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EFFECT OF CORPORATE BOARDS ON THE AUDIT QUALITY OF DEPOSIT MONEY BANKS IN NIGERIA

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Abstract

The consolidation of the banking industry in Nigeria necessitated the issue of a code of corporate governance for banks' post consolidation effective, April 2006. In order to address weaknesses and improve the mechanisms for enforcing its code of corporate governance issued in 2003, the SEC of Nigeria issued a revised code applicable to all public companies effective April 2011. The data for the study were sourced from the twelve (12) selected Deposit money Banks in Nigeria using multiple regression analysis to examine effects of corporate governance on audit quality of deposit money banks in Nigeria. The random effect regression result of the study shows that corporate governance attributes had significant effect on the quality of audit of Deposit money Banks in Nigeria.it also shows that board independence and board audit committee independence had significant effect on audit quality, while board size had no significant effect on audit quality. Arising from the findings, the study recommended that the board should be composed of competent and -independent board members that can use their expertise to improve audit reporting process of Deposit money Banks in Nigeria. Also, that the board audit committee membership should be encouraged to be proactive in carrying out its duties in a diligent manner. Furthermore, the study recommends that board size should not be increased beyond the regulatory specification so as to make them more effective and efficient.

Keywords: Corporate Governance, Audit Quality, Board of Directors, Audit Committee

INTRODUCTION

The responsibility of Board of directors is to render service for the optimal use of economic resources of the shareholders for high productivity. The external auditors provide assurance service to the shareholders thereafter to confirm that the financial reports prepared by Management show a true and fair view of financial transactions of the organization for the period under review. The place of corporate governance mechanisms, specifically as it relates to audit of financial statements has been considered of great importance especially since the recent incidence of corporate financial scandals. The outcry from investors to firms across Nigeria for transparency and accountability has increased due to the effect of the covid-19 pandemic that has affected the economies of the world. Institutions therefore, more than ever before, need to not only assure investors that sound corporate governance mechanisms are in place, but must reflect this in the quality of their financial reporting. Investors (current and potential) rely on the external auditors' reports to make informed decisions. Good corporate governance by board of directors is deemed to influence the quality of financial reporting which in turn has an important impact on investors' confidence (Levitt, 2000). Heirany, Sadrabadi and Mehrjordi (2013) held that when corporate governance mechanisms are strong, managers find it unfavourable to manipulate accounting information and this consequently increases the quality and reliability of their financial reporting. This position follows the recent attention given to the issues of corporate governance among scholars.

Audit services have been crucial to the financial reporting quality since industrial revolution. Lin & Liu (2009) asserted that high-quality auditing services bolster the confidence of investors in financial reporting and boost fund raising chances. Thus, top-notch auditing is especially crucial for firms that are usually involved in fund mobilization, such as financial firms. Audit quality employ some methodologies to identify wrong claims in customer's accounting system and report the discrepancies. Audit quality is an argumentative matter in the recent decades and most previous evidence shows that poor audit quality is a critical factor for financial and corporate scandals (Sayyar et al, 2015). Audit quality refers to the condition of an audit activity to uncover material error and fraud resulting in errors in the financial documents where such occurred. De Angelo (1981) in Akhalumeh et al (2017) posted that audit quality as an assessment by the market of the combined likelihood that an auditor will discover a significant disparity in the client company accounting system and publish this abnormality. Palmrose (1988) also views audit quality as a level of assurance. The objective of an audit is to provide an assurance on the financial documents, the quality of audit is therefore the level of such assurance that material irregularities does not exist in the financial documents. Previous studies revealed that audit quality as external corporate governance monitoring can enhance firm's performance. Auditing is therefore, a kind of governance system, as auditors perform the responsibility of a gatekeeper by verifying information from firms (Coffee, 2002). Hay (2006) described two views in the literature regarding the connection between corporate governance and audit quality. One of these views is that better control will reduce the need for top-notch auditing, whereas the other perception opines that governance mechanisms are complements; thus, improved control mechanisms will engender auditing and greater audit quality.

