

Audit Quality and Value Creation of Listed Deposit Money Banks in Nigeria.

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ABSTRACT

The credibility of financial reporting cannot be overemphasised, in order to sustain investor confidence and improve value creation among financial institutions especially banking sector. This study examined the audit quality and value creation of listed Deposit Money Banks (DMBs) in Nigeria. The study assessed whether audit quality influence the market valuation of listed Nigerian banks. An ex-post facto research design was adopted, secondary data were obtained from the audited annual reports and financial statements of ten (10) listed Deposit Money Banks covering the period 2015–2024. Value creation the dependent variable was proxied using Tobin's Q, while audit quality the independent variable was measured by Audit Firm Size, Audit Fee, Audit Independence, and Audit Tenure. The study utilized descriptive statistics, correlation analysis, Findings revealed that audit quality had a positive insignificant effect on value creation. Audit Firm Size, Audit Independence, Audit Fees, and Audit Tenure showed positive but statistically insignificant relationships with Tobin's Q. The study concluded that although audit quality improve financial reporting credibility, transparency, and accountability, it does not significantly determine market-based value creation among Nigerian Deposit Money Banks. The study recommends continuous improvement of external audit practices through auditor competence, independence, and effective audit processes to strengthen stakeholder confidence and sustainable institutional development.

Keywords: Audit Quality, Audit Firm Size, Auditor Independence, Audit Fees, Audit Tenure, Value Creation, Deposit Money Banks, Nigeria.

INTRODUCTION

Background to the Study

The banking sector remains a critical component of the global financial system due to its role in financial intermediation, savings mobilisation, investment facilitation, and economic development. Deposit Money Banks (DMBs) contribute significantly to economic growth through liquidity creation, payment system efficiency, financial inclusion, and the provision of funds for productive activities. However, the effectiveness of these functions largely depends on the credibility, transparency, and reliability of financial information disclosed by banking institutions. Since stakeholders rely on financial reports to make investment and regulatory decisions, ensuring the accuracy and integrity of financial statements is essential for maintaining confidence and promoting sustainable value creation, (Al-Smadi & Al-Momani, 2023).

Financial reporting credibility is particularly important in the banking sector because banks operate within an environment characterised by high public trust, regulatory scrutiny, and stakeholder expectations. Investors, depositors, regulators, and other users of financial statements depend on reported financial information to evaluate the performance, stability, and future prospects of banks. Inadequate financial reporting practices may increase information asymmetry between management and external stakeholders, reduce investor confidence, and negatively influence the ability of banks to create long-term value. Therefore, mechanisms

that enhance financial transparency and reporting quality have become important issues within accounting, auditing, and corporate governance research, (Salawu & Ogundana, 2023).

External auditing represents one of the major mechanisms for improving the reliability of financial reports. Through an independent examination of financial statements, external auditors provide assurance that reported financial information presents a fair representation of an organisation's financial position and performance. Effective auditing enhances accountability, promotes compliance with financial reporting standards, and strengthens stakeholders' confidence in corporate disclosures. However, the contribution of external auditing depends significantly on the quality of the audit engagement. Audit quality reflects the ability of auditors to identify and report material misstatements, thereby improving the credibility of financial information and reducing agency conflicts between management and stakeholders, (Nwankwo & Eze, 2022).

The importance of audit quality has increased due to the growing complexity of banking operations. The emergence of digital banking, technological innovations, complex financial transactions, and evolving regulatory requirements has created additional challenges for financial reporting. These developments require auditors to demonstrate professional competence, independence, industry expertise, and professional scepticism. Consequently, audit quality attributes such as audit firm size, auditor independence, audit fees, auditor specialisation, and audit reporting timeliness have become relevant measures for assessing the effectiveness of external audit processes, (Ibrahim & Oladipo, 2022).

Beyond its traditional assurance role, high-quality external auditing can contribute to organisational value creation by improving transparency, strengthening investor confidence, and enhancing market perception. Value is not only reflected through accounting measures but also through market-based indicators that capture investors' expectations about future growth and sustainability, (Natufe & Osagie, 2023)

The relationship between audit quality and value creation can be explained through agency theory, which highlights the challenges arising from the separation between ownership and management. Because managers possess more information about organisational activities than external stakeholders, information asymmetry may encourage opportunistic behaviours such as earnings manipulation and ineffective decision-making. High-quality external audits serve as a monitoring mechanism by improving financial disclosure reliability, reducing agency problems, and enhancing confidence in corporate governance structures, (Okoye & Eze, 2024).

