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AUDIT COMMITTEE INDEPENDENCE AND AUDIT QUALITY OF QUOTED DEPOSIT MONEY BANKS IN NIGERIA

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Abstract
The study determined the effect of audit committee independence on audit quality of deposit money banks in Nigeria. Ex-Post Facto research design was adopted for the study. Thirteen quoted deposit money banks were used as sample for the study. Data were extracted from annual reports and accounts of the sampled banks. Simple regression analysis was used to test the formulated hypotheses with aid of E-view version 9.0. Based on analysis, the study found that audit committee independence has a positive insignificant effect on audit quality of quoted Nigerian deposit money banks. Based on the findings, the study recommended that depository bank auditors in Nigeria must live up to the expectations set for their profession, which can be achieved by upholding the ethics of their profession by adhering to ethical rules such as honesty, objectivity and confidentiality.

Keywords: Audit committee independence, Audit quality and Deposit money banks

INTRODUCTION

Independence is a major concern of the auditing industry. As the institution grows, there is a high probability that inconsistent information, if not properly managed, will be available to different decision makers because they do not involve and use independent auditors in their financial operations to ensure good management and mitigate problems (Akintayo and Akosile, 2022). Therefore, the audit professional has considered new ways to improve the reliability of an audit. There is constant pressure from the media, stakeholders and investors to minimize it (Siriyama and Tori, 2018).

An auditor's report could be compared to an internal control system that directs, controls and measures the organization and resources (Akintayo and Akosile, 2022). It plays an important role in detecting and preventing fraud and protecting the organization and its resources, both physical (such as machines and assets) and intangible (such as reputation or intellectual property such as brands). Tirole (2018) recognized that recent financial manipulations in companies, weak systems of internal control, ignorance of the board and audit committee, manipulation of the reporting auditor and other fraudulent activities that create negative goodwill in the public. The adverse effects of the global financial crisis and global accounting scandals highlighted the critical and ongoing need to maintain reliable and high-quality financial reporting (Abdulsalam and Moshed, 2022). The importance of independent audit to ensure the accuracy of financial reporting of listed companies in Nigeria, especially financial institutions and companies that are highly regulated for their financial impact, cannot be overemphasized.

After the recession, public concern about auditor independence increased as companies wanted to ensure that the company followed professional accounting standards and principles (Austin and Herath, 2014). Financial statements and accounts audited by a recognized independent auditor give confidence to market participants, most of whom are stakeholders, that the financial statements are more reliable and trustworthy than those proven by unreliable auditors (Abdulsalam and Moshed, 2022). The audit market considers independent auditors and their size to be of higher quality than the fees paid by companies to auditors, which is reflected in the higher or lower increase or fall of stock prices.

Audit quality depends on the independence of the auditor, as Aren, Randal, Beasley (2014) argued that the value of an audit largely depends on how the public perceives the independence of auditors. Based on the research results, Enofe, Nbgame and Ediae (2013) also presented the same point of view that when the independence of the auditor increases, the quality of the audit also improves. The financial dependence of auditors increases when they provide non-audit services or charge large audit fees. The auditor's independence can also be weakened by the fact that the audit firm performs the client's audit. The longer an audit firm audits a client, the more likely the audit firm acts in the client's interest, which negatively affects audit quality (Detzen and Gold, 2021; Imegi and Oladutire, 2018). Kamil (2020) argued that the audit quality is not only affected by the size of the audit firm and the qualification of the auditor, but the internal control system of the company affects the audit quality.

Previous research on audit independence and audit quality has mainly used companies other than the banking sector, except for those that examine audit quality and financial performance; (Egbunike and Abiahu, 2017; Amahalu and Ezechukwu, 2017). However, little research has been done on the independence and audit quality of depository bank audits in Nigeria (financial institutions). Also, the Central Bank of Nigeria (CBN) investigated the banks between 2005 and 2012 to find out the possible causes of the collapse of some banks in

2012 due to the uncertainty of previous investigation reports and the limited research done on deposit banks in Nigeria. It was observed that the failure of savings banks led to strict corporate governance, resulting in the dismissal of the CEO of some banks. Since then, the failure of some savings banks in Nigeria has been resolved through merger or purchase of some banks. It is against this background that this study considers it arguable to determine the effect of auditor independence on the audit quality of deposit money banks in Nigeria. This study ascertains the extent to which audit committee independence affect audit firm reputation of quoted deposit money banks in Nigeria.