Studies in corporate governance and audit quality have been carried out internationally including Alghamdi (2012) who examined investigation into quality of audit practices and the role of corporate governance and external audit in emerging markets from Saudi listed companies. Many of the authors focus on board size and board composition, but to the best knowledge of the researchers, empirical evidence linking corporate board diversity to audit quality in Nigeria banks is scanty. This paper is propelled by the interest on the need for reforms brought about by corporate governance code in Nigerian banks consequent upon the corporate maladies and failures, global best practice and their implicit efficiency as it relates to implementation and audit quality of banks in Nigeria. Hence, this study will fill the gap by examining the nexus between corporate board diversity and audit quality. In doing that, the paper will answer the following research hypotheses:

The hypotheses are:

H_o1 Board Size has no significant effect on the quality of audit of Deposit money banks Nigeria

H_o 2 Board Composition has no significant effect on the quality of audit of Deposit money banks Nigeria

H_o3 Board Audit Committee size has no significant effect on the quality of audit of Deposit money banks Nigeria

Review of Related Literature

Corporate Boards ensure that the activities of a company are directed and controlled in a lawful manner by those charged with the responsibility, in order to meet the needs and expectations of the stakeholders. Anumona (2018) asserts that Boards have no universal definition but are rather described by their role in every organisation. In the corporate world, the Board of Directors of a company is the representative of shareholders and as such has a responsibility to ensure the efficient management of the entire organisation. They provide decorum on the roles, responsibilities and rights of management and the necessity to accord respect for one another. It encompasses disclosure, transparency, fairness, equity and accountability thereby complying with the rules of the 'game'. That is, doing what the law, policy, procedures and methods specified in a very strict manner with the key elements of CG (transparency, accountability, trust, respect, fairness and honesty) at the background. Corporate board is an important corporate governance tool deployed to resolve agency problems through regular system monitoring and controlling the managers, in order to reach shareholders objectives (Jensen & Meckling, 1976; M. Jensen, 2001). Corporate governance provides a structure by which the objectives of the firms are arranged, and the means for achieving those goals and control performance are ascertained (OECD, 2004). So, corporate governance is the mechanism by which companies are directed and controlled (Cadbury, 1992).

Board size as surrogate for corporate governance in this study refers to the number of directors in a board. The number of board members vary from country to country and from company to company because of the differences in culture, regulation, and corporate ownership structure. Companies are seeking for the suitable scale of board of directors according to the local regulations and demand of management development. The composition of the board refers to the ratio of executive and non-executive director representation on the board. To be effective, non-executive directors should be in the majority of any corporate board (Dalton, Daily, Ellstrand, & Johnson, 1998). However, executive director's responsibility is the day-to-day operation of the business such as finance and marketing. They bring wealth of knowledge and specialized expertise to the company (Weir, Laing & David, 2001). As they are subordinates of the CEO, they cannot in any exercise control, monitor or discipline the CEO (Daily & Dalton, 1993). Therefore, it is imperative to institute a mechanism to monitor the actions of the Chief Executive Officer and his executive directors (Weir, Laing & David, 2001). Empirics suggested that board audit committee meetings should be complementary to size criteria. That is, if audit committee size is small (in size), they would require more time to meet so as to do what probably a large sized committee would do in less time.

Audit quality and the measurement of audit quality have been studied widely. Kilgore (2007) indicated that no universally accepted definition of audit quality has emerged, nor has any single generally accepted measure been introduced. Lee, Leu and Wang (1999) defines audit quality as the probability that an auditor will not issue an unqualified report for statements containing errors, intentional and otherwise. Audit quality is normally related to the capability of the auditors to identify material misstatements in the financial statements and their will-power to issue an objective and unbiased audit report based on the audit results (Enofe, Mgbame, Aderin, & Ehi-Oshio, 2013). Conceptually, DeAngelo (1981) defined audit quality as the market-assessed joint probability that the auditor discovers an anomaly in the financial statements, and reveals it. He argued that audit quality hinges on the joint probability of an auditor to uncover and devulge an infraction in an accounting system. Bradshaw, Richardson and Sloan (2001) defined audit quality as the willingness to report any material manipulation or misstatements that will heighten the material uncertainties and/or going concern problems. Baotham (2009) defined audit quality as the probability that an auditor will not issue an unqualified report for statements containing material errors. Palmrose (1988) asserted that high audit quality is connected with the absence of material omissions or misstatements in the financial statements. Reisch (2000) attributed the absence of a single measure of audit quality to the fact that it is a multidimensional latent construct and is therefore, somewhat difficult to measure. This was a reason that many researchers study this area and have used different proxies for measuring the level of audit quality. Manry, Mock and Turner (2008) used estimated discretionary accruals to measure audit quality. Li and Lin (2005) examined audit quality using non-audit fees. Chen et. al. (2010) used the propensity to issue modified audit opinion as a proxy for audit quality (Zureigat, 2011).

