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AUDIT FIRM CHARACTERISTICS AND FINANCIAL REPORTING QUALITY: EVIDENCE FROM NIGERIAN LISTED DEPOSIT MONEY BANKS

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ABSTRACT

Financial reports prepared by corporate managers communicate economic performance of an entity to various users of the reports. An important attribute of a financial report is its reliability. From the perspective of Agency theory, there is a possibility for corporate managers to be involved in manipulation of accounting earnings, with the intention of misleading users of reports. This study examined the influence of audit firm characteristics on quality of financial reports of eleven Nigerian deposit money banks for financial years, 2007 – 2018. The study employed Random effects generalised least squares as analytical tool. Regression results revealed a negative and significant relationship between audit firm characteristics (audit fees, joint audit) and earnings management. For quality financial reports to be achieved, it is recommended that relevant regulatory bodies in Nigeria should mandate management of deposit money banks and other financial institutions to engage services of bigger audit firms with requisite skills, professional experience and reputation. Joint audit should also be encouraged because of its added advantage of objective financial reporting over that of a single firm.

Keywords: Agency, Audit quality, Financial reporting, Discretionary accruals, Earnings management

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INTRODUCTION

The focal point of corporate financial reporting system is to support the decision making of the various user groups. Investors are particularly concerned about the information in the report that will assist their investment choices. Financial report bridges the imperfection of asymmetric information between managers and shareholders as the report communicates the performance of the organisation to various users. Reliability is a fundamental attribute of good financial information.

The corporate scandals from falsification of financial reports by some blue- chip companies such as Enron, Xerox, Worldcom and Tyco, has greatly questioned the efficacy of financial reporting in providing necessary information needed by investors for their various purposes. In Nigeria, series of corporate scandals involving companies like, Cadbury Plc, former Lever Brothers Plc, Oceanic Bank Plc and African Petroleum Plc, are outcomes of financial reporting manipulation and deficient audit quality. This in effect has culminated into loss of invested funds and the financial sector has been traumatised. The perverseness of these corporate

scandals may suggest failure of both internal and external corporate governance mechanisms.

The use of discretion in financial reporting to manipulate contractual outcomes or firms' economic performance and to mislead the different stakeholders' group is termed earnings management (Healy & Wahlen, 1999). Fraudulent financial reporting practices, abnormal earnings management and all other forms of financial reporting malfeasances have greatly reduced investors' confidence in financial reports and its ability to perform its fundamental functions (Ogoun & Perelayefa, 2020).

Information asymmetry which is one of the market imperfections that breeds agency crisis can be reduced through external audit. Jensen and Meckling (1976) regarded external audit as a crucial monitoring and control mechanism for aligning the divergent interest of corporate managers and shareholders. Reputable and big audit firms demand high quality financial reports from managers so as to safeguard their brand names, goodwill, reputation and mitigating against risks of misleading financial reporting (DeAngelo, 1981; Khalil & Ozkan, 2016).

Research objective

The primary objective of the study is to assess the effect of audit firm characteristics on financial reporting quality of selected Nigerian listed deposit money banks.

Justification for the study

Global failure of external auditors' opinions concerning the audited financial statements of clients in recent time have prompted probe into the earnings management nature, restrictions and causes (Afzal & Habib, 2018). In Nigeria, for instance, despite the fact that relevant industry and capital market regulatory agencies have at various times issued codes of corporate governance which are intended to curb among others, issues of earnings management, the problem still persists in the Nigerian banking environment.

Some empirical evidences documented that financial reporting quality is enhanced by external audit (DeAngelo, 1981; DeFond & Zhang, 2014; Alzoubi, 2017). However, there exist some other studies that have reported no significant effect of audit firm characteristics on earnings management (Yaşar, 2013; Ajekwe & Ibiamke, 2017). This points to lack of consistent empirical outcomes and generalisation; hence, the need for further investigation is imperative.

