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AUDITOR'S INDEPENDENCE AND FINANCIAL REPORTING CREDIBILITY IN THE NIGERIA BANKING SECTOR

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Abstract
This study evaluated the relationship between auditors' independence and financial reporting credibility in the banking sector. An ex-post facto research design was adopted for the study, where 10 banks were used as sample covering a period 2014-2023. Data were obtained from the financial statements of the considered banks and analyzed using regression analysis with the aid of E-View. The results showed that all three null hypotheses were rejected, thus accepting their alternatives namely, audit fees, audit tenure, and firm size have a positive relationship with accrual quality. The study concluded that auditors' independence has a positive relationship with financial reporting credibility, with recommendations that firms in the banking sector should develop contingency plans for situations where audit fees may need to increase unexpectedly, and that lager audit firms that have more resources, expertise, and experience that will lead to high audit quality should be used to ensure the accuracy and reliability of financial statements.

1. Introduction

Auditor independence is vital because of the belief that a professional accountant is needed to provide credibility and reliability to annual reports and accounts prepared by the management of an established entity. The auditor's opinion confers credibility on the financial statements, especially in situations of no significant misstatements. An auditor's independence is demonstrated in his capacity to support an objective as well as impartial mental discernment during conducting an audit. This involves objective analysis and verification of resources deployed during the year under review as reflected in the annual statements. With this, it is expected that auditors should be able to exercise neutral actions, personal look and behavior (Albesh, 2017).

According to a study conducted by the International Ethics Standard Board for Accountants (2014), an auditor must be independent in both appearance and thought in order to be recognized as such. Being independent-minded demonstrates the capacity to make decisions without interference from other factors that could impair their professional judgment. Professional skepticism will result from auditor's inability to operate with objectivity

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and honesty in the absence of this essential foundation. The independence of the auditor essentially affects the issues with the audit report and the quality of services the auditor provides. The foundation of the auditing profession is the auditor's independence, which is also a crucial part of the statutory reporting process and a necessary condition for adding value to an audited financial statement (Nwanyanwu, 2017).

The most significant factor influencing audit decisions is the size of the audit firm. As a result, auditing big clients necessitates greater resources, both technological and human, that are typically supplied by big audit firms (Virginus, 2020). The size of the audit firm is a metric of audit quality, and a high-quality audit should lessen the degree of a company's reported income manipulation. Since larger audit firms are perceived as more independent, the size of the audit firm is considered to be one of the elements that could negatively impact an auditor's reputation (Saidu & Jerry, 2018). According to Okolie (2014), the scale of an audit firm (Big 4, Big 5, or Big 6 …) is thought to indicate repute, international association, and honesty, all of which are represented in the audit report on their clients′ accounts. This is in line with the thesis of inspired confidence put forth by the Limperg Institutes in 1985. Numerous arguments have been made that the big audit firms have a big say in how much information the corporations they audit provide. However, most of the conclusions are inconsistent and contradictory (Okolie, 2014).

An audit must be conducted by an independent party who is not swayed by position or power, which could alter the audit′s outcome, in order to be considered credible and trustworthy. The new auditor independence rule, passed by the Securities and Exchange Commission, mandates that publicly traded businesses disclose the amount of money they paid their external auditor for non-audit services (IAASB, 2015). For investors as well as auditors, maintaining the independence of auditors is essential. The government, creditors, investors, lenders, stakeholders, and others in today's global market depend on auditors′ information regarding the accuracy and dependability of financial accounts. According to theory, one of the primary goals of financial reporting is to make capital allocation easier by lowering information asymmetry among capital market participants and improving contracting efficiency (Gow *et al*., 2015). Enhancements in reporting quality can decrease information asymmetry and boost contractual efficiency by giving investors more accurate information. Accordingly, enhancing the quality of reporting can make it easier for a business to obtain outside funding, which will ultimately boost investment and investment efficiency (Novie, 2013).