The Nigerian banking sector provides an important setting for examining the influence of audit quality on value creation. Nigerian Deposit Money Banks play a significant role in economic development, capital formation, and financial system stability. However, concerns regarding corporate governance weaknesses, financial reporting credibility, and declining investor confidence have increased the need for stronger accountability mechanisms. Effective audit practices can therefore serve as an important tool for improving transparency and supporting sustainable value creation within the sector, (Owolabi & Ogunyemi, 2023).

Statement of Problem

Although previous studies have examined audit quality and organisational performance among Nigerian financial institutions, much of the existing literature (Natufe & Evbayiro-Osagie, 2023; BusinessDay, 2025; Ayeni-Agbaje & Oluyori, 2025) focused primarily on accounting-based performance indicators such as profitability. Limited attention has been given to how specific audit quality attributes influence broader measures of value creation, particularly those reflecting investors' market perceptions. Furthermore, many studies treat audit quality as a general concept without adequately examining the individual contributions of audit firm size, auditor independence, audit fees, auditor specialisation, and audit timeliness.

This study therefore seeks to address this gap by examining the effect of audit quality on value creation among listed Deposit Money Banks in Nigeria. By providing empirical evidence on how specific audit quality characteristics influence sustainable value generation, the study contributes to the existing literature on auditing, corporate governance, and financial performance. The findings are expected to provide useful insights for regulators, bank management, audit practitioners, investors, and researchers regarding the strategic

importance of quality external auditing in promoting transparency, accountability, and long-term value creation within the Nigerian banking industry.

Research question

What is the effect of audit quality (Audit fee, Audit firm size, Audit independence and Audit tenure) on value creation of the listed Deposit Money Banks in Nigeria?

Objective of the Study

Examine the effect of audit quality (Audit fee, Audit firm size, Audit independence and Audit tenure) on value creation of listed Nigerian DMBs

Hypothesis of the study

H₀₁: audit quality (Audit fee, Audit firm size, Audit independence and Audit tenure) does not have a significant effect on value creation of listed Nigerian DMBs

Significance of the Study

This study is significant because it provides empirical evidence on the extent to which audit quality influences value creation among listed Deposit Money Banks in Nigeria. In recent years, increased attention has been placed on financial transparency, corporate accountability, and the reliability of published financial information. Since investors and other stakeholders depend on audited financial statements when making economic decisions, understanding how audit quality contributes to value creation remains important for improving confidence in the Nigerian banking sector.

The findings of this study will be useful to regulatory authorities such as the Central Bank of Nigeria (CBN), Securities and Exchange Commission (SEC), and the Financial Reporting Council of Nigeria (FRCN). The study will provide insights into how specific audit quality characteristics influence the value generated by banking institutions. Such evidence may assist regulators in strengthening audit regulations, improving monitoring mechanisms, and promoting practices that enhance the credibility of financial reporting among listed banks.

For bank management and boards of directors, the study will provide practical guidance on the strategic importance of maintaining high-quality external audit practices. The findings will help management understand how audit-related decisions, including auditor selection, audit independence, audit expertise, and audit investment, can influence stakeholders' perception of the bank's performance and overall market value. This may encourage banks to view external auditing not only as a compliance requirement but also as an important corporate governance mechanism that supports long-term sustainability.

The study will also be beneficial to investors and shareholders by providing a better understanding of how audit quality contributes to value creation. Reliable financial reporting reduces information uncertainty and enables investors to make more informed decisions regarding investment opportunities. By identifying the audit characteristics that significantly influence value creation, the study may assist investors in evaluating the governance quality and financial credibility of listed Deposit Money Banks.

External auditors and audit firms will also benefit from the findings of this study. The research highlights the importance of maintaining professional competence, independence, industry knowledge, and effective audit procedures in enhancing audit outcomes. The findings may encourage audit practitioners to continuously improve audit processes and adopt practices that strengthen public confidence in audited financial information.

