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Audit Quality Indicators and Profitability of Listed Deposit Money Banks in Nigeria

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Abstract

This study investigates the effect of audit-quality indicators - audit fees, audit tenure, and audit report lag - on the profitability of listed deposit money banks in Nigeria, measured using return on assets (ROA). An ex-post facto research design was employed, utilizing secondary data obtained from the annual reports and NGX fact books of eleven purposively selected banks from 2009 to 2023. Purposive sampling was applied to ensure inclusion of banks with complete financial disclosures and consistent earnings trends over the study period. Given the panel nature of the data, an Autoregressive Distributed Lag (ARDL) model was used to assess both short-run and long-run effects of the audit variables on ROA. Prior to model estimation, diagnostic tests including descriptive statistics, correlation analysis, unit root testing, multicollinearity assessment using VIF, and Breusch-Pagan heteroskedasticity testing were conducted to confirm the suitability and reliability of the dataset. Findings indicate that audit fees and audit report lag have no significant effect on ROA in any time horizon, while audit tenure exerts a positive short-run but negative long-run influence. The study concludes that audit quality attributes vary in their relevance to bank profitability and recommends optimal auditor rotation, value-driven audit spending, and continuous process efficiency to sustain performance outcomes.

Keywords:

Audit quality, Audit fees, Audit tenure, Audit report lag, Profitability, ROA, ARDL, Nigerian banks.

1. INTRODUCTION

Profitability is a key and indispensable component of an entity's overall financial performance, as it quantifies how effectively a company generates profit relative to its revenue, its asset base, or its equity capital. It serves as a paramount factor for virtually any profit-oriented company, representing a critical measure of its inherent worth and directly aligning with the overarching objective of enhancing shareholder wealth (Valiensi, Sutisna, & Nanny, 2018). Profitability essentially reflects an enterprise's conceptual capacity to derive net benefits (profits) from its various business activities,

demonstrating how effectively management utilizes available market and organizational resources to generate earnings (Njure, 2014). To measure this, a suite of profitability ratios, such as net profit margin, return on assets (ROA), and return on equity (ROE), are widely used by analysts and investors to assess a company's overall efficiency and operational effectiveness (Akinleye & Ogunleye, 2019).

Consequently, a firm's profitability remains one of the major and most scrutinized criteria for assessing its financial health, its operational viability, and its ability to meet its financial obligations to all interested parties (including employees, suppliers, and debt holders). It also serves as a crucial indicator of potential future dividend payments to shareholders (Odoemelam et al., 2023). Firm managers are ethically and legally responsible for maximizing the wealth of the principals (the firm's owners/shareholders), while also being accountable to other stakeholders who are concerned with the company's broader financial health and its impact on their interests (Ibrahim & Ombaba, 2019). A firm's continuous survival, organic growth, and strategic expansion can hardly be achieved without consistently strong financial performance. For instance, the market value of a company's shares is often regarded as a dynamic reflection of its discounted future earnings potential (Lev, 1989), which profoundly explains why investors maintain a keen and continuous interest in corporate earnings reports and announcements.

Banking institutions serve as the indispensable lubricants that oil the wheels of economic growth and development in any country. They fundamentally facilitate the efficient redirection of funds from surplus-spending units (savers) to deficit-spending units (borrowers). In other words, banks are financial intermediaries that strategically provide funds, which serve as critical capital inputs for producers in various sectors of the economy (e.g., manufacturing, agriculture, services), as well as for final consumers (Osinubi & Akinyele, 2006; Sawyer & Veronese, 2017). This vital mediating role played by banks between the surplus and deficit spending units within the economy is crucial as it facilitates the optimal distribution of national savings, thereby increasing productive investments, fostering economic activity, and ultimately boosting national output (Jayeola et al. 2017).

Nigeria's banking sector has undergone a series of comprehensive reforms in a continuous bid to reposition banks strategically so they can more effectively fulfill their critical financial intermediation role and contribute robustly to economic stability (Balogun, 2007). Despite these concerted reform efforts, the Nigerian banking sector has, unfortunately, witnessed high-profile corporate scandals and instances of financial malfeasance, which have tragically resulted in a number of devastating corporate failures in the past few decades. This grim history has posed a significant and persistent challenge to the veracity, credibility, utility, and ultimately, the value relevance of the audit function in Nigeria. Notable cases of bank failures due to financial impropriety and

misleading reports include Savannah Bank and African International Bank, Wema Bank, Nampak, Finbank, Spring Bank, City Express Bank, Hallmark Bank, Metropolitan Bank, Liberty Bank, Gulf Bank, Lead Bank (Odia, 2007; Adeyemi & Fagbemi, 2010) and, more recently, the highly publicized collapses of Intercontinental Bank Plc, Bank PHB, Oceanic Bank Plc, and AfriBank Plc. One striking and deeply concerning aspect of these corporate failures is that prior to their abrupt collapse, these banks were consistently reporting outwardly healthy and even impressive financial performance metrics, painting a picture of robustness, until the bubble abruptly burst and the banks disappeared without adequate notice. For example, prior to the collapse of Oceanic Bank in 2010, the bank was publicly ranked third in the Nigerian banking sector, seventh in Africa, and 327th on the global player list, boasting a substantial shareholders' fund of $1.750 billion (Omoh, 2009).

There is, therefore, a persistent and critical concern about the quality of reported accounting income and its intricate relationship with the quality of the auditing process. This concern has been observed to significantly increase over time, particularly following periodical clusters of business failures, high-profile frauds, and related litigations globally and within Nigeria. The fundamental issue that arises from these failures is whether these corporate collapses are not, in fact, the direct outcome of poor audit quality and a systemic inability of the audit function to effectively arrest earnings misreporting and material financial misstatements.

Despite the perceived shortcomings of the audit function due to the well publicized corporate and accounting scandals in recent times, Ivungu et al. (2019) believe that the onus of achieving genuinely high-quality financial reporting to a large extent still lies squarely on the external auditor. Farouk and Hassan (2013) agree with this assertion as they note that achieving high-quality financial reporting fundamentally depends on the diligent and independent role that the external audit plays in supporting the credibility and integrity of financial reporting of quoted companies.

Audit quality has, therefore, become an essential and intensely debated issue in audit practice today because both internal and external stakeholders have a direct and vested interest in the quality of audited financial reports of entities (IAASB, 2014; Heil, 2012). Thus, the audit process assesses the probability of material misstatements existing in the financial statements and works to reduce the possibility of undetected misstatement to an appropriate, acceptable assurance level (Watts & Zimmerman, 1986; Knechel, 2009). Therefore, audit quality is widely known to critically affect financial reporting credibility and to significantly influence investor confidence in the management and future prospects of the firm. This provides stakeholders with reasonable assurance that their investments are safe and well-managed, as well as acting as a powerful deterrence to management from distorting or manipulating the financial reports. Ultimately, high audit quality conceptually enhances the financial performance of firms by attracting new

investors and retaining the existing ones because the prospects of genuine financial growth and transparency are perceived to be high. It is widely believed that by ensuring high audit standards through the independence and competence of auditors, unwavering adherence to regulatory frameworks, and the robust implementation of sound corporate governance practices, the profitability of firms can be significantly enhanced, contributing to broader economic stability and capital market integrity. The critical implication is that if investors lose confidence in the capital market due to a perceived lack of trust in audited financial statements, they will be less willing to commit their hard-earned money to these firms' shares. When this happens, it adversely affects the financial performance of publicly listed companies, including banks, by depriving them of the crucial funds needed to finance their operations, innovate, and expand.