REVIEW OF RELATED LITERATURE

Auditor independence refers to auditor's ability to maintain an objective and unbiased mental attitude during the audit (Sridharan, 2017). To maintain the highest ethical standards of the auditing profession, independence should be designed to be free from influence, persuasion or bias (Myers, 2013). In the absence of independence, the value of audit services is significantly reduced. Auditor independence is considered a cornerstone of the accounting profession and he has the privilege of self-management. Users of financial information, stakeholders and society in general give power and privilege to the accounting industry (Akintayo and Akosile, 2022). Independence of the audit committee and quality of control In order for the audit committee to fulfill its duties as an effective control body, the members of the audit committee must be independent from management or controlling shareholders. The audit committee should consist of independent external directors as a system to ensure the reliability of accounting information and the transparency of management by monitoring management from an independent perspective (An, 2023). When the audit committee includes accounting or financial experts, earnings management decreases or the quality of indictment improves (Kusnadi, Leong, Suwardy, and Wang 2016; Badolato, Donelson, and Ege, 2014). Companies with at least one accounting or financial expert on their audit committee have also been reported to offer higher audit fees. The positive influence of the audit committee on the quality of performance criteria is also evident outside the United States. Australian corporate financial audit committees improve the quality of results through conservatism and accrual accounting (Sultana, Sultana, Singh, & Rahman, A. (2019). In studies from New Zealand and Singapore, financial experts and an experienced audit committee member improve earnings quality (Sharma and Kuang, 2014; Kusnadi et al., 2016). The purpose of this committee's review is to develop a recommendation to help improve the quality of financial reporting through these roles. In addition, a qualified auditor or a renowned auditor is usually trusted more because the quality of the auditor (the Big Four) would not cooperate with the company to form an opinion on financial statements that have been manipulated into financial statements of a certain quality (Dian, Lia, & Taqi, 2022). Saputra (2015) concludes that audit quality includes the auditor's ability to detect and report material misstatements in financial statements prepared by management; this is done in accordance with generally accepted auditing standards. Simply put, it involves the auditor's ability to detect related errors/defects or fraud, detect symptoms of ongoing operations and violations of internal control (Okechukwu & Ene, 2023).

The quality of the auditor's report can be explained by the likelihood that the auditor will detect material errors, misrepresentations or omissions in the client's financial record. It can also be seen as the probability that the auditor will not report unconditionally on assertions that contain material misstatements (Fama, Henson and Sharks, 2014), the auditor's accuracy and reporting of information (Davidson and Neu, 2013), and the measurement of the audit, and ability to reduce noise and leakage, improve accounting information (Doputch, 2014). The audit service is an independent verification of the reliability of financial statements for users. For the audit to increase the reliability of the annual financial report, it must be of sufficient quality (Geiger, Gasissmaier and Gigerenzer 2013), and thus also the reliability of the audit (Lia, 2017). Given the multifaceted nature of audit quality, there does not appear to be a universally accepted definition. It is obvious how important the quality of the audit is to bring accountability and transparency in state bodies. Simply put, audit quality is the auditor's detection and reporting of material misstatements in financial statements, which demonstrates the auditor's expertise and competence (Ajekwe and Ibiamke, 2017). According to Ghosh and Moon (2018), audit quality refers to the auditor's ability to protect the interests of financial statement users by identifying and disclosing misstatements and information asymmetry between financial statement users and management. This means that audit quality can be seen when there is no imbalance in the financial statement. Users of financial statements change their quality assessments of audit reports based on new, publicly available audit information (Dopuch and Simunic, 2016). New information, such as audit independence as an auditor and ethical behavior, weaker perceived auditor independence, can weaken the reliability of financial statements and thus the quality of audit services provided (Tirole, 2015). Audit quality has been a controversial topic in recent decades, and most of the previous evidence indicates that the lack of audit quality is one of the main causes of financial and corporate scandals (Soltani, 2014).

