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Research Article

Audit Quality and Financial Reports of Deposit Money Banks in Nigeria

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Abstract: The study was aimed at assessing the influence of audit quality on financial reports of Deposit Money Banks (DMBs) in Nigeria. The motivation was the corporate collapses and failures experienced in the banking sector amidst the clean audit reports. The methodology adopted was ex-post-facto. Using descriptive and inferential statistics, a sample of 10 deposit money banks was purposively selected for a period of 14 years, resulting in 140 data points. The data were obtained basically from content analysis of published annual reports and accounts, and notes to the financial statements. Using Pearson Product-Moment Correlation and Linear multiple regression; the study revealed that Audit fees and Auditor tenure exert insignificant influence (3.4%, 3.3%) and exhibited significant relationship with the amount of discretionary accruals of deposit money banks in Nigeria. There existed 85.8% positive joint relationship between audit quality and financial reports. However, auditor tenure has more influence on discretionary accruals than audit fees. It was recommended that the regulatory bodies should strengthen the quality of financial reports by taking measures such as fixing optimal non-discretional accrual levels. Supervisory and regulatory authorities should check the excesses of management of these DMBs, this will reduce the risk of bank failures even with clean reports. The auditors of DMBs in Nigeria given their fees should conduct Earnings Quality Assessment (EQA) and issue "Integrated Audit reports" which will include EQA reports and Internal Control Reports in addition to normal annual audit reports. These measures will reduce and address the issues in financial reports policy which could create threat for auditors.

Keywords: Audit quality, Financial reports, Deposit Money Banks (DMBs), Discretionary accruals, Auditors tenure, Audit fees.

1.0 INTRODUCTION

The audit reports of firm operations are intended to provide the users of such reports with relevant, reliable and comparable information to permit informed decision (Kamaruzaman, Mazlifa, & Maisarah, 2009). However, Johnson (2005) argued that an annual report can never be completely free from bias, since economic phenomena presented in annual reports are frequently measured under conditions of uncertainty using estimates and assumptions. Although complete lack of bias cannot be achieved, a certain level of accuracy is necessary for financial reporting information to be decision useful (IASB, 2008). This audit function according to the Agency theory is to provide a monitoring mechanism that can curtail the excesses of managers/stewards (Dang, 2004).

This auditor's opinion assures the shareholders and stakeholders of the credibility and reliability of the report; lower risks on misstatements, increases confidence in capital markets, which in turn lowers the cost of capital for firms (Watts & Zimmerman, 1986; Heil, 2012). In recent times, it is observed that firms' with unqualified audit opinions have failed shortly after receiving this clean bill of health. The case of Parmalat in 2003 and Cadbury Nigeria, Plc in 2006 are clear examples of firms that experienced failures due to fake transactions underlying preparation and reporting. These failures are not limited to manufacturing firms alone. In 2009 Authur Andersen, an audit firm collapsed and Akintola William's audit firm was indicted in the probe of Nigeria National Petroleum Corporation (NNPC) of 2012 (Okolie, 2014). These developments have reduced the credibility, relevance and reliability of audited financial statements (Louise, 2005). The reduction or loss of relevance of audited

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financial report has been the basis for the interest in the quality of audited financial statement (IAASB, 2011; Heil, 2012).

The magnitude of corporate failures recorded in the last ten years has increased the concerns about audit quality. The cases of corporate scandals in Nigeria extend to the banking sector. The failure of Afrikbank Plc., Intercontinental Bank Plc, Bank PHB and Oceanic Bank Plc., with clean audited reports has raised a number of questions about the influence and value of external audit on the quality of accounting reports. Several studies have been conducted to assess the impact of audit quality on firms' financial reports using different measures such as Auditor size, Audit fees, Auditor tenure, audit committee, ownership structure and board independence. These studies used manufacturing and non-financial institutions as sample.

