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Auditor Independence, Financial Reporting Quality and Financial Performance of Quoted Deposit Money Banks in Nigeria

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ABSTRACT

This study examined the effect of auditor independence on the financial reporting quality and financial performance of quoted deposit money banks in Nigeria over the period 2010 to 2024. Two concerns motivated the enquiry. The first is that recurring banking crises and financial misstatements in Nigeria have raised persistent questions about whether the external audit function genuinely safeguards the credibility of published financial statements. The second is that the empirical literature has generally examined auditor independence, reporting quality and financial performance in isolation rather than testing whether reporting quality mediates the independence–performance relationship. Anchored on Agency Theory and Information Asymmetry Theory, the study pursued two objectives: to examine the effect of auditor independence on financial reporting quality, and to determine its effect on financial performance with reporting quality tested as a mediating channel. Four regression models operationalised these objectives. Auditor independence was proxied by audit fees, audit tenure and audit firm size; financial reporting quality was measured using discretionary accruals from the Modified Jones Model; and financial performance was measured using return on assets and return on equity. All thirteen listed deposit money banks were observed over fifteen years, yielding a balanced panel of 195 bank-year observations drawn from audited annual reports. Data were analysed using descriptive statistics, Pearson correlation and panel regression, with the Hausman test used to select between the fixed and random effects estimators. On the first objective, audit fees and Big Four membership significantly reduced discretionary accruals while audit tenure significantly increased them, establishing that auditor independence affects reporting quality. On the second objective, auditor independence significantly affected both return on assets and return on equity; when financial reporting quality was introduced into the performance equation, the effect of audit tenure on performance disappeared and the audit fee coefficient declined, establishing financial reporting quality as a mediating channel. The combined model accounted for 74.8 per cent of the variation in return on assets and 68.3 per cent of the variation in return on equity. The study concludes that auditor independence influences financial performance both directly and indirectly through its effect on reporting quality, and recommends that regulators enforce mandatory audit firm rotation, that banks ensure audit fees adequately reflect engagement scope, and that investors treat audit quality indicators as material signals of bank credibility.

Keywords: Auditor Independence; Financial Reporting Quality; Financial Performance; Deposit Money Banks; Audit Fees; Audit Tenure; Discretionary Accruals; Nigeria

INTRODUCTION

Deposit money banks occupy a structurally important position in the Nigerian economy. They mobilise savings, allocate credit and transmit monetary policy into the productive sectors. Because capital markets, depositors, regulators and investors all rely on the published financial statements of these institutions when making resource allocation decisions, the credibility of those statements carries consequences that extend well beyond the banks themselves.

The external audit function is the principal mechanism through which that credibility is supposed to be assured. Independent auditors examine the books, form an opinion on whether the statements present a true and fair view, and in doing so reduce the information gap between management and external stakeholders. The theoretical case is grounded in Agency Theory: the separation of ownership and control creates incentives for managers to report opportunistically, and an independent auditor, acting as a delegated monitor, constrains that behaviour (Jensen & Meckling, 1976). Information Asymmetry Theory complements the argument by specifying the channel: managers possess information that outsiders do not, and a credible audit narrows that gap, which lowers the cost of capital and improves resource allocation (Patterson et al., 2019).

Whether the mechanism works as intended is an empirical question rather than a settled one. The Nigerian banking sector has experienced repeated episodes in which institutions reporting healthy earnings under unqualified audit opinions subsequently entered distress, prompting questions about the substantive independence of their auditors (Nwafor & Amahalu, 2021; Ogungbade et al., 2021). These episodes sit against a broader international literature that has examined the determinants of audit quality and their consequences for both reporting quality and firm performance, but with results that are often mixed and sensitive to the proxies employed.

Three specific features of the evidence motivate the present study. Audit fees, commonly interpreted as an indicator of audit effort, carry a dual reading: higher fees may reflect more thorough scrutiny, but they may also create economic dependence on the client, potentially compromising the auditor's willingness to challenge management (Oladejo et al., 2025; Ogundele et al., 2024). Audit tenure presents a parallel trade-off: shorter engagements may sacrifice client-specific knowledge, while prolonged engagements may erode professional scepticism through familiarity (Onyabe et al., 2018; Saleh Aly et al., 2023). Audit firm size, proxied by Big Four membership, is associated with reputational capital and superior technical capacity, yet audit failures involving large firms demonstrate that size alone does not guarantee quality (Emovon & Ogbonmwan, 2024).

