



INTERNAL AUDIT FUNCTION AND THE QUALITY OF FINANCIAL REPORTING ON DEPOSIT MONEY BANKS IN NIGERIA

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ABSTRACT

The paper investigates the effect of the internal audit function on the quality of financial reporting on deposit money banks in Nigeria, the population of the study was made up of 42 which gave a sample size of 38. Questionnaire method for data collection was utilized, questionnaires were distributed to the respondents. the data collected were analyzed and the result found out that the audit fees, audit tenure and the audit firm size have significant positive effect on the quality of financial reporting of deposit money

Introduction

Internal Audit Function (IAF) is an important corporate governance mechanism which complements the activities of the Audit Committee (AC) and the Board of Directors (BOD). The interaction of these three actors makes up the internal corporate governance mechanism of a firm (Ramly & Rashid, 2010). The quality of the IAF is critical for the oversight effectiveness of the AC and the BOD and for continuous relevance and visibility of the IAF (Staciokas and Rupsys, 2005; Yessin, Ghanem, and Ruston, 2012). As such, the IAF should be integrated into the highest level of authority in the company. Internal Audit Function must possess the ingredients of quality for its relevance and effectiveness in helping the audit committee to exercise the proper oversight on the activities of the firm and to ensure the quality of financial reporting (Okafor & Ibadin, 2009; Prawitt, Smith, & Wood, 2009).

Financial reporting quality has become a center of focus for study and stakeholders due to accounting standards convergence, accounting standards harmonization, economic crises, growth in disclosure requirements, and mainly because of the various accounting scandals, among others (Herath & Albarqi, 2017). A sound financial system drives economies all over the world. The financial system plays a financial intermediation role between the surplus sector and the deficit sector of an economy, especially in emerging economies like



banks (DMBs) in Nigeria. The study recommended that big audit firms, reasonable audit tenure, and audit fees should be encouraged to improve financial reporting quality. The study suggests that future studies should consider measuring financial reporting quality in terms of faithful representation, comparability, verifiability, and understandability of financial statements defined by the International Accounting standard Board (IASB). Where possible, they should consider using secondary data.

Keywords: Internal audit, financial reporting, deposit money bank, Nigeria.

Nigeria. In the recent past, deposit money banks (DMBs) in Nigeria have undergone restructuring (Herath & Albarqi, 2017). The various restructuring has resulted in the takeovers and mergers of some of the deposit money banks due to their operational and financial performance problems. The operational and financial performance of banks is reported in the audited financial reports. This argument connotes that audit procedures in generating audited financial statements should meet the required standards. Thus, the need to ensure that banks' audit procedure is correctly done to avoid misappropriation and incidence of fraud. Primary responsibility for audit quality rests with auditors, but each stakeholder plays a vital role in supporting high-quality financial reporting. Window dressed accounts raised concerns about the credibility of financial reports due to the collapse of many blue-chip companies. Examples of such corporations include; the energy corporation ENRON in 2001; WorldCom, Global Crossing, and Rank Xerox are other companies in the USA with a similar problem; Parmalat in Italy and Allied Nationwide finance in New Zealand among others across the globe (Adeyemi, Okpala, & Dabor, 2012).

There have been concerns about audit quality in the present environment, where severe failures have come to light, for example; Cadbury Nigeria Plc in 2006 and Afribank Nigeria Plc in 2009; Intercontinental Bank Plc in 2009 and Skye Bank Plc in 2018. Low-quality financial reporting has also been a contributing factor in many high-profile corporate scandals, leading stakeholders in many countries to demand higher quality corporate governance, audit quality (Amahalu, Egolum & Obi, 2019). The acknowledged failure of audit process to capture financial misstatements has provoked the ostensible outburst of interest and attention ins general financial reporting. The perceived failure of audit to fully alert equity and other claimants concerning misrepresentations has made investors helpless and inept to undertake rational financial decisions affecting entities generally. This is so because the quality of reported earnings and the capability of auditing to efficiently contain management earnings machinations have become highly doubtful. Thus, there is a worry about the truthfulness of reported income and its relationship with the audit process given the pockets of corporate failures. Thus, questions whether these corporate failures and by extension stock price fluctuations are not the result of poor audit process and the incapability of the audit function to cushion earnings misstatements. Due to the divorce of firm ownership from management, audit function arises. The agency problem arises from the existence of asymmetric information in the principal agent contracts. The existence of information asymmetry between



firm management and ownership influences the changes in market prices of shares. However, with the pockets of business collapses, there is a concern about the quality of auditing (Amahalu, Egolum & Obi, 2019).