Moreover, the investigation of audit quality and financial reporting quality have received significant attention from researchers in developed countries while the same cannot be said of developing countries like Nigeria. The few studies have often competed in terms of their findings. For instance, Enofe et al., (2013) used audit fee charged by audit firms as a proxy for measuring audit quality, while Ilaboya and Ohiokha (2014) employed audit firm size (Big 4). These two measures are at variance with the most commonly used proxy in corporate governance literature, discretionary accruals. Furthermore, a vast number of studies in the literature (see Kaklar et al., 2012; Enofe et al., 2013; Yasar, 2013; Olabisi et al., 2017) adopted Ordinary Least Squares (OLS) as analytical tool. Due to some inherent limitations of OLS, to the best of our knowledge, the technique may not be suitable for this type of study, as results produced could be misleading.

LITERATURE REVIEW

Concept of financial reporting quality

Financial report of an organisation communicates the economic performance of the entity to the users. It creates an avenue for the managers to give accounts of their stewardship to the owners and other stakeholders of the business. This report also guides the user in taking informed decisions concerning the entity. One of the essential attributes a good financial report must possess is reliability. The business owners and other stakeholders, perhaps as a result of asymmetry information, may not have confidence in the financial report prepared by managers. It is as a result of this perceived lack of trust that various countries have put in place legislations on external auditors' appointment, duties, fees, rotation and other relevant principles.

Auditors are engaged by business owners to provide independent opinions on financial reports prepared by management. Thus, auditors are expected to take actions on the financial reports submitted so as to ensure that information therein is of high quality, sufficient and reliable (Nwanyanwu, 2017). In making professional assertion on financial reports submitted to the auditor, DeAngelo (1981) identified two probabilities that should be considered in order to have good audit quality. First, auditor should detect client's accounting system defects and secondly, he has to report the failure. The discovery and handling of these probabilities measure the audit quality.

Theoretical framework

The theory that appears to explain the audit firm characteristics – financial reporting quality linkage is Agency theory. The theory as proposed by Jensen and Meckling (1976), clearly spelt out the conflict of interest between the managers and shareholders. It submits that appointed corporate managers (agents) may behave sub-optimally by adopting strategies and making policies that best maximise their interest as against those of the owners. In order to conceal this sub-optimal behaviour and poor performance, managers often resort to earnings management. A third party (external auditor) is therefore needed to mitigate this opportunistic behaviour of managers as financial statements prepared by them (managers) are mandated to be submitted to the external auditors for scrutiny and validation. To align this conflicting interest, shareholders are further subjected to incur monitoring costs which includes external audit fees.

Audit firm characteristics and development of hypotheses

Audit firm size and financial reporting quality

Larger audit firms are generally acclaimed to be highly reputable and are always eager to protect such reputation by frowning at clients' financial reporting malfeasances that may trigger risk of litigation. DeAngelo (1981) posited that audit quality is a measure of auditors' capability in discovering and reporting material misstatement that are in the reporting system of the clients they audit. This ability to detect and report the misstatement is enabled by the availability of sophisticated technology and necessary expertise. Higher quality auditor's clients are thus associated with lesser abnormal accruals due to their ability to discover aggressive earnings management practices than clients audited by low- quality auditor (Khalil & Ozkan, 2016).

Lopes (2018) utilised data from Portuguese business environment spanning between 2013 and 2015 and reported a significant indirect effect of audit size on earnings man-

agement. This implies that larger audit firm's clients are associated with higher financial reporting quality as compared to those audited by smaller firms. This finding validated the report of the study by Okolie (2014). However, Yaşar (2013) analyses audit quality and earnings management of 290 firms in Turkey and reports no association. This result was also confirmed by findings of Inua and Okoh (2018). Based on the findings from empirical studies reviewed, we hereby postulate the following hypothesis in its null form:

Ho1: Audit firm size has no significant effect on financial reporting quality.

