confidence of the various stakeholders/agents by the principal, the theory argues that expert opinion of the auditor based on independent examination of the financial report will reduce this information asymmetry. According to Syder and Miebaka (2022), agency theory therefore addresses the gap in accountability and stewardship between the agent and the principal through the provision of audit services.

Empirical review

Orji and Nweze (2022) investigated the influence of audit fee on firm performance evidence from deposit money banks in Nigeria. The study used panel data extracted from 10 deposit money banks in Nigeria. Data from the study was analyzed with the use of Generalized Method of Moments. The finding revealed that audit fee has a positive and significant influence on the financial performance of the banks. The study concludes that audit fee positively influences financial performance. The study recommended among others that audit fee charged should translate to good financial performance of firms.

Inneh, Bussary, Fankule, Adeoye, and Kolawole (2022) examined the effect of audit delay on the financial reporting quality of listed non-financial firms in Nigeria. A sample size of 45 listed firms is selected using a purposive sampling technique. The study covered a period from 2011 to 2020, resulting in 450 firm-year observations. The data obtained is analysed using the Ordinary Least Square Method (OLS). The result shows that audit delay has a significant positive association with financial reporting quality. The result indicates that delay in giving an audit report enhances the financial reporting quality, thus allowing the auditor to detect and report on material misstatements and financial irregularities. This is consistent with the agency theory.

Ezegbe and Jeroh (2022) examined audit quality attributes as possible determinants of companies' financial performance. The study drew inference from quoted companies in Nigeria, with data covering 10 years (2011 to 2020). The proxy for audit quality were statutory audit services, audit tenure, auditor's independence, and audit-firm size; whereas, firm performance was measured by Return on Assets (ROA). Firm year data which were collated from their respective annual reports were obtained from the database of MACHAMERATIOS. The study adopted the Panel Least Square technique, descriptive analysis and relevant diagnostic tests as part of the tools used in analyzing the data collated. The study found that audit independence exerts significant negative influence on ROA; audit tenure and audit firm size had positive relationship with ROA, although, this relationship was not significant. Conversely, statutory audit service on its own significantly influenced firm performance (ROA). Overall, measures of audit quality exert joint significant influence on ROA. The study recommended among others that the country's Financial Reporting Council and other regulators should develop policy guidelines to specifically checkmate auditors' tenure vis-à-vis compliance to existing regulatory framework for financial reporting

Afenye, Author and Kwateng (2022) examined the impact of audit committee characteristics on audit reporting timeliness of Ghanaian publicly traded companies. They used size of the audit committee, gender diversity, and financial expertise to measure the characteristics of the audit committee as against the number of days between financial year-end date and audit report completion. The study predicted and found a negative relationship between audit committee gender diversity and audit report timeliness. Also, a negative association between the audit committee financial expertise and audit report timeliness was established. Furthermore, a negative association was affirmed between audit report timeliness and gender diversity of the committee. The study therefore concluded that the audit committee characteristics leads to audit efficiency indicating that audit committee promotes the prompt delivery of the audit report. As a result, the study suggests that companies consider variegating their audit committee board on these characteristics.

Haruna, Bala and Belo (2022) examined the moderating effect of institutional ownership on relationship between audit tenure, audit independence, board independence and audit quality of listed deposit money banks (LDMBs) in Nigeria. The study population comprises 14 LDMBs on the Nigerian Stock Exchange as at 31st December, 2020. 13 LDMBs were used as sample of the study. Logit regression technique was used as a tool of data analysis. Findings of the study revealed that, in the direct relationship, audit independence, board independence and institutional ownership have significant effect on the audit quality of LDMBs in Nigeria. The finding of the moderated model of the study reveals that institutional ownership has a significant negative moderating role on the relationship between audit tenure, audit independence, board independence and audit quality of LDMBs. It is therefore recommended among others that listed deposit money banks in Nigeria should ensure that they consider long-term institutional shareholding since those with a long-term stake have the motivation to monitor management and thereby, requesting a better audit quality through BIG4 auditors.

Tinuola, Olusegun, Oluwayemisi and Omotaya (2021) carried out a study on audit committee characteristics and audit quality in Nigerian oil and gas sector for the period 2009-2018. The population of the study comprised all the 12 listed oil and gas firms from which 10 firms were randomly selected as sample. Secondary data was acquired from the published financial information of the firms for the years 2009-2018 and data was analyzed through logistic regression. The findings revealed that audit committee size has significant positive impact on audit quality while audit committee meetings have insignificant positive effect on audit quality.