In the middle of these audit quality credibility crises, most of these studies argue (using single but different proxies) that audit quality impacts positively on financial reporting. There is need, therefore, to ascertain this relationship using a joint measure of audit quality (audit fees and auditor tenure) and a more robust measure of financial reports quality (Discretionary Accruals) adopting Modified Jones Model on deposit money banks in Nigeria.

The main objective of this study is to assess the influence of audit quality on financial reports of deposit money banks in Nigeria. Specifically, this study aims to achieve the following objectives; to:

- Ascertain the financial reports quality of deposit money banks in Nigeria using Modified Jones Model.
- Examine the measures of audit quality of deposit money banks in Nigeria.
- Determine the influence of each measures of audit quality on financial reports of deposit money banks in Nigeria.
- Determine the influence of audit quality on financial reports of deposit money banks in Nigeria.

The following null hypotheses have been developed with a view to achieving the research objectives:

Ho_1: There is no significant influence of each measures of audit quality on financial reports of deposit money banks in Nigeria.

Ho_2: There is no significant relationship between audit quality and financial reports of deposit money banks in Nigeria.

2.0 Literature Review and Theoretical Framework

According to International Auditing and Assurance Standards Board (IAASB, 2011), there have been a number of attempts to conceptualize "audit quality" in the past. However, none has resulted in a definition that has achieved universal recognition and acceptance. Audit quality (AQ) is, in essence, a complex and multi-faceted concept.

Audit Quality is subject to many direct and indirect influences. In tandem with the stakeholder theory (Khan, 2006), perceptions of AQ vary amongst stakeholders depending on their level of direct involvement in audits and on the perspective through which they assess AQ. Audit quality (AQ) may be perceived from any of three fundamental perspectives: inputs, outputs, and context factors. Inputs to AQ, apart from auditing standards, include the auditor's personal attributes such as auditor skills and experience, ethical values and mindset. Another important input is the audit process including the soundness of the audit methodology, the effectiveness of the audit tools used, and the availability of adequate technical support geared toward supporting a high quality audit.

Outputs of the audit are important influences on AQ that are considered by stakeholders in their assessments of AQ. Such influences include the auditor's report (viewed as positively influencing AQ if it clearly conveys the outcome of the audit), auditor communications to those charged with governance (on matters such as qualitative aspects of the entity's financial reporting practices and deficiencies in internal control that can positively influence AQ).

The context factors that influence AQ include sound corporate governance (especially if it creates a climate of transparency and ethical behaviour within the entity); Law and regulation (if it creates a framework within which the audit can be effectively conducted); regulatory oversight (if it establishes an effective regime for monitoring the quality of auditors' work and effective dialogue between auditors and regulators); the quality of the applicable financial reporting framework (use of a financial reporting framework that does not promote robust and transparent disclosures may adversely affect AQ as well as related external perceptions); inadequate application of the General Acceptable Auditing Standards (GAAS) by external auditors will influence financial reporting quality (Palmrose, 1998).

Essentially, agency theory, signalling theory, and auditors' theory of inspired confidence justify the key function of auditing as a mechanism for mitigating information asymmetries among related parties. The demand for audit of companies' accounts is created by the agency problems which are related to the separation of corporate ownership from control (Eilifsen & Messier, 2000; Gerayli, Yanesari, & Ma'atoofi, 2011).

The agency problem arises from the existence of asymmetric information in the principal – agent contracts (Odia, 2007). Some studies (Titman & Trueman, 1988; Schipper, 1989; Warfield, Wild &

Wild, 1995) have shown that the existence of information asymmetry between corporate management and company shareholders is a necessary condition for and easy perpetration of financial statements manipulations (Odia, 2007). The audit of a company's accounts is a monitoring or control mechanism that diminishes information asymmetry and protects the interests of the principal.

The auditors' theory of inspired confidence offers a linkage between the users' requirement for credible and reliable financial reports and the capacity of the audit processes to meet those needs. It sees through the development of these needs of the public (stakeholders) and the audit processes over time. Accountants and auditors are expected to know and realize that the public continues to expect a low rate of audit failures. This requires that the auditors must plan and perform their audit in a manner that will minimize the risk of undetected material misstatements. The accountant is under a duty to conduct his work in a manner that does not betray the confidence which he commands.