Audit firm tenure and financial reporting quality

Myers et al., (2003) described audit firm tenure as the period (in years) an audit firm is engaged by the client. Literature on the subject is far from reaching consensus. Silvestre et al., (2018) and Ardhani et al., (2019) opined that long and over- stayed auditor may suffer impairment of independence and integrity. This according to DeAngelo (1981) will impair audit quality which may lead to wrong audit opinion. Bamahros et al., (2015) assessed the link between non-audit services, audit firm tenure and earnings management by utilising data from 525 companies for financial year 2009. Result revealed an indirect association between longer audit tenure and earnings management. Some other studies suggested that audit firm tenure directly influenced earnings management. Soyemi et al., (2020) used data from 30 listed non-financial firms in Nigeria for the period covering 2008-2018 and reported a direct association between auditor tenure and earnings management, which in turn impairs financial reporting quality. This outcome is also consistent with some prior studies such as Ngoc et al., (2017); and Inua and Okoh, (2018). Olabisi et al., (2017) investigated the relationship between audit quality and earnings management in 6 Nigerian banks for the period covering 2005 – 2014. The finding suggested a negative but insignificant relationship between the two variables. Arising from empirical findings above, the present study formulates the following hypothesis in its null form:

Ho2: Auditors' tenure has no significant effect on financial reporting quality.

Audit fees and financial reporting quality

For users of financial reports to have confidence in the output of any audit exercise, the firm would have to pay commensurate professional fees to the auditors for their efforts. Audit fee is also assumed to guarantee timely and effective audit efforts, greater coverage and better reporting quality (Gaynor et al., 2016).

Choi et al., (2018) explored 3,184 quoted retail companies in the United States and reported a direct association between audit fees and earnings management. This implies that higher audit fees increase the level of earnings management, which subsequently lowers the financial reporting quality. This finding was also validated by studies conducted by Inua and Okoh (2018); Akintayo and Salman (2018); and Donatella et al., (2019). Studies conducted by Onaolapo et al., (2017) and Hussaini et al., (2018) established a positive association between audit fees and audit quality. Mohammed and Ibrahim (2018) however, produced no significant relationship between the two variables. Consistent with above findings, the study hypothesised in null form that:

Ho3: Audit fee has no significant effect on financial reporting quality.

Joint audit and financial reporting quality

Joint audit describes a situation where two or more audit firms are engaged in the performance of a firm's audit assignment. This may arise where special skills and professional expertise are needed to achieve a very successful audit exercise.

The framework on joint audit developed by DeAngelo (1981) is well cited in corporate governance literature. It specifies that audit quality is influenced by type and size of audit firms engaged. Thus, where two or more firms are engaged by a firm, the quality of the report will be higher than the audit that is performed by a sole audit firm. This is because joint audit encourages objective financial reporting. The framework further states that an audit engagement performed by two 'Big 4' firms will produce the highest quality than one done by other audit firms.

In contrast to DeAngelo's proposition, there is a possibility of joint audit engagement resulting in adverse effect on financial reporting quality. Competition between two audit firms engaged in an audit assignment, according to Umaru (2014), may lead to lack of effective cooperation among staff of the two firms, which may eventually lead to poor audit quality. Accountancy standards setting bodies (both local and international) provide various methods by which a particular item in financial statement can be treated. However, lack of cooperation on the part of joint auditors on which accounting standards to adopt in an audit engagement may affect the quality of the exercise.

Umaru (2014) examined the effect of audit firms' attributes on financial reporting quality of seven Nigerian listed building materials companies between 2001 and 2010. Result from the OLS regression indicated that joint audit positively enhanced financial reporting quality. However, in another study conducted on listed non-financial companies in Denmark by Holm and Thinggaard (2012), result provided evidence of insignificant association between joint audit and audit quality. This suggests that joint audit has no effective mechanism in curtailing the occurrence of earnings management in organisations. This outcome was also supported by the study conducted by Olabisi et al., (2017). The inconsistency in the findings of prior studies enables the present study to postulate the following hypothesis in its null form:

Ho4: Joint audit has no significant effect on financial reporting quality.

MATERIALS AND METHODS

Data source and sample selection

Data were extracted from published annual reports and accounts of selected Nigerian banks. The total number of listed deposit money banks in Nigeria as at 31st December 2018 was fifteen. Sample consists of eleven banks (Access Bank Plc, Diamond Bank Plc, FCMB Plc, Sterling Bank Plc, UBA Plc, Wema Bank Plc, Zenith Bank Plc, First Bank Plc, Fidelity Bank Plc, GTBank Plc and Union Bank Plc), which were judgmentally selected based on availability of data. The period of the study is twelve years (2007 – 2018).