Shofiyah and Suyani (2020) examined the influence of profitability, solvency, company size, and the reputation of public accounting firms on the audit report timeliness. Data was collected from 40 Indonesian mining companies' annual reports from 2013 to 2017. The hypotheses were tested by using multiple regression analysis. The results show that profitability and company size have significant negative impacts on audit report timeliness, but solvency and reputation public accounting firm have no effect. The results of this study can be taken into consideration for companies as well as possible so that they can submit financial reports in a timely manner.

Zraiq and Fadzil (2018) examined the association between audit committee and firm performance of the Jordanian firms. This study used OLS regression to test the relationship between independent variable and dependent variable as discussed in the methodology. The data comprised of 228 firms industrial and services. As this study Jordan attempts to bridge the gap. in the existing literature by investigating the association between audit committee and firm performance in the emerging market of Jordan. The findings indicated a positive direction but insignificant relationship between audit committee size and ROA. Whereas, audit committee size with EPS is positive direction and significant. Farther more, the result shows audit committee meetings significant and positive direction with ROA. Correspondingly, audit committee meetings with EPS represent positive direction but insignificant. Finally, this study provides recommendations for future research

Alqatamin (2018) investigated the effect of audit committee characteristics on the company's performance. The sample consists of 165 non-financial companies listed on the Amman Stock Exchange (ASE) over the period 2014-2016. The results of the study show that the audit committee size, independence and gender diversity have a significant positive relationship with firm's performance, whereas experience and frequency of meetings has an insignificant association. The results of the study could be beneficial for managers and boards in making suitable choices about audit committee characteristics and corporate governance mechanisms to enhance the company's performance. The study gives policy makers a better understanding of the different characteristics required of an audit committee, for incorporation in future policy preparation to protect the shareholders' interests. The relationship between audit committee characteristics and company performance is still ambiguous. This study contributes to the literature by identifying the role of audit committee characteristics in company performance, providing evidence for the view that performance is driven by specific audit committee characteristics.

Kipkoech and Rono (2016) assessed the effect of audit committee size and experience on firm performance among listed firms in Nairobi securities exchange, Kenya.. The study is informed by agency theory and institutional theory. The study was conducted in firms listed on the Nairobi Securities Exchange for the period ranging from 2006 to 2011. Multiple Regressions was used to test hypothesis. Research findings showed that audit committee experience and audit committee size a has a significant effect on firm performance. The presence of audit members with experience will also reduce financial misreporting and enhance quality monitoring. As such, having experienced audit committee members should be a key priority for firms. Also there is need for firms to have an audit committee that is not too small such that there is lack of expert advice and too large such that it has free riders that are prone to follow other members opinion.

Okoye, Okaro and Okafor (2015) studied corporate governance factors that affect audit quality, some of which if addressed will help in stemming the tide of audit failures. Using secondary data extracted from the annual reports of a sample of 104 companies randomly selected from a population of 134 non-bank companies listed in the Nigerian Stock Exchange, they concluded that small board size and greater board diligence impact positively on audit quality. Moutinho (2012) investigated the relationship between audit fees and firm performance. Using a sample of U.S. publicly traded, non-financial firms covering the period from 2000 to

2008, a fixed effects model is presented to estimate firm operating performance. The model included standard control variables, such as size, leverage, sales growth and research and development intensity. In addition, measures of corporate governance were introduced. Specifically, increases (decreases) in operating performance are connected with decreases (increases) in audit fees.

METHODOLOGY

Research design

The research design for the study is ex-post facto research method. The choice of this method is derived from the fact that historical data in financial performance and audit report variables already exist and as such are not subject to manipulation. Though by using ex-post facto research design, the data cannot be manipulated or disaggregated yet by studying their nature, reliable results can be obtained regarding how they relate to each other and affect the dependent variables.

Sources of Data

The data collected for this study was sourced from financial summaries of deposit money banks in Nigeria.

Dependent Variable: The dependent variable in this research is Return on Assets (ROA). Return on asset is the ratio of net profit over total assets.

Independent variables: The independent variables in the research are Audit Fee (AUDITFEE), Audit Committee Size (AUDITSIZE) and Timeliness of audit (TIMELINESS). The audit fee is represented by the total payment received for the audit services. The audit committee size is the number of members in the audit committee. The timeliness is the average period it takes to submit number audit report for the fiscal year measured in weeks.

