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- V. Literature Review
- VI. Methodology
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## EFFECT OF AUDIT PRICING ON QUALITY OF AUDIT AMONGST DEPOSIT MONEY BANKS IN NIGERIA.

HABIBA IHIOVI

### ABSTRACT

*The Study 'effect of audit pricing on quality of audit amongst Deposit Money Banks in Nigeria' aimsto determine the effect of audit quality, audit fee and audit tenure on return on assets of Nigerian banks. The corporate collapses and failures experienced in the banking sector amidst the clean audit reports has been perceived as not too conducive to both local and foreign investors in the country which necessitate the urgent need to develop strategies to detect and prevent business fraud and take cursory looks at the risk factors associated with businesses, and thereby directly, or indirectly repose the confidence of investors in the financial reporting system. The study covers the period from 2011 to 2020 and utilizes secondary sourced data that will be extracted from the annual financial statements sampled banks. A sample of 5 deposit money banks is conveniently selected. The study adopts Ex-post facto design to evaluate the effects of audit pricing on quality of financial reports of deposit money banks in Nigeria. Analytical techniques for both descriptive and inferential statistics on Least squares multiple regression estimation mechanisms shall be established. The model undergoes a number of diagnostic tests before executing the main analysis. Hausman Test for panel data is used to ascertain the best estimator between fixed effect and random effect regression model for the study. Pearson Product-Moment Correlation is applied to estimate the degrees of relationship among the study variables. The study recommendations therefore shall be made after analysis and findings.*

**KEYWORDS:** *Audit Quality, Audit Fee, Audit Tenure, Return on Aassets, Audit Firm Size.*

### 1.0 Introduction

Audit quality plays an important role in maintaining an efficient market environment; an independent quality audit underpins confidence in the credibility and integrity of financial statements which is essential for well functioning markets and enhanced financial performance. The financial statement audit is a monitoring mechanism that helps reduce information asymmetry and protect the interests of the various stakeholders by providing reasonable assurance that the management's financial statements are free from material misstatements. The societal role of auditors should be a key contribution to financial performance, in terms of reducing the risks of significant misstatements and by ensuring that the financial statements are elaborated according to preset rules and regulations. Lower risks on misstatements increase confidence in capital markets, which in turn lowers the cost of capital for firms.

In developing countries like Nigeria, the efficient practices of the auditors in their responsibilities have

not yet developed very well (Sharma, 2011). World Bank (2007) also reported that most of the external auditors in Nigeria complain audit quality in the country was very low. This raises the question of what audit quality is and the factors that determines audit quality. However, the concept of audit quality has proved difficult to define with certainty. It is not immediately or directly observable and is difficult to measure (Power, 2007). Moreover, audit markets' participants have conflicting roles and different expectations that lead to different interpretations of audit quality (Sutton, 2013). As a result, different people tend to have different definitions and ways of measuring it, which suggests ambiguity and subjectivity in the term audit quality (Watkins, Hillison & Morecroft, 2004).Following, the above mostly used definition of audit quality, numerous studies were conducted in developed as well as developing economies in varying magnitude to examine the variables that influence the quality of auditing (Craswell, Francis & Taylor 1995) and number of factors were discovered. Most of the



studies showed that audit quality can be influenced by the type of audit firm, audit independence, audit size, audit tenure, audit rotation and audit fee. It is therefore, based on these tenets, that this study examined the effect of audit quality on value relevance of Nigerian deposit money banks' financial report. Having established that the contribution of the auditor is basically through the production of reports that are of value relevance, we investigate the factors that could influence the achievement of high audit quality and its' effect on the value relevance of deposit money banks' financial report in Nigeria. This is because the DMBs are the most liquid and highly regulated sector on the Nigerian stock exchange market.

The spate of audit failure in the world, especially the Nigerian banking failure of 2005, has brought great disappointment to users of financial report. The bane of the problem has been linked to long term of audit firm tenure which has also been linked with creative accounting that further affects the quality of financial reports thus making them less value relevant. In Nigeria audit setting, the challenge of audit tenure and audit quality reporting has not attracted much empirical study beyond mere anecdotal opinions (Mgbame, Eragbhe & Osazuwa, 2012). In view of these studies, auditor tenure has become the focus of much debate. Should a firm replace its auditors on a regular basis, or should the auditor be allowed to build a long term relation with the client?