Given these significant concerns and the vital role of the banking sector in Nigeria's economy, this study seeks to empirically evaluate the multifaceted relationship between audit quality and the profitability of listed deposit money banks in Nigeria, thereby contributing to a better understanding of this critical nexus.

1.2 STATEMENT OF THE PROBLEM

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 concern that the length of the auditor-client relationship (or auditor tenure) and executives' association with auditors could impair auditor independence and thus audit quality (Davis, Soo & Trompeter, 2003, cited in Ilaboya & Ohiokha, 2014).

Obviously, the issue of how audit quality affects the profitability of the banks in Nigeria has undoubtedly drawn the attention of many scholars as evidenced by the volume of research output on the topic. Studies by Ayeni-Agbaje, et al. (2024), Ikeji, Okafor and Eke (2024), Onwubiko et al. (2024), Alliu, Oyewale and Ajayi (2023), Olutokunbo et al. (2023), Odoemelam et al (2023), Onyejepu and Orjinta (2023), Ayo and Fawale (2022), Etukudo and Azubuike (2022), Babatunde et al. (2021), Eneisik and Akani (2021), Ugwu et al. (2020), Enekwe et al. 2020), Abba and Sadah (2020), Ike, Salama and Ngbede (2020), Isah et al. (2020) and Muotolu and Nwadialor (2019) etc. have all focused on the association between audit quality and profitability of listed deposit money banks in Nigeria.

However, only a handful of these research studies (Ayo & Fawale, 2022; Fasua, 2023; Eneisik & Micah, 2021) are based on evidence spanning a period comparable to that of this study. Additionally, given the mixed and contradictory findings on the nexus between audit quality and financial performance, as evidenced by the reviewed empirical

literature, it is imperative to undertake a careful, systematic, and comprehensive re-evaluation of this subject. This will help address inconsistencies in the findings, enhance our understanding of how audit quality relates to banks' profitability , and contribute further to the literature on this relationship. This study therefore, aims to fill gaps in the literature related to timing differences, inconsistent findings, and sectoral peculiarities by empirically assessing the effect of audit quality (measured by audit fees, audit tenure, and audit report lag) on the profitability (measured by return on assets) of quoted deposit money banks in Nigeria.

1.3 OBJECTIVES OF THE STUDY

The aim of this study is to investigate the effect of audit quality on the profitability of listed deposit money banks in Nigeria. The specific objectives are to:

i. Examine the effect of audit fees on return on assets of listed deposit money banks in Nigeria.
ii. Investigate the effect of audit tenure on return on assets of listed deposit money banks in Nigeria.
iii. Assess the effect of audit report lag on return on assets of listed deposit money banks in Nigeria.

1.4 RESEARCH QUESTIONS

In alignment with the specific research objectives, the following research questions are posed:

i. How do audit fees influence the return on assets of listed deposit money banks in Nigeria?
ii. How does audit tenure affect the return on assets of listed deposit money banks in Nigeria?
iii. In what way does audit report lag affect the return on assets of listed deposit money banks in Nigeria?

1.5 RESEARCH HYPOTHESES

In order to empirically investigate the effect of audit-related characteristics on banks' profitability in Nigeria, the following hypotheses are formulated:

i. **H_{01}:** Audit fees have no significant effect on return on assets of listed deposit money banks in Nigeria.
ii. **H_{02}:** Audit tenure has no significant effect on return on assets of listed deposit money banks in Nigeria.

iii. **H_{03}:** Audit report lag has no significant effect on return on assets of listed deposit money banks in Nigeria.

2.0 LITERATURE REVIEW

2.1 Conceptual Framework

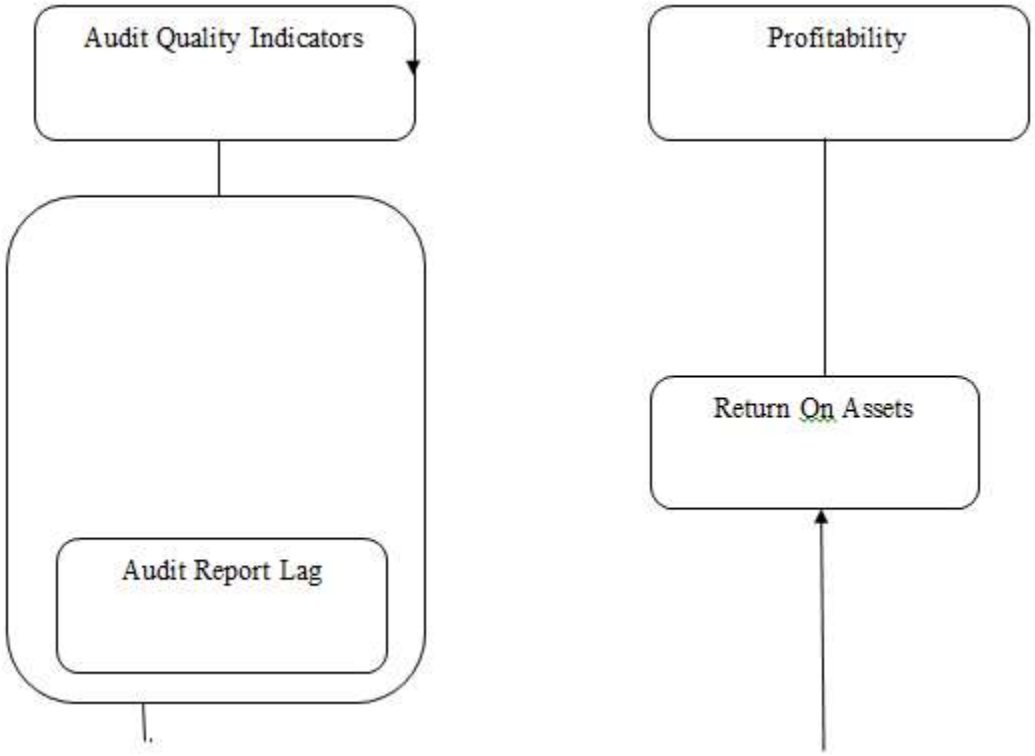

Figure 2.1: Conceptual Framework showing the relationship between Audit Quality Indicators and Profitability.

Source: Adapted from Afolabi and Fawale (2022).