Population of the Study

The population of this study therefore is made up of all commercial banks in Nigeria which are 22.

Sample size of the study

The sample size for this study is the period 2011 to 2021 which is 11years, covering six selected banks. These banks were selected based on their strength, capital adequacy, longevity and consistency in their financial reports. These banks are First Bank, United Bank for Africa, Union Bank, Access Bank, Zenith Bank and Guaranty Trust Bank. Purposive sampling technique was used to select the deposit money banks because of easy access to their financial reports dating back to 2011 and the consistency of such reports and published financial statement on the internet.

Model Specification

This study explores the effect of audit reports on financial performance of Deposit Money banks in Nigeria. The model as stated in the hypotheses are expressed in the following functions:

$Y = f(X)$

Where, Y= Dependent variable

X= Independent variable

Using the multiple regression analysis, the model can be restated as

ROA = f (AUDIT FEES, AUDITSIZE, TIMELINESS)…………………….……vii

$Y = F(X)$

Where Y = dependent variable and X= independent variable

Therefore: ROA= return on assets (y)

AUDIT SIZE = Total number of auditors per year

AUDIT FEES = The fees paid auditors annually

TIMELINESS = The average period it takes to present financial report to shareholders usually measured in weeks after closing of the year of operations

The relationship expressed in equation form is

$ROA_t = a + b_1 \text{ AUDITSIZE}_t + b_2 \text{ AUDITFEES}_t + b_3 \text{ TIMELINESS} + U_t$………viii.

Where; $b_1, b_2, b_3 > 0$

Data analysis technique

The study used pooled data technique to establish the nexus between the variables in the study. In analysing the data gathered, the study made use of econometric approach such as multiple regression, descriptive statistics, Augmented Dickey Fuller Unit Root Test, Johansen Cointregration, ECM and granger causality. Multiple regressions least square method was employed to establish the relationship between dependent and independent variables. Furthermore, descriptive method of analysis was also adopted to understand the trend of the variables, correlation matrix was also used to identify the relationship between the independent variables while granger causality test was to identify the direction of influence. The Johansen Cointegration and ECM were used to test the short and long run relationship between the variables.

DATA ANALYSIS

Data have been analysed in the following table below.

Table 4.2: Descriptive Statistics

Statistic	ROA	AUDITFEE	AUDITSIZE	TIMELINESS
Mean	0.043137	415.6652	5.787879	7.651515
Median	0.0211	390	6	7
Maximum	0.8856	1088	8	10
Minimum	-0.002	60.8	4	5
Std. Dev.	0.115044	250.6871	0.903245	1.57375
Skewness	6.405742	0.810587	-0.07623	0.469708
Kurtosis	45.80815	3.045147	4.282521	2.045855
Jarque-Bera	5490.848	7.233167	4.587282	4.930458
Probability	0	0.026874	0.100898	0.084989

Sum	2.847067	27433.9	382	505
Sum Sq. Dev.	0.860277	4084862	53.0303	160.9848
Observations	66	66	66	66

Source: Author's computation

From the descriptive analysis carried out on the pooled data, it can be seen that an average value for the return on assets is 4.31% while the maximum return on assets value for the period is 88.5% and the minimum was -0.2%. The statistical result also shows that an average of ₦415,000 was spent annually on audit remuneration, so far the banks have spent a maximum of ₦1,088,000 on remuneration for auditing. The audit committee size for the banks averaged 5 to 6 members while the maximum size is 8. This implies that most of the banks operating in Nigeria usually have audit committees that are not more than 8 persons. The audit timeliness shows periods of 7 weeks' average and maximum 10 weeks for any delay in reporting of their financial statements before publications.

The Jacque Bera used to test normality of distribution of the variables shows that ROA and AUDITFEE have probability value of 0.0000 and 0.026874 respectively which implies that they are significant but not normally distributed. AUDITSIZE and TIMELINESS have probability value of 0.100898 and 0.084989 which implies that they are not significant but are normally distributed.