The various changes in accounting, financial reporting and auditing were all designed to provide protection to investors. Compelling a duty of accountability upon the managers of a company is the means by which this is being achieved (Crowther and Jatana, 2005). Auditing therefore, is the medium by which the needed assurance is provided for investors who relying on audited financial statements. Specifically, auditing play the role of mitigating information asymmetry on accounting numbers, and to minimize the residual loss as a result of managers' opportunism in financial reporting. Effective and perceived qualities (usually designated as apparent quality) are indispensable for auditing to produce beneficial effects as a monitoring tool. The importance of audit quality to financial statements users is as a result of an effective audit.

Theoretical Review

Two main theories are discussed in this study. These are Agency theory and Stewardship theory. Agency theory explains the nature of the relationship as a result of separation of ownership from management of a business. It suggests that shareholders need some protection as managers may not always act in their best interest. The fundamental premise of agency theory is that the managers act out of self-interest and are self-centered, thereby giving less attention to shareholder interests. The focus of agency theory on the principal and agent relationship (for example shareholders and corporate managers) has created uncertainty due to various information asymmetries (Deegan, 2004). The agents (managers) are in a position to pursue self-interests rather than shareholders (owners) interests because they possess superior knowledge and expertise about the firm (Fama, 1980; Fama & Jensen, 1983). This pursuit of self-interests increases the costs to the firm, which may include the costs of structuring the contracts, costs of monitoring and controlling the behaviour of the agents, and loss incurred due to sub-optimal decisions being taken by the agents.

Shareholder interests can clearly be compromised if managers maximise their self-interest at the expense of organizational profitability. In essence, since the managers cannot be trusted, in order to protect shareholder's interest there is a need for strict monitoring of management by the board. Given the problems in mitigating agency problems through the use of contracts, scholars have put forward various governance mechanisms as panacea to the agency problems. Agency theory therefore provides a basis for firm governance through the instrumentation of both internal and external mechanisms (Weir & Laing, 2001; Roberts, McNulty & Stiles 2005). The governance mechanisms are designed to "protect shareholder interests, minimize agency costs and ensure agent-principal interest alignment" (Davis, Schoorman & Donaldson 1997). Two important governance mechanisms used for this purpose are board of directors and compensation schemes to align the interests of both the agent and the principal.

Agency theory assumes that principals and agents have divergent interests. While the agents are essentially self-serving and self-centered, Stewardship theory on the other hand, takes a diametrically opposite perspective. The theory (stewardship) suggests that the agents (directors and managers) are essentially trustworthy and good stewards of the resources entrusted to them, which makes monitoring redundant and unnecessary (Donaldson, 1990; Donaldson & Davis, 1991; Donaldson & Davis, 1994; Davis, Schoorman & Donaldson 1997). Donaldson and Davis (1991) observe, that organizational role-holders are conceived as being motivated by a need to achieve and to gain intrinsic satisfaction. This is accomplished through successfully performing inherently challenging work. As they exercise responsibility and authority, they gain recognition from peers and bosses. The stewardship perspective assumes that the management (directors and managers) of firms as stewards of firm. As stewards, directors are likely to maximize the shareholders' wealth. Davis et al. (1997), posit how stewards derive a greater utility from satisfying organizational goals than through self-serving behaviour. Davis et al. (1997), argue that the achievement of organizational success invariably satisfies the personal desires of the stewards. The steward's behaviour is pro-organizational and collectivistic, and has higher utility than individualistic self-serving disposition. His actions and behaviour will not be different from the interest of the organization since the steward seeks to accomplish the objectives of the organization (Davis, et al. 1997).