2.1.1 Audit Quality

Audit quality reflects the auditor's competence and independence, which together ensure that the audit process culminates in credible financial reporting (Watkins, Hillison, & Morecroft, 2004). Therefore, audit quality at its most fundamental level, refers to the inherent value and reliability of the independent examination process conducted on financial statements. It is not merely the absence of error, but a holistic assessment of how well the audit process provides credible assurance to users of financial information.

DeAngelo (1981), in a seminal contribution, provides an influential conceptualization, defining audit quality as the market-assessed joint probability that a given auditor discovers a breach in the client's accounting system and subsequently reports that breach.

This conceptualization introduces a probabilistic element, linking quality directly to both the auditor's detection capabilities and their willingness to report findings, even those unfavorable to the client. Elaborating further, DeAngelo (1981) declares that the likelihood of an auditor discovering a violation depends primarily on several critical factors: the technical ability (competence) of the auditor, the specific audit procedures employed in a particular audit engagement (diligence), and the extent of sampling conducted. The conditional probability of violations being found and reported can then be assumed to measure the auditor's independence from the client, suggesting that a truly independent auditor is more likely to report discovered breaches without fear or favor. However, Kilgore (2007) observes that while the DeAngelo definition of audit quality has been widely quoted, it has also been criticized for not being sufficiently broad or complete, and as a consequence, it fails to provide a full and nuanced definition for audit quality. On its own part, the International Federation of Accountants (IFAC, 2009), defines an audit as "an independent examination of financial information of any entity, whether profit oriented or not, irrespective of its size or legal form, when such an examination is conducted with a view to express an opinion thereon." Similarly, the Companies and Allied Matters Act (CAMA, 2020) in Nigeria defines an audit as an independent examination of the financial statements of an enterprise conducted by a qualified auditor in compliance with statutory and professional requirements. Implicit in these formal definitions is the expectation that an audit enhances the credibility and reliability of financial statements.

This value enhancement arises from the independent assurance provided, which serves to reduce information asymmetry and risk for stakeholders (Watts & Zimmerman, 1986; Wallace, 1980). In essence, audit quality reflects the unwavering professionalism, meticulous diligence, and scrupulous care exercised by an auditor throughout the audit process, which should unequivocally lead to a true and fair view of the financial statements. This outcome-oriented perspective aligns with Francis (2011), who emphasizes that a high-quality audit enhances the reliability and trustworthiness of financial information presented to users. Soltani (2007) underscores a critical imperative: to meet the reasonable expectations of users of audited financial statements, it is absolutely essential that the audit work is performed with meticulous regard for audit quality. This implies that quality is not an ancillary consideration but a central pillar of the audit function, without which the very purpose of auditing is undermined. In this study, building on prior literature and aiming for measurable proxies within the conceptual framework, audit quality is specifically measured by common indicators such as audit tenure (the length of the relationship between the auditor and client, which can

conceptually represent experience but also familiarity risk), audit fees (as a proxy for audit effort and resources allocated), and audit report lag (the timeliness of the audit report, conceptually indicating audit efficiency and complexity). These quantitative measures allow for empirical investigation of the relationship between audit quality and corporate performance in the specific context of listed banks in Nigeria, within the conceptual boundaries outlined.

2.1.1.1 Audit Fee

The audit fee denotes the financial compensation provided to external auditors for rendering their professional audit services in accordance with established standards and contractual agreements. It encompasses the overall cost of conducting the audit, which includes the extensive audit work performed, the inherent risks associated with the engagement, the necessary overheads of the audit firm, and a reasonable profit margin. The audit fee holds conceptual significance not only as a reflection of audit quality but also as a crucial determinant shaping the financial health and growth of individual accounting firms and the broader audit industry (Liu, 2017).

In a conceptual sense, the amount of audit fees paid by a client firm to its audit firm is understood to reflect the level of audit work required and subsequently performed during the auditing process. This "level of work" is not arbitrary; it is determined by the auditor's meticulous assessment of the engagement's complexity, the inherent risks associated with the client's business, and the desired level of audit assurance the firm aims to provide. Moutinho (2012) suggests that, all things being equal, if an auditor aims to minimize the risk associated with issuing an unqualified opinion in the presence of material misstatements in the client's financial statements (i.e., minimize audit risk), they typically adjust the nature, extent, and timing of audit procedures. This adjustment directly influences the scope and depth of work, which consequently affects the final amount of fees required. A more complex client, a higher perceived risk of misstatement, or a more rigorous desired level of assurance will demand greater audit effort and, thus, a higher fee.

Similarly, increasing audit efforts, and by extension higher audit fees, are determined by the audit firm’s perceived likelihood of incurring future losses or costs due to the engagement with that specific client (e.g., Bell, Doogar, & Solomon, 2008; Choi, Kim, & Simunic, 2008; Simunic & Stein, 1996). These potential losses include, but are not limited to, significant litigation costs if an audit failure leads to investor lawsuits, sanctions from regulatory entities (such as the Financial Reporting Council of Nigeria or the Central Bank of Nigeria for banks), and severe damages to the audit firm's image and reputation, which can impact its ability to attract and retain clients.

2.1.1.2 Audit Tenure

Audit tenure can be defined as the continuous length of time an auditor or audit firm performs audit services for a specific client. It represents the duration of the ongoing professional relationship between the auditor and the audited entity. Hartadi (2009) defines audit tenure as the agreed period of engagement between the auditor and client, highlighting the contractual aspect of this relationship. The understanding of audit tenure's impact on audit quality is characterized by a fundamental tension, presenting two opposing viewpoints on its effects. One prominent perspective suggests that the risk associated with the loss of auditor independence significantly increases once client relationships are maintained for a prolonged period (Johnson, Khurana, & Reynolds, 2002; Nwaeze, 2025). This view posits that a lengthy tenure between the audit firm and its client may weaken the audit strength and lead to less caution and greater compromise on the part of the auditor in the face of prevailing familiarity. Over time, a close relationship can develop between the audit team and client management, potentially eroding professional skepticism and fostering a "comfort zone" where the auditor becomes less likely to critically challenge management's assertions or identify irregularities.

Conversely, longer auditor tenure has been found to be positively related to audit quality in certain contexts (Duramany-Lakkoh, 2022; Muhammad, Muqorobin & Narullia, 2019). For example, partner tenure was significantly and positively associated with audit quality, supporting the idea that auditors benefit from accumulated knowledge of the client (Duramany-Lakkoh, 2022). This view emphasizes the learning curve and client-specific knowledge that accumulates over time. As audit tenure lengthens, auditors increase their understanding of their clients' complex business operations, their industry-specific nuances, their internal control systems, and their unique risk exposures. This deep knowledge and familiarity, acquired through years of engagement, allows auditors to identify material misstatements more efficiently and effectively, tailor audit procedures more precisely, and provide more insightful and value-added advice to their clients. This benefit arises from enhanced expertise gained over time. Research conducted by Ghosh and Moon (2003) supports this view, showing that audit quality, as measured by earnings quality, can increase as audit tenure increases, suggesting that the benefits of accumulated client-specific knowledge outweigh the risks of impaired independence.