Review of Related Studies

Many studies have been conducted both locally and outside of Nigeria in favor of or against established theories of audit independence and audit quality. Bogale (2016) investigated the determinants of external audit quality as an arbitrary (abnormal) cumulative value based on the audit firm. As a result, eighteen (18) companies were selected for the study over five years (2011-2015) from manufacturing companies in Ethiopia. The results of the panel least squares regression analysis show that the combined supply of certified audit specialists and audit and non-audit services has a statistically significant and positive relationship with the quality of the external audit of a manufacturing company. Bishnu and Ranjan (2016) investigate the determinants of audit committee independence in the financial sector of Bangladesh using a cross-sectional regression analysis of 72 financial firms. The study found that companies with large boards and more non-executive directors offer auditors more independence. Also large companies with potential growth opportunities show less interest in giving freedom to audit committee members; believes that companies with higher financial leverage need greater audit committee independence to ensure quality control and high quality financial statements. However, the report reveals a negative relationship between audit committee size and job independence. The report also finds no significant relationship between the independence of the control committee and the presence of experts of the control committee, internal membership, free cash flow and profit of the company. Babatolu, Aigienohuwa and Uniamikogbo (2016) investigated the impact of auditor independence on audit quality of selected savings banks in Nigeria. The sample size of seven (7) listed deposit money banks out of twenty (20) was selected using purposive sampling method. Secondary data was obtained from the audited annual reports of the sampled banks. Data analysis used descriptive statistics, correlation and ordinary least squares (OLS) regression. The results showed that there is a positive relationship between audit fee, audit firm rotation and audit quality. There is a negative relationship between the tenure of the audit firm and audit quality. The correlation between audit quality and financial leverage was strong, negative and statistically significant. The correlation between audit quality and firm size was strong, positive and statistically significant. Zayol and Kukeng (2017) reviewed the literature related to auditor independence and audit quality to determine the impact of the former on the latter. Next, a research design is used. Information for this study was obtained from secondary sources, including journals, textbooks, and other online materials. Based on the audit, the results show that there is a strong relationship between auditor independence and audit quality. The review also identified four threats to auditor independence, namely client importance, non-audit services (NAS), audit mediation and client ties to CPA firms. Amahalu and Ezechukwu (2017) investigated the determinants of audit quality focusing on selected deposit money banks listed on the Nigerian Stock Exchange between 2010 and 2015. This study used secondary data obtained from reference books, annual reports and financial statements of the banks under study. Relevant data were subjected to statistical analysis using Pearson's correlation coefficient, ordinary least square (OLS) and Granger causality test using E-view 9.0. The result of this study showed that there is a positive and statistically significant relationship between audit fees, audit time, audit firm size and audit quality. Furthermore, it has been empirically verified that audit fees, audit time and audit firm size have a statistically significant relationship with the audit quality of listed banks in Nigeria at the 5% level. Ezejiofor and Erhirhie (2018) investigated the impact of audit quality on the financial performance of depository banks in Nigeria. A retrospective survey design was adopted in the study, data for the study was collected from the annual reports and accounts of listed savings banks in Nigeria. Regression analysis and correlation coefficients were used to test the established hypotheses. The results showed that there is a significant relationship between audit quality and financial performance of deposit money banks in Nigeria. Siriyama (2018) reviewed the literature on auditor independence. More specifically, this review examines whether the size of the audit firm, the amount of auditor fees, the length of time the auditor has been with the client, competition between other firms and the availability of non-audit services jeopardize the independence of the auditor. The results show that the most important factor of auditor independence was not clear; however, other studies prioritized them because of the hypothesis they chose to test. It is clear that independence remains a constant issue when deciding how reliable and trustworthy financial statements are for investors. Ibrahim and Ali (2018) investigated the rate at which audit firm size contributes to a better audit report. Audit firm size was measured with a dummy variable. 1 if audited by a Big 4 and 0 if otherwise, while the proxy for audit quality was arbitrary accrual. Data analysis used OLS using random effects regression based on the Hausman test. The result of the study showed that the size of the audit firm contributes to a better audit report.