The study period coincided with the introduction and implementation of various corporate governance codes by relevant Nigerian regulatory agencies with primary objective of addressing corporate governance failures noticed during the period.

Model specification

The study, following some prior works, predicts a functional association between the dependent and explanatory variables. The general model of the study is as presented in equation 1:

$$Y = f\ (AFS, AUT, FEE, JAU, BSZ, BLV) \quad (1)$$

The economic model is exhibited in equation 2:

$$FRQ_{it} = \beta_0 + \beta_1 AFS_{it} + \beta_2 AUT_{it} + \beta_3 FEE_{it} + \beta_4 JAU_{it} + \beta_5 BSZ_{it} + \beta_6 BLV_{it} + e_{it} \quad (2)$$

Where,

FRQ -	Financial reporting quality
AFS -	Audit firm size
AUT -	Audit tenure
FEE -	Audit fees
JAU -	Joint audit
BSZ -	Bank size
BLV -	Bank leverage
β1..… β6	Variable parameters
e -	Error term

Measurement of variables

Dependent variable

The study's dependent variable is financial reporting quality, which is surrogated by earnings management (EMT). Following Ngoc et al., (2017); and Soyemi et al., (2020), the study adopted modified Jones (1991) Discretionary Accruals (DAC) approach in measuring earnings management. This approach, according to Dechow et al., (1995); and Muhammed and Ibrahim (2018), has been acclaimed by majority of corporate governance authors as the most commonly and best method for measuring earnings management. DAC computation is as shown in equation 3:

$$DAC_{it} = TOTA_{it}/T_{it-1} - Ђ_t\ \{1/T_{it-1}\} + Ђ_{1i}\ \{(ΔRVN - ΔRCV)/\ T_{it-1}\} + Ђ_{2i}\ \{PPE_{it}/\ T_{it-1}\} \quad (3)$$

Where,

TOTA - Total accruals
Tit-1 - Total assets lagged by one year
ΔRVN - Change in revenue
ΔRCV - Change in receivables
PPE - Property, plant and equipment

Independent variables

In line with empirical studies reviewed, the study has four independent variables. These variables are audit firm size (AFS), audit firm tenure (AUT), audit fees (FEE) and joint audit (JAU).

Control variables

There are some variables or factors that can influence reporting quality, which were not captured in the study's model. Two of such factors (bank size and bank leverage) were introduced in the model as control variables. For instance, larger firms are proposed to have lower level of earnings management than smaller firms. Also, leverage can be used by a firm to contravene debt contractual obligation. This act can create avenue for management of such a firm to undertake "accrual manipulations" of the financial statements, thereby reporting higher unsubstantiated returns. Thus, higher leverage results in higher earnings management.

Table 1: Operationalisation of other variables

Variable	Type	Measure	Sources
Audit firm size (AFS)	Independent	1, if audited by 'Big 4' firm, 0 otherwise	Mohammed and Ibrahim (2018); Soyemi *et al.*, (2020)
Audit tenure (AUT)	Independent	1, if audit firm is engaged consecutively for a maximum of 3 years, 0, if it stays beyond 3 years	Ilaboya and Ohiokha (2014); Babatolu *et al.*, (2016)
Audit fees (FEE)	Independent	Natural logarithm of auditors' annual remuneration	Oyedokun and Yunusa (2017); Almarayeh *et al.*, (2020)
Joint audit (JAU)	Independent	1, if the company is audited by at least 2 firms, 0, if company is audited by a firm only	Umaru (2014**)**
Bank size (BSZ)	Control	Natural log of bank's annual total assets	Kajola *et al.*, (2018)
Bank leverage (BLV)	Control	$\frac{\text{Total debts}}{\text{Total assets}}$	Samad (2015), Kajola *et al.*, (2019)

Source: Authors' compilation (2020)

Research instrument

Unlike in some prior studies where OLS technique was used as analytical tool, this technique was completely ignored because of its limitation of not taken into consideration presence of heterogeneity or individuality among the sample banks. Fixed effects (FELS) and Random effects (REGLS) techniques not only possess this particular feature, they are also more robust than the OLS technique; hence they are employed in this study.