Empirical Literature Review

Sayyar, Basiruddin, Abdul-Rasid and Elhabib (2018) examined the impact of audit quality on firm performance for Malaysian listed companies for the period of 2003 to 2016 using Pearson correlation and pooled regression analysis. The study used audit fees and audit firm rotation as proxies for audit quality. Return on assets and Tobin's q were used as measures for firm performance. The study found that there is insignificant relationship between audit quality proxies (audit fees and audit firm rotation) and ROA. The study also found that an audit fee is significantly and positively related to Tobin's Q. However, audit firm rotation is insignificantly related to Tobin's Q. While, Liu (2017) conducted an empirical study on the nexus between auditors' characteristics and audit fee. The study used the data of listed companies in China from 2010 to 2015; the study constructed the regression model of the audit fees at individual auditor level and found that age, gender, educational background, industry specialization, position and busyness all have significant correlations with the audit fees. The results illustrated that audit client considers at individual auditor level when choosing audit services and pays different level of audit fees, which provide empirical evidences to selection and cultivation of auditors. Furthermore, Türel, Taş, Genç and Özden (2017) examined the association between audit firm tenure and audit quality in Turkey between 2009-2016. The study used three measures to proxy audit quality such as propensity to issue modified audit reports and discretionary accruals determined by two models. It was found that that audit quality does not increase with limited audit firm tenure. Given the additional costs associated with audit switch, it was concluded that there are minimal benefits of mandatory firm rotation. The results of the study will be useful for the regulators who are in charge to improve the audit quality. In another development Cheng, Chen and Chen (2018) investigate the association between auditor size and performance. Empirical data of the study were obtained from the 1989–2006 census report of audit firms in Taiwan. In terms of market segment, audit firms were divided into public company audit market firms (PCAMFs) and non-public company audit market firms (NCAMFs). Based on path analysis, the study found that auditor size has direct effect on performance and indirect effect through auditor quality. Auditor quality associates with both auditor size and performance positively. Furthermore, auditor size has more contribution to performance of PCAMFs than that of NCAMFs. Auditor quality of PCAMFs explained more variation of financial performance than do NCAMFs. The results indicated that PCAMFs earned more financial performance through the upgrade of auditor quality.

Theoretical Framework

The following theories were reviewed to understand better the effect of audit quality on financial reporting quality in deposit money banks (DMBs) in Nigeria.

Agency Theory

Agency theory originated from the work of Berle and Means (1932). They explored the concept of agency and the applications toward the development of large corporations. They found out how the interest of the directors and managers differ from the owners of the firm, thereby using the concepts of agency- principal to explain the genesis of those conflicts. Jensen and Meckling (1976), further on the work of Berle and Means (1932), to develop agency theory as a formal concept. They



also formed a school of thought arguing that corporations are structured to minimize the costs of getting agents (agency costs) to follow the direction and interests of the principals. The theory essentially acknowledges that different parties involved in a given situation with same given goal will have different motivations, and these differences can manifest in divergent ways. This means that there will always be partial goal conflict among parties, because efficiency is inseparable from effectiveness, and thus information will always be somewhat asymmetric between principal and agent. It is a concept that explains why behavior or decisions vary when exhibited by members of a group. Specifically, it describes the relationship between one party, called the principal that delegates work to another, called the agent.

Methodology

The research design adopted by the researcher is the survey research design. This involves collecting information from the parties that made up the population through “administration of questionnaires”. It consists of multiple-choice questions (close ended questions). The design is appropriate so as to gather different opinions from different responded on the issue under study.

Population of the Study

The initial work of a researcher is to define the study population explicitly. This represents the theoretical specified aggregation of survey elements. The elements in this sense refer to individuals, materials and organizations about which the researcher collects information for his analysis.

Sample and Sampling Techniques

According to Mason et al (1997), sampling is a choosing some members out of a population for observation. It is not possible at all times to study all the entire population as a result, only a portion of the population can be studied.

The study adopted simple random sampling technique to ensure that all respondents were given equal chance of selected as the sample of the study.

The researcher intends to use the Yamane (1967) method in determining the sample size. The researcher chooses 5% as the margin of error.