Akintayo and Akosile (2022) focused on the relationship between auditor independence and audit report quality. The result of the regression analysis showed that there was a significant positive relationship between auditor independence and audit report quality. This claim was based on the fact that the p-value of 0.0000 for the LR statistic calculated for the test was less than the critical value of 5%. It was concluded that auditor independence and audit report quality were significantly related. Heni, Tertiarto and Azwardi (2022) analyzed and tested the impact of auditor independence and complexity on audit quality; (ii) analyze and test the effect of auditor reputation on the communication of independence and audit quality. This study uses descriptive analysis, a type of quantitative research that, judging by the data analysis method used, uses a Likert scale measurement. As a survey method, questionnaires are distributed to auditors who work at BPK RI South Sumatra representatives. Audit independence has a positive and significant effect on audit quality. Increasing the independence of auditors improves audit quality; audit independence has a positive and significant effect on the reputation of the institution. Okechukwu and Ene (2023) investigate how long auditor independence affects the audit quality of listed consumer goods companies in Nigeria. The research used was retrospective, while twenty (20) listed consumer goods companies in Nigeria as at 31/12/2021 were the core group of the study, out of which eight (8) companies were selected using purposive sampling method. Therefore, this study concludes that audit fees and audit firm revenue affect audit quality, while Big Four audit firms and audit firm tenure do not affect audit quality.

METHODOLOGY

Ex-post facto research design was adopted for the study. This is appropriate because the study aims at measuring the relationship between one variable and another, in which the variables involved are not manipulated by the researcher. This study used the 13 deposit money banks quoted on the Nigerian Exchange Group. The study covered eight years annual reports and accounts of these banks from 2012 to 2021.

The data were sourced from publications of Nigerian Exchange Group Factbook and the annual reports and accounts of the sampled banks. The data extracted include; audit committee independence, audit fees, audit tenure and audit reputation.

This study employed simple regression analysis and correlation coefficient matrix to test the formulated hypotheses with aid of E-View version 9. The data for the study were collected from annual reports and accounts of deposit money banks quoted on the Nigerian Exchange Group (NGX). The independent variable is audit committee independence. This variable is dichotomous in nature while the dependent variable is Audit Quality (ADR) proxy using audit reputation.

Model Specification

This study adapted the econometric model of Abdulsalam and Moshud (2022), hence the model considered some of the variables used for the present study.

$FP = \beta_0 + \beta_1(AUFTYit) + \beta_2(AUDTENit) + \beta_3(FIRMSIZEit) + Єit$

Where:

FP = Financial Performance (Dependent Variable)

AUFTY = Audit Firm Type (Independent Variable)

AUDTEN = Auditor's Tenure (Independent Variable)

FIRMSIZE=Firm Size (Controlled variable)

Є = Error Term

The logistic regression for this study takes the form:

$ADR = \beta_0 + \beta_1 ACI + + \varepsilon$ ……...……………………………………….i

Where:

ADR= Audit firm reputation represents audit quality

ACI= Audit committee independence

Decision Rule

The decision for the hypotheses is to accept the alternative hypotheses if the p-value of the test statistic is less or equal than the alpha and to reject the alternative hypotheses if the p-value of the test statistic is greater than alpha at 5% significance level.

DATA ANALYSIS AND RESULTS

Table 1: Descriptive Statistics

	ADR	ACI	BSZ
Mean	0.592308	5.269231	3.22E+09
Median	1.000000	5.000000	2.07E+09
Maximum	1.000000	11.00000	2.76E+10
Minimum	0.000000	0.000000	1.35E+08
Std. Dev.	0.493306	2.071544	3.85E+09
Skewness	-0.375689	0.797786	3.763055
Kurtosis	1.141142	3.614371	22.45488
Jarque-Bera	21.77457	15.83457	2356.980
Probability	0.000019	0.000364	0.000000
Sum	77.00000	685.0000	4.18E+11
Sum Sq. Dev.	31.39231	553.5769	1.91E+21
Observations	130	130	130

