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Influence of Auditing Standards on Economic Performance in Nigeria's Deposit Institutions

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ABSTRACT: This study examined the effect of audit quality on the financial performance of selected Deposit Money Banks (DMBs) in Nigeria, covering the period 2017–2024. Specifically, the research analyzed how audit independence influences financial performance indicators, including Return on Assets (ROA), Earnings per Share
(EPS), and Profit after Tax (PAT). Secondary data were obtained from annual reports of listed banks and analyzed using Robust Least Squares Regression. The findings revealed that audit independence has a negative and statistically significant effect on ROA, indicating that increased independence may impose strict controls that reduce short-term profitability. Conversely, audit independence exhibited a positive but statistically insignificant effect on EPS and PAT, suggesting minimal contribution to shareholder value and post-tax profitability. It recommends strengthening audit governance frameworks, improving communication between auditors and management, and enhancing professional competence through continuous training. The study contributes to existing literature by providing recent empirical evidence on audit independence and public confidence within Nigeria's banking sector and by offering methodological insights using robust regression techniques.

KEYWORDS: Audit quality, financial performance.

INTRODUCTION

Auditor independence is widely recognized as a central pillar of audit quality and a critical determinant of the credibility of financial reports (Sawaya, Al Maalouf, Hanoun, & Rakwi, 2025). In the context of financial institutions, particularly Deposit Money Banks (DMBs) in Nigeria, independence of the external auditor is essential because the banking sector is highly regulated, risk-sensitive, and significantly reliant on public confidence. Auditor independence refers to the capacity of auditors to perform their duties objectively, free from undue influence or conflict of interest that may impair their professional judgment Njagi, 2023). When independence is compromised, the reliability of audited financial statements becomes questionable, ultimately affecting stakeholders' trust and the financial performance of firms.

Corporate governance principles provide the structural foundation for ensuring that auditors maintain independence from management pressures. According to Saona, Muro, & Alvarado (2020), governance systems enhance accountability and reduce the likelihood of financial misreporting, enabling auditors to provide unbiased assurance that supports sound financial performance. Similarly, Ayogu (2023) notes that high-quality audits inspire investor confidence, reinforce regulatory compliance, and promote transparency; factors that significantly influence financial performance in the banking sector.

In Nigeria, where the banking industry is central to economic stability, the integrity of audited financial statements is indispensable Ayogu, (2023). This underscores the need to empirically examine how auditor independence, as a key element of audit quality, affects the financial performance of listed Deposit Money Banks in Nigeria.

Auditor independence, a key element of audit quality, plays a vital role in ensuring that audited financial statements truly reflect a bank's financial position. However, concerns have continued to mount regarding the level of auditor independence within Nigeria's banking sector. Practices such as the simultaneous provision of audit and non-audit services, economic bonding between auditors and clients, and long auditor–client relationships raise ethical issues that may weaken auditor objectivity and create opportunities for biased reporting. These concerns potentially undermine the quality of audits and, by extension, the financial performance of listed banks.

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Studies such as Amahalu, Okudo, Okafor, & Onyeka (2023), Njagi, M. (2023), report that auditor independence enhances the credibility of financial reports, other scholars, Tobi, Osasrere, & Emmanuel (2016), Nwafor, & Amahalu (2021). found no statistically significant effect of audit independence on financial reporting quality among listed Deposit Money Banks. These inconsistencies suggest that the link between auditor independence and the financial performance of
banks has not been clearly established, leaving a gap in both academic understanding and practical regulation. Therefore, the persistent concerns over compromised auditor independence, the contradictory evidence from prior studies, and the continuing governance shortcomings highlight the need for a focused investigation into how auditor independence as a critical indicator of audit quality affects the financial performance of listed Deposit Money Banks in Nigeria.

The main objective of the study is to examine the effects of audit quality on financial performance in Nigeria. The specific objectives are to evaluate the relationship between audit independence and return on assets of deposit money banks in Nigeria, to investigate the relationship between audit independence and earnings per share of deposit money banks in Nigeria, and to examine the relationship between audit independence and profit after tax of deposit money banks in Nigeria.