A structural limitation of the existing literature compounds the interpretive difficulty. Most studies examine either the link between auditor independence and reporting quality or the link between audit quality and financial performance, but not both within the same framework. Where both are studied, financial reporting quality is rarely treated as a mediating channel. This fragmentation matters because it leaves open the question of how auditor independence transmits its effect to performance: directly, through investor confidence and reduced information asymmetry, indirectly through improved reporting quality, or through both routes simultaneously.

The study is guided by the following research questions:

1. What is the effect of auditor independence on the financial reporting quality of quoted deposit money banks in Nigeria?

2. What is the effect of auditor independence on the financial performance of quoted deposit money banks in Nigeria, and does financial reporting quality mediate that relationship?

The main objective is to examine the effect of auditor independence on the financial reporting quality and financial performance of quoted deposit money banks in Nigeria. The specific objectives are to:

1. examine the effect of auditor independence on the financial reporting quality of quoted deposit money banks in Nigeria; and

2. determine the effect of auditor independence on the financial performance of quoted deposit money banks in Nigeria, with financial reporting quality tested as a mediating channel.

In line with the foregoing objectives, the following null hypotheses are tested at the five per cent significance level:

H_{01}: Auditor independence has no significant effect on the financial reporting quality of quoted deposit money banks in Nigeria.

H_{02}: Auditor independence has no significant effect on the financial performance of quoted deposit money banks in Nigeria.

LITERATURE REVIEW

Auditor Independence

Auditor independence refers to the capacity of external auditors to discharge their professional duties objectively and without undue influence from management or other interested parties. It is conventionally decomposed into independence in fact, which concerns the auditor's actual state of mind, and independence in appearance, which concerns how external stakeholders perceive the auditor's neutrality. Both dimensions matter: independence in fact determines whether misstatements will be reported, while independence in appearance determines whether the market attaches credibility to the report (Nwafor & Amahalu, 2021). The distinction carries particular weight in the Nigerian banking sector, where episodes of bank distress following unqualified opinions have damaged public confidence in the audit function (Danladi & Magaji, 2021).

Because independence cannot be observed directly, it is measured through proxies. Audit fees capture the economic dimension. Higher fees may indicate greater audit effort, which strengthens scrutiny and constrains earnings management, but they may equally create economic bonding between the auditor and the client, weakening the auditor's incentive to issue adverse findings (Oladejo et al., 2025; Ogundele et al., 2024). The net effect is treated in this study as an empirical question. Audit tenure captures the relational dimension. Early in an engagement, auditors face a learning curve; as the relationship lengthens, accumulated knowledge improves audit efficiency, but beyond a certain point familiarity erodes scepticism and may compromise objectivity (Onyabe et al., 2018; Saleh Aly et al., 2023). Regulatory responses, including mandatory rotation, rest on the judgement that the costs of familiarity eventually outweigh the benefits of knowledge. Audit firm size captures the reputational dimension. Larger firms, particularly the Big Four, have more to lose from audit failure and invest accordingly in training, industry specialisation and internal quality control (Ugwu et al., 2020). Their diversified revenue base also reduces economic dependence on any single client.

Several additional factors shape independence in practice. The provision of non-audit services may create self-review threats and align the auditor's financial incentives with those of the client (Loew & Nguyen, 2024). Auditor competence determines whether misstatements will be detected; independence determines whether they will be reported. Audit quality therefore requires the joint presence of both attributes (Nwafor & Amahalu, 2021). In Nigeria, regulatory oversight is shared among the Financial Reporting Council of Nigeria, the Central Bank of Nigeria, the Securities and Exchange Commission and the Institute of Chartered Accountants of Nigeria, but the persistence of reporting failures suggests that formal provisions do not automatically translate into substantive independence (Ogungbade et al., 2021).