Louise (2005) stated that audits serve as a fundamental purpose in promoting confidence and reinforcing trust in financial information. The principal-agent relationship as depicted in agency theory is important to understanding how the role of an auditor has developed. Principals appoint agents and delegate some decision making authority to them. In so doing, the principals place their trust in their agents to act in the principals' best interests. Signalling through auditor choice stands on the agency theory, and is a manner by which managers and/or directors may impart to the market additional information about their company and their own behaviour. However, as a result of information asymmetries between principals and agents differing motives, principals may lack trust in their agents and may therefore need to put in place mechanisms, such as the audit, to reinforce this trust.

Woodland and Reynolds (2003) examined the association between indirect measures of audit quality and a direct measure of low audit quality, financial statement restatement. The use key-word searches of the Lexis-Nexis Business and ABI/Inform databases to identify restatements announced during the period from January 1, 1999 – October 31, 2002 for fiscal years 1998-2001, using multivariate regression analysis. They found out that economic fees are positively associated with low audit quality, but do not find evidence that auditor size, tenure or industry specialization are associated with audit quality in the directions predicted. Their results provide new evidence as to the current usefulness of these indirect measures in predicting audit quality.

Zureigat (2010) examined the effect of financial structure among Jordanian listed firms on audit quality. Using a sample of 198 companies, his analysis of logistic regression shows a significant positive relationship between audit quality and financial structure.

Ojeka, Iyoha and Obigbemilmoleayo (2014) examined the relationship between audit committee and firm financial performance in manufacturing firms using four characteristics – independence financial expertise, size and meetings of the audit committee with performance measures such as Return on equity (ROE), Return on Asset (ROA), and Return on capital employed (ROCE). The results showed a positive significant relationship between independence and financial expertise of audit committee and ROA, ROE and ROCE. Size and meeting of audit committee showed no significant relationship with all performance variables.

Dandago and Rufai (2014) assessed the quality of audited financial statements of money deposit Banks in Nigeria, with a view to assessing the independence of an auditor and the level of compliance to audit guidelines and how those guidelines affect the quality of audited financial statements of money deposit Banks in Nigeria. The study employs the use of both primary and secondary sources of data from sample of five money deposit banks listed in Nigeria Stock Exchange where questionnaire was the primary source and the annual reports of selected Banks are the secondary data. They concluded that consistency and reliability can be absolutely achieved if external auditors are independently auditing financial statements of money deposit banks based purely on the established auditing standards and guidelines. This study used direct measure of audit quality.

Adekunle and Taiwo (2013) examined the relationship between financial reporting and stability of post-consolidation banks in Nigeria using a 13 out 21 banks as a sample. The study uses Composite Disclosure index (CDI) as a scores for reporting practice index of banks and Return on Assets and liquidity for measuring stability. The results showed a high level of compliance with mandatory disclosure requirement and the disclosure has a positive significant influence on banks stability.

Okolie (2014) examined the relationship and effects of auditor tenure and auditor independence on the earnings management (measured by discretionary accruals) of non-financial institutions in Nigeria. The study relies on secondary data and applying an all-inclusive multivariate analysis. The findings using a total of 342 company years' observations, shows that audit auditor tenure and auditor independence exert insignificant effects and exhibits significant relationship with the amount of discretionary accruals of quoted companies in Nigeria.

Felo, Krishnamurthy and Solieri (2003) examined the relationship between two audit committee characteristics- the composition (expertise and independence), size of the audit committee and the quality of financial reporting. The study uses 383 firms' between1992-1993 and 265 firms in 1995- 1996 respectively. The findings show that after controlling for firm size, board composition, a measure of management's commitment to transparency and institutional ownership, the percentage of audit committee members having expertise in accounting or financial management is positively related to financial reporting quality and negative relationship between audit committee independence and financial reporting quality.