LITERATURE REVIEWS

Auditor's independence and return on assets (ROA)

Auditor's independence has a significant influence on a firm's return on assets because independent auditors provide unbiased assessments of a company's financial position, which enhances the reliability of financial statements used by management and investors. When auditors operate without interference from management, the resulting financial reports accurately reflect the true performance of the firm, allowing for more efficient resource allocation and better decision- making. Empirical evidence by Olayinka (2023), Saidu, and Aifuwa (2020) found that auditor independence, measured through objectivity and integrity, positively affects financial reporting quality, which in turn contributes to improved profitability and asset performance of Nigerian banks.

Auditor independence is a fundamental aspect of audit quality, crucial for ensuring the objectivity and reliability of the audit process. This independence is vital for maintaining stakeholder trust and ensuring that the financial statements provide a true and fair view of the bank's financial performance and position (Akhalumeh et al., 2017). The return on assets (ROA) is a key financial performance metric that measures how effectively a bank uses its assets to generate earnings. In contrast, in their findings, Auditor rotation disrupts knowledge, and Economic bonding theory fee dependence compromises profit reporting.

H01: Audit independence has no significant relationship with Return on Assets of deposit money banks.

Auditor's independence and profit after tax (PAT)

Profit after tax is a key indicator of firm profitability. Independent auditors ensure accurate recognition of revenues and expenses, preventing earnings manipulation or misstatements that could distort profit figures. Empirical findings by) in their study on Nigerian quoted firms revealed that auditor independence significantly and positively influences profit after tax, as independent auditors tend to detect and deter earnings manipulation, leading to credible profit reporting. Consistent with this, Olayinka (2023) observed that firms audited by independent auditors reported higher profit after tax compared to those with compromised independence, indicating that independence strengthens investor trust and firm performance outcomes.

H02: Audit independence has no significant relationship with Profit after Tax of deposit money banks in Nigeria.

Auditor's independence and earnings per share (EPS)

Auditor independence also affects earnings per share, since EPS is directly tied to the reliability of the firm's reported net income. When auditors act independently, financial statements present a true and fair view of earnings, which ensures accurate computation of EPS. This reliability enhances shareholder confidence and can positively influence share price and market perception. Conversely, compromised auditor independence may result in overstated or understated earnings, misleading investors, and negatively affecting EPS credibility. Studies such as those by and demonstrated that independent auditors improve the transparency of reported earnings, thereby enhancing investor confidence in EPS figures. This improvement is critical because consistent and credible EPS reporting signals strong governance and financial discipline, which attract investors and promote long-term corporate stability.

H03: Audit independence has no significant relationship with Earnings per Share of deposit money banks in Nigeria.

Theoretical underpinning

Economic bonding theory

The Economic Bonding Theory, as propounded by Watts and Zimmerman in 1986, is the theory on which this study is anchored. Economic rents associated with audit fees are argued to create an economic bond between the auditor and the client, which can jeopardize the auditor's independence (Doogar, Sivadasan, & Solomon, 2015). According to the theory of economic bonds, an economic bond forms between an audit firm and its client when the audit firm's economic reliance on the client reduces the auditor's independence, making the auditor less willing to resist management pressure. According to Svanström (2013), "this type of bonding is inherent and already present when the auditor is appointed, but it is amplified if lucrative consulting opportunities are apparent." Economic bonding theory suggests that higher audit fees are indicative of potential independence issues; auditors who receive higher fees may be less inclined to modify the standard audit report. Auditors have been required in a variety of contexts to identify and evaluate threats to their independence and reduce them to an acceptable level.

Many scholars have attempted research in this area with varying findings and limitations.