The production of a quality audit report is perceived to foster engendered confidence in financial reports by the users of those reports. Investors in particular tend to place better trust in financial statements that are audited; as the expected independence of the auditor boosts the assurance that important investment decisions can be made on the thrust of those statements which is adjudged to be of value relevance. The increased confidence of these set of financial users tend to attract the inflow of capital which has the long-run effect of creating growth and development in the business environment as a report of the reported market figures that those intending investors are interested in (Adeyemi & Fagbemi, 2010). However, inefficiencies on the part of management could lead to 'structured financial statements'. These financial statements ordinarily do not show the true state of affairs and financial position of the organization and hence, could jeopardize the decisions of prospective investors. Adverse results on investment would reduce the credibility of the financial statements; which would in turn reduce the level of capital flow, there by deteriorating the state of the business environment (Securities and Exchange Commission, 2000). These are all issues that the corporate world is faced with in regards to the quality of audit function. The onus therefore rests on the auditors to address these issues through efficient and effective execution of the audit assignment, and the resultant production

of a quality report that are of value relevance.

## 1.2 Statement of the Problem

The systemic distress that plunges some of the banks which parades captivating financial statements of its annual banks financial position has called for caution on the part of stakeholders and customers of the bank in trusting the reliability of audit reports of some of the banks. Audit quality is important in maintaining an efficient market environment; an independent quality audit underpins confidence in the credibility and integrity of financial statements which is essential for well functioning markets and enhanced financial performance. Many bank branches hide under the large size of their banks to churn out fantastic audit report that are untrue and when regulatory authorities' makes public the true position of those banks, confidence of the public always got shattered by such organized deceit.

In Nigeria, the seemingly persistent bank failures have raised some fundamental issues on the quality of audit and the independence of the external auditor amidst others. In particular, regulators have often expressed their concerns that the length of the auditor-client relationship (or auditor tenure) and executives association with auditors could impair auditors independence. The quality of an audit depends simultaneously on several audit firm features such as auditors' specialty, auditors' independence, auditors' tenure, audit fee and audit company type (Baker, 2010). The risk based approach of audit planning and subsequent pricing means that clients perceived by the auditors the typically assigned labour which in turn results in higher audit fees. So, audit fees are expected to be a sign of current and future performance (Stanley, 2011). To effectively constrain earnings misrepresentation and financial statement manipulations of financial institutions across the country, this study seek to examine the effect of audit quality on the general performance of selected Money Deposit Banks in Nigeria through the size of return on asset of the selected Money Deposit Banks in Nigeria.

## 1.3 Objective of the Study

The study sought to evaluate the extent to which the financial performance of Deposit Money Banks in Nigeria is being influenced by audit quality. Specifically, the study seeks to:

- I. Determine the influence of audit pricing on the quality of audit amongst Deposit Money Banks in Nigeria;
- II. Examine the effect of audit fees on the financial performance of Deposit Money Banks in Nigeria;
- III. To ascertain the effect of audit quality on earnings per share of Nigerian banks.

#### 1.4 Statement of Hypotheses

The following null hypotheses have been developed with the aim of achieving the research objectives:

- I. Audit pricing does not have a significant effect on the earnings per share of deposit money banks' financial report in Nigeria.
- II. Audit firm size has no significant effect on the earnings per share of deposit money banks financial report in Nigeria.
- III. Audit tenure has no significant effect on the earnings per share of deposit money banks financial report in Nigeria.

#### 2.1 Conceptual Framework

##### 2.1.1 Audit Quality

Audit quality, according to De Angelo (1981) cited in Okaro, Okafor & Ofoegbu (2015), "is market-assessed joint probability that a given auditor will both (a) discover a breach in the client accounting system and (b) report the breach, that is that the auditor has both the technical competence to detect any material errors during the audit process, and the independence to ensure that material errors and omissions are corrected or disclosed in the auditor's report. Jackson, Moldrich and Roebuck (2008) view the quality of audits from actual and perceived quality. Actual quality shows levels of risk of material errors in financial statements that can be reduced by the auditor. Perceived quality indicates the level of confidence of users in financial statement and the auditor's effectiveness in reducing material misstatement in financial statements prepared by management. Titman and Trueman (1986) see audit quality as the accuracy of the information reported by auditors. DeAngelo definition captures attribute critically to the role played by auditors in financial statement preparation. Thus, audit quality combines the ability of an auditor to detect a breach (auditor competence) and a willingness to report such a breach (auditor independence). The Financial Reporting Council (2006b) considers five factors that influence audit quality to includes: audit firm culture, skills and personal qualities of audit partners and staff, the effectiveness of the audit process, and the reliability and usefulness of audit reporting, amongst factor that are exogenous to the auditors. Audit quality plays an important role in maintaining an efficient market environment; an independent quality audit underpins confidence in the credibility and integrity of financial statements which is essential for well functioning markets and enhanced financial performance (Farouk & Hassan, 2014).