Hassan (2013) assessed monitoring characteristics and financial reporting quality of the Nigeria listed manufacturing firms using 32 firms-years longitudinal panel of 160 observations. The results showed a significant positive relationship between monitoring characteristics and financial reporting quality.

Farouk and Hassan (2014) examined the relationship between audit quality and financial performance in listed manufacturing firms in Nigeria. The results show that auditor size and auditor independence have significant impacts on the financial performance of quoted cement firms in Nigeria.

Adeyemi and Okpala (2011) examined the impact of audit independence on financial reporting in selected firms in Lagos, Nigeria. In conducting the research both primary and secondary data were used. The study captured the opinions of respondents from the sample of 430, including auditors, shareholders, brokers, analysts, regulators, management, academics and others users of financial information. The study found a significant and positive relationship between audit quality and the quality of financial reporting. This study was conducted from a sample specifically based in Lagos.

3.0 METHODOLOGY

Ex-post facto design is adopted to evaluate the effects of audit quality on financial reports of deposit money banks in Nigeria. The research design for the study is appropriate because it allow a complete assessment of financial reports quality of deposit money banks in Nigeria.

The population of this study is the fourteen deposit money banks listed on the Nigerian Stock Exchange as at December, 2015. Purposive sampling technique is adopted to select ten (10) deposit money banks listed on the Nigerian Stock Exchange within the period 2002 to 2015. Ten deposit money banks form the sample for this study as listed below. The pooled data covers the period of fourteen (14) years (2002-2015), resulting in 140 data points.

- Access Bank Plc
- Diamond Bank Plc
- Ecobank Plc
- First Bank Holdings
- First City Monument Bank Plc
- Guaranty Trust Bank Plc.
- Union Bank of Nigeria Plc
- United Bank for Africa Plc
- Wema Bank Plc
- Zenith Bank Plc

Secondary data used in this study is sourced mainly from the sample deposit money banks' annual reports of relevant years. Data required was extracted from the income statement, cash flow statement, statement of financial position and notes to accounts of the sample deposit money banks annual reports from 2002 to 2015.

There are two major variables used in this study; financial reports quality and audit quality. These variables are discussed in the following sections.

The financial reports quality was considered the dependent variable in this study. Discretionary accrual is used as a measure of financial reports quality. The measure of financial reports quality used is the modified Jones model (Becker, Defond, Jiambalvo & Subramanyam, 1998), which is one of the models used to determine quality of financial reports is adopted for the study. Accounting fundamentals are used to separate accruals into non-discretionary (normal) and discretionary (abnormal) components. The absolute value of the abnormal component determines the quality of financial reports. The larger the absolute value of discretionary accrual, the lower the quality of financial reports (Dechow, Sloan & Sweeney, 1995). Therefore, it is hypothesised that discretionary accruals should be negatively related to audit quality. Discretionary accruals are estimated using Modified Jones model.

Audit Quality Is Considered Independent Variable, With The Under Listed Proxies:

- **Audit fees (independent variable)**

AF is measured using Natural Log of the Audit Fees Paid by the company (Palmrose, 1998; Copley, 1991; Frankel, Johnson & Nelson, 2002; Wooten, 2003; Li & Lim, 2005; Gerayli, Yanesari & Ma'atoofi, 2011). The audit fees variables is transformed to natural log to achieve normality of data. This is to prevent the largest banks from unduly influencing the findings.

- **Auditor's Tenure (Independent variable)**

Length of auditor-client relationship: '1' if 3 years and above and '0' if otherwise, (Heninger, 2001; & Ebrahim, 2001). The above data were sourced from financial statement of deposit money banks in Nigeria.

- **Cash flow from operations (control variable)**

Cash flow as a percentage of total assets at the end of year t. (Okolie, 2014), Adapted from Dechow *et al.*, (1995), Bauwhede, Willekens & Gaeremynck, (2000).

- **Bank size (control variable)**

Natural log of company Total Assets (Belkaoui, 2000); (Barako, Hancock & Izan, 2006).