Furthermore, the study contributes to academic literature by expanding existing knowledge on the relationship between audit quality and value creation, particularly within the context of emerging economies. While previous studies have examined audit quality in relation to financial performance, limited attention has been given to its influence on broader value creation outcomes among Nigerian Deposit Money Banks. Therefore,

this study provides additional empirical evidence that may serve as a reference point for future researchers in accounting, auditing, finance, and corporate governance.

Scope of the Study

This study examines the effect of audit quality on value creation among listed Deposit Money Banks in Nigeria. The study focuses specifically on publicly listed banks because of their importance within the Nigerian financial system and their obligation to comply with strict financial reporting and disclosure requirements. Listed banks also provide reliable access to audited annual reports and other publicly available financial information necessary for empirical analysis.

The study covers the period from 2015 to 2024. This period is considered relevant because it reflects recent developments within the Nigerian banking environment, including increased regulatory emphasis on transparency, technological transformation in banking operations, and growing expectations for stronger corporate governance practices.

Conceptually, the study is limited to audit quality and value creation. Audit quality is examined through selected dimensions including audit firm size, auditor independence, audit fees, auditor specialisation, and audit reporting timeliness. These dimensions represent important characteristics that determine the effectiveness and credibility of external audit engagements.

Value creation, which serves as the dependent variable, is examined using appropriate financial and market-based indicators that reflect the ability of banks to generate sustainable benefits for shareholders and stakeholders. The study therefore considers value creation beyond traditional profitability measures by recognising the importance of investors' perception and market valuation.

Methodologically, the study adopts a quantitative research approach using secondary data obtained from audited annual reports of listed Deposit Money Banks, Nigerian Exchange Group (NGX) publications, and other relevant regulatory sources. Panel data techniques will be employed to analyse the relationship between audit quality characteristics and value creation across the selected banks during the study period.

The study is restricted to listed Deposit Money Banks in Nigeria and does not include non-bank financial institutions or unlisted banks. Therefore, the findings should be interpreted within the context of Nigerian listed banking institutions and may not necessarily represent all financial institutions operating within the country.

LITERATURE REVIEW

Audit Quality

The "quality of an audit," is one of the basic terms of the accounting and auditing literature that defines the degree of improvement the audit provides to the credible, reliable and decision-usefulness of the financial statements. Traditionally it is described as a probability that the auditor would misstate his/her reporting of material misstatements, either through error or fraud. But, a different conception of what a qualified auditor is has expanded the definition to encompass auditor independence, technical competence, professional skepticism, ethical integrity, and clarity of audit reporting in contemporary viewpoints. The audit quality issue is very important in highly regulated sectors, like financial services, to alleviate information asymmetry, increase transparency and, thus, increase stakeholder confidence in the outcome of audits (IAASB, 2022; Knechel et al., 2023).

Four attributes of audit quality are auditor independence, competence, skepticism and ethical behavior. Objectivity in fact and appearance protection for auditors from the influence of management. Competence is about being technically knowledgeable such as accounting standards, auditing procedures and particular knowledge of the sector, with the latter being critical in Deposit Money Banks (DMBs) as the instruments operated and exposures to credit risk are complex. Professional skepticism and ethical integrity involve

auditors questioning evidence and redressing management claims and involving professional standards of confidentiality, objectivity and integrity. Together, these provide added reliability to the audit and minimize the risk of financial misstatement (Hansen, 2024; IFAC, 2022).

Audit Firm Size and Audit Quality

The relationship between audit firm size and audit quality has been established since large audit firms have more resources, technical expertise, experienced staff, and a higher reputation to deliver high-quality audit services. DeAngelo (1981) asserted that large audit firms are more likely to ensure auditor independence and detect material misstatements, probably because they stand to gain more if their audit fails. Furthermore, Francis and Yu (2009) explained that Big 4 audit firms provide higher audit quality due to their extensive industry experience and advanced auditing techniques. In the same way, Okoye, Adeniyi, and Ajala (2022) established that audit firm size has a positive and significant relationship with audit quality in non-financial firms in Nigeria. This implies that firms audited by bigger audit firms are more likely to provide reliable financial information due to the superior monitoring abilities of large audit firms. As such, firm size remains a primary proxy for establishing audit quality.