Businesses create a foundation for the credibility of their financial statements by employing an independent auditor to verify the accuracy of such disclosures. According to DeFond and Zhang (2014), the audit's conclusion regarding the accuracy of financial accounts is determined by the auditor's independence and meticulous approach to the task. Enhanced reporting credibility can affect how much investors rely on financial statement information for contracting and learning about a company′s performance and operations. This may also improve the company′s ability to obtain outside funding and the effectiveness of its investments (Nwanyanwu, 2013). Oversight of Nigerian accounting standards is the responsibility of two reputable accounting associations; the Association of Chartered Accountants of Nigeria (ICAN) and the Institute of National Accountants of Nigeria (ANAN). CAMA (2020) recommends that all incorporated businesses select an external auditor. Regardless of whether it paints an accurate and fair picture, this individual is required by law to offer an objective evaluation of the business′s financial status. According to the Company and Allied Matters Act (CAMA, 2020), every auditor is entitled to constant access to the company′s books, accounts and vouchers, as well as any information or justification that may be required while conducting the audit.

The independence of auditors is a significant issue for society as a whole, as well as for the final consumers of financial data. In this instance, investors can rely on financial statements. Auditing financial accounts is necessary for those statements to be believed, particularly for a business that is openly incorporated as a limited liability company. Financial statements for the money presented to the firm's management are used to keep the shareholders who appointed the management of the company accountable (Wali, 2015). An entity's financial reporting statement is the main tool used to assist users in making business-related decisions, such as investments. Users' perceptions of a company's current financial status can be adversely affected by unclear and ineffective financial statements (Simon, 2018). The attitudes of stakeholders regarding the integrity and dependability of a company's financial statements are often greatly influenced by studies undertaken by external auditors. External auditors are defined by the Companies and Allied Matters Act (as amended) as independent organizations that are distinct from the ownership and management of the companies they audit. It is anticipated that their independence will affect the caliber of the financial statements that auditors assess (Daniels et al., 2011). Because corporate managers frequently use accruals to take steps intended to report higher profits through earnings management methods, organizations with low accruals exhibit high earnings quality. This is because accruals are a good indicator of earnings quality (Givoly *et al.*, 2021).

This study hypothesizes that auditor independence is crucial for ensuring the credibility, integrity, and quality of financial reports, especially in developing countries like Nigeria.

H_{01}: There is no significant relationship between audit fees and accrual quality of the financial reporting in the Nigerian banking sector.

H_{02}: There is no significant relationship between audit tenure and accrual quality of financial reporting in the Nigerian banking sector.

H_{03}: There is no significant relationship between audit firm size and accrual quality of financial reporting in the Nigerian banking sector.

2. Review of Related Literature

2.1 Conceptual Clarification

2.1.1 The Audit Concept

Audit is to fine-tune, examine, and make clearer. According to the Merriam Webster Dictionary, auditing is defined as a "complete and careful examination of the financial records of a business or a person; a careful check or review of something; a formal examination of an organization or individuals accounts or financial situation; a methodical examination and review" (Merriam Webster Dictionary). The choice of words such as "examination, methodical, careful" in the above definitions connotes that auditing is a process, it is usually carried out on financial records, is usually carried out to determine the financial situation, capacity, or proceeds. The international audit and assurance Standard Board (IAASB) defined auditing as "independent process of examining financial statements, and expressing opinion on the same financial statements relating to a company/firm; usually carried out by an independently appointed auditor in accordance with certain terms of appointment and in compliance with relevant statutory and performance requirement".

Zayol *et al.* (2017) viewed auditing as "the process of verifying accounting data, determining the level of accuracy and level of reliability of accounting statements and reports". In particularly, auditing financial statements is about conducting an objective and accurate evaluation of a firm's financial statements of a firm by an independently appointed auditor.

Financial statement auditing is an independent assessment of a company's financial statements by an auditor, which is required by law for Limited Liability Companies (LLCs) to provide accurate financial information. This ensures independence of the company, executive directors, management, and influencers while maintaining integrity and credibility.