2.1.1.3 Audit Report Lag

Audit report lag, often interchangeably referred to as audit delay or reporting lag, is defined as the duration, typically measured in days, between the fiscal year-end date of a company's financial statements and the date on which the independent auditor's report is issued. It signifies the timeliness with which audited financial information becomes publicly available. As a crucial source of information for stakeholders, the audit report

garners significant attention from audit firms, client companies, regulatory bodies, and investors. The length of this lag is seen as an important indicator of both audit efficiency and, implicitly, aspects of audit quality.

Boyne and Law (1991), as cited in Yuniarti (2011), highlight that the annual report, of which the audit report is a key component, serves as a fundamental means of accountability. Therefore, any delay in its issuance impacts this accountability. Bamber, Dechow, and Bamber (1993) found that audit delays are influenced by several factors: the inherent level of audit work required (e.g., due to complexity or risk), incentives for timely reporting (e.g., market pressure, regulatory deadlines), and the adoption of a structured and efficient audit approach. This suggests that longer lags can be a function of either greater complexity requiring more work, or inefficiencies in the audit or client processes.

In the opinion of Dibia and Onwuchekwa (2013), undue audit lag diminishes the overall quality of financial reporting by depriving investors and prospective investors of timely, verified information. This link highlights that even if the audit is eventually thorough, its value is diminished if the information arrives too late to be useful for current decisions. Consequently, the delay in the audit report can erode investor confidence and exacerbate the inherent agency problem by allowing management to withhold crucial information or for the market to operate with an informational disadvantage. For listed banks in Nigeria, operating in a highly sensitive and regulated sector, timely financial reporting, as indicated by a shorter audit report lag, is crucial for maintaining public trust, facilitating regulatory oversight by the CBN, and ensuring the smooth functioning of the capital market. A short audit report lag is thus seen as a hallmark of efficient audit processes and a commitment to transparency, contributing to the overall perception of audit quality.

2.1.2 Profitability

Profitability is a measure of the efficiency and effectiveness with which a firm utilizes its assets to generate income and enhance shareholders' wealth (Adewale & Abiola, 2022; Yüksel, Mukhtarov, Mammadov, & Özsarı 2018). This implies that efficient asset utilization and sound management practices significantly enhance profitability. Beyond simple revenue generation, financial profitability is also used as a general measure of a firm's overall financial health and operational success over a given period of time, offering insights into its stability, efficiency, and growth trajectory. The major goal of financial statements is to present clear and reliable information about a company's performance, financial position, and cash flows to suit various users in making informed economic decisions (Ozegbe and Jeroh, 2022). The capability of an entity to efficiently employ its assets to produce money from its operations, thereby demonstrating its operational effectiveness, can also be used to measure its financial health (Du & Lai, 2018). Metrics like return on assets (ROA), return on investments (ROI) return on equity

(ROE), earnings per share (EPS) and value added, among others, are commonly used as proxies for measuring profitability, which ultimately represents the tangible outcomes of companies' strategic policies and operational efficiency. In this study, return on assets was adopted as a measure of profitability.

2.1.2.1 Return on Assets

Return on Assets (ROA) is a fundamental profitability ratio that evaluates how efficiently a company utilizes its total assets to generate net income. It stands as a critical indicator of a firm's operational efficiency, reflecting its ability to convert its entire investment in assets—whether financed by debt or equity—into earnings. ROA is widely used by managers for internal operational assessment, by investors for evaluating investment opportunities, and by financial analysts for comparative analysis across firms and industries. As Gallo (2016) notes, ROA provides direct insight into how well a firm's management is deploying the company's entire asset base to produce profits, making it an essential tool for both internal performance evaluation and external stakeholder assessment.

Mathematically, ROA is expressed as:

ROA = (Net Income/Total Assets) ×100

The ratio captures the return generated on every unit of asset employed by the business. Conceptually, a higher ROA signifies superior efficiency in using assets to produce income, indicating effective asset management, strong operational controls, and successful revenue generation relative to the asset base. Conversely, a lower ROA suggests underutilization of assets, operational inefficiencies, or perhaps an inflated asset base that is not generating commensurate earnings. Despite its conceptual value, ROA exhibits several inherent limitations. Notably, it is highly sensitive to accounting choices—such as depreciation methods (e.g., straight-line versus accelerated depreciation) and asset revaluations—which may distort the reported carrying amount of total assets and, consequently, impair comparability across firms with differing accounting policies.

2.2 Theoretical Framework

2.2.1 Agency Theory

Jensen and Meckling (1976), in their seminal work, formally defined the principal-agent relationship as a contract under which one or more persons (the principals, typically shareholders or owners) engage another person (the agent, typically management or executives) to perform some service on their behalf. This engagement inherently involves

delegating some decision-making authority to the agent. The core premise of agency theory is that while the initial intention of both parties in the agency relationship is to work toward the principal's interests (e.g., maximizing shareholder wealth), two critical factors can often lead to a divergence of goals: Information Asymmetry: This refers to a situation where the agent possesses more or superior information about the enterprise's operations, true financial condition, and their own efforts compared to the principal. This information imbalance creates an opportunity for agents to act in ways that are not fully transparent to principals. Self-Interest/Greed: Agency theory typically assumes that both principals and agents are rational economic actors who will seek to maximize their own utility or wealth. When agents are privy to more information and control resources, this self-seeking motive can lead management to pursue personal objectives (e.g., higher salaries, perquisites, job security, or empire-building) instead of consistently acting in the best financial interests of the principals.

This fundamental conflict of interest or lack of goal congruence between management (agents) and the shareholders (principals) is described as the agency problem (Clarke, 2004). A typical and highly relevant example of the principal–agent relationship in the corporate context is that between the management and the shareholders of a publicly listed company. This relationship arises when myriad, often geographically dispersed, shareholders (principals) delegate the day-to-day administration and strategic decision-making of an entity to a professional management team (agents). In this kind of relationship, the expectation is that the agent (management) will diligently pursue the shareholders' wealth maximization objective (Clarke, 2004), aligning their decisions with the financial prosperity of the owners. However, given the agency problem, a third, independent party is needed to verify the agent's reporting. Auditing thus further aids to minimize information asymmetry and to safeguard the stakes of the different concerned parties by reassuring them that the financial statements produced by management are devoid of significant errors or manipulation (Matoke & Omwenga, 2016).

2.2.2 Theory of Inspired Confidence

The Theory of Inspired Confidence, developed by the Limperg Institute in the Netherlands in 1985, offers a distinct and highly relevant theoretical framework for understanding the social and economic function of auditing. It posits a direct linkage between the users' requirement for credible and reliable financial reports and the capacity of the audit processes to meet those needs. Unlike agency theory, which focuses on internal conflicts, the Theory of Inspired Confidence emphasizes the external, societal demand for audit assurance and the auditor's corresponding responsibility to maintain public trust. It sees through the co-evolution and development of these needs of the

public (stakeholders) and the audit processes over time, recognizing that the audit profession exists because society grants it confidence.