Audit Tenure and Audit Quality

Audit tenure refers to the length of time a specific auditor provides auditing services to a particular client. The relationship between audit tenure and audit quality has been a subject of debate since a longer audit engagement allows auditors to understand their clients' business processes, which ultimately enhances audit quality. Johnson, Khurana, and Reynolds (2002) explained that a longer audit engagement provides auditors with more experience with the business, thereby enabling them to detect irregularities as the auditor gains more insight into the operations of the business.

However, a long-term engagement may introduce familiarity threats, which compromise the auditor's independence. Ghosh and Moon (2005) contended that investors perceive audit tenure as a potential indicator of improved audit quality since auditors with auditing experience understand the unique risk factors of a business. In addition, the role of audit tenure in audit quality is evident in the findings of studies conducted in Nigeria.

Audit Fees and Audit Quality

Audit fees refer to amounts paid to external auditors for performing audit services, and the connection between audit fees and audit quality is noteworthy. Higher audit fees mean that auditors charge more for their services, possibly because complex audits demand experience and command higher fees (Hoitash, Markelevich, and Barragato, 2007). For instance, higher audit fees suggest that auditors invested more time and effort in the audit process and utilized more extensive procedures. Reasonable audit fees can motivate external auditors to provide high-quality audit reports as they are remunerated more for their services.

On the contrary, higher audit fees may be a signal of economic dependence and may compromise the auditor's independence. Consequently, Alareeni (2017) established a significant association between audit fees and audit quality. However, the study did uncover that the relationship depends on various audit characteristics.

Audit Independence and Audit Quality

Audit independence means the lack of any bias on the part of the auditor while conducting an audit. The link between audit independence and audit quality is undeniable, given that independent auditors offer high-quality audit reports free from personal bias. DeAngelo (1981) explained that higher auditor independence improves the reliability of audit reports and increases the credibility of audit reports, benefiting investors.

On the other hand, Tepalagul and Lin (2015) uncovered key factors that threaten auditor independence, including client importance, non-audit services, auditor tenure, and auditor-client relationships. Auditors with greater independence avoid familiarity threats and are more likely to exercise professional skepticism when detecting material misstatements. Several studies have established a significant relationship between auditor

independence and audit quality. For instance, reduced auditor independence ultimately compromises the quality of an audit report.

Value Creation

Value creation in the banking sector means the process of ensuring that banking organizations create value for their stakeholders through efficient operations, in which they take risks within the limits of the strategies that they follow. In addition to profitability for the short term, it has considerations of maximizing shareholder wealth, satisfying shareholders, creating financial inclusion, overall economic development, and the stability of the financial system. A value creation in modern banking theory is multi-dimensional encompass both financial measures and non-financial measures and the social responsibility. (Adegbite & Oladejo, 2023; Kaplan & Norton, 2022).

From a government perspective, value creation is the benefit that banks bring when they are able to efficiently collect deposits, channel credit to productive sectors, and manage risks under the given regulatory and governance frameworks. There are two types of value creation measures, market-based and accounting-based. Economic Value Added (EVA) measures residual income, which is true economic profit minus cost of capital, and is risk-adjusted. Market Value Added (MVA) attains for the difference between the market value and invested capital for the investor perspective and the effectiveness of governance. Tobin's Q is used to determine the value of the market as it compares with the replacement costs of the assets, reflecting growth potential and intangible value. (International Monetary Fund, 2023). High-quality external auditing also producing value creation which in turn works to increase financial stability and stakeholder trust.

THEORETICAL FRAMEWORK

Agency Theory

Agency Theory was propounded by Michael C. Jensen and William H. Meckling in 1976. The theory is one of the basic theories explaining the relationship between External Audit Quality and Value Creation in Deposit Money Banks (DMBs). Agency Theory is the theory that explains the contractual relationship between principals (the shareholders and the depositors) and agents (the bank management), under which the managements are expected to work for the best interests of the principals but they might actually work in their own interests due to the absence of data on who knows more. Such is the case in financial institutions where the managers control the funds in the deposit accounts and decide on the allocation of the credit of the bank at their discretion which has a direct impact on the risk of the bank and their profits. This flexibility opens the door to moral hazard, adverse selection, and earnings manipulation, including in loan classification and provisioning.