Financial Reporting Quality

Financial reporting quality describes the extent to which financial statements provide a true and fair view of a firm's financial position and performance. High-quality reporting is characterised by accuracy, reliability, transparency and compliance with established accounting standards, and its importance lies principally in reducing the information asymmetry between management and external stakeholders (Asuquo et al., 2025; Oladejo et al., 2020). In the Nigerian banking sector, the adoption of International Financial Reporting Standards was expected to improve comparability and disclosure quality, yet empirical evidence suggests that the mere adoption of standards does not guarantee high reporting quality where enforcement is uneven and governance structures are weak.

Earnings management is the principal threat to reporting quality. Managers may exercise accounting discretion to meet performance targets, influence stock prices or secure contractual benefits, and such practices distort the informational content of financial statements (Soyemi et al., 2020). Empirical research measures reporting quality through accrual-based models, particularly discretionary accruals estimated from the Modified Jones Model, where lower absolute discretionary accruals are interpreted as higher reporting quality. The measurement is imperfect — the model relies on assumptions about the relationship between non-discretionary accruals and firm characteristics — but it remains the most widely employed proxy in the literature and facilitates cross-study comparison.

Financial Performance

Financial performance in banking is conventionally assessed through accounting-based ratios. Return on assets relates net income to total assets and indicates how efficiently the asset base is deployed. Return on equity relates net income to shareholders' funds and indicates the return generated on owners' capital. The two measures capture different aspects of profitability and are influenced by different drivers: asset efficiency, funding cost and loan quality dominate ROA, while leverage, cost structure and fee income feature more prominently in ROE.

The link between audit quality and performance operates through two channels. A direct channel runs through investor confidence: credible reporting reduces uncertainty, lowers the cost of capital and improves access to financing, which supports profitability. An indirect channel runs through reporting quality: by constraining earnings management, a high-quality audit produces financial statements that support better internal and external decision-making, which in turn contributes to improved financial outcomes (Adigbole et al., 2024; Haddad, 2022). The distinction matters because an indirect channel implies mediation, and if financial reporting quality mediates the auditor-independence–performance relationship, the design of the regression model should accommodate that structure rather than estimating the relationship in a single equation.

THEORETICAL FRAMEWORK

The study is anchored on Agency Theory and Information Asymmetry Theory. Agency Theory, developed by Jensen and Meckling (1976), holds that the separation of ownership and control creates agency costs because managers may pursue interests that diverge from those of shareholders. The external audit functions as a monitoring mechanism that constrains opportunistic managerial behaviour and aligns the interests of the two parties. The theory predicts that stronger auditor independence will improve reporting quality by limiting earnings management, and that improved reporting quality will in turn reduce agency costs and support performance.

Information Asymmetry Theory complements this account by specifying the informational channel. Managers possess detailed knowledge of the firm's operations and financial condition that external stakeholders do not share. A credible audit narrows that information gap, which reduces adverse selection and moral hazard in capital markets, lowers the cost of equity and debt, and improves the efficiency of resource allocation. Signalling Theory adds a further dimension: a high-quality audit, particularly one conducted by a large and reputable firm, sends a signal to the market about the reliability of the financial statements, which enhances investor confidence independently of the informational content of the statements themselves.

Taken together, these perspectives generate the central proposition of the study. Agency Theory establishes why auditor independence should affect reporting quality; information asymmetry reasoning explains why improved reporting quality should affect performance; and signalling theory explains why aspects of audit quality, such as firm size, may carry a direct performance effect alongside the indirect one.

Empirical Review

Nigerian evidence on the relationship between auditor independence and reporting quality is broadly positive but qualified. Nwafor and Amahalu (2021) and Oladejo et al. (2025) report that stronger auditor independence enhances the credibility of financial statements. Amahalu (2019) documents the adverse effect of extended audit tenure on audit quality, and Soyemi, Olufemi and Abayomi (2020) find that external audit quality reduces accrual-based earnings management among Nigerian firms. Outside Nigeria, Patterson et al. (2019) demonstrate that audit quality and managerial reporting choices interact to shape reporting outcomes, while Saleh Aly, Diab and Abdelazim (2023) report that the net effect of audit tenure on reporting quality is contingent on how long the relationship has lasted.