According to Yamane (1967) to determine a sample size from the population.

$$n = \frac{N}{1 + N(e)^2}$$

Where:

$$n = \frac{42}{1 + 42(0.05)^2}$$
$$\frac{42}{1+0.0025}$$
$$\frac{42}{1.105}$$

$$n = 38$$



Sample Techniques

For the purpose of this research work, the portion of the population that shall be used to make analysis and draw conclusion shall be selected using the simple random sampling techniques in selecting our sample.

Method of Data Collection

In the conduct of this research work, data was collected from both primary sources and secondary sources of data collection. This is to make the research findings reliable and the research report reliable too.

Primary Data

Primary data refers to those raw facts obtained directly from the object of study, that in the original sources, for a specific purpose. The primary sources of data were accessed through the use of personal interviews, observation and questionnaires. The personal interview and questionnaires are similar in nature and purpose. In fact, the two methods do supplement or complement each other, depending on the nature of assignment at hand-Ackotti (1973); In this research, we made a great use of this method of data collection.

Instrument of Data Collection

This is also referred to as the method of data collection or data collection instruments. They are so called, because they assist in collecting, measuring and gathering of the data that are essential for the successful conduct of a research work. Questionnaire is used to in the collecting data;

Questionnaire:A questionnaire is a research instrument which comprises of carefully designed question for the various respondents to answer. Questionnaires are self-administered from the stand point of the respondents. It is usually accompanied by a covering letter which states the purpose of study and perhaps the use of the finding. Most questionnaires carry a promise of confidentiality and anonymity.

Administration of Instrument

The researcher administered the questionnaires into two sections; that is section 'A' and 'B'. Section 'A' consist of the personal data of the respondent, while section 'B' consists of questions on subject matter under investigation or study. The two questionnaires were prepared. For the purpose of this research, the design and method of administering questionnaires are the dichotomous and the open-end questionnaire (Osuala, 2003).

Secondary Data

A great deal of data was collected from the Secondary Sources of data collection. The data collected were used to supplement those obtained from the primary sources. The Secondary sources of data employed in this research includes: available Textbooks, Journals, Workshop materials, Seminar paper, past researches, Websites, related to the topic under study etc.



Method of Data Analysis

The data collected will be analyzed using Statistical Package for Social Sciences (SPSS).

Data Presentation

The questions in the questionnaire were fully responded and responses would be presented in a tabular form. A total number of thirty-eight (38) questionnaires were issued and thirty-four (34) were filled and returned while four (4) were not returned.

Option	Frequency (F)	Percentage %
No of questionnaire Returned	34	
Not returned	4	
Total	38	100%

Response from questionnaire

This section presents the analysis of the characteristics of the respondents in terms of their gender, age, marital status, occupation and educational qualification.

Demographic Profile of the Respondents

Table 1: Gender Characteristics

Variables	Frequency (F)	Percent (%)	Cumulative Percent (%)
Male	18	52.9	52.9
Female	16	47.1	100.0
Total	34	100.0	

Source: Field Survey, 2022

The table above presents the distribution of respondents on the basis of their gender. It can be seen that 18 (52.9%) are male while 16 (47.1%) of the respondents are females.

Table 2: Years with the company

Variables	Frequency (F)	Percent (%)	Cumulative Percent (%)
1-3years	20	58.8	58.8
3-5years	14	41.2	100.0
Total	34	100.0	

Source: Field Survey, 2022

The table above presents the distribution of respondents on the basis of their years with the company. It can be seen that 20 (58.8%) are working with the company for the period of 1-3years, 14 (41.2%) of the respondents worked for the period of 3-5years.

Table 3: Bank undergo audit review yearly

Variables	Frequency (F)	Percent (%)	Cumulative Percent (%)
Strongly Agree	6	17.6	17.6
Agree	6	17.6	35.2



Disagree	8	23.5	58.7
Strongly Disagree	8	23.5	82.2
Undecided	6	17.6	99.8
Total	34		

Source: Field Survey, 2022

The table above presents the distribution of respondents on the basis of how bank undergo audit review yearly, it can be seen that 6(17.6%) strongly agree that bank undergo audit review yearly, 6(17.6%) of the respondents agree that bank undergo audit review yearly, 8(23.5%) of the respondents disagree that bank undergo audit review yearly, 8(23.5%) of the respondents strongly disagreed that the bank should undergo audit review yearly while 6(17.6%) are undecided.