Stewardship theory suggests that managers should be given autonomy based on trust, which minimizes the cost of monitoring and controlling the behaviour of the managers and directors. Stewardship theory considers that manager's decisions are also influenced by non-financial motives, such as need for achievement and recognition, the intrinsic satisfaction of successful performance, plus respect for authority and the work ethic. Daily et al. (2003) argue that managers and directors are also interested to protect their reputation as expert decision makers. As a result, managers operate the firm in a manner that maximises financial performance, including shareholder returns, as firm performance directly impacts perception about managers' individual performance. Fama (1980), suggests that managers who are effective as stewards of the firm are also effective in managing their own careers

Empirical Review

Kaawaase, Narruba, ,Bananuka, & Akaunda,(2021) examines the relationship between corporate governance and audit quality and financial reporting using evidence from Uganda's financial Institutions. Data collected were analysed with the help of statistical Package for Social Science (SPSS). Finding shows that the board expertise and role performance are significantly associated with financial reporting and audit quality.

Ogoun,S.,& Perelayefa, (2020) examines the role of corporate governance in determining audit quality of firms in Nigeria. The study utilised 71 non-financial firms for the periods 2008-2015.The data collected were analysed using binary regression analyses. Findings revealed that board independence is negatively related to audit quality.

Owolabi, & Babarinde (2020) examined the effect of corporate governance on audit quality of money deposit banks(MDBS) in Nigeria between 2007-2018 using panel data estimator which was based on pooled regression model ; fixed effect model and random effect model. The result revealed that gender, ethnic diversity, board composition and board seize are significantly variable that can explicate on audit quality of MDBS in Nigeria.

Abdulazeez et al (2016) examined the impact of corporate governance on the financial performance of all listed deposit money banks in Nigeria using the Pearson correlation and regression. They find that a larger Board size contributes positively and significantly to the financial performance of deposit money banks in Nigeria. They recommend that banks should increase their Board size but within the maximum limit set by the code of corporate governance.

Okpara and Iheanacho (2014) investigated the impact of corporate governance on the banking sector performance using discriminant analysis, correlation coefficient and the spearman rank correlation as an alternate method. They found that foreign ownership improves bank performance.

Paul, Ebelechukwu & Yakubu (2015) assessed the impact of corporate governance (CG) on microfinance bank's financial performance in Nigeria. In their OLS regression analyses, they did not find a significant relationship between corporate governance and bank's financial performance. Given their special nature, banks need a unique corporate governance structure in addition to other regulations to ensure those banks' risk-taking do not put depositors' money at risk. In recent years, Nigerian banks have a different corporate governance structure from non-financial firms. They have a larger Board and a lower fraction of insiders than non-financial firms, and the Boards of Nigerian banks are more independent than the Boards of non-financial firms. The unique corporate governance structure of Nigerian banks was introduced by the Central Bank of Nigeria in 2005. Some argue that good corporate governance is needed in banks to effectively manage the resources of bank particularly where there is management/shareholders separation (Mohammed, 2012).

Zengin Karaibrahimoglu (2013) carried out a study on Turkey companies with the main objective of investigating the association between corporate governance and auditor choice by using a sample of 805 firm observed from Istanbul Stock Exchange (ISE) between the years 2005-2009.Overall findings show that, firms' auditor choice in terms of big-4 and audit firm industry specialization is affected by the firm-level corporate governance mechanisms of firms, particularly, board of directors' composition and ownership structure. This results on firmed the influence of corporate governance on audit quality where the audit is improved when the corporate governance principles are implemented.

Mohamed & Mohamed (2012) seek to provide evidence on the effectiveness of corporate governance practices and audit quality from a developing country. The data for analysis is obtained from the top 50 most active companies in the Egyptian Stock Exchange. The study period covers the three-year period 2007-2009. Logistic regression was adopted in investigating the questions raised in the study. Findings from the study show that board independence; CEO duality and audit committees significantly have relationship with audit quality. The results also, indicated that institutional investor and managerial ownership have no significantly relationship with audit quality. Evidence equally exists that size of the company; complexity and business leverage are important factors in audit quality for companies quoted on the Egypt Stock Exchange. This study therefore recommended that companies in Egyptian stock exchange should have independent directors (non-executive director) in their board composition.