On the relationship between audit quality and financial performance, Adigbole et al. (2024) and Haddad (2022) report positive associations among Nigerian and Middle Eastern banks respectively, attributing the gains to enhanced investor confidence and reduced information costs. Ugwu, Aikpitanyi and Idemudia (2020) find a significant positive effect of audit quality on the performance of Nigerian deposit money banks. International

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evidence points in the same direction: Citterio, King and Locatelli find digital transformation and audit quality jointly affecting performance in European banks, while Al-Faryan and Al-Zoubi (2023) observe audit quality contributing to performance differences between listed and unlisted Tunisian firms.

The evidence is not uniform, however. Ogbodo and Akabuogu (2018) report weak or insignificant effects of audit quality on performance in certain Nigerian contexts, and audit tenure produces inconsistent results across studies, with some finding no significant association once other audit attributes are controlled for (Onyabe et al., 2018). The inconsistency is partly methodological: studies differ in their choice of proxies, sample composition, time periods and estimation techniques, which makes direct comparison difficult.

Gaps in Literature

Three deficiencies emerge from the reviewed evidence. The relationship between auditor independence and financial reporting quality has generally been examined separately from the relationship between reporting quality and financial performance, so that no integrated account exists of how independence transmits its effect through reporting quality to performance within a common sample and period. Where both constructs appear together, reporting quality is not formally treated as a mediating variable, which means the indirect channel remains untested. And much of the Nigerian evidence predates or only partially covers the period of IFRS adoption, tightening corporate governance codes and evolving audit practices. This study addresses these gaps by estimating four models within an integrated framework on a balanced panel covering 2010 to 2024.

METHODOLOGY

An ex-post facto research design was adopted within a quantitative framework. The design is appropriate because the variables of interest are historical, recorded in audited financial statements, and beyond the researcher's manipulation. The data combine a cross-sectional dimension across banks with a time-series dimension across years, and were accordingly assembled as a panel.

The population comprised all deposit money banks listed on the Nigerian capital market. A census of all thirteen listed banks was employed, since the population is small enough to be observed in its entirety. Each bank was observed over fifteen years from 2010 to 2024, yielding a balanced panel of 195 bank-year observations. The study relied exclusively on secondary data extracted from audited annual reports and financial statements.

The dependent variable is financial performance, measured by return on assets (ROA, net income to total assets) and return on equity (ROE, net income to total equity). The mediating variable is financial reporting quality (FRQ), proxied by the absolute value of discretionary accruals estimated from the Modified Jones Model, where higher discretionary accruals denote lower reporting quality. The independent variable is auditor independence, proxied by three measures: audit fees (AFEE, the natural logarithm of fees disclosed in annual reports), audit tenure (ATEN, the number of consecutive years an audit firm has served the same client), and audit firm size (AFSIZE, a dummy coded 1 for Big Four and 0 otherwise).

Four regression models were specified. The first operationalises Objective i; the remaining three operationalise Objective ii by testing the independence–performance relationship without the mediator, with the mediator alone, and then with both independence and the mediator entered jointly, which is the standard step-wise procedure for establishing mediation.

Model 1 (Objective i — Independence → FRQ): $FRQit = \beta 0 + \beta 1AFEEit + \beta 2ATENit + \beta 3AFSIZEit + \mu i + \varepsilon it$

Model 2 (Objective ii, Step 1 — Independence → Performance): $ROAit / ROEit = \beta 0 + \beta 1AFEEit + \beta 2ATENit + \beta 3AFSIZEit + \mu i + \varepsilon it$

where i indexes banks, t indexes years, β0 is the intercept, βk are slope coefficients, μi is the bank-specific effect and εit is the stochastic error term. A priori, audit fees and audit firm size were expected to carry negative signs against discretionary accruals (implying improved reporting quality) and positive signs against performance,

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while audit tenure was expected to carry a positive sign against discretionary accruals and a negative sign against performance. Analysis proceeded in stages. Descriptive statistics were computed to characterise each variable. A Pearson correlation matrix established bivariate associations and screened for multicollinearity. Each model was estimated using panel regression, with the Hausman specification test used to select between the fixed and random effects estimators. Where the Hausman statistic was insignificant, or where the time-invariant audit firm size dummy precluded the within estimator, random effects was adopted. H_{01} was tested using the F-statistic of Model 1. H_{02} was tested using the F-statistics of Models 2. All tests were conducted at the five per cent significance level.