Table 4.3: Correlation matrix

	ROA	AUDITFEE	AUDITSIZE	TIMELINESS
ROA	1	-0.21807	0.049964	0.24552
AUDITFEE	-0.21807	1	-0.02327	0.08684
AUDITSIZE	0.049964	-0.02327	1	0.271885
TIMELINESS	0.24552	0.08684	0.271885	1

Source: Authors computation

The correlation matrix seeks to identify the collinearity between the independent variables as well as their strength of relationship. AUDITFEE has a negative and weak correlation with AUDIT SIZE (-0.023270) in other words, the size of the audit committee is not a major determinant of the remuneration paid by the banks. AUDIT SIZE has positive but weak correlation with TIMELINESS (0.271885) in other words; the audit committee size affects the time timeliness taken for presentation of financial report. However, AUDITFEE has positive but weak correlation with TIMELINESS (0.08684) which suggests that adequate funding speeds up the financial reporting exercise.

Table 4.4 Summary ADF Unit Root Test

Variables	ADF Unit Root Statistics at 1st difference	Order of integration
DROA	-5.360445	1 (1)
DAUDITFEE	-3.29450	1 (1)
DAUDITSIZE	-5.586982	1 (1)

DTIMELINESS	-4.070132	1 (1)
Critical values: 1%=-3.769597, 5%=-3.004861, 10%=-2.642242		

Variables in 4.4 are non-stationary at levels but stationary at 1st difference, i.e., they are integrated of order 1 or 1 (1).

A Johanson Cointegration test was conducted to establish whether there is a long run equilibrium relationship among the variables (see table 4.5)

Table 4.5: Johansen Co-integration Test

Date: 05/30/23 Time: 10:11			
Sample (adjusted): 4 66			
Included observations: 63 after adjustments			
Trend assumption: Linear deterministic trend			
Series: ROA AUDITFEE AUDITSIZE TIMELINESS			
Lags interval (in first differences): 1 to 2			
Unrestricted Cointegration Rank Test (Trace)			
Hypothesized		Trace	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.484316	67.42429	47.85613	0.0003
At most 1	0.181158	25.70188	29.79707	0.1378
At most 2	0.107003	13.11047	15.49471	0.1108
At most 3 *	0.090564	5.980619	3.841466	0.0145
Trace test indicates 1 cointegrating eqn(s) at the 0.05 level			
* denotes rejection of the hypothesis at the 0.05 level			
**MacKinnon-Haug-Michelis (1999) p-values			
Unrestricted Cointegration Rank Test (Maximum Eigenvalue)			
Hypothesized		Max-Eigen	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None *	0.484316	41.72241	27.58434	0.0004
At most 1	0.181158	12.59141	21.13162	0.4905
At most 2	0.107003	7.129849	14.26460	0.4739

At most 3 *	0.090564	5.980619	3.841466	0.0145
Max-eigenvalue test indicates 1 cointegrating eqn(s) at the 0.05 level				
* denotes rejection of the hypothesis at the 0.05 level				
**MacKinnon-Haug-Michelis (1999) p-values				

Trace test and max-eigen value test indicate 1 cointegration equations each at the 0.05% level, denoting rejection of the hypotheses at the 0.05 level.

Because of the existence of long-run equilibrium among the variables, a short-run, ECM model was established (see table 4.7).

Table 4.6: Error Correction Model

Dependent Variable: D(ROA)			
Method: Least Squares			
Date: 05/30/23 Time: 07:36			
Sample (adjusted): 1 66			
Included observations: 65 after adjustments			
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.426237	2.077528	0.686506	0.4987
D(AUDITFEE)	-0.064821	0.402183	-3.161174	0.9833
D(AUDITSIZE)	-0.225211	0.662769	-3.339804	0.0368
D(TIMELINESS)	0.175568	0.793755	0.221187	0.8267
ECT(-1)	-0.484583	0.193533	-2.503872	0.0192
R-squared	0.231736	Mean dependent var		1.271447
Adjusted R-squared	0.078083	S.D. dependent var		0.693111
S.E. of regression	0.665501	Akaike info criterion		2.195431
Sum squared resid	11.07228	Schwarz criterion		2.472977
Log likelihood	-28.02918	Hannan-Quinn criter.		2.285904
F-statistic	1.508181	Durbin-Watson stat		1.867483
Prob(F-statistic)	0.222986			

Source: Author's Computation

The error correction model result on table 4.6 above gives the final and precise result as opposed to the OLS level series model. The model is:

D(ROA)= c + c_1D(AUDITFEE) + c_2D(AUDITSIZE) + c_3D(TIMELINESS) + ECT(-1) = 1.43 - 0.06AUDITFEE -0.23AUDITSIZE + 0.18TIMELINESS - 0.48ECT(-1)

p-Value: 0.4987 0.9833 0.0368 0.8267 0.0192 R^2 = 0.23 or 23%

Durbin-Watson, DW, Stat. =1.867 or 2.0

Hypothesis one

The above results show that a 1-point basis growth in ROA is negative but significantly influenced by AUDITFEE as shown in probability value of 0.9833. In other words, we reject the null hypothesis and accept the alternative, that audit fee has negative but significant effect on return on assets both at the long and short run.