- **Growth (control variable)**

Growth is measured as Market value divided by book value of equity (MPS/BVPS) Zhou and Elder (2001); Gerayli *et al.*, (2011).

- **Leverage (control variable)**

Leverage (LEVR) is measured as total debts divided by debt plus equity. Leverage will help to ensure that extraneous variables such as debt commitments and size or assets composition which are external to the purpose of this study are minimised, nullified or isolated. (Becker, *et al.*; 1998; Watts and Zimmerman, 1986).

The model used by Okolie (2014) was adapted and modified for the study. The specification of this model is based on Agency theory and the auditors' theory of inspired confidence. Explicitly, the regression model is specified as:

LNDAC = β_0 + β_1LNAF + β_2AT+ β3LNCFO + β4LNBank Size + β5LNB Gwth + β6LNLev + Є
Where:

LNDAC = Natural log of absolute value of discretionary accruals based on the Modified Jones Model.
LNAF = Natural log of Audit Fees (Independent Variable)
AT = Auditor's Tenure (Independent Variable)
LNCFO = Natural log of Cash flow from operations (Control variable)
LNBank Size = Natural log of Bank size (Control Variable)
LNB Gwth = Natural log of Bank growth (Control Variable)
LNLev = Natural log of Leverage (Control Variable)
Є = Error Term
β_0 = intercepts
β_1, β_2, β_3, β4, β_5 - - β_6 = Coefficients of the independent variables

Consistent with Becker *et al.* (1998), this study measures discretionary accruals using the Modified Jones Model. Discretionary accruals are estimated from the following model:

$$TAC_{ijt} = \alpha_{1\,jt}\left[\frac{1}{TA_{ijt-1}}\right] + \alpha_{2jt}\,(\Delta REV - \Delta REC) + \alpha_{3jt} PPE_{ijt} + \varepsilon_{ijt} \;\ldots\ldots\ldots\ldots\ldots \text{(i)}$$

Where:

TAC_{ijt} = total accruals for sample company i in industry j at period t scaled by lagged assets;
TA_{ijt-1} = lagged assets, total assets for sample company i in industry j at period t −1;
ΔREV_{ijt} = change in net revenues for sample company i in industry j at period t ;
ΔREC_{ijt}= change in net receivables for sample company i in industry j at period t;
PPE_{ijt}= Gross property plant and equipment for sample company i in industry j at period t;
$\alpha_{1jt}, \alpha_{2jt}, \alpha_{3jt}$ = coefficients of the regression model;
ε_{ijt} = random error term

Consistent with prior research (Becker *et al.*, 1998), total accruals are defined as income before extraordinary items minus operating cash flows. OLS regression is used to obtain industry-specific estimates for, α_{1jt}, α_{2jt} and α_{3jt} for the model. The residuals (the difference between fitted values and actual total accruals) are the discretionary accruals:

$$DAC_{it} = \left|TAC_{it} - T\hat{A}C_{ijt}\right| \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{(ii)}$$

The technique for data analysis employed in this study was the multiple regression method. The regression coefficients provided a numerical summary of the direction and strength of the linear relationship between the variables. The negative or positive sign of the regression coefficients indicated the direction of the relationship. A correlation of 1 or -1 meant a perfect correlation. On the other hand, a correlation of 0 indicates no relationship between the variables.

4.0 Data Analysis and Results

Using the Modified Jones Model, the quality of financial reports was estimated using the absolute value of discretionary accruals. The summary per year for the sampled deposit money banks is shown in Appendix 1. The computed variables for the 10 deposit money banks from 2002 to 2015 are presented on yearly basis. The nominal values for discretionary accruals, audit fees, bank size, and Cash flow from operations, bank growth and leverage for the ten sampled banks are converted to natural logarithms for uniformity of data (Appendix 2).