The core tenet of the Theory of Inspired Confidence states that the auditor, acting as a confidential and trusted agent for society, derives his broad function from two fundamental societal needs: The need for expert and independent examination of financial information.

The need for an expert and independent judgment supported by these examinations. The theory further posits that the demand for audit arises as a direct result of the involvement of various stakeholders who are external to the company (e.g., investors, creditors, regulators). Their investment or engagement with the company calls for management accountability in exchange for their resources. Management accountability is primarily accomplished by virtue of providing regular, periodic financial reports. However, since the management, as insiders, may inherently provide prejudiced or biased information (even unintentionally), which the external stakeholders have no direct, cost-effective way of verifying, external audit of this information becomes necessary.

2.3 Empirical Review

Ayeni-Agbaje and Oluyori (2024) examined the relationship between audit quality and financial performance of publicly listed deposit money banks in Nigeria. Sample size of 12 banks, the study used secondary data covering 2014 - 2023, and a sample size of twelve (12) banks. Audit quality was measured by auditor independence, audit committee size, and audit firm size while return on assets (ROA) served as a proxy for financial performance. Descriptive statistics and pooled least square method were used for data analysis. Results showed that auditor independence has negative and insignificant effect on ROA, audit committee size has positive and insignificant effect on ROA and audit firm size has positive and significant effect on ROA of listed deposit money banks in Nigeria.

Ekundayo, Olaoye and Awe (2024) investigated the Impact of audit quality on the profitability of manufacturing companies in Nigeria. Secondary data were sourced from annual reports of 10 manufacturing firms from 2012-2021. Audit committee size, audit fees, and audit independence served as proxies for audit quality while profitability was measured using gross profit margin was the. Data analysis was conducted using a panel data analysis approach. Findings revealed a significant positive relationship between audit fee and gross profit margin. A negative significant association between audit independence & gross profit margin And lastly, a positive insignificant relationship between audit committee size and gross profit margin.

Onwubiko, Azubike and Ihendinihu (2024) assessed the relationship between audit quality and financial performance of deposit money banks in Nigeria. The study adopted *ex-post facto* design and used secondary data sourced from annual reports of 6 banks for the period 2012-2021. Audit fee, audit committee size and timelines of audit report were used to measure audit quality, while financial performance was Proxied by return on assets (ROA). Econometric models such as Unit root test, Johansen Cointegration tests and Error Correction Model (ECM) were used for data analysis. Findings showed that audit fee and audit committee size have negative and insignificant effect on return on asset, timeliness of audit report has a positive effect on return on asset (ROA).

Alliu, Oyewale and Ajayi (2023) studied the effect of audit quality on financial Performance of deposit money banks in Nigeria: Corporate governance perspectives. *Ex post facto* research design was used. Data were sourced from annual reports of 10 banks covering the periods 2010-2019. Audit quality variables used are audit fee (AUF), audit report lag (ARL) and audit committee diligence (ACM) while Return on Assets (ROA) was used as a proxy for financial performance. Multiple regression analysis was employed for data analysis. The study found that audit fees (AF) and audit report lag (ARL) significantly affect return on assets (ROA) of deposit money banks in Nigeria while audit committee diligence (ACM) has an insignificant effect on the return on assets (ROA) of the listed banks in Nigeria.

Fasua, (2023) examined the effect of Audit quality on firm financial performance in Nigeria from 1981 - 2021. Audit independence, auditor tenure, and Audit firm size were used as proxies for audit quality, while return on assets (ROA) and earnings per share (EPS) served as measures of firm performance. The study made use of both Auto Regressive Distributed Lag (ARDL) and Dynamic Ordinary Least Square (DOLS) techniques for analysis of data. Findings indicate that audit independence has a positive but insignificant impact on return on assets (ROA), auditor tenure has a negative and insignificant effect on return on assets (ROA) while audit firm size has a significant negative effect on return on assets (ROA). On the other hand, audit independence has a negative but insignificant impact on earnings per share (EPS), auditor tenure has a positive and insignificant effect on EPS and lastly, Audit firm size has a significant positive effect on EPS.

Afolabi and Fawale (2022) assessed the impact of audit quality on financial performance of banking industries in Nigeria from 2004 - 2019. *Ex-post facto* research design was adopted in the study. Audit firm size (AFS), audit fee (AF), audit report lag (ARL) were adopted as measures of audit quality. On the other hand, financial performance was proxied by return on assets (ROA). The secondary data used were extracted from annual reports of the sampled banks. Descriptive statistics was employed for data analysis. The model specified for the study was estimated using ordinary least square technique. Output from the regression analysis indicated that audit firm size (AFS) has a significant positive

correlation with return on assets (ROA), while audit report lag (ARL) has a significant negative relationship with return on assets (ROA). Audit fee (AF) was found to be positively but insignificantly correlated with ROA.

Yolandita and Cahyonowati (2022) researched the effects of audit quality on firm value of Indonesian financial service sector (FSS). The study relied on secondary data from a sample of 60 financial service firms listed on the Indonesia Stock Exchange over a five year period. Audit firm size (Big Four vs. Non-Big Four) was used to measure audit quality while Tobin's Q was the proxy for firm value. Multiple regression techniques were used for data analysis. The regression analysis output indicated audit quality has a significantly negative effect on firm value in the Indonesian financial service sector.

Caldeira (2019) conducted a comparative study between northern and southern Europe. The study explored the association between audit quality and performance among 90 listed firms in Finland, Norway, Denmark, Sweden, France, Belgium, Italy, Portugal and Spain. Audit quality measures adopted for the study are auditor size, auditor change, auditor opinion, audit fees and board size. Audit fee and auditor change show positive and significant correlation with firm performance while auditor size and auditor opinion depict a negative and significant association with firm performance. However, audit fees depicted more importance in reinforcing firms' performance across the two regions.

Grimsley (2018) examined the effect of audit firm size on financial performance in the US financial sector. The study utilized a sample of 50 publicly listed banks and applied regression analysis to determine the relationship between audit firm size and ROA. The results revealed that larger audit firms significantly improved financial reporting quality and investor trust, with an impact of 78% on ROA. This empirical evidence supports the notion that larger audit firms enhance financial performance through superior audit quality.

Matoke and Omwenga (2016) conducted a study to assess how audit quality metrics, including firm size, auditor independence, audit team characteristics, and auditor experience, impacted the financial performance (ROE and ROA) of listed companies on the Nairobi Securities Exchange. Utilizing a semi-structured questionnaire with 89 Certified Public Accountants from nine listed companies, their descriptive research design revealed that audit firm size had a significant positive correlation with profitability, showing an 80% impact on ROA. This finding underscores the importance of larger audit firms in enhancing the financial performance of firms through higher audit quality.