Hypothesis two

The growth in ROA is significantly affected by 0.0368 decrease in AUDITSIZE; in other words, audit size has negative but significant effect on return on assets. However, the prob. value which is less than 0.05 implies that the null hypothesis is rejected and we accept the alternative hypothesis that Audit committee size has significant effect on return on assets of Deposit Money banks in Nigeria.

Hypothesis three

ROA is insignificantly affected by a rise of 0.18 in TIMELINESS; this implies that there is positive but with a probability value of 0.8267, this implies that there is insignificant long run relationship between return on assets and timeliness of the report. Thus, the null hypothesis is accepted that Timeliness of audit has no significant effect on return on assets of Deposit Money Banks in Nigeria.

In summary, a relative change in ROA is significantly affected by a combination of relative changes in AUDITFEE, AUDITSIZE and TIMELINESS in the long run. The coefficient of the ECT (-0.484583, or 48%), which measures the speed of the adjustment of the dependent variable at which equilibrium is restored, is correctly signed (negative) and significant (prob-value=0.0192). The negativity of the ECT signals that the system is stable and is capable of converging to the long run equilibrium after some shocks/disturbances in the system at a significant adjustment speed of 48%. The overall goodness of fit of 23 per cent implies that the regressors only explained 23% of the variation in the regress and, a sign of poor goodness of fit.

The Durbin-Watson (DW) statistics of approximately, 2.0, shows that there is no serial autocorrelation in the residuals of the model. However, the presence of a lagged ECT among the regressors seems to weaken the DW of 2.0.
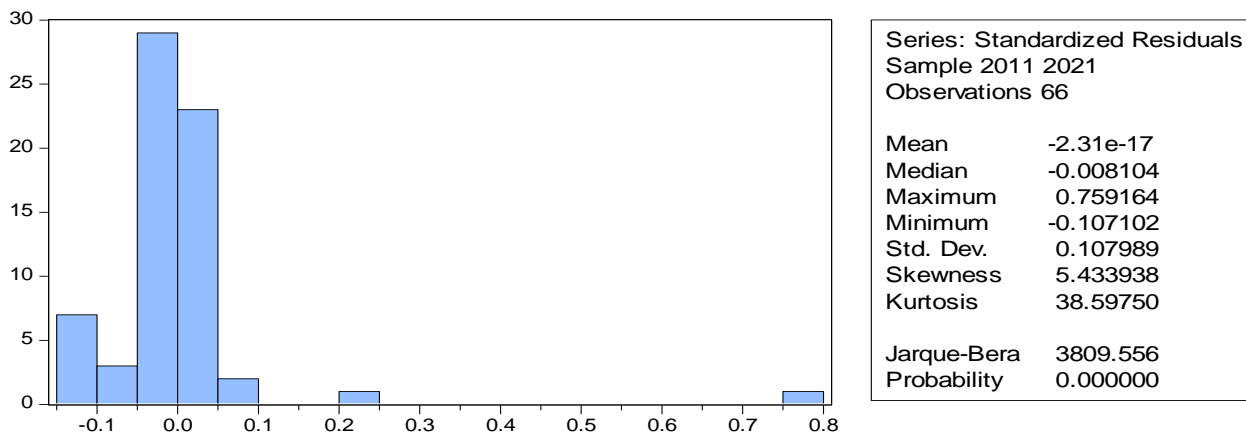
Diagnostic tests

Figure 2: Standardized residuals

Further analysis using the standardized residuals shows a skewness of 5.433938 and Kurtosis of 38.5970 indicating high level of significance. The Jarque Bera value of 3809.556 with a Probability value of 0.0000 which suggests that the result of the model is reliable.