##### 2.1.2 Audit Fees

It is predicted that large companies have more data to examine, so the fees charged to large companies are higher (Choi, Kim, Zang, 2010). The results of Hsieh (2011) meta analysis on audit fees also confirms the positive association of the size's company, measured

by total assets, and complexity with fees. These results taken together indicate that size is an extremely critical explanatory variable for 104 any model of audit fees. The audited client's various attributes that influence the level of work and the respective fee, which the literature investigates, are the client's dimension, complexity, risk, profitability, governance, internal control and leverage (Choi, Kim, Kim, Zang, 2010). If an auditor wishes to decrease the issuing risk of a positive opinion when there are materially relevant distortions in the client's financial statements, he generally acts on the nature, the extension and timing of the audit procedures, which naturally influence the fee charged. Prior research also demonstrates a link between corporate governance and audit fees. Carcello, Hermanson, Neal, Riley (2002) studied the relation between the board of directors and audit fees characteristics and found a positive relationship between audit fees and the board of directors' independence, competence and diligence. The auditors tend to assign a low risk inherent and risk control to companies characterized with a better internal corporate performance (Carcello, Hermanson, Neal, Riley 2002).

To governance performance factors affect the audit plan, the auditor should first recognize and properly assess the corporate governance and second properly use this evidence to develop the audit plan. The literature indicates that when governance structure is strong, the auditor can reduce the sample size and then reduce the extent of an expensive substantive analysis (Chen, Lin & Zhou, 2005).

##### 2.1.2 Audit tenure

Auditor Tenure is defined in this study as the length of the auditor-client relationship. A rather too long association between the auditor and his client may constitute a threat to independence as personal ties and familiarity may develop between the parties, which may lead to less vigilance on the part of the auditor and even to an obliging attitude of the latter towards the top managers of the company. Aside from this threat to independence, the audit engagement may become routine over time, and if so, the auditor will devote less effort to identifying the weaknesses of internal control and risk sources (Okolie, 2014). In this study we measured audit tenure (AUDTEN) as; Length of auditor-client relationship: '1' if 3 yrs+ and '0' if less. The prolonged association between an audit firm and company-client could lead to the closeness of the auditing firm with its company-client's management which in turn makes it difficult for the auditor to freely express his professional opinion. Previous works done by Bhagat and Bolton (2009); Geiger and Raganandan (2002), have shown that lengthy audit firm tenure leads to a reduced propensity of issuing a qualified audit report. Complacency, lack of innovation, less rigorous audit procedures, and a learned confidence may arise after long association

with the company-client (Shockley, 1982). Professional accounting bodies like AICPA (1978 and 1992), ICAA and CPA Australia (2001) and Coordinating Group on Audit and Accountant Issues (2003) also expressed concerns that the length of audit client relationship may impair audit quality. Palmrose (2008) sees audit quality as a level of assurance. Naturally, the purpose of an audit is to provide an assurance on the financial statements, the quality of audit is thus the degree of such assurance that there are no material misstatements in the financial statements. An experimental study by Knapp (2011) tends to establish a connection between audit tenure and competence. As perceived by US audit committee members, the likelihood that the auditor will detect an anomaly increases in the first years of his mandate, and then decreases gradually, reaching its weakest 105 level after 20 years of service. Hence, as a whole, a negative association is commonly assumed auditor tenure and the quality of audit.