3.0 METHODOLOGY

According to Kazdin (2003), research design refers to the plan used to examine the question of interest. This study adopted the *ex-post facto* research design as it analyzed already existing information over a number of years. The population of the study consists of the twelve (12) Deposit Money Banks (DMBs) listed on the Nigerian Exchange Group (NGX) as of December 31, 2023. Purposive sampling technique was used to select a sample of 11 banks based on earnings and data availability criteria. Purposive sampling is a non-probability sampling method in which elements are deliberately chosen based on the researcher's judgment that they possess the most relevant characteristics for the study (Foley, 2018). The study used secondary data which were extracted from the annual reports of the sampled firms as well as from the fact books of the Nigerian Exchange Group (NGX) for a period of fifteen years (i. e. from 2009 - 2023). Given the panel structure of the dataset, panel regression techniques were adopted. Specifically, the Autoregressive Distributed Lag (ARDL) model was employed to estimate both the short-run and long-run effects of the independent variables (audit fees, audit tenure, and audit report lag) on return on assets (a profitability indicator). The choice of the ARDL model was informed by the mixed order of integration of the variables, as revealed by unit root tests, and its suitability for handling relatively small samples with both I(0) and I(1) variables (Pesaran & Shin, 1999; Pesaran et al., 2001). In addition, a series of post-estimation diagnostic tests were conducted to verify the robustness and reliability of the model estimates. These included tests for normality, heteroskedasticity, serial correlation, and multicollinearity.

3.1 Model Specification

The model adopted in this study is derived from Afolabi and Fawale (2022) with some modifications.

The functional form of the model is represented as follows:

ROA = f (AF, AT, ARL, FMGR, LEV)..... (1)

This can be econometrically expressed as:

$ROA_{it} = \beta_0 + \beta_1 AF_{it} + \beta_2 AT_{it} + \beta_3 ARL_{it} + \beta_4 FMGR_{it} + \beta_5 LEV_{it} + \mu_{it}$ .....……. (2)

Where:

ROA = Return on assets

AF = Audit fee

AT = Audit tenure

ARL = Audit report lag

FMGR = Firm Growth

LEV = Leverage

μ_{it} = Error term

β_0 = Intercept

β_1 - β_5 = Coefficients of the regression equation

i = Cross section of firms used

t = Time period

Table 3.1: Measurement of Variables

S/N	Variables	Definitions	Type	Measurement	Construct validity Source
1	ROA	Return on Assets	Dependent	Net Income/Total Assets	Ayeni-Agbaje & Oluyori (2024)
2	AT	Audit Tenure	Independent	Length of auditor-client relationship: '1' if 3 yrs+ & '0' if otherwise.	Heninger (2001); Ebrahim (2001)
3	AF	Audit Fee	Independent	Natural Log of Naira-value remunerated to the auditor for the audit services.	Hanlon, Krishnan, & Mills, (2012), Iliemena & Okolocha (2019)
4	ARL	Audit Report Lag	Independent	Number of days	Egbunike

				after the closing date of the company's book up to the date of signing of the independent auditor's report by the auditor.	and Abiahu (2017)
5	FMGR	Firm Growth	Control	Measured as change in sales in the current year apportioned by previous sales	Collins, Pungaliya, & Vijh, (2017); Huang, Lao, & McPhee, (2017)
6	LEV	Leverage	Control	Total Debts / Equity	Becker et al (1998), Watts & Zimmerman, (1986)

4.0 RESULTS AND DISCUSSION

In this section, the secondary data collected for the study were analyzed using different statistical techniques such as descriptive statistics, correlation analysis, units root test, multicollinearity test, autocorrelation test, heteroskedasticity test and auto regressive distributed lag model.

4.1 Descriptive Statistics

The descriptive statistics provide insights into the distribution and central tendencies of the variables used in the study. The mean, median, and standard deviation were computed for each variable. For instance, the mean of a given variable, say, audit fees, indicates the average value spent on audit services across the banks, while the standard deviation suggests the extent of variability in audit spending among them.

Table 4.1 Descriptive Statistics

	ROA	AF	AT	ARL	FMGR	LEV
Mean	0.040649	193715.1	0.606061	86.14545	0.220033	7.759325
Median	0.017138	144000.0	1.000000	82.00000	0.154500	5.844603
Maximum	0.649525	700000.0	1.000000	343.0000	1.983200	191.2097
Minimum	0.000631	12000.00	0.000000	31.00000	-0.778600	0.001223
Std. Dev.	0.081282	161270.1	0.490109	36.46687	0.404004	19.10622
Skewness	4.820081	1.196248	-0.434122	3.169581	1.376721	8.317265
Kurtosis	30.48153	3.782715	1.188462	20.15129	7.044411	74.90251
Jarque-Bera	5831.150	43.56471	27.74418	2298.668	164.5786	37445.91
Probability	0.000000	0.000000	0.000001	0.000000	0.000000	0.000000
Sum	6.707029	31962991	100.0000	14214.00	36.30550	1280.289
Sum Sq. Dev.	1.083499	4.27E+12	39.39394	218092.5	26.76797	59867.83
Observations	165	165	165	165	165	165

Table 4.1 presents the descriptive statistics for the study's variables based on 165 firm-year observations. The key variables include firm ROA, and audit-related metrics (AF, AT, ARL), and firm-specific attributes (FMGR, LEV,).

The mean value of Return on Assets (ROA) is 4%. The high standard deviation of 0.08 relative to the mean reflects substantial cross-bank variation in profitability.

Audit Fees (AF) average ₦193,715,000, with a maximum value of ₦700 million, highlighting notable differences in audit expenditures among banks. The massive gap between mean and maximum values of audit fees together with a very high standard deviation of ₦161,270 suggest that large banks may be paying significantly higher fees, while smaller banks incur minimal costs. Audit Tenure (AT) has a mean of 0.606, suggesting that all the banks maintain a client - auditor relationship exceeding 3 years in over 60% of the time. Audit Report Lag (ARL) averages 86 days, which may raise concerns over timely financial reporting. The relatively high audit report lag may be attributed to complexity of the audit work or audit firm workload. Firm Growth Rate (FMGR) is modest at 2.20%, reflecting a somewhat sluggish revenue growth among the listed deposit money banks over the study period. Nevertheless, the high standard deviation of 0.404 shows firm growth rates vary dramatically across the banks suggesting that some banks are growing aggressively while others are stagnating or declining. The kurtosis values for ROA (30.48) ARL (20.15), and LEV (74.9) are well above 3, indicating leptokurtic distributions — peaked with heavy tails. In order to remedy these deficiencies and make them fit for modelling, the variables were subjected to logarithmic transformations.

4.2 Correlation Matrix Analysis

Table 4.2 presents the Pearson correlation coefficients among the key variables used in the study. The matrix is intended to provide preliminary insights into the nature and strength of linear associations among variables, as well as to detect potential multicollinearity concerns prior to regression modeling.