2.1.2 Concept of audit independence

According to Aliu *et al.* (2018), an auditor′s independence refers to their ability to make choices throughout the audit of a financial report with objectivity. An auditor′s objectivity guarantees that they are always perceived as independent. An auditor′s independence can be used to gauge a financial report′s dependability and integrity. According to Ndubuisi *et al.* (2017), the primary function of audit independence is to support the audit by increasing its efficacy in ensuring that the auditor would conduct the audit in an unbiased manner. Thus, it is necessary to look for the audit independence's broader goal. Additionally, according to Arens *et al.* (2011), audit independence necessitates a responsible mindset distinct from the client's interests. An attitude of healthy professional skepticism is required from the auditor. When an auditor conducts an audit, analyzes the findings, and attests to the audit report without being influenced, they are said to be independent. Arens et al. (2011) define auditor independence as independence of appearance and of thinking. The auditor′s mental condition enables objective audit conduct, but the appearance of freedom is influenced by others' definitions. The audit function benefits from true independence. Independent if they can retain an impartial and objective mindset in the client's best interests.

According to Albeksh (2017), an auditor′s independence can also be characterized by their ability to maintain an impartial and objective mental image, remain impartial throughout the audit, analyze the results, and provide verification in the audit report that is created. Auditors should have an impartial demeanor, appearance, and activities. As a result, auditors should possess certain personal qualities, such as technical and expert knowledge, professional aptitude, capability, and a healthy professional skepticism attitude, all of which have a significant influence on the caliber of the auditor's professional judgment.

2.1.3 Concept of audit fee

The audit fee is the amount paid for a particular audit service, and a higher audit fee is generally associated with a higher risk of the auditor losing their independence (Adeyemi *et al*., 2011). Adeyemi *et al.* (2011) found that management advisory services, competitiveness, and audit firm size independently follow audit independence. Although it has no discernible effect on audit independence, he also discovered that the size of audit firms is a key factor in determining audit fees (calculated as a percentage of office revenues to the audit company). This has led respondents to have less faith in the independence of the auditor. According to Yakubu *et al.* (2020), audit pricing was significantly impacted by the global financial crisis, highlighting the fact that the crisis has a substantial impact on audit companies, resulting in increased competition among auditors and lower audit fees. Conceptually, it is important to recognize that the global financial crisis has caused problems in the audit sector, with stakeholders holding varying views on how the crisis may significantly affect the independence of auditors, audit fees, and audit quality. According to Yakubu *et al*. (2020), audit fees are commonly described as the sum that an audit firm and its customer agree upon for the auditor to complete a proper audit. According to certain perspectives, the link between audit fees and non-audit payments provided to auditors undermines auditors′ independence. The money that the company's management spends on audit engagement is known as audit fees. The management of the client firm and the auditors chosen by the company or the Board of Directors agree on these funds (Yakubu *et al*., 2020). The money paid to auditors’ compromises the auditor's independence and can eventually reduce the value of financial statements (Daferighe *et al*., 2020).

2.1.4. The Concept of an Audit Tenure

The length of time an audit company has been conducting audit exercises is known as the audit tenure (Huyghe, 2017). According to Barizah *et al*. (2005), a long tenure indicates an auditor-client connection that lasts for at least 10 years. In addition to increasing the auditor's knowledge of the client's internal operations, a lengthy audit tenure may also compromise the auditor's independence because it may result in the development of personal ties and familiarity between the auditor and his client, which could cause the auditor to become less vigilant or even obliging toward the company's top managers (Feleke, 2017). According to Miharjo *et al.* (2012), auditors who have a longer relationship with their clients behave more like firms, rather than critically and professionally ignoring the company′s claims.