## 2.2 Empirical Review

Farouk and Hassan (2014) examined the impact of audit quality on financial performance of quoted firms in Nigeria. Multiple regression analysis was employed in analysing the data and testing the stated hypotheses. The results of the findings shows that auditor size and auditor independence have significant impacts on the financial performance of quoted cement firms in Nigeria. However, auditor independence has more influence than auditor size on financial performance. For this population the financial manager is accepted in Tehran Stock Exchange and 2008 to 2012 have been selected. Using primary data, he found that audit quality could affect the financial performance of companies. Yassin and Nelson (2012) used audit fee as proxy for audit quality. They suggested that, a higher audit fees indicates that auditors provide more efficient audit services to the companies compared to lower audit fees. Moutinho (2012) investigated the relationship between audit fees and firm performance. Using a sample of U.S. publicly traded, non-financial firms covering the period from 2000 to 2008, a fixed effects model was presented to estimate firm operating performance. The model included standard control variables, such as size, leverage, sales growth and research and development intensity. In addition, measures of corporate governance were introduced. Specifically, increases (decreases) in operating performance are connected with decreases (increases) in audit fees. Okoye, Okaro and Okafor (2015) studied corporate governance factors that affect audit quality, some of which if addressed will help in stemming the tide of audit failures. Using secondary data extracted from the annual reports of a sample of 104 companies randomly selected from a population of 134 non-bank companies listed in the Nigerian Stock Exchange, they concluded that small board size and greater board diligence impact positively on audit quality. Yuniarti

(2011) investigated the relation between factors that affect audit quality of 24 Bandung firm at 2009. He suggest that higher audit fees increase and improve audit quality due to auditors effort and accounting firm should enhance amount of audit fees that lead to higher audit quality.

## 2.3 Theoretical Framework

Agency theory has been widely used in literature to investigate the information asymmetry between principals (shareholders) and agent (management). Sarens and Abdolmohammadi (2007), states that according to the agency theory, a company consists of a set of linked contracts between the owners of economic resources (the principals) and managers (the agents) who are charged with using and controlling these resources. Jensen and Meckling (1976), states that in agency theory, agents have more information than principals and this information asymmetry adversely affects the principals' ability to monitor whether or not their interests are being properly served by the agents. Sarens and Abdolmohammadi (2007), opines that an assumption of agency theory is that principals and agents act rationally and use contracting to maximize their wealth. A consequence of this is the moral hazard issue. Jensen and Meckling (1976), opine that moral hazard constitutes a situation where to maximize their own wealth; agents may face the dilemma of acting against the interests of their principals. Since principals do not have access to all available information at the time a decision is being made by an agent, they are unable to determine whether the agent's actions are in the best interest of the firm. To reduce the likelihood of the moral hazard, principals and agents engage in contracting to achieve optimality, including the establishment of monitoring processes such as auditing.

## Methodology

### 3.1 Research Design

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

Two major variables will be used in this study; financial reports quality and audit quality. The financial reports quality is considered the dependent variable in this study. Discretionary accrual will be used as a measure of financial reports quality. The measure of financial reports quality to be used is the modified Jones model which determines the quality of financial reports adopted for the study. Accounting fundamentals will be applied 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 hypothesized that discretionary accruals should be negatively related to audit quality and will be estimated using Modified Jones model.

Audit Quality Is considered independent variable with the under listed proxies: Audit fee (independent variable) AF is measured using Natural Log of the Audit Fees Paid by the company (Palmrose, 1998; & Ma'atooft, 2011). The audit fees variable 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 data will be 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).

### 3.2 Population and Sample Size Determination Technique

The population of this study will consist of all the deposit money banks listed on the Nigerian Stock Exchange. However, convenient sampling technique will be adopted to select five (5) deposit money banks listed on the Nigerian Stock Exchange within the period 2011 to 2020. The pooled data will cover the period of ten (10) years (2011-2020), the five deposit money banks that form the sample for the study as listed below:

Access Bank Plc First Bank Holdings First City Monument Bank Plc Guaranty Trust Bank Plc. United Bank for Africa Plc

### 3.3 Method of Data Collection

Secondary data will be used in this study which will be sourced mainly from the sampled deposit money banks' annual reports of relevant years. Data required will be extracted from the income statement, cash flow statement, statement of financial position and notes to the accounts of the sampled deposit money banks' annual reports from 2011 to 2020.

### 3.4 Technique for Data Analyses

Least Square Multiple Linear Regression is a statistical technique which examines the impact of moderator or Independent variables on study dependent variable using regression based approach. The regression coefficients provide a numerical summary of the direction and strength of the linear

relationship between the variables. The negative or positive sign of the regression coefficients indicate 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. The residuals (the difference between fitted values and actual total accruals) are the discretionary accruals:

### 3.5 Model Specification

The model can be specified Statistically as:

$$y_j = \beta_0 + \beta_1 x_{1j} + \beta_2 x_{2j} + \dots + \varepsilon$$

However, the model can be adapted and modified for simplicity based on Agency theory and the auditors' theory of inspired confidence as:

$$EPS = f(NAF, AT)$$

$$EPS = \beta_0 + \beta_1 LNAF + \beta_2 AT + e$$

EPS = Earnings per share

LNAF = Natural log of Audit Fees (Independent Variable)

AT = Auditor's Tenure (Independent Variable)

$\beta_0$  = Intercept

$\beta_1$  &  $\beta_2$  = Coefficients of the independent variables

e = error term

**Decision rule:** Reject the null hypothesis if the calculated significance level is less than 0.05

### 4.0 Results and Discussion

This section presents the result of data extracted from the annual financial statement of the 5 banks that were sampled for the study.