Table 4.2: Correlation Matrix

	ROA	**AF**	**AT**	**ARL**	**FMGR**	**LEV**
ROA	1.000000	-0.179561	-0.082125	-0.072572	0.171376	-0.169145
AF	-0.179561	1.000000	0.165424	-0.259628	0.070328	0.063175
AT	-0.082125	0.165424	1.000000	-0.141070	-0.100820	-0.148381
ARL	-0.072572	-0.259628	-0.141070	1.000000	-0.026116	0.255493
FMGR	0.171376	0.070328	-0.100820	-0.026116	1.000000	0.046639
LEV	-0.169145	0.063175	-0.148381	0.255493	0.046639	1.000000

In the correlation matrix as shown in Table 4.2, ROA is negatively and weakly correlated with Audit Fees (AF) (r = -0.1795). This suggests that firms with higher profitability (ROA) tend to incur lower audit fees, possibly due to managerial and operational efficiency. Also, ROA correlation with Audit Report Lag (ARL), Audit Tenure (AT) and Leverage (LEV), are relatively weak and insignificant. On the other hand, Audit Fees (AF) show a modest positive correlation with Audit Tenure (AT) (r = 0.1654). This relationship indicates that firms with longer auditor-client relationships tend to pay slightly higher audit fees. A negative correlation was found between AF and Audit Report Lag (ARL) (r = -0.2596). This moderate inverse relationship implies that higher audit fees are associated with shorter reporting delays. Leverage (LEV) shows weak positive correlation with AF (r = 0.0632). This association suggests that debt-heavy firms may be subject to marginally more scrutiny, influencing audit scope and cost. Furthermore, a negative relationship was found between AT and Audit Report Lag (ARL) (r = -0.1411). This suggests that firms with longer-standing auditor relationships tend to complete audits more promptly. This is consistent with literature proposing that auditor familiarity with the client's systems and processes can improve audit efficiency and reduce reporting delays.

4.3 Unit Root Test Results

The concept of unit root is closely tied to the idea of stationarity in a time series. A time series is said to be stationary if its statistical properties do not change over time. However, a time series with a unit root is non-stationary, as its mean and variance can change over time. The existence of a unit root can lead to spurious regressions, where relationships between variables appear significant but are actually meaningless. This study employed four panel unit root tests: Im, Pesaran and Shin (IPS), ADF-Fisher, PP-Fisher, and Levin, Lin & Chu (LLC) tests. The results are summarized in Tables 4.3a and 4.3b.

Table 4.3a: Im, Pesaran and Shin & ADF-Fisher Unit Root Test

Variables	Im, Pesaran and Shin	Prob.	Remarks	ADF-Fisher	Prob.	Remarks
AF	-1.77499	0.0379	I(1)	34.7199	0.0414	I(1)
AT	-1.95903	0.0251	I(0)	35.2906	0.0361	I(0)
ARL	-7.18382	0.0000	I(1)	86.7158	0.0000	I(1)
FMGR	-1.52337	0.0638	I(0)	36.0696	0.0298	I(0)
LEV	-5.00494	0.0000	I(1)	66.1201	0.0000	I(1)
ROA	-1.93474	0.0265	I(0)	38.0862	0.0179	I(0)

Table 4.3b: PP-Fisher and Levin, Lin & Chu Unit Root Test

Variables	PP-Fisher	Prob.	Remarks	Levin, Lin & Chu	Prob.	Remarks
AF	72.6053	0.0000	I(1)	-1.30937	0.0952*	I(1)
AT	43.0292	0.0047	I(0)	-4.08125	0.0000	I(0)
ARL	170.340	0.0000	I(1)	-10.2582	0.0000	I(1)
FMGR	111.459	0.0000	I(0)	-3.0669	0.0011	I(0)
LEV	116.822	0.0000	I(1)	-5.32302	0.0000	I(1)
ROA	68.1801	0.0000	I(0)	-2.23186	0.0128	I(0)

The variables AF (Audit Fees), ARL (Audit Report Lag), and LEV (Leverage) were found to be non-stationary at level but stationary after first differencing, and are thus integrated of order one, I(1). On the other hand, the variables AT (Audit Tenure), FMGR (Firm Growth), and ROA (Return on Assets) were found to be stationary at level, indicating that they are integrated of order zero, I(0). Notably, the LLC test for AF was only marginally significant at the 10% level, which supports the I(1) designation based on the stronger evidence from IPS, ADF-Fisher, and PP-Fisher. The mixed order of integration (I(0) and I(1)) among the variables justifies the application of the Autoregressive Distributed Lag (ARDL) modeling approach, which is well-suited for handling such mixed integration orders without requiring all variables to be stationary at the same level. This outcome validates the econometric framework adopted in the subsequent estimation procedures.

4.4 Multicollinearity Test

Variance Inflation Factor (VIF) analysis was employed to assess multicollinearity among the independent variables. Centered VIF values are generally interpreted, where a threshold of 10 or above indicates serious multicollinearity concerns.

Table 4.4: Multicollinearity Test

Variance Inflation Factors			
Date: 05/09/25 Time: 00:04			
Sample: 2009 2023			
Included observations: 165			
	Coefficient	Uncentered	Centered
Variable	Variance	VIF	VIF
C	4.335346	894.3514	NA
AF	0.016637	480.0520	3.094575
AT	0.022111	2.764408	1.089009
ARL	0.048916	195.7371	1.235839
FMGR	0.030266	1.315180	1.012899
LEV	0.002419	3.137532	2.888592

The results in Table 4.4 show that all centered VIF values are well below the critical threshold. Specifically, the centered VIFs for AF, AT, ARL, FMGR, and LEV are 3.09, 1.08, 1.24, 1.01, and 2.89 respectively. These values suggest that multicollinearity is not a significant issue in the model and that the explanatory variables can reliably be used in regression estimation without inflating standard errors.

4.5 Heteroskedasticity Test

To test for the presence of non-constant variance (i.e. heteroskedasticity) in the residuals, the Breusch-Pagan-Godfrey test was applied, with the results displayed in Table 4.5.

The F-statistic value of 0.5222 and the corresponding p-value of 0.7592, alongside the Obs*R-squared p-value of 0.7508, all exceed the 0.05 threshold. These results provide no statistical evidence to reject the null hypothesis of homoskedasticity. Therefore, it can be concluded that the variance of the residuals is constant, and the model does not suffer from heteroskedasticity.

Table 4.5: Heteroskedasticity Test on the ROA

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	0.522177	Prob. F(5,148)	0.7592
Obs*R-squared	2.669634	Prob. Chi-Square(5)	0.7508
Scaled explained SS	1.517343	Prob. Chi-Square(5)	0.9111

ARDL Estimation Results

The Autoregressive Distributed Lag (ARDL) model was estimated to assess the short-run and long-run effects of the selected audit-related variables on the return on assets (ROA) of listed banks in Nigeria over the period 2010–2023. The result of which is presented in Table 4.6.