In order to fulfill their obligation to the users of audit reports, audit companies must meet professional standards and bear a great deal of responsibility. According to the regulations, auditing of financial is legally permitted. In addition, they provide their clients other services like management consulting, tax services, accounting services, special audits, and other attestations. Compared to less well-known public accounting companies, well-known firms are thought to deliver high-quality audits that go above and beyond the bare minimum of professional criteria. According to Eyenubo *et al.* (2017), the auditors have come under fire for conducting audit exercises for their customers for as long as feasible and then focusing more on non-assurance audit exercises rather than required audits. In addition to restricting certain assurance services that audit firms can offer to their clients, Nigerian accounting regulatory bodies such as, the Institute of Chartered Accountants of Nigeria (ICAN), mandate that companies rotate their auditors for audit exercises every 3 years. Additionally, corporations should change their auditors every 10 years, according to the Financial Reporting Council of Nigeria. Duramany-Lakkoo (2022) asserted that the larger the audit companies, the more likely it is that the auditors will act impartially. Since then, an increasing amount of research has demonstrated that larger audit companies offer higher-quality audits.

2.1.5 The Concept of Firm Size

The size of an audit firm is a significant factor to audit quality. This explains how big an audit firm is and experienced such firm has gathered over the years and how its opinion defers from that of other firms, that is, if truly the accrual quality of audit opinion is determined by the size of the audit firm. Adeyemi et al. (2011) discovered that audit independence is independently influenced by management advisory services, competitiveness, and audit firm size.

Francis and Yu (2009) assert that big audit firms are more likely than small audit firms to find serious problems in financial statements and report misstatements (Choi et al., 2010). The size of public accounting companies is categorized using the Audit Firm Size scale. Studies show that larger audit companies provide superior services due to their less reliance on financial reporting and less willingness to accept client pressure to disclose misstatements. Furthermore, because larger audit firms may suffer greater reputational damage in the event of audit failures than small businesses, they are more motivated to provide high-quality services in order to preserve the reputation of their brand. Large audit firms also have more resources and more technological expertise.

2.1.6. The Concept of Accrual Qualities

Accrual quality refers to the accuracy of a business′ financial statements, reflecting the economic events they track. High accrual quality is linked to strong internal controls and consistent accounting practices, whereas poor quality indicates manipulation or inadequate financial reporting, increasing the likelihood of future surprises. To evaluate the caliber of a company's accruals and identify possible red flags in financial reporting, analysts and investors frequently employ a variety of indicators, including accrual ratios and accrual quality scores (Ebubechukwu, 2023). This mapping procedure is necessary because the nature of financial reporting dictates that reported earnings for a given financial quarter are made up of accruals and realized cash earnings that are converted into cash flows across subsequent periods. The indicated accuracy or dependability of projected future cash flows from earnings based on reported accruals number is known as accruals quality (Llobo *et al*., 2012).

Actual cash flows across a series of financial periods correspond to amounts inferred from the company's reported earnings.

2.2 Theoretical Review

2.2.1 Agency Theory

The theory suggests that an agency relationship occurs when principals engage an agent to perform a service, often delegating accountability and trusting the agent to act in the principal′s best interest (Jensen *et al*., 1993). The agency theory focuses on the role of an independent auditor in disclosing managers′ or directors′ performance to shareholders, highlighting the importance of external auditors to monitoring and ensuring the quality of disclosed information. Scoped around this theoretical framework the role of the external audit, as a means of controlling and reducing agency costs, is two-fold "it helps, on the one hand, reduce the information asymmetry and, on the other hand, strengthen the mechanisms of corporate governance".

The agency theory emphasizes the importance of shareholders monitoring board operations. An independent auditor with financial training can reduce fraud and irregularities in management, identify financial deficiencies without bias or stakeholder involvement. This supposition provides evidence that independent auditors and the reliability of financial reports have a mutually beneficial relationship. The agency theory under review offers a strong basis for understanding the experiences, abilities, and skills—that is, qualifications—as part of the corporate governance process to supervise management and safeguard shareholders′ interests with regard to audit independence and its effect on the quality of financial reports (Arthurs *et al.*, 2009).

In essence, this study focuses on the assumption of agency theory that individualistic utility incentives lead to a principal-agent interest divergence. To put it another way, the credibility of financial reports and business performance is greatly enhanced by the expertise that independent auditors possess and conduct audits.