In ascertaining the financial reports quality of deposit money banks, data obtained and presented in Appendix 1 show gradual decrease in the absolute value of discretionary accruals from 2002 to 2004 (24724, 23880, 21870). There was sudden decrease in the value of accruals in the years 2005, 2007 and 2010 respectively (32622, 22519, and 28738). However, sharp decrease reoccurred from 2011 to 2015 (23,722, 19601, 18507, 16891 and 12425). This means that financial reports quality increases from 2002 to 2004 and 2011 to 2015 respectively supported by decrease in absolute value of discretionary accruals. The quality of financial reports decreases as reflected by increase in accruals from the year 2005 to 2010 in which banks in Nigeria experienced distress and collapsed.

Furthermore, from the data Union bank is ranked first in high quality financial reports backed up by 393 values of discretionary accruals. Access bank and First bank is ranked second and third respectively (12779, 15863). The study revealed that the quality of accounting reports of banks in Nigeria were excellent, and the adoption of International Financial Reporting Standards in 2012 by the Nigerian banks has also contributed to the enhance quality of accounting reports of banks from 2012 to 2015 covered by the study .

However, it worthy to note that within these years of study and amidst this excellent reports, the Nigeria banking sector witnessed a huge failure between 2005 and 2007, where several banks were affected. This occurrence questions the quality of reports in these years.

4.1 Hypotheses Testing

In achieving the objectives of the study two null hypotheses were formulated: The first hypothesis is designed to determine the influence of each measures of audit quality on financial reports of deposit money banks in Nigeria. The second hypothesis is aimed at determining the relationship between financial reports and audit quality of banks in Nigeria.

(i) Test of influence of each measures of audit quality on financial reports of deposit money banks in Nigeria.

The relationship between the variables was investigated using Pearson product-moment correlation coefficient. Preliminary data screening analyses were performed to ensure the accuracy of data used and to ensure that the normality and linearity assumption of multiple regression are not violated. The details of multiple regression results of the measures of audit quality variables are presented in Table 1.

Table1

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2.535	1.148		-2.209	.029
	LogAF	.075	.090	.034	.835	.405
	AT	-.176	.197	-.033	-.890	.375
	logCFO	-.045	.066	-.049	-.684	.495
	logBS	1.315	.104	1.411	12.597	.000
	logGW	1.365	.057	2.092	24.140	.000
	logLEV	.036	.036	.036	1.002	.318

a. Dependent Variable: logDAC

Source: Author's computation (2016) using SPSS20

The multiple regression result is presented in Table 1 above. From the report, ban k size has a coefficient of 1.315. This result implies that a one percent increase in the bank size resulted in approximately 1.32 percent improvement in financial reports. The regression result report a t- statistics of 12.597 is in favour of bank size. The t_{α}, n-k-1 considering the degree of freedom $t_{0.05}$, 14-6-1= $t_{0.05,}$ 7= 2.306. This implies that $t_c > t_{\alpha}$, that is $t_{12.597} > t_{2.306.}$ Therefore, it can be concluded that since $t_c > t_{\alpha}$ bank size significantly influenced the quality of financial reports. This correlation is supported by the P-value of .000< P- alpha of 0.05. This validates the correlation drawn above.

Bank growth has a calculated t- statistics of 24.140, which infers that $t_{24.140} > 2.306$ ($t_c > t_{\alpha}$), also this correlation is supported by a P-value of 0.000< P-alpha of 0.05. This means that bank growth significantly influenced financial reports. From the above, bank size and growth influenced financial reports. Cash flow from operations and leverage has insignificant influence respectively.

Furthermore, audit fees and auditor tenure has insignificant influence on financial reports, this is supported by the correlation result above. This implies that, audit fees whether high or low and auditor tenure of one or more years do not influence financial reports measured by the absolute value of discretionary accruals. This result is in tandem with the empirical evidence of Okolie's 2014. The null hypothesis, there is no significant influence on the measures of audit quality on financial reports of deposit money banks in Nigeria is accepted and the alternate rejected.

(ii) The relationship between audit quality and financial reports of deposit money banks in Nigeria.