Adeyemi & Fagbemi (2010) carried out a study on corporate governance, audit quality and firm attribute. This study provides evidence on corporate governance, audit quality, and firm related attributes from a developing country, Nigeria. Logistic regression was used in investigating the questions that were raised in the study. The study showed that ownership by non-executive director has the possibility of increasing the quality of auditing. There was also evidence that the size of the company and business leverage are important factors in audit quality for companies quoted on the Nigerian Stock Exchange. The study recommends that the composition of non-executive directors as members of the board should be sustained and improved upon in order to enhance audit quality.

Sanda (2005) studied the association between the mechanisms of corporate governance and financial performance of corporations in Nigeria. The researchers looked over board size (named as the total board members), board composition (named as the external board members) and the experience of top most management. Their sample comprised all firms quoted on the Nigeria Securities Exchange. Their findings showed that the composition of the board is to some extent positive correlated to the organization's performance. Additionally, they reported that a small sized board was effective up to a certain limit beyond which it becomes ineffective. This infers that larger boards exceeding 10 executives are inefficient. Furthermore, it emerged that firms with international chief executive officers as board members, out-performed those without international chief executive office

Methodology

This study used the ex-post facto research design employing panel data analyses of financial information gotten from Financial Statements for fifteen (15) years (2007-2021) of the banks listed under financial institutions on the Nigerian Exchange. The secondary data used was extracted from the annual published financial statements and accounts of the sampled banks. The population consists of all commercial banks currently operating in Nigeria. Ex-post facto research technique is a quasi-experimental technique which is used to investigate how an independent variable, present before the research, impacts a dependent variable. Inferential statistics was employed to process the results. Findings from the data analysis were shown in tables. This is to enable the study explain the physical attributes of the data collected while the hypotheses were tested at 5% significance level by means of both t-statistics and F-statistics. E-view statistical package was employed for data analysis.

The Model Specification

The functional nexus existing between variables from the hypotheses are:

Functions: $Y = f(X)$ $Y = y1$ (Dependent variable)

$X = x1 + x2 + x3$ (Independent variables)

Y = Big four auditors as commonly used indicator of audit quality (ADQ)

The proposition that the use of a Big Four auditor is related to high-quality auditing (Francis, 2004; Barnes, 2008; Dechow 2010).

$X = (X1+X2+X3+X4 \quad \mu)$ Corporate Governance Mechanisms (CGM)

Where:

X1= BSZE = Board size

X2 = BCOM = Board composition

X3=BACM = Board Audit Committee

f = functional dependency of the relationship

The regression takes the form of:

$ADQ = \beta0 + \beta1BSZE + \beta2\ BCOM + \beta3\ BACZ + \varepsilon$.................. (1)

Where:

ADQ = Big four auditors as commonly used indicator of audit quality

ε_{it} = Error Margin

β_0 = Intercept

β_1 to $\beta3$ = Regression Coefficients

Table 1 Variable Definition and Measurement

Type Variable	Variable	Variable Measurement
Dependent	Audit Quality	If the bank is audited by Big 4 is 1 otherwise is 0
Independent	Board size	Number of directors at the board
Independent	Board composition	Proportion of independent directors to board size
Independent	Board audit committee size	Number of audit committee members

Result and Discussion

The purpose of this study is to examine the effect of Corporate Boards on Audit Quality of Deposit Money Banks in Nigeria. The result of the Descriptive Statistics is presented in table 1 below.

Table 2
Descriptive Statistics

	BSZE	BCOM	BACM	AQL
Mean	14.16667	0.478122	4.827778	0.866667
Median	14.00000	0.444000	5.000000	1.000000
Maximum	19.00000	0.800000	6.000000	1.000000
Minimum	7.000000	0.222000	4.000000	0.000000
Std. Dev.	2.920741	0.129192	0.557634	0.340883
Skewness	-0.200184	0.307676	-0.042720	-2.157277
Kurtosis	2.171284	2.508324	2.906410	5.653846
Jarque-Bera	6.352996	4.653020	0.120443	192.4371
Probability	0.041732	0.097636	0.941556	0.000000
Sum	2550.000	86.06200	869.0000	156.0000
Sum Sq. Dev.	1527.000	2.987617	55.66111	20.80000
Observations	180	180	180	180

Source: E-view 10 (2022)

As observed in Table 1, the statistics described include the mean, standard deviation, minimum and maximum values for all variables. There are 180 observations per each of the study variables. The mean value of 14.17 and standard deviation of 2.92 for board size (BSZE) means Deposit money banks in Nigeria operate have an average board size of 14.16667 with a low variability value of 2.9207. This low value of deviation indicates the stable nature of the board size in the banks. The lowest size is shown to be 7.0 and maximum size is 19 respectively. BCOM has a mean value of 0.478 for all the banks during the study period with a standard deviation of 0.129. The BCOM mean value of 0.478 implies that about forty eight percent (48%) of the sampled banks implies that 48% of the board were non-executive members while the maximum number of non-executive members during the study period is 80%.