As a result, by emphasizing the independence of the auditor, the agency theory increases the impact of the auditor's independence on the legitimacy of financial quality, acting as a watchdog over management and disclosing the company's overall performance as well as its financial strengths and weaknesses.

2.2.2 Credibility theory

2.3 Review of Empirical Literature

According to this theory, giving financial statements more legitimacy is a crucial component of auditing and a basic service that auditors offer to their clients. Users′ trust in an organization's financial records and management's stewardship is increased by audited financial statements. Consequently, they can make better decisions based on trustworthy information when making investments or new contracts. This is because stakeholders must trust the financial statements. The credibility of financial statements influences stakeholder decisions (such as supplier credit limitations) and helps shareholders trust management, thereby lowering the "information asymmetry" between stakeholders and management.

Okolie (2014) examined how auditor independence affected earnings management. Throughout the years 2006–2011, the study used a sample of fifty-seven (57) Nigerian listed firms. The study's conclusions demonstrate a negative but substantial correlation between audit fees and discretionary accruals.

Moses *et al*. (2014) analyzed the relationship between audit committee features and financial reporting quality in Nigerian banks. The study found that the independence of audit committees did not significantly affect earnings management, suggesting that well-planned and functional audit committees can reduce profits. Babatolu *et al*. (2016) studied auditor independence's impact on audit quality in Nigerian deposit money institutions. They found a significant positive correlation between audit quality and company size, a negative correlation between audit quality and firm tenure, and a positive correlation between audit fee and firm rotation.

Onaolapo *et al*. (2017) studied the impact of audit fees on the audit quality of Nigerian cement companies. They found that audit fees significantly influenced audit quality, accounting for 60% of variances. The study also found a significant correlation with audit duration, client size, and leverage ratio.

Hussain et al. (2018) the study analyzed 88 Nigerian-listed firms from 2012 to 2016, using data from Thompson Reuters Data Stream and annual reports. Results showed that lower discretionary charges correlated with higher audit fees, indicating better financial reporting. This study supports the resource reliance theory, highlighting audit fees' importance in reducing accounting fraud and improving financial reporting quality in Nigerian listed companies.

Okezie *et al.* (2019) investigated how audit independence affected the banking industry′s financial reporting dependability. Four (4) banks that are listed on the Nigerian Exchange Group and operate in the African region provided the data, which was obtained using an *ex post facto* research design. Multivariate linear regression was used to examine the data covering the five years from 2014 to 2018. The findings demonstrated that the value relevance of the financial reports of the banks under investigation was significantly impacted by audit independence. This was demonstrated by the fact that the reported earnings per share (a proxy for investors' reliance in financial reports) was not significantly impacted by the amount spent on audit fees. The findings further reveal that audit independence has an insignificant effect on the timeliness of financial reports.

Otuya (2019) in his study used information from 2013 to 2017 annual reports from listed manufacturing businesses to examine the relationship between auditor independence and corporate financial reporting quality in Nigeria. The findings indicate that audit incentives, tenure, and customer size positively impact financial reporting quality. The study revealed a strong negative correlation between auditor status and financial reporting quality, while a positive but negligible correlation exists between audit reporting lag and financial reporting quality. The study concludes that more incentives and longer auditor tenures enhance the independence of auditors, which in turn raises the caliber of financial reporting. Stella *et al.* (2019) examined audit independence in Nigerian Exchange Group banks and discovered that it greatly enhanced the quality of financial statements, highlighting how crucial it is to preserve audit independence for increased financial statement dependability. Bassey et al. (2020) found that audit cost significantly impacts audit quality in Nigerian banks, whereas auditor rotation and tenure negatively impact audit quality using data from annual reports.