**Table 4.8: Breusch-Godfrey Serial Correlation LM Test**

Statistic	Value	Probability
F-statistic	0.164493	Prob. F(2,64) = 0.8493
Obs*R-squared	0.408959	Prob. Chi-Square(2) = 0.8151

The BG, LM test in table 4.8 shows that the F-statistic and obs*R-Squared are insignificant to result to serial correlation, suggesting that there is no first order serial correction in the series with lagged ECM, an independent variable.

Table 4.9: Heteroskedasticity Test: Breusch-Pagan-Godfrey

Statistic	Value	Probability
F-statistic	0.785742	Prob. F(3,63) = 0.5132
Obs*R-squared	2.498776	Prob. Chi-Square(3) = 0.4755
Scaled explained SS	1.339006	Prob. Chi-Square(3) = 0.7199

Is there any heteroskedasticity in our short run model? Table 4.9, BPG test's F-stat, obs* R^2 and scaled explained SS stats respectively suggest that the residuals in our model were insignificantly influenced by the presence of heteroskedasticity. Therefore, there is homogeneity in our model.
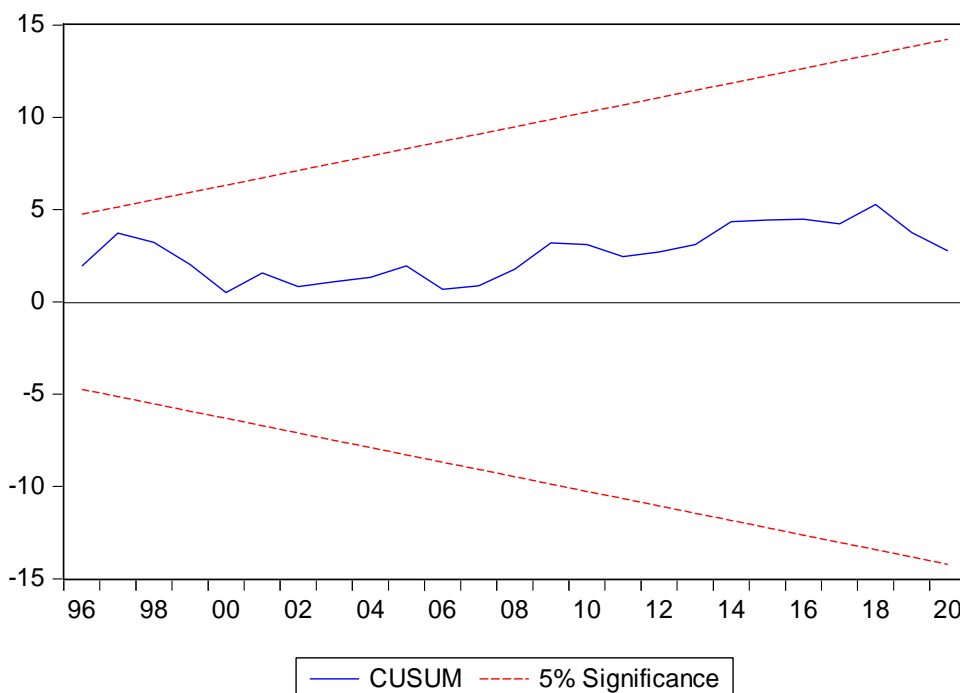
Figure 3: Model Stability Test – CUSUM Test

The stability and specification error of the residuals or the error term test in chart 4.2 shows that the stability line is within the 5% significance zone of CUSUM recursive (OLS only) test, suggesting that there is residuals' stability in our model

Table 4.10: Granger causality analysis

Pairwise Granger Causality Tests			
Date: 02/18/23 Time: 21:48			
Sample: 2011 2021			
Lags: 2			
Null Hypothesis:	Obs	F-Statistic	Prob.
AUDITFEE does not Granger Cause ROA	54	0.32875	0.7214
ROA does not Granger Cause AUDITFEE		0.33958	0.7137
AUDITSIZE does not Granger Cause ROA	54	0.06207	0.9399
ROA does not Granger Cause AUDITSIZE		0.01416	0.9859
TIMELINESS does not Granger Cause ROA	54	0.38561	0.6821
ROA does not Granger Cause TIMELINESS		0.00771	0.9923
AUDITSIZE does not Granger Cause AUDITFEE	54	0.18943	0.8280
AUDITFEE does not Granger Cause AUDITSIZE		0.00175	0.9983
TIMELINESS does not Granger Cause AUDITFEE	54	1.71985	0.1897
AUDITFEE does not Granger Cause TIMELINESS		1.23722	0.2991
TIMELINESS does not Granger Cause AUDITSIZE	54	0.53684	0.5880
AUDITSIZE does not Granger Cause TIMELINESS		0.41947	0.6597

Source: Authors' computation

The essence of using granger causality test is to determine the level of independence of the variables and whether they influence the direction or outcome of each other. The granger causality test result in table 4.6 shows that none of audit size, audit fees, audit timeliness and return on assets actually influence the direction of outcome of the other.