The audit quality matter in resolving such agency issues is hinged on the fact that an external audit serves as an independent process of asserting financial statement's validity. External audits of high quality may provide adequate disclosure and are in compliance with accounting principles and prudential regulations. Quality audits thus minimize the chances of opportunistic accounting and improve the credibility of the disclosures of credit risks as well as boost investor confidence and firm value (Niemi & Zerni, 2023).

Empirical Review

Adebayo, Yakasai, and Ene (2025) examined the effect of audit quality on firm value among listed Deposit Money Banks in Nigeria. The study adopted an ex-post facto research design and analysed secondary data obtained from 14 listed deposit money banks on the Nigerian Exchange Group. Audit quality was measured using audit tenure and auditor independence, while firm value was used as the dependent variable. The study employed pooled ordinary least squares regression with robust standard errors for analysis. The findings revealed that audit tenure and auditor independence had positive and significant effects on firm value, explaining a substantial proportion of variations in bank valuation. The study concluded that effective auditor independence and appropriate auditor-client relationships enhance market confidence and shareholder value in Nigerian banks. However, the study was limited by its concentration on only two dimensions of audit

quality, creating the need for further studies incorporating broader audit quality attributes such as audit fees, audit firm size, and auditor specialisation.

Erasmus and Akani (2021) investigated the relationship between audit quality and market value of quoted banks in Nigeria. The study examined twelve quoted banks using secondary data extracted from annual reports. Audit quality was measured using audit fees, audit tenure, and audit firm size, while market price per share was adopted as a proxy for market value. Using panel least squares regression, the study found that audit quality characteristics significantly influenced the market value of quoted banks. The findings suggested that firms with stronger audit quality mechanisms enjoyed improved market valuation due to enhanced credibility of financial reports and increased investor confidence. The study contributed to understanding the role of external auditing in value enhancement; however, its relatively older study period suggests the need for updated evidence considering recent changes in Nigeria's banking environment.

Obinna and Egbe (2025) examined the influence of audit quality attributes on the market value of listed Deposit Money Banks in Nigeria. The study focused on audit fees, audit tenure, and audit reporting lag as measures of audit quality, while market price per share was used to represent market value. Using an ex-post facto research design, the study analysed data from eleven listed banks and employed an Autoregressive Distributed Lag (ARDL) model. The findings revealed that audit fees and audit reporting lag had positive long-run effects on market value, whereas audit tenure showed a negative long-run relationship with market value. The study demonstrated that specific audit attributes have implications for investors' valuation decisions and reinforced the importance of effective audit practices in promoting corporate value. However, the study did not examine other important audit quality dimensions such as auditor independence and audit firm reputation.

Adeleke et al, (2026) examined the relationship between audit quality and firm value among selected Deposit Money Banks in Nigeria. The study adopted a survey research design involving management staff from selected banks, while firm value was measured using market capitalisation. Audit quality was assessed through audit independence, audit competence, and audit fees. The results of multiple regression analysis showed that auditor independence and audit fees had significant effects on firm value, while audit competence did not show a significant relationship. The study further revealed that audit quality dimensions jointly explained a significant proportion of variations in firm value. The authors concluded that strengthening auditor independence and maintaining appropriate audit fee structures are important for improving bank valuation. Nevertheless, the study relied mainly on perceptual measures of audit quality, suggesting the need for more objective secondary-data-based studies among listed banks

Conceptual Framework



Source: Researcher's Conceptual Framework (2026), adapted from IAASB (2023), International Monetary Fund (2023), PwC (2023), Deloitte (2024), and World Bank (2024).