Samuede (2020) examined auditor independence and financial reporting standards in the Nigerian public sectors. To gather primary data for a case study of the public sectors in Abuja, a survey was administered to people working in Nigeria′s various public sectors. The Statistical Package for Social Sciences (SPSS) was used for the analyzing of the data, and the result revealed that in Nigeria's public sectors, audit committees are not functioning well, this implies that auditors′ responsibilities are not being carried out independently. Although audit fees and auditor rotation have a positive and significant link with auditor independence, longer audit tenure has a favorable but negligible relationship. Agbaje *et al.* (2021) studied the impact of auditor independence on financial reporting quality in Nigerian deposit banks. They found that audit fees, meetings, and debt ratios were beneficial, but their impact on financial reporting quality was negligible. The audit firm′s size was found to be harmful.

Adabeneg et al. (2022) conducted a study on how independence and audit fees impact audit quality in Nigeria′s context of bad governance. 180 observations were obtained from the study′s sample of 12 Nigerian Exchange Group listed industrial manufacturing companies between 2006 and 2020. It was determined that audit fees and audit independence are predictors and are more likely to result in improved audit quality, which is consistent with signaling theory. These results give stakeholders hope for a better understanding of the trade-off between audit quality, independence, and fees. The study of Ezeala et al. (2023) examined the impact of audit tenure on the financial reporting quality of 23 Nigerian listed non-financial companies. The research, conducted over 10 years, found that audit tenure had a positive but non-significant effect on the quality of accruals.

3. Methodology

A total of 10 banks are considered as sample for the study from the 14 commercial banks quoted in the Nigerian Exchange Group (NGX) in the period 2014 -2023. Data were obtained from their financial statements and are subjected to various levels of analysis.

3.1 Model Specifications

ACQit= β0 + β1ADFit + β2ADTit + β3FSit +Ut ………………………(i)

WHERE:

ACQ = Accrual Quality

ADF = Audit Fees

ADT = audit tenure

FS = Firm size

β0 = Regression constant

β1- β2 = Regression parameters

u = Stochastic error term.

3.2 Descriptive Statistics

The descriptive statistics shows the description of the data Accrual Quality AQ, Audit Fees AF, Firm Size FS, and Audit Tenure AT from 2014 to 2023. The descriptive statistics describe the mean, median, maximum and minimum value, standard deviation, and normality of the data.

Descriptive statistics for both dependent and independent variables are presented in the table below.

Table 4.2

	AQ	AF	AT	FS
Mean	51084333.0400	87544.53	4.2	4.23E+08
Median	13.07703	200.0000	4.0	5081639.
Maximum	527862307.00	660000.0	5.0	4.06E+09
Minimum	2698.00	15.00000	2.0	75671.00
Std. Dev.	110829226.67521	179457.2	0.9	9.89E+08
Skewness	0.292699	2.023746	-0.6	2.349095
Kurtosis	2.916259	5.696191	2.1	7.063527
Jarque-Bera	6.321607	98.54849	9.2	160.7718
Probability	0.042392	0.000000	0.0	0.000000
Sum	1380.002	8754453.	420.0	4.23E+10
Sum Sq. Dev.	1240.399	3.19E+12	74.0	9.68E+19
Observations	100	100	100	100

From table 4.2 above, the mean for Accrual Quality (AQ) is 13, 80002, and it increases from 7.900266 to 20.08435. For Audit Fees (AF), the mean is 87544.53, and it increases from 15.00000 to 660000.0. For Firm Size (FS), the mean is 4.23E+08, and it increases from 75671.00 to 4.06E+09, while Audit Tenure AT has a mean of 4.2, and it grew from 2 to 5.

The standard deviations of accrual quality, audit fees, audit tenure, and firm size are 3.539672, 179457.2, 0.9, and 9.89E+08, respectively.

The asymmetry of a series' distribution around its mean is measured by its skewness. With the exception of audit tenure, all variables have skewnesses greater than zero. The explanatory variables Audit Fees and Firm Size have positive skewness, whereas audit tenure has negative skewness. The Kurtosis of a normal distribution is 3. Table 4.2 further shows that AQ and AT each have a Kurtosis of less than three, indicating that each of the distributions is platykurtic. Meanwhile, the kurtosis of AF and FS are both greater than three, indicating that each distribution is leptokurtic.