Table 2 further indicates that BACM (Board Audit committee size) has a mean value of 4.8 with a standard deviation of 55.8% during the study period meaning that on average majority of the study firms vary widely in respect of their audit committee size. The minimum audit size is 4 and maximum is 6 which indicates that the audit committee size depends on the size of the companies. The audit quality represented by the big four (KPMG, PWC, Ernst & Young, Akintola Williams, Delloitte) has a mean value of 0.87 which shows that 87% of the Deposit money banks were audited by the big 4 audit firms in Nigeria during the study period. The dummy variable of 1 and 0 are deployed to ascertain those banks audited by the big four and those outside the big four.

Table 3 Correlation Matrix

Covariance Analysis: Spearman rank-order
Date: 04/05/22 Time: 21:04
Sample: 2007 2021
Included observations: 180

Correlation Probability	BSZE	BCOM	BACM	AQL
BSZE	1.000000			

BCOM	-0.145803	1.000000		
	0.0508	-----		
BACM	-0.079065	0.162992	1.000000	
	0.2914	0.0288	-----	
AQL	0.055329	-0.122112	-0.078164	1.000000
	0.4607	0.1025	0.2970	-----

Source: E-View10 output (2022)

The correlation results in table 3 showed that most correlation coefficients between the predictor variables were generally low. The highest coefficients of correlation representing relationships between variables were between board audit committee size and board independence (0.162992) followed by board size and audit quality (0.055329). The coefficient of correlation between board size (BSZE) and board independence (BCOM) showed a negative relationship of -0.145803 and that of board size and board audit committee size (BACM) is -0.079065 respectively. In addition, audit quality (AQL) is negatively correlated with board independence (BCOM) (-0.122112) and board audit committee size (BACM)(-0.078164) respectively. Generally, these results of pairwise correlation analysis did not appear to suggest any concern with regard to manifestation of multicollinearity problems in the process of estimating the regression models.

Table 4: Hausman Test (Test between Fixed and Random)

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	26.475397	3	0.0000

Source: E-View version 10 output

Due to the panel nature of the dataset, both fixed effect and random effect regressions were run. Hausman specification test was then conducted to choose the preferred model between the fixed effect and random effect regression models. The test basically checked if the error terms were correlated with the regressors. The decision rule is to reject the null hypothesis which states that random effect is preferred if the probability value is less than 5% level of significance and accept the fixed effect. However, if the probability value is greater than 5%, we accept the null hypothesis and reject the fixed effect regression model. The result of the test as presented in table 4 above showed that the error terms are correlated with the regressors as the Hausman test statistic has a probability value of 0.0000 which is not significant at 5%. The result suggests that the fixed effect regression model is most appropriate for the sampled data.

Panel Regression Result (Fixed Effect)

Dependent Variable: AQL
Method: Panel Least Squares
Date: 04/11/22 Time: 10:47
Sample: 2007 2021
Periods included: 15
Cross-sections included: 12
Total panel (balanced) observations: 180

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.379872	0.481028	2.868590	0.0047
BSZE	-0.031503	0.013012	-2.421166	0.0166
BCOM	-0.613156	0.234988	-2.609308	0.0099
BACM	0.046865	0.079503	0.589477	0.0563

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.806778	Mean dependent var	0.866667
Adjusted R-squared	0.789475	S.D. dependent var	0.340883
S.E. of regression	0.316218	Akaike info criterion	0.614887
Sum squared resid	16.49901	Schwarz criterion	0.880967
Log likelihood	-40.33987	Hannan-Quinn criter.	0.722771
F-statistic	3.072317	Durbin-Watson stat	1.660846
Prob(F-statistic)	0.000297		

Source: E-View10 output (2022)