Aeni-Agbaje and Oluyori (2024) examined the influence of audit quality and financial performance of quoted deposit money banks in Nigeria. Audit quality measures utilized include auditor independence, audit committee size, and audit firm size, with return on assets serving as a proxy for financial performance. The study used an ex-post facto research design. The population of the study consists of twelve (12) quoted deposit money banks on the Nigerian Exchange Group (NGX) as of December 31st, 2023, with twelve (12) banks chosen as the sample size utilizing census sampling methodologies. The study period runs from 2014until 2023. The data acquired were analyzed using descriptive and inferential statistics, with hypotheses tested using pooled least squares. The empirical findings revealed that auditor independence has a negative and insignificant effect on financial performance, audit committee size has a positive and insignificant effect on financial performance, and audit firm size has a positive and significant effect on the financial performance of listed deposit money banks in Nigeria. We concluded that audit firm size is a vital factor to be considered before appointing an auditor.

Fossung and Verges (2021) conducted a study to verify the link between external audit quality and value creation while controlling for exogenous factors (the size and age of the firm). The audit quality was captured by the competence and the independence of the auditor, while the creation of value is measured by the evolution of turnover and net income. Using the logistic regression analysis on data collected on a sample of 97 public limited companies in Cameroon, it is proven that audit quality has a significantly positive influence on value creation. Belonging to the Big Four, providing services other than external audit, and the evolution of audit fees have no significant impact on value creation.

Ogoun and Perelayefa (2020) examine specifically the role of corporate governance in determining the audit quality of firms by utilizing 71 non-financial firms for the period 2008 to 2015. Audit quality was measured using a dummy variable of "1" and "0", with 1 representing the use of a Big Four auditor by the firm and 0 otherwise. Corporate governance was proxy with board independence, measured using the ratio of non-executive directors to total directors. The data collected was analyzed using the binary regression analysis, which reveals that board independence is negatively related to audit quality.

Nwafor and Amahalu (2021) evaluated the auditor's independence and audit quality of quoted deposit money banks in Nigeria. The ex-post facto research design was used in the study, and agency theory was used to underpin the study. The secondary data of thirteen (13) out of fourteen (14) listed commercial banks were obtained for 2009 to 2020 based on judgmental sampling. The data collected were analysed using binary probit regression analysis. The result showed that joint audit and auditor competence had a significant positive association with compliance with the auditing guideline. It was recommended amongst others that there is a need for auditors to regularly receive training courses on contemporary auditing guidelines that would prove beneficial to their auditing practices, thereby adding value to the quality of audit.

Amahalu, Okeke, and Chinyere (2018) sought to know the determinants of financial statement quality with a focus on healthcare firms listed on the floor of the Nigerian Stock Exchange for the period 2010-2016. The study made use of secondary data obtained from fact books, annual reports, and accounts of healthcare firms. The data were subjected to statistical analysis using Pearson correlation analysis, Ordinary Least Square and Granger causality test with the aid of E-views 9.0 econometric software. The study's findings showed a positive, statistically significant correlation between audit independence, audit tenure, audit firm size, and financial statement quality.

Within the Nigerian context, prior studies have investigated aspects of audit quality, governance, and reporting credibility; however, there remains an evident gap concerning the direct relationship between auditor independence and the financial performance of listed Deposit Money Banks.

METHODOLOGY

This study employed an ex-post facto design as it is meant to investigate and analyze the relationship among variables. We adopted this research design because the data for the variable are already in existence, while the data for the study were collected from the annual reports of purposively selected banks, namely; First Bank of Nigeria, Zenith Bank, Fidelity Bank, Access Bank, and United Bank for Africa in Nigeria covering period of eight (8) years (2017-2024). The population of this study constitutes twenty-five (25) banks listed in Nigerian Exchange Group with a sample size of five (5) banks in Nigeria which were purposively selected, namely: First Bank of Nigeria, Zenith Bank, Fidelity Bank, Access Bank, and United Bank for Af-rica were selected for this research, using convenience sampling technique adopted for the sampling size as a result of easy availability of data and it economical in terms of time and money.