Pre-estimation Analysis

Unit root tests: Augmented Dickey-Fuller Test

Although OLS regression estimation typically requires stationary data, certain models have been created to handle situations in which the data are not stationary. The ARDL modeling technique is one such model. The ARDL modeling techniques are based on the fundamentals that data are stationary at I(0), I(1), or a combination of both (Epor *et al*., 2024). The Augmented Dickey-Fuller (ADF) test was used to check the stationarity test to ensure that there were no stationarity defects in the data. Table 4.3 displays the results of the ADF test.

Table 4.3: Augmented Dickey-Fuller Test for Unit Roots

Variable	**ADF Stats**	**5% Critical Level**	**Remarks**
AQ	-4.477861	-2.981038	Stationary
AF	-3.339689	-2.981038	Stationary
AT	-4.943353	-2.986225	Stationary
FS	-4.419024	-2.986225	Stationary

Source: Author, Eviews, 12 edition

The ADF unit root test result in Table 4.3 depicts that only the economic growth variable is stationary at levels, while the other variables, credit risk, inflation, lending rate, and profitability, are integrated at first difference. We can easily use the autoregressive distributed lag (ARDL) modeling technique because the variables are stationary at I(0) and I(1). The ARDL bounds test for co-integration is now crucial for checking co-integration.

ARDL Bounds test for Co-integration

Recall that we stated to estimate one model in chapter 3, which we tag: determinants of the bank credit risk behavior model. With these stated models, the ARDL bound test was performed. The ARDL bound test results are presented in table 4.4.

Table 4.4: The ARDL Bounds Test to Co-integration Results

F-Bounds Test — Null Hypothesis: No levels relationship

Test Statistic	Value	Signif.	I(0)	I(1)
			Asymptotic: n=1000	
F-statistic	35.96498	10%	2.68	3.53
k	4	5%	3.05	3.97
		2.5%	3.4	4.36
		1%	3.81	4.92

Source: Author, EViews 12 edition

The ARDL bounds test from table 4.4 showed that the F-statistics from the model was more than the upper bounds at 5%. These revelations mean that the determinants of bank credit risk behavior exhibit long-run relationship with bank credit risk behavior indicators.

Regression Analysis

Dependent Variable: AQ
Method: Panel Least Squares
Date: 07/28/24 Time: 16:14
Sample: 2014 2023
Periods included: 10
Cross-sections included: 10
Total panel (balanced) observations: 100

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AF	7.99E+06	1.87E+06	4.278574	0.0000
AT	0.746958	0.307018	2.432950	0.0168
FS	1.20E+09	3.40E+10	3.540552	0.0006
C	9.453593	1.326402	7.127247	0.0000

R-squared	0.468723	Mean dependent variable	13.80002
Adjusted R-squared	0.452121	S.D. dependent variable	3.539672
S.E. of the regression	2.620025	Akaike information criterion	4.803423
Sum squared residual	658.9951	Schwarz criterion	4.907630
Log likelihood	-236.1712	Hannan-Quinn writer	4.845597
F-statistic	28.23225	Durbin-Watson stat	0.350453
Prob(F-statistic)	0.000000		

From table 4.3 above, audit fee has a positive effect on accrual quality at 7.99, audit tenure has a positive effect on accrual quality at 0.746958, and firm size has a positive effect on accrual quality at 1.20.

The R value of .0469 shows that there is a positive relationship between audit tenure, audit fee, firm size, and accrual qualities, and the R2 stood at .452. Over a 10-year period covering the ten listed banks, the R2, also referred to as the coefficient of determination, indicates the proportion of the overall variation of the dependent variable Accrual Qualities (AQ) that can be accounted for by the independent or explanatory variables audit tenure, audit fee, and firm size. Therefore, the R2 value of.452 shows that changes in the independent variables of audit tenure, audit fee, and firm size can account for 45% of the variance in the accrual quality of listed banks, with other variables not included in this model potentially accounting for the remaining 55%.