RESULTS

Table 2: Result of descriptive statistics

Variable	Mean	Minimum	Maximum	Standard deviation	Skewness	Kurtosis
EMT	0.1635	0.0010	0.9010	0.1964	1.9795	6.4842
AFS	0.9848	0.0000	1.0000	0.1226	-7.9382	64.0154
AUT	0.0909	0.0000	1.0000	0.2886	2.8461	9.1000
FEE	8.1533	7.3000	8.9590	0.3524	0.0373	2.8733
JAU	0.1439	0.0000	1.0000	0.3523	2.0287	5.1155
BSZ	12.0678	11.1130	12.9200	0.3921	-0.2677	2.6045
BLV	0.0750	0.0000	0.6840	0.0782	3.9133	29.2781

EMT = Earnings management
AFS = Audit firm size
AUT = Audit tenure
FEE = Audit fees
JAU = Joint audit
BSZ = Bank size
BLV = Bank leverage
Source: Authors' computation (2020)

The average earnings management (EMT) is 0.1635, with minimum of 0.0010 and maximum of 0.901 (Table 2). Average audit firm size (AFS) is 0.9848 (which is near 1.00), suggesting that most of the banks employed the services of Big 4 audit firms. Audit tenure (AUT) has an average of 0.0909 (which is near 0.00), implying that most of the banks did not follow the regulation issued by SEC in 2011 that discourages listed firms from using services of professional audit firms for more than three years. Some of the selected banks, for instance, used only two different audit firms during the 12-year study period. The average joint audit (JAU) value is 0.1439 (close to 0.00), suggesting that most of the banks did not engage the services of joint audit firms. The mean bank size is about N1,169 billion (log inverse 12.0678) and this varies between N129.718 billion (log inverse 11.1130) and N8,318 billion (log inverse 12.9200). Bank leverage (BLV), on the average is 7.5%, suggesting that the banks are lowly geared. The variables with the highest and lowest dispersion from mean are BSZ and BLV, with standard deviation of 0.3921 and 0.0702, respectively (Table 2).

Multicollinearity test

Variance Inflation Factor (VIF) and Tolerance Value (TV) approaches were employed to confirm the presence or otherwise of collinearity problem among the variables used in the study. In line with Chatterjee and Hadi (2012), any variable with VIF of at least 10 or TV of less than 0.1, has collinearity issue.

Table 3: Collinearity test result

Variable	VIF	TV
AFS	1.055	.948
AUT	1.051	.951
FEE	2.205	.453
JAU	1.361	.735
BSZ	1.951	.513
BLV	1.124	.890
Mean	1.458	.748

AFS = Audit firm size
AUT = Audit tenure
FEE = Audit fees
JAU = Joint audit
BSZ = Bank size
BLV = Bank leverage
Source: Authors' computation (2020)

No variable has presence of collinearity problem as VIF is between 1.051 and 2.205, with mean of 1.458. In the same vein, TV varies between 0.453 and 0.951, with average of 0.748 (Table 3).

Correlation

The Pairwise correlation matrix was prepared to show the association between the study variables.

Table 4: Correlation matrix of study variables

Variable	EMT	AFS	AUT	FEE	JAU	BSZ	BLV
EMT	1						
AFS	0.059	1					
	(0.250)						
AUT	0.035	-0.177*	1				
	(0.344)	(0.021)					
FEE	-0.402*	0.007	-0.108	1			
	(0.000)	(0.470)	(0.110)				
JAU	-0.034	0.051	0.020	-0.349*	1		
	(0.349)	(0.281)	(0.408)	(0.000)			
BSZ	-0.251*	0.136	-0.145*	0.575*	0.109	1	
	(0.002)	(0.060)	(0.049)	(0.000)	(0.107)		
BLV	-0.215*	-0.036	-0.006	0.216*	-0.158*	-0.081	1
	(0.007)	(0.342)	(0.472)	(0.006)	(0.035)	(0.177)	