RESULTS AND DISCUSSION

Descriptive Statistics

Table 1**Descriptive Statistics of Study Variables**

Variable	Mean	Median	Max.	Min.	Std. Dev.	Skew.	Kurt.	J-B	Prob.
ROA	2.739	3.052	5.577	0.200	1.330	−0.451	2.351	10.018	0.007
ROE	15.505	15.918	28.229	2.500	6.111	−0.327	2.440	6.018	0.049
FRQ	0.074	0.072	0.141	0.019	0.028	0.246	2.362	5.282	0.071
AFEE	12.300	12.364	13.365	11.168	0.518	−0.397	2.355	8.517	0.014
ATEN	5.554	5.000	17.000	1.000	3.340	0.819	3.485	23.709	0.000
AFSIZE	0.538	1.000	1.000	0.000	0.500	−0.154	1.024	32.505	0.000

Source: Researcher’s Computation (2026)

The sampled banks recorded a mean return on assets of 2.74 per cent and mean return on equity of 15.51 per cent, placing the sector within a reasonable profitability band. Financial reporting quality, proxied by absolute discretionary accruals, averaged 0.074 with a low standard deviation of 0.028, indicating moderate and relatively uniform earnings management across the sample. Audit fees, in logarithmic terms, averaged 12.300, while audit tenure averaged 5.55 years, with considerable variation (range of 1 to 17 years) reflecting differences in the length of auditor-client relationships across banks. About 54 per cent of bank-year observations involved a Big Four auditor.

Distributional properties largely support parametric estimation. Most variables approximate normality on the Jarque-Bera test, though ROA, audit tenure and audit firm size depart from normality, which is common in banking panel data and does not invalidate the large-sample properties of the estimators employed.

Correlation Analysis

Table 2 **Correlation Matrix of Study Variables**

	ROA	ROE	FRQ	AFEE	ATEN	AFSIZE
ROA	1.000					
ROE	0.768	1.000				
FRQ	−0.838	−0.770	1.000			
AFEE	0.704	0.704	−0.655	1.000		
ATEN	−0.130	−0.044	0.296	0.230	1.000	
AFSIZE	0.438	0.403	−0.405	0.766	0.247	1.000

Source: Researcher’s Computation (2026)

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Discretionary accruals correlate strongly and negatively with both ROA (r = −0.838) and ROE (r = −0.770), indicating that higher earnings management is associated with weaker performance. Audit fees correlate positively with performance and negatively with discretionary accruals, consistent with the effort interpretation. Audit tenure correlates positively with discretionary accruals (r = 0.296), providing preliminary support for the familiarity-threat argument. The highest inter-regressor correlation is between audit fees and audit firm size (r = 0.766), which is notable but falls below the 0.80 threshold commonly regarded as problematic for multicollinearity.

Regression Results

Table 3 **Model 1: Auditor Independence and Financial Reporting Quality**

Variable	Coefficient	Interpretation	Prob.
AFEE	−0.0481***	Reduces accruals	0.000
ATEN	0.0039***	Raises accruals	0.000
AFSIZE	−0.0088**	Reduces accruals	0.022
R^2	0.649		
F-Statistic	117.832***		0.000
Hausman Test	0.000		1.000
Decision	Random Effects		

Source: Researcher’s Computation (2026). *** 1% level; ** 5% level. Dependent variable: discretionary accruals (lower = higher FRQ).

Audit fees exert a negative and significant effect on discretionary accruals ($\beta = -0.0481$, $p < 0.01$), indicating that a unit increase in the logarithm of audit fees reduces discretionary accruals by 0.048 and thereby improves reporting quality. The result supports the interpretation that higher fees reflect greater audit effort and scrutiny, which constrain managerial earnings manipulation. Audit tenure exerts a positive and significant effect ($\beta = 0.0039$, $p < 0.01$), implying that each additional year of engagement raises discretionary accruals and weakens reporting quality, consistent with the familiarity-threat hypothesis. Audit firm size carries a negative and significant coefficient ($\beta = -0.0088$, $p < 0.05$), indicating that Big Four membership is associated with lower earnings management. The model accounts for 64.9 per cent of the variation in reporting quality.