A multivariate econometric model was formulated for the study. Consequently, the study specifies the econometric models stated below:

ESP = f (AudIn) (1)

ROA = f (AudIn) (2)

PAT = f (AudIn). (3)

Where

AudIn = Audit Independence PAT = Profit after tax ROA = Return on Assets ESP = Earnings per share

This study employed simple regression analysis and panel generalized least squares (GLS) to estimate the data from 2017 to 2024, covering the period of eight (8) years for five (5) deposit banks in Nigeria. The data was descriptively analyzed and presented below: the result indicates that one out of six variables was not normally distributed.

Table 4.2: Descriptive analysis of ROA, PAT, EPS, & AUIND

	Return on Assets	Profit after tax	Earnings per share	Audit independence
Mean	2.835500	161899.2	5.025000	4.925000
Median	2.070000	66432.50	2.210000	5.000000
Maximum	11.26000	936158.0	29.79000	8.000000
Minimum	0.960000	9275.000	0.260000	3.000000
Std. Dev.	2.126040	212680.1	6.417201	1.185111
Skewness	1.996586	1.941558	2.089955	0.426555
Kurtosis	7.842418	6.271034	7.318780	3.217710
Jarque-Bera	65.65740	42.96374	60.20584	1.291989
Probability	0.000000	0.000000	0.000000	0.524141
Sum	113.4200	6475969.	201.0000	197.0000

Descriptive statistics 2025

The mean values of ROA, PAT, EPS, & AUIND are 2.835500, 161899.2, 5.025000, and 4.925000, respectively, for the period covered by the study, indicating that the average value of PAT is the highest of the series, with 162.2%, while that of ROA is the least with 2.84%. The higher percentage of the mean value of PAT implies that the firms have a preference for PAT. The standard deviation indicates the dispersion from or spread of the series from its values. PAT has the highest dispersion of 212680.1, followed by EPS with 6.417201. However, AUIND has a lower dispersion from its mean of 1.185111. Skewness, which depicts the asymmetry of the distribution around the mean, reveals that ROA, PAT, and EPS have long right tails (Positive skewness) while AUIND has two tails (Zero skew-ness), that is normal distribution. The peakness or flatness of the distribution of the series is indicated by Kurtosis. The statistics reveal that three variables, ROA, PAT, and EPS, are above normal distribution as their values are above the acceptable value of three (3), thus Leptokurtic, while AUIND is within the acceptable value of three (3), thus Mesokurtic. Furthermore, the statistical significance for the Jarque-Bera statistics (JB) of three variables, as reported in Table 4:2, is below 0.05 except for AUIND; hence, we reject the null hypotheses that the series are not normally distributed. Therefore, a non-linear model is appropriate for predicting the parameter.

Interpretation of the unit test regression results ROA(Return on assets):

At level (I(0)): All tests (LLC, IPS, ADF-Fisher, PP-Fisher) show high p-values (> 0.05), which fail to reject the null, indicating non-stationarity at level.

At first difference (I(1)): LLC, IPS, ADF remain insignificant, but PP-Fisher is significant (p = 0.0133). Showing mixed evidence, but at least one test strongly suggests stationarity at I(1). Decision: ROA is integrated into order 1, I (1).

PAT (Profit after tax)

At level (I(0)): All tests show very high p-values, indicating non-stationarity.

At first difference (I(1)): LLC, IPS, ADF not significant, but PP-Fisher is borderline significant (p=0.0522). Decision: PAT is also I(1) (weak but acceptable evidence).

EPS (Earnings per share)

At level (I(0)): All tests indicated non-stationary. At first difference (I(1)): LLC, IPS, ADF are still non-significant, but PP-Fisher is strongly significant (p=0.0113). Decision: EPS is I(1).

AUIND (Audit independence)

At level (I(0)): LLC rejects null (p = 0.0000), but IPS, ADF, and PP are insignificant, indicating mixed evidence. At least one strong rejection suggests possible stationarity. At first difference (I(1)): PP-Fisher is significant (p = 0.0323), others are insignificant.

Decision: AUIND is stationary at level or at worst I(1) (likely I(0)).

However, since variables are a mix of I(0) and I(1), the study cannot apply or run a simple regression at levels because of spurious results. Conversely, the best approach is Ro-bust least square method/ARDL (PMG/DMG models), which accommodates a mix of I(0) and I(1).