Source: E-view output, 2023

Table 1 shows the mean value (mean value), their maximum values, minimum values, standard deviation, and Jarque-Bera (JB) statistic (normality test) for each variable. The results presented in Table 1 provided some insight into the nature of the Nigerian banks used in this study. It was found that on an average of ten (10) years (2012-2021), the sampled Nigerian banks were characterized by a Positive Audit Reputation (ADR) (0.592). Also, the large difference between the maximum and minimum values of the independence of the audit committee (ACI) and the size of the bank (BSZ) indicates that the banks sampled in this study are not dominated by banks with a higher audit reputation (ADR). In this table, Jarque-Bera (JB), which tests variables for normality or the presence of outliers or outliers, shows that most variables are normally distributed at the 5% significance level. This means that any variable with an outlier value is unlikely to change our conclusion and is therefore reliable for generalization. This also means that least squares estimation can be used to estimate a pooled regression model.

Test of Hypothesis

Ho_1: Audit committee independence does not affect audit quality of quoted deposit money banks in Nigeria.

Table 2: Pooled Regression Results between ADR, ACI and BSZ

Dependent Variable: ADR
Method: Least Squares
Date: 05/22/23 Time: 12:07
Sample (adjusted): 1 130
Included observations: 130 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.638723	0.130882	4.880138	0.0000
ACI	-0.019133	0.021184	-0.903155	0.3682
BSZ	1.69E-11	1.14E-11	1.483580	0.1404

R-squared	0.027700	Mean dependent var	0.592308
Adjusted R-squared	0.012388	S.D. dependent var	0.493306
S.E. of regression	0.490241	Akaike info criterion	1.434969
Sum squared resid	30.52275	Schwarz criterion	1.501143
Log likelihood	-90.27297	Hannan-Quinn criter.	1.461857
F-statistic	1.809041	Durbin-Watson stat	0.426655
Prob(F-statistic)	0.168007		

Interpretation of Regression Result

In Table 2, R-squared and adjusted Squared values were (0.027) and (0.012) respectively. The indicates that all the independent variables jointly explain about 27% of the systematic variations in audit reputation (ADR) of our samples banks over the ten years periods (2012-2021). Table 4.2.1 reveals an R-squared value of 0.027,which represents the coefficient of multiple determinations imply that 27% of the total variation in the dependent variable (ADR) of quoted deposit money banks in Nigeria is jointly explained by the explanatory variables (ACI and BSZ). The R-squared of 27% did not constitute a problem to the study because the F- statistics value of 1.809041 with an associated Prob.>F = 0.168007 indicates that the model is fit to explain the relationship expressed in the study model. The value of adjusted of 27% also shows that 73% of the variation in the dependent variable is explained by other factors not captured in the study model. This suggests that apart from ACI and BSZ, there are other factors that mitigate ADR of quoted deposit money banks in Nigeria.

Test of Autocorrelation: using Durbin-Waston (DW) statistics which we obtained from our regression result in table 2, it is observed that DW statistics is 0.426655 and an Akika Info Criterion and Schwarz Criterion which are 1.434969 and 1.501143 respectively also further confirms that our model is well specified. In addition to the above, the specific findings from each explanatory variable are provided as follows:

The results in table 2 illustrated that audit committee independence (ACI) has a negative but significant relationship with audit reputation measured with a beta coefficient (β_1) and t-value of -0.019133 and -0.903155 respectively and p- value of 0.368 which is not statistically significant at 5%.

Based on the empirical evidence that suggests that audit committee independence has a negative insignificant effect on audit quality of quoted deposit money banks in Nigeria at 5% level of significance, thus, the null hypothesis of the study is accepted.

CONCLUSION

Based on the audit, the results show that there is a strong relationship between auditor independence and audit quality. During the audit, it was revealed that two auditors were independent (the independence of the audit committee has a positive effect on the reputation of savings banks in Nigeria. However, the overall results show that the independence of the audit committee is not important for the quality of the auditor. Finally, the independence of the auditor remains. The independence of the auditor ensures an impartial perspective and enables the reliability of financial statements. Companies risk damaging their reputation if auditors do not report errors in their audits. Based on the findings, the study recommended that depository bank auditors in Nigeria must live up to the expectations set for their profession, which can be achieved by upholding the ethics of their profession by adhering to ethical rules such as honesty, objectivity and confidentiality.

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