DISCUSSION OF FINDINGS

The results shows that audit fee has a negative influence on return on assets which implies that the remuneration provided by organizations for audit reporting quality reduces the profit available for the organizations. This finding conforms with the agency cost theory which argues that agency cost is incurred when stakeholders pay auditors in order to obtain quality of financial information from financial reports as this will increase the shareholders value and safety of their capital. Studies by Omokhudu and Toluwa (2018); Čalopa, Kokotec and Kokot (2020) Gusni, Sofia and Sherina (2021); Hanady (2021) all showed that quality

financial reporting attracts cost and such cots reduces the net profits of the organization, yet provides benefits for the shareholders at the long run since it exposes them to the state of health of the organization.

Audit size shows negative influence both at the short and long run which implies that an increase in number of members of audit committee will raise the cost incurred for their remuneration which is likely going to reduce the returns of the organization. The results of this study therefore conforms with the findings of Anderson et al, (2004) that more resources will be devoted to a higher number of committee size than a lesser number of committee size. It also supports the findings of Haruna, Bala and Belo (2022) Oluwayemisi et al., (2021) that the characteristics of committee team when large, individual team members may be more susceptible to pressures and more likely to accept the others' opinions without providing a counterargument. In this instance, it's unlikely that the audit committee members will challenge any apparent inaccuracies in the internal review process' accounting reports, increasing the likelihood that the matter may come up again in the future. In contrast, a small team will encourage information sharing inside the company and improve communication among team members, helping management spot potential problems in financial reporting and lowering the likelihood of restatement of the minimum size criteria. Free riders might be an issue for a sizable committee.

In the third tested hypothesis, ROA was found to be positively and insignificantly affected by TIMELINESS. Although, very few empirical studies have actually been carried out in Nigeria on the relationship between timeliness of report and financial performance of deposit money banks, our findings therefore shows that the time frame of presenting financial reports to shareholders may not actually affect the profitability of the banks since reports are presented based on outcome of the financial activities carried out already in the course of the year and shareholders and other relevant stakeholders will simply look forward to the day of the presentation not minding how long it took the board of executives to present it. Nevertheless, all financial reports are meant to be present within the prescribed time frame of the CBN which is not more than 3 months after the year-end of each operations. Thus, we can argue that timeliness of financial reports does not influence the financial performance of the reporting banks in Nigeria.

Based on the granger causality test, the implication of the findings is that the audit report proxies may relate with each other or the returns of the banks but they do not influence the direction of one another suggesting high level of independence.

CONCLUSION AND RECOMMENDATION

Conclusion

This study investigated the relationship between audit report quality and firm's performance. In order to make decisions, investors must consider all relevant information about firm performance, and primarily rely on financial statement information. One of the ways that firm performance can be improved is through the quality of the services rendered by auditor's which is recognized in form of the fees charged for such services. Audit fees have been shown to be negatively related to corporate financial performance as it is a cost that is incurred in the course of operations for a better financial report. Audit committee size have a potentially privileged position to forecast their client's economic condition and the size and characteristics of the committee have negative influence on returns since it was revealed that a smaller size will incur lesser amount of remuneration while larger size will incur higher amount of remuneration. The study also showed that timeliness of the report does not necessary translates into returns. In conclusion, the study showed that audit report quality has effect on financial performance of deposit money banks in Nigeria.

Recommendations

Based on the findings, the researcher recommends that since audit size relates negatively with return on assets, it is imperative that the audit committee size should remain as minimum as possible while not sacrificing quality of report. Deposit money banks Nigeria should ensure auditors remuneration are in tune with the quality of financial report provided by the auditors and profits of the banks since it's a cost that most be incurred in the course of their operations if they seek to provide shareholders quality information about the

state of the bank's financial health. It is recommended that the banks continue to provide timely report to the shareholders.

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