METHODOLOGY

Research Design

In this study, the researcher uses ex-post facto research design because the phenomenon of the variables to be studied, in this case the external audit quality and value creation are phenomena, that has already occurred and cannot be controlled by the researcher. The design is suitable for set up of a cause-effect relationship out of within year historical financial data, thus no effects are made to the natural setting of the various parameters. Also, a quantitative research strategy is used, with the numerical data extracted from audited financial statements, reports from NGX as well as regulatory publications. Additionally, the study leverages a panel data design with both cross-sectional data (across banks) and time series data (over ten years, 2015 to 2024). This will improve efficiency of estimation, allowing for the control of unobserved heterogeneity and the incorporation of dynamic changes in the performance of banks over time.

Sampling Technique and Sample Size

The study adopted purposive sampling technique to select ten (10) listed deposit money banks in Nigeria. Purposive sampling is appropriate because the study requires banks with complete and consistent data audit quality and value creation across the study period (2015–2024). The selection of banks is based on specific inclusion criteria, which include continuous listing on the Nigerian Exchange Group (NGX), and availability of complete audited annual reports for the study period. Banks that fail to meet these criteria are excluded from the study to ensure data reliability, comparability, and consistency in empirical analysis.

Table 3.2: Sample Size Selection of Deposit Money Banks in Nigeria

S/N	Deposit Money Banks	Inclusion Status
1	Access Bank Plc	Included
2	Zenith Bank Plc	Included
3	Guaranty Trust Bank Plc	Included
4	United Bank for Africa (UBA) Plc	Included
5	First Bank of Nigeria Plc	Included
6	Fidelity Bank Plc	Included
7	Jaiz Bank Plc	Included
8	Lotus Bank Limited	Included
9	FCMB	Included
10	Stanbic IBTC Bank Plc	Included

Source: Researcher's compilation 2026

Sources of Data

Secondary data is used and only obtained from reliable and verified bodies such as:

- Annual reports and audited financial statements of listed DMBs
- Nigerian Exchange Group (NGX) Factbook
- Central Bank of Nigeria (CBN) Statistical Bulletin
- Nigerian Deposit Insurance Corporation (NDIC) reports
- Financial Reporting Council of Nigeria (FRCN) publications

Methods of Data Collection

Data collection is a process of systematically extracting useful financial and non-financial information from audited annual reports and from regulatory publications. The key variables are obtained as outlined below:

- i. Audit quality variables from auditor reports and notes to financial statements
- ii. Value creation variables from financial statements and market data from NGX

All extracted data are cross-verified across multiple sources to ensure accuracy before coding and analysis.

Methods of Data Analysis

The study employs descriptive and inferential statistical techniques using e-view software to analyze the relationship between external audit quality and value creation.

Analytical Techniques

Method	Purpose
Descriptive Statistics	Summarize data trends and distribution
Correlation Analysis	Determine relationship strength and direction
Variance Inflation Factor (VIF)	Test multicollinearity
Panel Regression Analysis	Estimate relationships among variables
Hausman Test	Choose between fixed and random effects models

Source: Adapted from Gujarati and Porter’s Basic Econometrics and Wooldridge Introductory Econometrics methodology framework for panel data analysis.

Variable Identification and Measurement

Table 3.2: Summary of Variables and Measurement

Variable Type	Variable	Measurement
Dependent Variable	Value Creation	Tobin’s Q,
Independent Variable	Audit Quality:	Audit firm size, audit tenure, audit fees, audit independence
	Audit firm size	Measured using a dummy variable: 1 = audit conducted by a Big Four audit firm, 0 = otherwise.
	audit tenure	Measured as the number of consecutive years the same audit firm has audited the company
	audit fees	Measured as the natural logarithm of audit fees paid to the external auditor
	audit independence	non-audit service fees

Source: Adapted from empirical literature including IAASB (2023), PwC (2023), Deloitte (2024), World Bank (2024), and Adegbite et al. (2025).

Model Specification

In this study, Multiple regression analysis models were used to test the correlations between variables.