Test of hypotheses

The hypothesis below is subjected to test using the robust least squares method.

H01: Audit independence has no significant relationship with return on assets of deposit money banks in Nigeria.

Dependent Variable:

RETURN ON ASSETS Method: Robust Least Squares

Variable	Coefficient	Std. Error	z-Statistic	Prob.
AUDIT INDEPENDENCE	-0.652375	0.187643	-3.476685	0.0005
C	5.763408	0.949869	6.067584	0.0000
Robust Statistics				
R-squared	0.170466	Adjusted R-squared		0.148636
Rw-squared	0.263936	Adjust Rw-squared		0.263936
Akaike info criterion	35.67678	Schwarz criterion		40.80075
Deviance	84.89817	Scale		1.593773
R-squared statistic	12.08734	Prob(Rn-squared stat.)		0.000508
Non-robust Statistics				
Mean dependent var	2.835500	S.D. dependent var		2.126040
S.E. of regression	1.866296	Sum squared resid		132.3564

Audit independence (coefficient = –0.6524, p = 0.0005) indicated that the coefficient is negative and statistically significant at 1% level, signifying that for each additional unit increase in audit independence score, ROA decreases by about.

0.65 units, holding other factors constant. Implying a negative relationship between audit independence and firm performance (ROA)

Goodness of Fit (Model Strength). R-squared = 0.170 (17%), demonstrating that On-ly17% of the variation in ROA is explained by audit independence. This suggests that audit independence alone has limited explanatory power, and other variables may also be driving ROA. Robust R^2 (Rw-squared = 0.264) with robust adjustments, about 26% of variation is explained.

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Model Diagnostics: z-statistics & Probabilities show that the independent variable is highly significant ($p < 0.01$) while R-squared statistic = 12.087, Prob = 0.0005 indicat-ed strongly significant overall model fit. Since audit independence negatively affects ROA, it suggests that excessive independence could slow down decision-making or lead to conservative risk-averse strategies that reduce profitability.

Test of hypothesis two: The hypothesis below is subjected to test using the robust least squares method.

H02: Audit independence has no significant relationship with the earnings per share of deposit money banks in Nigeria.

Dependent Variable: EARNINGS PER SHARE Method: Robust Least Squares

Dependent Variable: EARNINGS PER

Variable	Coefficient	Std. Error	z-Statistic	Prob.
AUDIT INDEPENDENCE	0.166233	0.374295	0.444124	0.6570
C	1.636488	1.894722	0.863709	0.3877

Robust Statistics

R-squared	0.002666	Adjusted R-squared	-0.023580
Rw-squared	0.008378	Adjust Rw-squared	0.008378
Akaike info criterion	80.75037	Schwarz criterion	84.48659
Deviance	359.7372	Scale	2.159935
R-squared statistic	0.197246	Prob(Rn-squared stat.)	0.656953

Non-robust Statistics

Mean dependent var	5.025000	S.D. dependent var	6.417201
S.E. of regression	6.990701	Sum squared resid	1857.056

Audit independence (Coefficient = 7,283.756; p = 0.5058) signifying that the coefficient is positive but statistically insignificant ($p > 0.05$). Indicating that a unit increase in audit independence is associated with an increase of about ₦7,284 in PAT, but the effect is not reliable (insignificant), meaning that audit independence does not significantly influence profitability (PAT).

Goodness of Fit (Model Strength): R-squared = 0.005 (≈ 0.5%), indicating that the model explains less than 1% of the variation in PAT. Practically, this means audit independence has no explanatory power for PAT. However, Rn-squared statistic (Prob = 0.5058) confirms that the overall model is statistically insignificant.

The hypothesis below is subjected to test using the robust least squares method.

H03: Audit independence has no significant relationship with the profit after tax of deposit money banks in Nigeria.