Table 4 **Model 2: Auditor Independence and Financial Performance**

Variable	ROA	ROE
AFEE	2.362*** (0.000)	11.513*** (0.000)
ATEN	−0.117*** (0.000)	−0.358*** (0.000)
AFSIZE	−0.516*** (0.007)	−3.627*** (0.000)
R^2	0.602	0.577
F-Statistic	96.133*** (0.000)	86.835*** (0.000)
Hausman Test	0.000	0.000
Decision	Random Effects	Random Effects

Source: Researcher’s Computation (2026). *** 1% level; p-values in parentheses.

Audit fees exert a positive and significant effect on both ROA ($\beta = 2.362$, $p < 0.01$) and ROE ($\beta = 11.513$, $p < 0.01$), indicating that stronger audit quality, as proxied by fees, is associated with improved performance. Audit tenure carries a negative and significant effect on both measures, reinforcing the earlier finding that prolonged engagements weaken outcomes, most likely through their adverse impact on reporting quality. The negative sign on audit firm size, once audit fees are controlled for, reflects the strong positive correlation between the two

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proxies (r = 0.766): the marginal contribution of the Big Four dummy is absorbed by the fee variable. The models explain 60.2 and 57.7 per cent of the variation in ROA and ROE respectively.

Test of Hypotheses

Table 7 **Summary of Hypothesis Testing**

Hypothesis	Model(s)	F-Statistic	Prob.	Decision
H_{01}	Model 1 (Independence → FRQ)	117.832	0.000	Reject H_{01}
H_{02}	Model 2 (Independence → Performance)	96.133 / 86.835	0.000	Reject H_{02}

Source: Researcher's Computation (2026)

Both null hypotheses are rejected at the five per cent level. H_{01} is rejected on the basis of Model 1: auditor independence significantly affects financial reporting quality. H_{02} is rejected on the basis of Models 2 through 4: auditor independence significantly affects financial performance, and the mediation evidence from the comparison of Models 2 and 4 confirms that financial reporting quality transmits part of that effect. Specifically, the audit tenure coefficient is significant in Model 2 but insignificant in Model 4, and the audit fee coefficient is smaller in Model 4 than in Model 2, which is the standard pattern for partial mediation.

DISCUSSION OF FINDINGS

On the first objective, the results establish that auditor independence has a significant effect on reporting quality. Audit fees reduce earnings management, consistent with the effort-and-scrutiny interpretation advanced by Nwafor and Amahalu (2021) and Oladejo et al. (2025). Longer audit tenure increases discretionary accruals, lending support to the familiarity-threat hypothesis documented by Amahalu (2019) and Onyabe et al. (2018). Big Four membership further constrains earnings management, in line with the reputation hypothesis that larger firms invest more in maintaining audit quality (Ugwu et al., 2020).

On the second objective, the step-wise estimation reveals both a direct and an indirect channel. Model 2 shows that auditor independence directly affects performance, with audit fees improving both ROA and ROE and tenure exerting a negative effect. This aligns with Adigbole et al. (2024) and Haddad (2022), who attribute the gains to enhanced investor confidence and reduced information asymmetry. The integrated model accounts for 74.8 per cent of the variation in ROA and 68.3 per cent in ROE, which represents a substantial improvement over either the independence-only or the reporting-quality-only specifications. The improvement itself is evidence that the two constructs contribute different information to the explanation of performance and that treating them within a common framework captures variance that a fragmented approach would miss.

Two limitations should temper the interpretation. Discretionary accruals from the Modified Jones Model are estimated, not observed, and any measurement error in the mediator attenuates the mediation effect, so the estimated indirect channel is, if anything, conservative. The insignificance of audit tenure in the mediated model does not mean tenure is irrelevant; it means its relevance is channelled through reporting quality, which is a substantive finding rather than a null result.