#### 4.1 Data Analysis

This section analyzed the data presented in the previous section with the aid of statistical package for social sciences (SPSS, version 21). The analysis of data is presented in the subsequent sections:

#### Correlation Analysis

This section of the chapter presents in the table below the result of the correlation analysis between the independent variables to further validate the Tolerance statistic and VIF result.

**Table 1: Model Correlations**

		AF	AFS	AT
AF	Pearson Correlation	1		
	Sig. (2-tailed)			
	N	60		
AFS	Pearson Correlation	.162	1	
	Sig. (2-tailed)	.216		
	N	60	60	
AT	Pearson Correlation	.054	-.118	1
	Sig. (2-tailed)	.681	.368	
	N	60	60	60

Source: SPSS Version 21 Output

Table 1 shows the Pearson correlation for all the independent variables to ensure the test for multicollinearity of the independent variable since they consist of unranked data. Correlation considers two variables at a time to determine how they relate to each other. These types of checks are necessary because high correlation cause problems about the relative contribution of each predictor to the success of the model (Guajariti & Sangeeta, 2007). The correlation matrix above shows the absence of multicollinearity among the explanatory as can be seen in the VIF and Tolerance statistic of the variables. All

the variables show a low correlation (0.162 & 0.054) with the highest correlation estimated at 0.162. This is less than 0.75 which is considered harmful for the purpose of analysis (see Gujarati and Sangeeta, 2007, Berenson and Levine, 1999).

### Regression of the Estimated Model Summary

This section of the chapter presents the results produced by the model summaries for further analysis.

**Table 2: Model Summary**

R	R <sup>2</sup>	R <sup>2</sup> A	F Change
0.394	0.155	0.110	3.437
F Change Sig	DW	Constant	
0.023	0.630	-13.001	
	AF	AFS	AT
VIF	1.033	1.044	1.020
Tolerance	0.968	0.958	0.980
Beta	0.387	0.038	-0.014
Sig.	0.003	0.761	0.908

Source: SPSS Version 21 Output

From the model summary table above, the R value of 0.394 shows that, there is a weak relationship between AF, AFS & AT and EPS at 39.4%. Also the R<sup>2</sup> otherwise known as the coefficient of determination of 0.155 indicates that 15.5% of the variation in the value relevance of reported earnings per share can be explained by the variation in audit quality variables; audit fee, audit firm size and audit tenure while the remaining 84.5% (i.e. 100- R<sup>2</sup>) could be accounted for by other variables not included in this model like audit independence.

The adjusted R<sup>2</sup> of 0.110 indicates that if the model is adjusted and audit independence considered for this study, the result will deviate by only 0.045 (i.e. 0.155 – 0.110). This means there will be a deviation from the

current result by 4.5% which is not too high above the error term of 5% to say that the result does not reflect the true nature of the effect of audit quality on value relevance of deposit money banks financial reports in Nigeria. The table further shows the Fisher significant value of 0.023 with a variation of change at 3.437 units indicating that the set of independent variables were as a whole contributing to the variance in the dependent at 3.437 significant levels thus making the model statistically significant.

Furthermore, the regression result shows that when the independent variables are held stationary; the EPS variable is estimated at -13.001. This simply implies that when all variables are held constant in the long-run, there will be a decrease in the value relevance of

reported EPS of listed deposit money banks up to the tune of 13.001 units occasioned by short run factors. After adjustment for short run (Beta), a unit increase in AF will lead to an increase in value relevance of reported EPS of the banks by 38.7% as investors will perceive the increase in fee to be an index of increased audit quality. Similarly a unit increase in AFS will lead to an increase in the value relevance of reported earnings per share by 3.8%. While a unit increase in AT will lead to a decrease (Bounce back) in the value relevance of reported EPS by 1.4%. The low insignificance variation of AFS and AT induced on the perceived investors reaction to the reported EPS is because most investors are more interested in reported figures than qualification of audit quality thus; the reports on audit firm size and tenure as captured by the banks is of no value relevance to the investors.