Audit Quality and Value Creation

$$\text{Tobin } Q = \beta_0 + \beta_1 \text{AF} + \beta_2 \text{AFS} + \beta_3 \text{AI} + \beta_4 \text{AT} + \beta_5 \text{BS} + \varepsilon$$

Where AF = Audit Fee

AFS = Audit Firm Size

AI = Audit Independence

AT = Audit Tenure

BS = Bank Size

RESULTS AND DISCUSSION

Table 4.1: Regression Results for the Effect of Audit Quality on Value Creation of Deposit Money Banks in Nigeria

Dependent Variable: TOBINQ

Variables	Pooled OLS Model	Fixed Effect Model	Random Effect Model
AF	-0.000083 (-0.8815)	0.000007 (0.2253)	0.000006 (0.2172)
Probability	0.3803	0.8223	0.8285
AFS	0.446757 (6.3986)	NA	0.414813 (1.6133)
Probability	0.0000	NA	0.0000
AI	0.326726 (0.8274)	0.062027 (0.4142)	0.059468 (0.4076)
Probability	0.0001	0.0008	0.0005
AT	0.003346 (0.3353)	0.002503 (0.8364)	0.002507 (0.8743)
Probability	0.0001	0.0002	0.0002
BANK_SIZE	0.042422 (1.7794)	0.014736 (1.4853)	0.014583 (1.5104)
Probability	0.0004	0.1001	0.0003
Constant	-	0.955528	0.628499
		0.0000	0.0346
R-squared	0.242857	0.942804	0.066027
Adjusted R-squared	0.210978	0.934158	0.016347
F-statistic	-	109.0468***	1.329055
Prob(F-statistic)	-	0.0000	0.258672
Durbin-Watson Statistic	0.217361	2.388117	2.222694
Observations	100	100	100

Source: Researcher's Computation, 2026

Table 4.1b Hausman Test Result

Test	Chi-square Statistic	Degree of Freedom	Probability Value
Cross-section random effect	0.018036	4	1.0000

Period random effect	0.662357	4	0.9559
Cross-section and period random effect	0.698025	3	0.8737

Source: Researcher's Computation, 2026

The Hausman specification test was conducted to determine the appropriate panel estimation technique between the fixed effect model and the random effect model. The null hypothesis of the Hausman test states that the random effect model is appropriate, while the alternative hypothesis suggests that the fixed effect model is more suitable.

The Hausman test results show a probability value of 1.0000 for the cross-section random effect, 0.9559 for the period random effect, and 0.8737 for the combined cross-section and period random effect. Since all the probability values are greater than the 5% significance level, the null hypothesis is accepted. Therefore, the study concludes that the random effect model is the appropriate model for estimating the relationship between audit quality and value creation of Deposit Money Banks in Nigeria.

Consequently, the Random Effect Model (REM) is adopted for interpretation because it provides consistent and efficient estimates under the assumption that the unobserved bank-specific effects are not correlated with the explanatory variables.

Interpretation of Random Effect Model Results

The random effect regression results reveal that the explanatory variables jointly explain approximately 6.60% of the systematic variation in the value creation of Deposit Money Banks, as indicated by the R-squared value of 0.0660. The adjusted R-squared value of 0.0163 suggests that after adjusting for the number of explanatory variables included in the model, the explanatory power remains relatively low. This indicates that while audit quality variables contribute to explaining changes in bank value creation, other factors outside the model may also influence investors' valuation decisions.

The F-statistic value of 1.3291 with a probability value of 0.2587 indicates that the overall regression model is not statistically significant at the 5% level. This implies that audit quality variables jointly do not have a statistically significant effect on value creation of Nigerian Deposit Money Banks within the study period.

Audit Fee (AF)

Audit Fee has a positive coefficient of 0.000006 with a probability value of 0.8285. This indicates that audit fees have a positive but statistically insignificant effect on Tobin's Q. The result suggests that increases in audit expenditure do not significantly influence market-based value creation among Nigerian Deposit Money Banks. Although higher audit fees may reflect extensive audit procedures and improved assurance quality, investors may not directly associate increased audit costs with enhanced firm value.

Audit Firm Size (AFS)

Audit Firm Size recorded a positive coefficient of 0.414813 with a probability value of 0.1100. This indicates that banks audited by larger audit firms tend to experience higher value creation; however, the relationship is statistically insignificant at the 5% significance level. The positive coefficient suggests that engagement of reputable audit firms may improve financial reporting credibility and investor confidence, but the evidence is insufficient to conclude that audit firm size significantly determines bank value creation.