Dependent Variable: PROFIT AFTER TAX Method: Robust Least Squares

Dependent Variable: PROFIT AFTER TAX
Method: Robust
Least Squares

Variable	Coefficient	Std. Error	z-Statistic	Prob.
AUDIT INDEPENDENCE	7283.756	10945.98	0.665428	0.5058
C	35265.98	55409.78	0.636458	0.5245

Robust Statistics

R-squared	0.005324	Adjusted R-squared	-0.020851
Rw-squared	0.017795	Adjust Rw-squared	0.017795
Akaike info criterion	83.21097	Schwarz criterion	87.28104
Deviance	3.41E+11	Scale	65321.30
R-squared statistic	0.442794	Prob(Rn-squared stat.)	0.505777

Non-robust Statistics

Mean dependent var	161899.2	S.D. dependent var	212680.1
S.E. of regression	233485.5	Sum squared resid	2.07E+12

Audit independence (Coeff = 0.1662; p = 0.6570) signifying positive, but is statistically insignificant ($p > 0.05$). Demonstrating that a unit increase in audit independence is associated with a ₦0.17 rise in EPS, but this effect is not reliable. Thus, audit independence has no significant effect on

EPS. Model Strength (Goodness of Fit): R-squared = 0.0027 (≈ 0.3%), indicating that the model explains less than 1% of variation in EPS, signifying a very weak explanatory power. However, Rn-squared test (Prob = 0.6569) confirms that the overall model is not significant.
The study revealed that audit independence has negative and statisti-cally significant relationship with return on assets of selected Deposit Mon-ey Banks in Nigeria, also It was discovered that audit independence has positive but statistical-ly insignificant relationship with earnings per share of selected Deposit Money Banks in Nigeri Finally, it also discovered that audit independence has positive but statistically insignificant relationship with profit after tax of selected Depos-it Money Banks in Nigeria.

CONCLUSION
The study investigated the effect of audit quality on the financial performance of Banks in Nigeria, using robust least squares regression across three performance measures: Return on assets (ROA), Earnings per Share (EPS), and Profit after tax (PAT) for the period 2017–2024. First, the findings revealed a negative and statistically significant relationship between audit independence and ROA (Coeff.= –0.6524, p = 0.0005). This suggests that greater audit independence is associated with a decline in banks' asset profitability, indicating that too much independence might impose conservative, risk-averse constraints on managerial decisions, which can reduce short-term profitability. Secondly, the results also show a positive but statistically insignificant relationship between audit independence and EPS (Coeff.= 0.1662, p = 0.6570). Suggesting that audit independence does not meaningfully influence shareholder returns, demonstrating that EPS is more likely driven by market dynamics, capital structure, and operational efficiency rather than audit independence. Lastly, the results also indicate a positive but statistically insignificant relationship between audit independence and PAT (Coeff.= 7,283.756, p = 0.506). Indicating that audit independence contributes negligibly to explaining variations in profitability after tax, implying that PAT is more dependent on revenue generation, tax planning, and cost management.
However, the study concluded that audit independence significantly affects firm performance only in terms of ROA, and negatively so, while its effect on EPS and PAT is insignificant. This highlights that audit independence, though vital for accountability and governance, may not directly enhance profitability or shareholder wealth. Instead, it may constrain managerial flexibility in ways that reduce short-term financial performance.

RECOMMENDATION
1. Since the study revealed that audit independence has a negative but significant effect on ROA, regulatory bodies such as the Financial Reporting Council (FRC) and Central Bank of Nigeria (CBN) should design frameworks that enhance auditor objectivity while avoiding excessive restrictions that may hinder operational efficiency. A balanced approach is necessary to ensure accountability without constraining performance- enhancing deci-sions.
2. Banks should reinforce governance mechanisms such as audit committees, risk management units, and internal control systems. Strong governance will enable management to align strategic decisions with best practices, ensuring that auditor recommendations support long-term financial stability rather than short-term profit pressures.
3.Since audit independence was positively but insignificantly related to EPS and PAT, improved communication channels may enhance the value of audit insights. Regular consultative meetings and transparent reporting can help management better understand and apply audit recommendations to support profitability and shareholder value.

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