Table 2a: Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.926[a]	.858	.852	1.011	.805
a. Predictors: (Constant),log leverage, logAudit Fees, logCash flow from operations, logAuditor tenure, logBank Growth, logBank size					
b. Dependent Variable: Discretionary Accruals					

Source: Author's computation (2015) using SPSS20

Table 2b ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	823.188	6	137.198	134.086	.000[b]
	Residual	136.087	133	1.023		
	Total	959.276	139			
a. Dependent Variable: logDAC						
b. Predictors: (Constant), logLEV, logAF, logCFO, AT, logGW, logBS						

Source: Author's computation (2015) using SPSS20

The result from the Table 2a and 2b above shows that there is a significant relationship between financial reports and audit quality. This implies that 85.8% of the financial reports quality of banks in Nigeria is determined by the audit quality of these banks. An adjusted R^2 of 0.852 indicates that 85.2 percent of the variation in discretionary accrual margin can be explained by variability in explanatory variables in the model.

Watson (1970) stated that when the Durbin Watson statistic value is above 0.5 or 50 percent, independent observations is assumed. In other words, there is no auto correlation among the residuals of the study. The Watson statistic value of 0.805 therefore indicates that there is no autocorrelation among the residuals of this study. The F- statistics value of 134.198 confirmed the joint influenced of the independent variables with depending variable.

The hypothesized relationships were tested; properties of the casual paths, including standardized path co-efficient, t-values and p-values for the equation in the hypothesized model are presented in the table above. The value of the regression co-efficient for the intercept reports the particular financial reports denominator for deposit money banks in Nigeria, while the remaining co-efficient describe the influence of each independent variable on financial reports and the influence of the control variable on financial reports. By substituting coefficients of variables of table 4.2b in our model, the equation yields:

$$DAC = -2.535+0.075AF - 0.176AT - 0.045CFO+ 1.315BS +1.365GW + 0.036LEV +€$$

The Null hypothesis was that there is no significant relationship between audit quality and financial reports of deposit money banks in Nigeria. Table 2a and 2b affirmed this relationship. The joint correlation of the independent variables and the dependent variable (R^2=85.8%) indicating a strong positive relationship. An adjusted R^2 of 0.852 indicates that 85.2 percent of the variation in discretionary accruals margin can be explained by variability on explanatory variables and F- statistics value 134.198 also affirmed relationship. From the model above, auditor tenure has more influence on financial reports than audit fees. The evidence above suggests that there is significant relationship between audit quality and financial reports of deposit money banks in Nigerian. Therefore, the null hypothesis is rejected.

4.2 DISCUSSION OF THE FINDINGS

The main objective of this study is to assess the influence of audit quality on financial reports of Nigerian banks. Discretionary accrual is adjudged to be a measure of quality of financial reports, while auditor fees and auditor tenure are accepted as a good measure of audit quality (Abbott & Parker, 2003; Krishnan & Visvanathan, 2000). Audit fees and auditor tenure make up the measures of audit quality in this study. When both subrogate are correlated, changes in one variable leads to changes in the other that is, changes in discretionary accrual should correspond with changes in audit quality. From the results of analyses conducted, findings were made.

In line with hypothesis 1, this sought to determine the influence of each measures of audit quality on financial reports of deposit money banks in Nigeria.

It was discovered from the multiple regression Table 1 that audit fees has 7.5% influences on financial reports of Nigerian banks. This indicates that financial reports quality is insignificantly influenced by audit fees; the higher or lower the audit fees, quality of financial reports will not be distorted. The result is consistent with the study of Okolie (2014).

Auditor tenure has a 17.6% influences on financial reports of Nigerian banks. This influence is insignificant to financial report which infers that short or long tenure of auditor to a client do not significantly influenced financial reports. This result is consistent with the studies of Frankel *et al* (2002) and Okolie (2014); they also agreed that long or short tenure of auditors do not reduce the quality of financial reports. Therefore, the null hypothesis is accepted and the alternate rejected

Hypothesis 2 sought to determine the relationship between audit quality and financial reports of deposit money banks in Nigeria. There exists 85.6% positive relationship between audit quality and financial reports of banks in Nigeria. From the multiple regression analysis result and yields of the model for the study, the result showed a significant relationship between measures of audit quality and financial reports of banks in Nigeria.