Table 4. Audit firm size impacts financial reporting quality

Variables	Frequency (F)	Percent (%)	Cumulative Percent (%)
Strongly Agree	5	14.7	14.7
Agree	16	47.1	61.8
Disagree	9	26.5	88.2
Strongly Disagree	4	11.8	100.0
Undecided	0	0	
Total	34	100.0	

Source: Field Survey, 2022

Table 4. presents the distribution of respondents on the basis of how auditor feels the bank should concentrate more on how the carryout transactions with customers 5(14.7%) of the respondents strongly agree, 16(47.1%) of the respondents agree, 9(26.5%) disagree while 4(11.8%) of the respondents strongly disagree.

Table 5. Banks structure and lines of authority are understood by the employees

Variables	Frequency (F)	Percent (%)	Cumulative Percent (%)
Strongly Agree	12	35.3	35.3
Agree	10	29.4	64.7
Disagree	8	23.5	88.2
Strongly Disagree	2	5.9	94.1
Undecided	2	5.9	100.0
Total	34	100.0	

Source: Field Survey, 2022

Based on the analysis of table 5 above 12(35.3%) of the respondents strongly agree, 10(29.4%) agree, 8(23.5%) of the respondents disagree while 2(5.9%) of the respondents strongly disagree while 2(5.9%) of the respondents were undecided that presents the distribution of respondents on the basis of bank structure and lines of authority are understood by the employees.



Table 6. Audit tenure has effect on the financial reporting quality

Variables	Frequency (F)	Percent (%)	Cumulative Percent
Strongly Agree	15	44.1	44.1
Agree	10	29.4	73.5
Disagree	5	14.7	88.2
Strongly Disagree	3	8.8	97
Undecided	1	2.9	99.9
Total	34	99.9	

Source: Field Survey, 2022

Based on the analysis of table 6 15(44.1%) of the respondents strongly agree, 10(29.4%) agree, 5(14.7%) of the respondents disagree while 3(8.8%) of the respondents strongly disagree while 1(2.9%) of the respondents were undecided that presents the distribution of respondents on the basis of Bank structure and lines of authority are understood by the employees.

Table 7. Management demonstrates the importance of integrity

Variables	Frequency (F)	Percent (%)	Cumulative Percent (%)
Strongly Agree	9	26.5	26.5
Agree	18	52.9	79.4
Disagree	4	11.8	91.2
Strongly Disagree	2	5.8	97
Undecided	1	2.9	99.9
Total	34	99.9	

Source: Field Survey, 2022

Based on the analysis of table above 9(26.5%) of the respondents strongly agree, 18(52.9%) agree, 4(11.8%) of the respondents disagree while 2(5.8%) of the respondents strongly disagree while 1(2.9%) of the respondents were undecided that presents the distribution of respondents on the basis of management demonstrate the importance of integrity.

Table 8. Staff members are properly trained in auditing

Variables	Frequency (F)	Percent (%)	Cumulative Percent (%)
Strongly Agree	20	58.8	58.8
Agree	10	29.4	88.2
Disagree	3	8.8	97
Strongly Disagree	1	2.9	99.9
Undecided	0	0	
Total	34	99.9	

Source: Field Survey, 2022

Based on the analysis of table 8 above 20(58.8%) of the respondents strongly agree, 10(29.4%) agree, 3(8.8%) of the respondents disagree while 1(2.9%) of the respondents strongly disagree



while of the respondents were undecided that presents the distribution of respondents on the basis of staff member properly trained in auditing.

Based on the analysis of table 9. 12(35.3%) of the respondents strongly agree, 9(26.5%) agree, 5(22.2%) of the respondents disagree while 3(8.8%) of the respondents strongly disagree while 5(16.7%) of the respondents were undecided that presents the distribution of respondents on the basis staff that performs the reconciliation are separated from those that initiates and finalize transaction.

Table 9. Staff that performs the reconciliation are separated from those that initiates and finalize transaction

Variables		Frequency (F)	Percent (%)	Cumulative Percent (%)
Valid	Strongly Agree	12	35.3	35.3
	Agree	9	26.5	61.8
	Disagree	5	14.7	76.5
	Strongly Disagree	3	8.8	85.3
	Undecided	5	14.7	100.0
Total		34	100.0	

Source: Field Survey, 2022

Table 10. The population of customers affect the internal audit of the bank

Variables		Frequency (F)	Percent (%)	Cumulative Percent (%)
	Strongly Agree	17	50.0	50.0
	Agree	10	29.4	79.4
	Disagree	3	8.8	88.2
	Strongly Disagree	2	5.9	94.1
	Undecided	2	5.9	100.0
Total		34	100.0	

Source: Field Survey, 2022

The table 10. Above 17(50.0%) of the respondents strongly agree, 10(29.4%) agree, 3(8.8%) of the respondents disagree while 2(5.9%) of the respondents strongly disagree while 2(5.9%) of the respondents were undecided that presents the distribution of respondents on the basis population of customers affect the internal audit of the bank.