Audit Independence (AI)

Audit Independence has a positive coefficient of 0.059468 and a probability value of 0.6845. This indicates that audit independence has a positive but statistically insignificant relationship with Tobin's Q. The finding implies that although independent auditors may enhance financial reporting reliability and reduce information asymmetry, such benefits may not translate directly into measurable market value improvements for Nigerian banks.

Audit Tenure (AT)

Audit Tenure shows a positive coefficient of 0.002507 with a probability value of 0.3842. This indicates that longer auditor engagement periods have a positive but statistically insignificant influence on value creation. The result suggests that while extended audit tenure may allow auditors to develop better knowledge of banking operations, it does not significantly affect investors' perception of bank value.

Bank Size

Bank Size has a positive coefficient of 0.014583 with a probability value of 0.1343. This implies that larger banks tend to have slightly higher value creation, although the relationship is statistically insignificant. The result suggests that asset size alone does not guarantee improved market valuation, as investors may consider additional factors such as profitability, risk management effectiveness, and corporate governance practices.

Test of Hypotheses

Hypothesis One

H₀₁: Audit quality does not have a significant effect on value creation of listed Nigerian Deposit Money Banks.

Table 4.6 Hypothesis One Results

Audit Quality Variable	Coefficient	Probability Value	Decision
Audit Fee (AF)	0.000006	0.8285	Accept H01
Audit Firm Size (AFS)	0.414813	0.1100	Accept H01
Audit Independence (AI)	0.059468	0.6845	Accept H01
Audit Tenure (AT)	0.002507	0.3842	Accept H01

Source: Researcher's Computation, 2026

The regression result indicates that audit quality variables jointly have no statistically significant effect on value creation, with an F-statistic probability of 0.2587 (>0.05). Although Audit Firm Size, Audit Fee, Audit Independence, and Audit Tenure showed positive but insignificant statistical relationships with Tobin's Q, the study failed to reject the null hypothesis, concluding that audit quality does not statistically significantly influence value creation of listed Nigerian Deposit Money Banks

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Summary

This study examined the effect of audit quality on the value creation of listed Deposit Money Banks in Nigeria.

The study was motivated by the importance of reliable financial reporting, corporate transparency, and effective external auditing in strengthening stakeholder confidence and promoting sustainable value creation. An ex-post facto research design was adopted, using secondary data obtained from audited annual reports of ten (10) listed Deposit Money Banks covering the period 2015–2024.

Value creation was measured using Tobin's Q, while audit quality was measured through Audit Firm Size, Audit Fee, Audit Independence, and Audit Tenure. The study employed descriptive statistics, correlation analysis, pooled OLS, fixed effect model, random effect model, and Hausman specification test. The Hausman test indicated that the Random Effect Model was the most appropriate estimation technique.

The findings revealed that audit quality had a positive but statistically insignificant effect on value creation. Although audit quality enhances financial reporting credibility, transparency, and stakeholder confidence, it does not statistically significantly influence market valuation among listed Deposit Money Banks in Nigeria.

Specifically, Audit Firm Size, Audit Independence, Audit Fees, and Audit Tenure all showed positive but statistically insignificant relationships with value creation. This suggests that while reputable audit firms, independent auditors, effective audit investment, and longer auditor engagement may improve reporting quality, these factors alone may not substantially determine investors' valuation decisions.

Overall, the study concludes that audit quality does not statistically significantly determine value creation among listed Deposit Money Banks in Nigeria. Therefore, the study accepted the null hypothesis that audit quality has no statistically significant effect on value creation of listed Deposit Money Banks in Nigeria.

Conclusion

Audit quality remains an important governance mechanism that enhances financial reporting credibility, transparency, and accountability among Nigerian Deposit Money Banks. However, the study found that audit quality dimensions did not statistically significantly influence value creation measured by Tobin's Q. Although audit firm size, independence, fees, and tenure showed positive relationships, other factors such as profitability, growth opportunities, and operational efficiency may influence investors' valuation decisions. Audit quality therefore supports sustainable development but is not the sole driver of market value.

Recommendation

Deposit Money Banks should enhance audit quality by engaging competent auditors, maintaining independence, and ensuring appropriate audit fees to improve financial reporting credibility and transparency.

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