F-Statistics shows a significant probability value of 0.0000, which means that the effect of the independent variables (AF, AT and FS) on the dependent variable (AQ) did not happen by chance. The Durbin- Watson test is a statistics test that detects autocorrelation, a value of 0.35 indicates positive autocorrelation.

Test of Hypotheses for Objective 1

H01: There is no significant relationship between audit fees and accrual quality of financial reporting in the Nigeria banking sector.

From table 4.3 the calculated probability value for Audit Fee (AF) against Accrual Quality (AQ) is 0.000, which is less than the accepted probability value of 0.05, the alternative hypothesis is accepted and the null rejected, thus, audit fee has a significant effect on financial reporting in the Nigeria banking sector.

Test of Hypotheses Relating to Objective 2

H02: There is no significant relationship between audit tenure and accrual qualities of financial reporting in the Nigeria banking sector.

From table 4.3 the calculated probability value for Audit Tenure (AT) against Accrual Quality (AQ) is 0.02, which is less than the accepted probability value of 0.05, the alternative hypothesis is accepted and the null rejected, thus, audit tenure has a significant effect on financial reporting in the Nigeria banking sector.

Test of Hypotheses Relating to Objective 3

H03: There is no significant relationship between audit firm size and accrual qualities of financial reporting in the Nigeria banking sector.

The calculated probability value for Firm Size (FS) against Accrual Quality (AQ) is 0.006, which is less than the accepted probability value of 0.05, the alternative hypothesis is accepted and the null rejected, thus, audit firm size has a significant effect on financial reporting in the Nigeria banking sector.

4. Discussion of Findings, Conclusion and Recommendations

4.1 Discussion of Findings

In line with the main objectives of this study which is to empirically assess the impact of audit independence and credibility of financial reporting in the Nigerian banking sector. Findings indicates the following:

Findings reveal that there exist a significant and strong positive relationship between audit fees and accrual qualities of financial statements in the Nigeria banking sector, as audit fees increase accrual qualities of financial statements. Audit fees play a crucial role in ensuring the accuracy and reliability of financial statements and overall financial health of the sector because the services of reputable audit firms are being used.

Findings also reveal a significant and positive relationship between firm size and accrual qualities of financial reporting in the Nigerian Banking Sector, lager audit firms typically have more resources, expertise, and experience, this leads to quality audits, which enhance the accuracy and reliability of the financial statement. The conventional auditing theory of Wang et al. (2014) states that Big N audit companies offer greater audit quality because they have a motivation to preserve their reputation and because they benefit from resource sharing through economies of scale. It is believed that big N audit businesses can improve earnings quality, lower capital costs, and withstand attempts to manipulate earnings. Additionally, the accrual features of financial reporting in the Nigerian banking sector were significantly correlated with audit tenure, confirming the findings of several experts, such as Barizah (2005). A brief audit tenure, which can range from one to five years, indicates that the auditors know little about the client, which could result in a high-quality audit.

4.2 Conclusion

The relationship between auditors' independence and financial reporting credibility in the Nigerian banking is effectively evaluated in this study. The study discovered that audit tenure has little discernible impact on financial reporting in the Nigerian banking sector, but audit fees and audit firm size had a considerable beneficial impact.

According to the study's conclusion, financial sectors should give audit fees and audit firm size top priority, as doing so will boost their credibility and stakeholders' confidence in their financial statements.

4.3 Recommendations

The following recommendations are proposed:

1. Firms in the banking sector should develop contingency plans for situations in which audit fees may need to increase unexpectedly, such as due to changes in regulatory requirements or the discovery of significant financial reporting issues.
2. Since a significant and positive relationship exists between firm size and accrual qualities of financial reporting in the Nigerian banking sector, lager audit firms that have more resources, expertise, and experience that will lead to high audit quality should be used to ensure the accuracy and reliability of the financial statements.
3. That short audit tenure, which can be between 1 and 5 years, should be encouraged. It is likely that an auditor with a longer relationship with the client will act more as one of the firms instead of professionally and critically overlooking the assertions of the company.

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