#### 4.2 Test of Research Hypotheses

The hypotheses formulated in chapter one will be tested in this section in line with the decision rule in chapter three.

**H0<sub>1</sub>:** Audit pricing has no significant effect on the earnings per share of deposit money banks' financial report in Nigeria.

Given that the accepted significant level is 0.05 and the calculated value for Audit fee (0.003) is less than the significant level, we therefore reject the Null hypothesis and this means that audit fee has a significant effect on the earnings per share of deposit money banks financial report in Nigeria.

**H0<sub>2</sub>:** Audit firm size has no significant effect on the earnings per share of deposit money banks financial report in Nigeria.

Given that the accepted significant level is 0.05 and the calculated value for Audit firm size (0.761) is greater than the significant level, we therefore do not reject the Null hypothesis and this means that audit firm size has no significant effect on the earnings per share of deposit money banks financial report in Nigeria.

**H0<sub>3</sub>:** Audit tenure has no significant effect on the earnings per share of deposit money banks financial report in Nigeria.

Given that the accepted significant level is 0.05 and the calculated value for Audit tenure (0.908) is greater than the significant level, we therefore do not reject the Null hypothesis and this implies that audit tenure has no significant effect on the earnings per share of deposit money banks financial report in Nigeria.

#### 4.3 Discussion of Findings

The main objective of this study is to examine the

effect of audit quality on the earnings per share of deposit money banks financial reports in Nigeria. In line with this, three objectives were specified and findings from the test of hypotheses formulated are discussed below.

The first test of hypothesis revealed that audit fee has a significant effect on the earnings per share of deposit money banks financial report in Nigeria.

The test of the second hypothesis show that audit firm size has no significant effect on the earnings per share of deposit money banks financial reports in Nigeria.

The final hypothesis revealed that audit tenure has no significant effect on the earnings per share of deposit money banks financial reports in Nigeria. This contradicts the findings of Al-Thuneibat, Al-Issa and Ata-Baker (2017) who analyzed the effect of the length of the audit firm on opportunistic earnings management by audit client managements. The authors use the quadratic form approach, with some modifications. The population of their study encompassed all firms whose stock was publicly traded on the Amman Stock Exchange throughout the years (2002-2006). Their statistical analysis of data showed that audit firm tenure affects the audit quality adversely (negatively). Audit quality deteriorated when audit firm tenure was extended as a result of the growth in the magnitude of discretionary accruals. The reason for this contradiction is as a result of the difference in places examined by the studies.

### 5.0 Conclusion and Recommendation

#### Conclusions

This study is an evaluation of the effect of audit pricing on quality of audit amongst deposit money banks financial report in Nigeria. The study has three proxies that represent audit quality and each was used to form a research hypothesis aimed at answering the research questions the study was set to solve considering the value relevance of reported earnings per share by the deposit money banks. Based on the findings of this study from the test of the three research hypotheses earlier formulated in the study, the researcher has therefore come to the following conclusions outlined in respect to each hypothesis:

- i. Audit fee has a positive significant effect on earnings per share of reported earnings per share of the listed deposit money banks in Nigeria.
- ii. Audit firm size has a positive insignificant effect on earnings per share of reported earnings per share of the listed deposit money banks in Nigeria.
- iii. Audit tenure has a negative significant effect on

earnings per share of reported earnings per share of the listed deposit money banks in Nigeria.

### **Recommendations**

In consonance with this study's findings, the following recommendations become imperative:

- i. This study recommends that deposit money banks should endeavor to balance the costs of audit by paying prudent fee for audit services such that it will not impede or influence the external auditors' judgment on the reported financial figures in order to minimize the risk of reduced independence. Such practices if not considered lead to audit risk of poor judgment that might distort the value relevance of financial reports of the banks thus; lead to a situation where investors base their judgment on reported earnings figures that are inappropriate.
- ii. A careful plan need to be in place in selecting the right audit firm to audit the affairs of the deposit money banks so as to further enhance the quality of audit services.
- iii. Investors should be well informed about the qualities of audit firm available to choose the right audit firm beyond the big 4 audit firm in Nigeria. Since the big 4 nomenclature does not significantly affect the value relevance of reported earnings.\
- iv. It is further recommended that, deposit money banks should not maintain the services of a particular audit firm over a long period of time as this impedes the quality of audit service offered as a result of the familiarity developed between the audit firm and client overtime



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