Table 11. Auditor takes time while carrying out the internal audit of the bank

Variables		Frequency (F)	Percent (%)	Cumulative Percent (%)
	Strongly Agree	6	17.6	17.6
	Agree	8	23.5	41.4
	Disagree	11	32.4	73.5
	Strongly Disagree	7	20.6	94.1
	Undecided	2	5.9	100.0



Total	34	100.0	
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Source: Field Survey, 2022

The table 11 above 6 (17.6%) of the respondents strongly agree, 8(23.5%) agree, 11(32.4%) of the respondents disagree while 7(20.6%) of the respondents strongly disagree while 2(5.9%) of the respondents were undecided that presents the distribution of respondents on the basis auditor takes time while carrying out the internal audit of the bank

Table 12. Auditing in deposit money banks is done once in a year

Variables	Frequency (F)	Percent (%)	Cumulative Percent (%)
Strongly Agree	7	20.6	20.6
Agree	6	17.6	38.2
Disagree	8	23.5	61.7
Strongly Disagree	10	29.4	91.1
Undecided	3	8.8	99.9
Total	34	99.9	

Source: Field Survey, 2022

Base on the analysis of table 12 above 7(20.6%) of the respondents strongly agree, 6(17.6%) agree, 8(23.5%) of the respondents disagree while 10(29.4%) of the respondents strongly disagree while 3(8.8%) of the respondents were undecided that presents the distribution of respondents on the basis auditing in deposit money banks are done once in a year.

Test of Hypothesis

Hypothesis whether null or alternative is a statement subject to some test or verification which tends to provide some ideas toward arriving at solution to a problem.

In determining whether to accept or reject a calculated value of chi-square compare with the tabulated value of chi-square. If the calculated value of chi-square (χ^2) is greater than the critical value you reject the null hypothesis and accept the alternative hypothesis or otherwise.

The hypothesis is to be tested is:

Hypothesis One

H₀: Audit firm size has no significant effect on financial reporting quality.

H₁: Audit firm size has significant effect on financial reporting quality

Test of hypothesis using response from question four (4)

Table 13. Chi-Square Table

Responses	F _o	F _e	F _o – F _e	(F _o – F _e) ²	$\frac{(F_o - F_e)^2}{F_e}$
Strongly Agreed	5	6.8	-1.8	-3.2	0.5
Agreed	16	6.8	9.2	84.6	12.4



Disagreed	9	6.8	2.2	4.8	0.7
Strongly disagreed	4	6.8	-2.8	7.8	1.1
Undecided	0	6.8	-6.8	46.2	6.8
Total	34	34	0	146.6	21.5

Source: Field Survey, 2022

$$\text{Where } Fe = \frac{GT}{CT}$$

$$= \frac{34}{5} = 6.8$$

The level of significance is 5% or 0.05, the degree of freedom is 4 and was arrived thus

$$(c-1)(R-1)$$

$$(5-1)(2-1)$$

$$(4)(1) = 4$$

At 0.05 significance

$$x^2 \text{ cal} = 21.5$$

$$x^2 \text{ tab} = 9.488$$

Decision rule earlier shows that:

If $x^2 \text{ cal}$ is greater than $x^2 \text{ tab}$ reject null hypothesis (H_0) and accept alternative hypothesis (H_1).

If $x^2 \text{ cal}$ is less than $x^2 \text{ tab}$ accept null hypothesis (H_0) and reject alternative hypothesis (H_1).

From the calculation above its obvious that $x^2 \text{ cal}$ is greater than $x^2 \text{ tab}$.

Therefore, from the decision rule we are to accept the alternative hypothesis (H_1) and reject the null hypothesis (H_0) meaning that the audit firm size significant effect on financial reporting quality.

Hypothesis Two

H_0 : Audit tenure has no significant effect on financial reporting quality.