The decision rule is thus; if probability value is less than 0.05 (5% level of significance) we reject H_0 and accept H_1 and otherwise. From the regression table above, the R-squared shows a value of 80.68% which shows that the independent variables in the model explain the variability in the dependent variable, while 19.23% of the variability in the dependent variable is caused by variables not captured in the model. The adjusted R-squared also shows a value of 78.95%. The Prob (F-statistic) with a value of 0.000297 also shows that the model is fit at significant level of 5% to predict audit quality. The regression result showed the relationship of each independent variable on the dependent variable (AQ). It revealed that board size has a positive and statistically significant relationship with audit quality with p value of 0.0166. Therefore, increases in board size has no significant effect on audit quality. Board independence (BCOM) showed a positive significant relationship with audit quality with a p value of 0.0099. Therefore, increase in Board independence will significantly enhance audit quality. Furthermore, board audit committee size as posited by showed a positive insignificant relationship with audit quality with a P value of 0.563). Therefore, increases in board audit committee size cannot significantly leads to an increase in audit quality and vice-versa.

Discussion of Findings

From the aforementioned findings that corporate boards have positive effect on audit quality attests to the fact that proper monitoring by the directors leads to higher company performance and market value. The high quality of audit as depicted by the big audit firms is supported by DeAngelo (1981). He asserted that these big four invest more in audit technology and have less incentive to behave opportunistically and because they have more wealth and more valuable reputation hence ensuring audit quality. This study is in line with the studies of Adeyemi and Fagbemi (2010) and Zengin and Karaibrahimoglu (2013) which found that corporate governance has positive and significant effect on the quality of the audit of the firms studied. This study does not however agree with those of Simin, Rasoul and Aghdas (2013) and Abdulazeez et al (2016).

Conclusion and Recommendations

The study postulates, in line with prior studies, based on agency theoretical framework that corporate board mechanism can impact significantly on the audit quality and credibility of financial report production by deposit money banks in Nigeria. To buttress this argument, board size, board independence and board audit committee size were regressed against the dummy variable of the big four audits as surrogate for audit quality. The result of the study shows that board attributes had significant effect on the quality of audit of Deposit money Banks in Nigeria. As board size and board independence had significant effect on audit quality, while board audit committee size had no significant effect on audit quality.

Arising from the findings the following recommendations are made:

1. That the minimum number of board membership should be five (5) and the maximum should be determined based on the size of the banks and operational coverage. Small size of boards have negative implications on effectiveness. This means that Board size should be of a sufficient size relative to the scale and complexity of the company's operations and composed in such a way as to ensure diversity of experience without compromising independence, compatibility, integrity and availability of members to attend meetings. Banks should be encouraged to maintain maximum numbers that can withstand changes to the Board and Committee composition without undue disruptions.
2. The number of non-executive directors should exceed that of the executive directors to ensure independent decisions. The non-executive directors are known for their impartiality and scanty influence from the management in decision making.
3. The Board audit committee size is not too material in ensuring audit quality. The size should be de-emphasized while efforts should be directed on the financial literacy of members and the level of their attendance and contributions in the committee meetings.

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Panel Regression Result (Random Effect)

Dependent Variable: AQL
Method: Panel EGLS (Cross-section random effects)
Date: 04/05/22 Time: 21:17
Sample: 2007 2021
Periods included: 15
Cross-sections included: 12
Total panel (balanced) observations: 180
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.107697	0.272153	4.070132	0.0001
BSZE	0.001208	0.008657	0.139559	0.0492
BCOM	-0.353793	0.193954	-1.824113	0.0298
BACM	-0.018433	0.045435	-0.405691	0.6855
		Effects Specification		
			S.D.	Rho
Cross-section random			0.034726	0.0119
Idiosyncratic random			0.316218	0.9881
		Weighted Statistics		
R-squared	0.539867	Mean dependent var		0.797527
Adjusted R-squared	0.503160	S.D. dependent var		0.337181
S.E. of regression	0.336647	Sum squared resid		19.94635
F-statistic	120.9144	Durbin-Watson stat		1.790628
Prob(F-statistic)	0.035387			
		Unweighted Statistics		
R-squared	0.019247	Mean dependent var		0.866667
Sum squared resid	20.39967	Durbin-Watson stat		0.675281