Table 4.6 ARDL Estimation Output

Dependent Variable: D(ROA)				
Method: ARDL				
Date: 05/11/25 Time: 04:13				
Sample: 2010 2023				
Included observations: 154				
Maximum dependent lags: 1 (Automatic selection)				
Model selection method: Akaike info criterion (AIC)				
Dynamic regressors (1 lag, automatic): AF AT ARL FMGR LEV				
Fixed regressors: C				
Number of models evalulated: 1				
Selected Model: ARDL(1, 1, 1, 1, 1, 1)				
Note: final equation sample is larger than selection sample				
Variable	Coefficient	Std. Error	t-Statistic	Prob.*
	Long Run Equation			
AF	-0.097561	0.092021	-1.060201	0.2921
AT	-0.312730	0.070132	-4.459135	0.0000
ARL	-0.366159	0.211718	-1.729464	0.0874
FMGR	1.297468	0.176010	7.371548	0.0000
LEV	-0.267576	0.034625	-7.727789	0.0000

	Short Run Equation			
COINTEQ01	-0.646988	0.112115	-5.770774	0.0000
D(AF)	0.393937	0.447118	0.881059	0.3808
D(AT)	0.329754	0.074161	4.446446	0.0000
D(ARL)	-0.129937	0.207206	-0.627089	0.5323
D(FMGR)	0.139268	0.285094	0.488499	0.6265
D(LEV)	-0.110256	0.272977	-0.403902	0.6873
C	-0.791264	0.256286	-3.087428	0.0027
Mean dependent var	0.106334	S.D. dependent var		0.968532
S.E. of regression	0.542329	Akaike info criterion		1.223508
Sum squared resid	24.41199	Schwarz criterion		2.767068
Log likelihood	-18.93938	Hannan-Quinn criter.		1.850093
*Note: p-values and any subsequent tests do not account for model selection.				

The error correction term (COINTEQ01) is negative and highly significant (-0.646988, p = 0.0000), confirming the existence of a stable long-run relationship among the variables. This coefficient indicates that approximately 64.7% of the disequilibrium from the previous period's shock is corrected in the current period.

4 .6 Test of Hypotheses

H_{o1}: Audit fees have no significant effect on Return on Assets of listed deposit money banks in Nigeria.

The long-run effect of Audit fees on ROA (coefficient = −0.097561, p = 0.2921) and the short run effect on ROA (coefficient = 0.393937, p = 0.3808) are both statistically insignificant. Based on this, the null hypothesis is not rejected, indicating that audit fees have no significant effect on ROA of listed deposit money banks in Nigeria in both the short and long run.

H_{o2}: Audit tenure has no significant effect on Return on Assets of listed deposit money banks in Nigeria.

The long-run coefficient of audit tenure is −0.317230 (p = 0.0000), and the short-run coefficient is 0.329754 (p = 0.0000), both statistically significant. Thus, the null

hypothesis is rejected, implying that audit tenure significantly affects ROA in both the short and long run though in different directions.

H_{03}: Audit report lag has no significant effect on Return on Assets of listed deposit money banks in Nigeria.

The ARDL results show that neither the long-run effect (−0.366159, p = 0.0874) nor the short-run effect (−0.129937, p = 0.5323) of audit report lag on ROA is statistically significant. Therefore, the null hypothesis is not rejected, suggesting that audit report lag has no meaningful effect on ROA in either time horizon.

4.7 Discussion of Findings

Audit Fees and Bank Profitability (H_{01})

The findings revealed no statistically significant effect of audit fees on ROA, either in the short or long run. This suggests that the amount paid for external audit services does not influence the asset-based profitability of Nigerian banks.

This result is supported by Egbunike and Abiahu (2017), who reported no significant relationship between audit fees and ROA in the Nigerian banking sector. Similarly, Afolabi and Fawale (2022) and Onwubiko et al. (2024) found audit fees to be insignificantly related to ROA. In contrast, Ibrahim et al. (2023) found a positive and significant relationship between audit fees and ROA in studies involving other sectors. The divergence could be due to differences in industry dynamics, and or methodology.

Audit Tenure and Bank Profitability (H_{02})

Audit tenure was found to significantly affect ROA in both the short and long run, though in opposing directions. While short-term auditor continuity appeared beneficial to performance, extended tenure was linked with declining profitability, likely due to reduced independence. This result is in contrast with that of Fasua (2023), and Ozegbe and Jeroh (2022), who found no meaningful association between audit tenure and ROA, while Obaje et al. (2023) highlighted a consistently negative effect, particularly in the oil and gas sector. These discrepancies may reflect industry-specific risk exposures and regulatory variations.

Audit Report Lag and Bank Profitability (H_{03})

The results indicated that audit report lag did not exert a statistically significant effect on ROA. This implies that the timeliness of audit completion does not meaningfully impact operational profitability. This finding is consistent with Egbunike and Abiahu (2017) who reported insignificant association between audit timeliness and ROA.

In contrast, Olutokunbo et al. (2023), Afolabi and Fawale (2022), and Isah and Muhammad (2019) all reported a significant negative relationship, highlighting the possible adverse impact of undue delays in audit reporting on the financial performance of firms. However, Onwubiko et al. (2024) observed a positive effect, suggesting that investors may interpret longer audits as a sign of thoroughness. Methodological and temporal differences may explain this contrast.

5. SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

The findings of the are summarized below:

1. Audit fees have no significant effect on ROA in both the short and long run.

2. Audit tenure has a significant effect on ROA, positive in the short run and negative in the long run.

3. Audit report lag has no significant effect on ROA in either the short or long run.

5.2 Conclusion

This study set out to examine the effect of audit-related attributes - specifically audit fees, audit tenure, and audit report lag - on the profitability (return on assets) of listed deposit money banks in Nigeria over the period 2009 to 2023. The empirical results reveal a varied and time-sensitive relationship between audit quality attributes and return on assets. Whereas audit tenure demonstrated a significant effect on return on assets, audit fees and audit report lag both exerted no significant effect on asset-based profitability of the listed banks in Nigeria. The study therefore concludes that certain dimensions of audit quality can affect profitability in the Nigerian banking sector.

5.3 Recommendations

Drawing from the empirical findings of this study and in recognition of the unique characteristics of the Nigerian banking environment, the following policy-oriented recommendations are proposed:

1. Bank management and audit committees should ensure that audit fees are structured not merely as a compliance cost but as a strategic investment in audit quality. Emphasis should be placed on improving operational efficiency through enhanced internal controls and risk management practices, as audit expenditure alone may not directly influence asset-based profitability.

2. Regulators such as the Financial Reporting Council of Nigeria (FRCN) and the Central Bank of Nigeria (CBN) should strengthen auditor rotation policies to prevent over-familiarity between auditors and clients. Periodic rotation, after an optimal period, will help retain the short-term benefits of auditor familiarity while mitigating the long-term risks to independence.

3. Although audit lag was not found to significantly impact ROA, banks should still strive for timely audit completion to maintain stakeholder confidence and compliance with regulatory timelines.

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