H_1 : Audit tenure has significant effect on financial reporting quality

Test of hypothesis using response from question six (6)

Table 14. Chi-Square Table

Responses	Fo	Fe	Fo – Fe	(Fo – Fe)²	$\frac{(Fo - Fe)^2}{Fe}$
Strongly Agreed	15	6.8	8.2	67.2	9.8
Agreed	10	6.8	3.2	10.2	1.5
Disagreed	5	6.8	-1.8	3.2	0.5
Strongly disagreed	3	6.8	-3.8	14.4	2.1
Undecided	1	6.8	-5.8	33.6	4.9
Total	34	34	0	128.6	18.8

Source: Field Survey, 2022

$$\text{Where } Fe = \frac{GT}{CT}$$

$$= \frac{34}{5} = 6.8$$



The level of significance is 5% or 0.05, the degree of freedom is 4 and was arrived thus

$$(c-1)(R-1)$$

$$(5-1)(2-1)$$

$$(4)(1) = 4$$

At 0.05 significance

$$x^2 \text{ cal} = 18.8$$

$$x^2 \text{ tab} = 9.488$$

Decision rule earlier states that;

If $x^2 \text{ cal}$ is greater than $x^2 \text{ tab}$ reject null hypothesis (H_0) and accept alternative hypothesis (H_1).

If $x^2 \text{ cal}$ is less than $x^2 \text{ tab}$ accept null hypothesis (H_0) and reject alternative hypothesis (H_1).

From the calculation above its obvious that $x^2 \text{ cal}$ is greater than the $x^2 \text{ tab}$.

Therefore, from the decision rule we are to accept the alternative hypothesis (H_1) and reject the null hypothesis (H_0) meaning that the audit tenure has significant effect on financial reporting quality.

Hypothesis Three

H_0 : Audit fees have no significant effect on financial reporting quality.

H_1 : Audit fees have significant effect on financial reporting quality

Test of hypothesis using response from question ten (10)

Table 15. Chi-Square Table

Responses	Fo	Fe	Fo – Fe	(Fo – Fe) ²	$\frac{(Fo - Fe)^2}{Fe}$
Strongly Agreed	17	6.8	10.2	104.0	15.3
Agreed	10	6.8	3.2	10.2	1.5
Disagreed	3	6.8	-3.8	14.4	2.1
Strongly disagreed	2	6.8	-4.8	23.0	3.4
Undecided	2	6.8	-4.8	23.0	3.4
Total	34	34	0	174.6	25.7

Source: Field Survey, 2022

$$\text{Where } Fe = \frac{GT}{CT}$$

$$= \frac{34}{5} = 6.8$$

5

The level of significance is 5% or 0.05, the degree of freedom is 4 and was arrived thus

$$(c-1)(R-1)$$

$$(5-1)(2-1)$$

$$(4)(1) = 4$$

At 0.05 significance

$$x^2 \text{ cal} = 25.7$$



$\chi^2_{tab} = 9.488$

Decision rule earlier states

If χ^2_{cal} is greater than χ^2_{tab} reject null hypothesis (H_0) accepts alternative hypothesis (H_1).

If χ^2_{cal} is less than χ^2_{tab} accept null hypothesis (H_0), reject alternative hypothesis (H_1).

From the calculation above, it is obvious that χ^2_{cal} is greater than χ^2_{tab} .

Therefore, from the decision rule we are to accept the alternative hypothesis (H_1) and reject the null hypothesis (H_0) meaning that the audit fees have significant effect on the financial reporting quality.

Summary, Conclusions and Recommendations

Internal auditors are expected to “possess the knowledge, skills, and other competencies needed to perform their individual responsibilities (IIA 2005b).” The more competent the internal auditors, the more likely they are to understand the factors leading to and the indicators of management bias in accounting accruals and how it can be moderated. In addition, management may have less incentive to aggressively manage earnings if they have reason to believe that a competent IAF is monitoring their accounting choices.

This study examined the effect of audit quality on the quality of financial reporting of deposit money banks (DMBs) in Nigeria using audit fees, audit firm size, and audit tenure as proxies for audit quality and using one of the qualitative characteristics of financial statement (relevance) as a measure of financial reporting quality. The study found out that the audit fees, audit tenure and the audit firm size have significant positive effect on the quality of financial reporting of deposit money banks (DMBs) in Nigeria. The study recommended that big audit firms, reasonable audit tenure, and audit fees should be encouraged to improve financial reporting quality. The study suggests that future studies should consider measuring financial reporting quality in terms of faithful representation, comparability, verifiability, and understandability of financial statements defined by the International Accounting standard Board (IASB). Where possible, they should consider using secondary data.

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