Also, findings from the regressions analysis showed that there exists a joint relationship between audit quality and financial reports. Therefore, the null hypothesis is rejected. What these findings suggest is that audit quality plays a vital role in determining financial reports quality of deposit money banks in Nigeria.

5.0 CONCLUSION AND RECOMMENDATIONS

The study was conducted to determine the influence of audit quality on financial reports of banks in Nigeria. The determination of the relationship between the quality of financial reports among banks in Nigeria and the audit quality is necessitated by the continuous failure of banks after receiving a clean bill of health from the auditors. Data for the study were obtained from financial statements of ten sampled deposit money banks in Nigeria from 2002 to 2015. This resulted in 140 data point. The formulated hypotheses were tested using the multiple regression, Pearson product-moment correlation analysis and t- test as well as Analysis of variance.

From The Result Of Data Analysis, The Following Findings Were Made:

- Multiple Audit Quality measures taken together provide sufficient evidence of the existence of significant relationship between measures of audit quality and financial reports of deposit money banks in Nigeria.
- Auditor tenure has more influence than audit fees on financial reports of deposit money banks when combined though insignificant.
- There are other extraneous variables (audit committee independence, industry specialization and audit firm size) which account for the financial reports quality of deposit money banks in Nigeria.
- In terms of the quality of financial reports, Union Bank plc was ascertained or ranked first amongst other deposit money banks in Nigeria.
- There is strong joint relationship between audit quality measures and financial reports of deposit money banks in Nigeria.

Based on the findings and results of the analysis, the study concludes that there is a significant relationship between audit quality and financial reports of deposit money banks in Nigeria. This shows that the quality of financial reports is determined by audit quality. The relationship is influenced by the explanatory variables. These variables impact on the quality of financial reports.

The Following Measures Are Recommended For Adoption And Practice Based On The Findings Of The Study.

- Since neither auditor’s tenure nor fee has significant relationship with the quality of DMBs financial reports, improvement in the quality of financial report of DMBs is dependent on internal corporate governance such as strong internal control and audit committee independence. However, the supervisory and regulatory authorities should check the excesses of Management of these DMBs, by fixing optimal non-discretional accrual levels. This will reduce the risk of bank failures even with clean reports.

- The auditors of DMBs in Nigeria given their fees should conduct Earnings Quality Assessment (EQA) and issue “Integrated Audit Reports” which will include EQA reports and Internal Control Reports in addition to normal annual audit reports. EQA reports will provide higher – quality information to financial statement users and meet the Stock Exchange, Regulatory Agencies and the public demand for greater assurance about the reliability of earnings figures. The conduct and completion of the EQA should be a legislative mandate while the auditors should be held responsible for EQA report they issue. Auditors’ insight and expertise in this area is similar to the expertise required to evaluate and report on management's assessment of internal controls under section 404 of the Sarbanes Oxley Act (2002).

- Although auditor tenure does not influence financial report quality, it was observed that on the average, auditors of DMBs had served above 6 years. This may have contributed to the insignificant relationship. Therefore, this study recommends lesser tenure for auditors. The less than 6 years or 3 years' professional requirement for Auditors in Nigeria should be backed up by law and enforced. Considering the negative effects long audit tenure may have on audit quality of independence (measured by audit fee and auditor tenure in this study) and in line with global trends, professional accounting bodies, Financial Reporting Council of Nigeria, and the National Assembly should issue a codified and authoritative framework, guideline or standard for auditors' tenure and independence in Nigeria.

- Attention should also be focused on banks' attempts to smooth or increase earnings to beautify its attractions in the financial reports through unnecessary manipulation of real economic operations and cash flows.

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