EMT = Earnings management
AFS = Audit firm size
AUT = Audit tenure
FEE = Audit fees
JAU = Joint audit
BSZ = Bank size
BLV = Bank leverage

* $p < 0.05$; p- values are in parentheses
Source: Authors' computation (2020)

The correlation between audit firm size (AFS) (coefficient = 0.059, p = 0.250), and EMT is positive but not significant (Table 4). It depicts same association between audit tenure AUT and EMT ((coefficient = 0.036, p = 0.344). Audit fees (FEE) has a negative and significant association with EMT at 5% level (coefficient = -0.402, p = 0.000). It suggests that as the fees paid to audit firm increases, earnings management decreases, thereby enhancing the quality of financial reports. The association between joint audit (JAU) and EMT is negative but insignificant (coefficient = -0.034, p = 0.349). The association between bank size (BSZ) (coefficient = -0.251, p = 0.002), bank leverage (BLV) (coefficient = -0.215, p = 0.007) and EMT is negative and significant at 5% level (Table 4). This implies that the larger the bank size, the higher the leverage, the lower is earnings management.

The result of the correlation matrix further confirms the non-existence of multicollinearity problem among the series as no variable has a coefficient of 0.7 and above (Gujarati, 2003).

Regression

Table 5: Regression result of fixed effects and random effects

	FELS			REGLS		
Variable	**Coefficient**	**t-stat**	**Prob**	**Coefficient**	**t-stat**	**prob**
Constant	1.6032	0.9133	0.3632	4.6675	6.3910*	0.0000
AFS	-0.1342	-1.0672	0.2884	-0.1237	-1.0726	0.2857
AUT	0.0603	1.2658	0.2084	0.0071	0.1571	0.8755
FEE	-0.0718	-0.9647	0.3370	-0.1823	-2.8185*	0.0057
JAU	-0.1624	-2.3660*	0.0198	-0.2239	-3.5488*	0.0006
BSZ	-0.0601	-0.4066	0.6851	-0.2376	-2.9454*	0.0039
BLV	0.2809	1.3525	0.1792	0.0377	0.1934	0.8470
R^2	0.5839			0.4163		
Adjusted R^2	0.4759			0.3351		
F-statistic	5.4052*			5.1272*		
Prob (F-stat)	0.0000			0.0000		
Durbin-Watson	1.6485			1.5011		

Hausman test summary	
Hausman Chi-sq. stat	10.5807
Hausman Chi-sq d.f	6
Prob (Hausman)	0.0547

EMT = Earnings management
AFS = Audit firm size
AUT = Audit tenure
FEE = Audit fees
JAU = Joint audit
BSZ = Bank size
BLV = Bank leverage

* $p < 0.05$

Source: Authors' computation (2020)

Hausman (1978) specification result indicated Chi-square statistic of 10.5807 and prob value of .0547, which was not significant at 5% level (Table 5). Result validates Random effects generalised least squares technique as the best analytical tool to be used for inference.

DISCUSSION

The Random effects generalised least squares that gave R2 of is 0.4163 suggests that about 41.63% of the variation in the dependent variable (earnings management) is explained by the four explanatory variables and the two control variables. Also, about 58.37% of the variation is due to external factors not considered in the model. The F-statistic is significant at 5% level indicating that the model is properly fitted. Durbin-Watson value of 1.5011 suggests absence of serious serial autocorrelation among the variables used in the study.

The negative and insignificant relationship between audit firm size (AFS) and earnings management (EMT) implies that AFS improves financial reporting quality (FRQ) but its impact is not significantly felt. The result demonstrates that the size of the audit firm, whether "Big 4" or not does not matter in curbing the occurrence of earnings management in banks. The result validates the findings by Inua and Okoh (2018) that reported a negative and insignificant relationship between AFS and EMT. Our finding, however, is in contrast with outcomes of Ngoc et al., (2017); and Muhammed and Ibrahim (2018), which found negative and significant relationship between AFS and FRQ. Our finding also contradicted reports of Kaklar et al., (2012); and Jafari (2015), which established a direct and significant association between AFS) and FRQ. Based on the outcome of the study, the study failed to reject null hypothesis 1. Thus, audit firm size has no significant influence on financial reporting quality.