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Summary

This study examined the effect of auditor independence on the financial reporting quality and financial performance of quoted deposit money banks in Nigeria over the period 2010 to 2024. Using a census of all thirteen listed banks observed over fifteen years, yielding 195 bank-year observations, it pursued two objectives through four regression models within an integrated framework. Auditor independence was proxied by audit fees, audit tenure and audit firm size; financial reporting quality was measured using discretionary accruals from

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the Modified Jones Model; and financial performance was measured by return on assets and return on equity. Panel regression with the Hausman test guiding estimator selection was employed throughout.

On the first objective, auditor independence significantly affects financial reporting quality. Audit fees and Big Four membership reduce earnings management; audit tenure increases it. On the second objective, auditor independence significantly affects financial performance, with audit fees improving both ROA and ROE and tenure weakening both. The step-wise mediation procedure showed that when financial reporting quality entered the performance equation, the audit tenure coefficient lost significance and the audit fee coefficient declined in magnitude, establishing financial reporting quality as a mediating channel through which auditor independence transmits part of its effect to performance.

Conclusion

Auditor independence is a significant determinant of both the financial reporting quality and the financial performance of quoted deposit money banks in Nigeria. Higher audit fees, reflecting greater audit effort and scrutiny, strengthen reporting quality and enhance profitability, whereas prolonged audit tenure impairs reporting quality and depresses performance through the familiarity threat it creates. Financial reporting quality is itself a significant driver of performance, and it mediates the relationship between auditor independence and profitability, such that independence influences performance both directly and indirectly through the credibility of financial reporting. Safeguarding auditor independence and improving financial reporting quality are essential for enhancing the profitability, transparency and stability of the Nigerian banking sector.

Recommendations

1. The management and boards of deposit money banks should preserve auditor independence by ensuring that audit fees adequately reflect the scope and complexity of the audit engagement, since the findings showed that higher audit fees significantly improve financial reporting quality and financial performance.
2. Regulatory authorities, particularly the Financial Reporting Council of Nigeria and the Central Bank of Nigeria, should enforce mandatory audit firm rotation and place reasonable limits on audit tenure, given the evidence that prolonged auditor-client relationships increase discretionary accruals and weaken both reporting quality and performance.
3. Banks should strengthen their internal control and financial reporting systems to reduce discretionary accruals and earnings management, since improved financial reporting quality was found to significantly enhance return on assets and return on equity.
4. Audit committees should exercise closer oversight of the external audit process, monitor auditor independence and support the appointment of reputable audit firms, as robust governance reinforces the positive effect of auditor independence on reporting quality.
5. Investors and other stakeholders should incorporate audit quality indicators, such as auditor tenure and audit fees, into their assessment of bank credibility, since these attributes were shown to carry significant information about reporting quality and performance.
6. Policymakers should promote an institutional environment that rewards transparent financial reporting, since the mediating role of reporting quality confirms that credible disclosure translates auditor independence into improved financial performance and financial system stability.

Contribution to Knowledge

The study contributes to knowledge by providing integrated empirical evidence on how auditor independence simultaneously influences both the financial reporting quality and the financial performance of quoted deposit money banks in Nigeria within a single analytical framework. Unlike prior studies that examined these relationships in isolation, the study established financial reporting quality as a mediating channel linking auditor independence to performance, thereby addressing the fragmentation identified in the existing literature. By employing multiple proxies for auditor independence and discretionary accruals from the Modified Jones Model within a fifteen-year panel of Nigerian banks, the study offers a more comprehensive understanding of the audit-quality, reporting-quality and performance nexus that can guide regulators, auditors, investors and corporate governance stakeholders.

Suggestions for Further Studies

Three extensions would strengthen the evidence base. Future studies may extend the analysis to non-listed banks and other financial institutions, or adopt a cross-country comparative approach, to enhance the generalisability of the findings. Additional proxies of auditor independence, such as the provision of non-audit services and joint audit arrangements, as well as alternative measures of financial reporting quality and market-based performance indicators, could be incorporated. Structural equation modelling would provide a more formal test of the mediation pathway than the step-wise regression approach adopted here, and future research may also examine the moderating role of corporate governance attributes such as audit committee independence and board structure.

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