The observed positive and insignificant effect of audit tenure (AUT) on EMT indicates that longer tenure of audit firm has a detrimental impact on audit quality, but this effect is not significant. Changing auditors, according to AICPA (1992) and Copeland (2002), cited by Daniels and Booker (2011), would increase the audit risk and start-up costs for auditors. Findings of this study however agree with Olabisi et al., (2017) and Oyedokun and Yunusa (2017) that reported a positive and insignificant effect of AUT on EMT. This finding, however, is not in line with the studies by Adeniyi and Mieseigha (2013), and Qawqzeh et al., (2018), which reported negative and significant effect. This study is also not consistent with the study by Listya and Sukrisno (2014) that reported a positive and significant relationship. Null hypothesis 2 is failed to be rejected; hence audit tenure has no significant impact on financial reporting quality.

The observed significantly negative association between audit fees (FEE) and EMT suggests that the higher the fees paid to audit firms for professional engagement, the higher the quality of services and reports produced. The clients (banks in this case) have to pay more to get quality services from external auditors, who have to protect their reputation and mitigate litigation that may arise from inappropriate audit reports. The outcome is supported by Listya and Sukrisno (2014); Onaolapo et al., (2017); and Mohammed and Ibrahim (2018). However, result of this study is contrary to the reports of Ngoc et al., (2017); Inua and Okoh (2018); and Shakhatreh et al., (2020), which suggested that higher audit fees translated to lower audit quality. Consistent with the findings of the study, the third null hypothesis is rejected. Audit fee therefore, has a significant effect on financial reporting quality.

Joint audit (JAU) was observed to have a negative and significant association with EMT, thus emphasising that the use of joint

audit by banks has a positive influence on the quality of reports, especially in discovering accrual abnormalities in financial statements prepared by managers. The result validates proposition of DeAngelo (1981) that joint audit produces the highest financial report quality than the one done by a single firm because joint audit encourages objective financial reports. The finding has the support of studies conducted by Umaru (2014). It is however inconsistent with the study by Olabisi et al., (2017), that revealed no significant relationship. Null hypothesis 4 is hereby rejected; hence joint audit has a significant effect on financial reporting quality.

For the control variables, bank size (BSZ) that had an indirect and significant relationship with EMT, suggests that the company's size has positive influence on the financial reports quality. This follows corporate governance theory and is therefore not unexpected. However, bank leverage (BLV) has a positive but no significant association with EMT, indicating that bank leverage has no significant influence on financial reports quality.

CONCLUSION

Audit firm size and audit tenure produce insignificant relationship with earnings management and by extension, financial reporting quality. Size of audit firm (whether it is 'Big 4' or smaller firm) and audit tenure do not matter in curtailing earnings management or producing quality financial reports in Nigerian banking environment.

RECOMMENDATIONS

Banks and other corporate organisations' shareholders should support engagement of bigger audit firms (which attracts huge audit fees) and joint audit firms.

Regulatory agencies in Nigeria, such as the Central Bank of Nigeria, Securities and Exchange Commission and Financial Reporting Council of Nigeria, should urgently revise the existing codes of corporate governance by stipulating the engagement of services of audit firms with requisite knowledge about the business, skill and capacity as well as promotion of mandatory joint audit. Rotation of audit firm after three years of client engagement is not sufficient to guarantee reduction in earnings management. Thus, mandatory rotation of audit firm by banks after three years should not be made compulsory in the expected revised codes.

Any corporate manager caught in the act of excessive or abnormal earnings management should be sanctioned by both the regulatory bodies and the professional association such manager belongs. The same sanction should also be extended to any audit firm that collaborates with corporate managers in committing or covering up issues of earnings management.

In future, similar studies can explore other economic sectors and introduce variables not captured in the study (such as auditors' expertise and audit partners' rotation). Possibility of increasing the size of the sample and period of study is also suggested.

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