

Governance Structures and Audit Quality of Banks in Nigeria

Dr. Ekwere Raymond Enang

Department of Accounting,
University of Uyo, Uyo.
08064910295
raymond.enang@yahoo.com,

Dr. Etim Osim Etim

Department of Accounting,
University of Uyo, Uyo.
08096649226
osimacc@gmail.com,

Sunday Usen Ekpo (Ph.D Student)

Department of Accounting,
University of Uyo, Uyo.
08032220785
usensunday@gmail.com,

and

Nse Effiong Akpan (Ph.D Student)

Department of Accounting,
University of Uyo, Uyo.
08167028122
Nseakpan2013@gmail.com.

Abstract

This study was carried out to examine the influence of governance structures on the audit quality of banks in Nigeria from 2005 to 2020. The research design adopted was ex-post facto. The purposive sampling technique was used to select 11 banks out of the 14 deposit money banks listed on the Nigerian Stock Exchange as at December, 2020. Data obtained from the annual reports of the selected banks were analyzed using multiple regression. Findings showed that board independence, audit committee size and audit committee meetings have a positive relationship with audit quality of banks in Nigeria, while board of directors' size and board of directors' meetings have a negative relationship with audit quality of banks in Nigeria. The study concluded that governance structures influence the audit quality of banks in Nigeria. Following the finding that the size of the board of directors does not positively influence the audit quality of the banks, the study recommended that expertise and competence should be prioritized in constituting the board and not just the size; that governance codes should specify the qualification of a would-be board member; and that the existing corporate governance codes for banks be amended to accommodate more meetings for the audit committee, leading to more effective monitoring and supervision of all banking activities.

Keywords: Governance Structures, Audit Quality, Deposit Money Banks.

1. Introduction

The frequency of corporate scandals in the Nigerian banking sector and their aftermath on the economy have generated considerable debates and interests on the governance structures of banks in Nigeria, mostly as these scandals have been linked to governance challenges. Specifically, weak corporate governance, that encourages a series of corporate mismanagements and obvious

professional abuses, has been highlighted as the main cause of these collapses (Kolapo & Onuba, 2009; Sanusi, 2009; Adeyemi & Fagbemi, 2010).

In response, many countries across the globe, including Nigeria, saw the need to draw up guidelines and codes of best practice to strengthen corporate governance to check the excesses of management team and forestall future scandals. In Nigeria, for instance, the Securities and Exchange Commission (SEC) issued the Code of Corporate Governance for Public Companies in 2003; the Central Bank of Nigeria (CBN) issued Code of Corporate Governance for Banks Post Consolidation in 2006, the Pension Commission (PENCOM) issued Code of Corporate Governance for Licensed Pension Operators in 2008; the National Insurance Commission (NAICOM) issued Code of Good Corporate Governance for Insurance Industry in 2009; there was the Code of Corporate Governance for Public Companies, 2011 issued by SEC and its recent amendment 2014; the Code of Corporate Governance for Banks and Discounts Houses in Nigeria and Guidelines for Whistle Blowing in the Nigerian Banking Industry 2014; and the National Code of Corporate Governance released by Financial Reporting Council of Nigeria (FRCN) to regulate corporate governance for private and public companies, not for profit organizations and public interest entities in Nigeria. The main aim of these codes is to ensure transparency, accountability, greater disclosure, and high audit quality, which will, in turn, guarantee investors' confidence and the protection of shareholders' investment and flow of both local and foreign capitals

The need for governance structure, which is the process whereby the directors of a company are monitored and controlled, stems from the divorce of managements from ownerships of these entities, particularly in those entities with largely dispersed ownership. The aim of governance structure is to resolve conflicts that arise from the principal-agent relationship, particularly in situations where the self-interest of management may conflict with the interest of the owners and other stakeholders in the firm. In resolving this conflict of interest, a third party, external auditors, who are expected to be independent of the owners and management of the firm are engaged to play key roles in ensuring accountability of directors and management to the owners and other stakeholders (Bakare, 2002 & Bello-Osagie, 2002). External auditing is expected to provide the required check and balance system that helps shareholders to monitor and control management's activities as an instrument of managing the agency conflicts.

In Nigeria, despite accounting policies, auditing mechanisms, and governance codes, banks continued to experience corporate scandals occasioned by governance challenges and poor audit quality. This is justified by spates of banks failures in the recent past (Diamond Bank Plc, Skye Bank Plc, and others). The audit reports of the failed banks by external auditors failed to reflect the weaknesses of the board and management of these banks. This may suggest that the various governance codes put in place to regulate banking in Nigeria may not have yielded the expected audit quality capable of detecting management excessiveness in the banks. This phenomenon threatens the reliability and acceptability of audit reports. Therefore, there is a need to examine the interactions among governance structures such as board sizes, board independence, audit committee size, frequency of board meetings, frequency of audit committee meetings, and their influence on audit quality of banks in Nigeria. However, several studies have been conducted on corporate governance and audit quality in Nigeria (Nworji, 2011; Kabir & Hartini, 2013), but with few in the banking sector. Hence, the choice of the Nigerian banking sector for this study.

The main objective of this study is to assess the influence of governance structures on the audit quality of listed deposit money banks in Nigeria. Specifically, the study is aimed at:

- (i) determining the influence of the size of the board of directors on audit quality of banks in Nigeria.
- (ii) evaluating the influence of board independence on audit quality of banks in Nigeria.
- (iii) examining the influence of the size of the audit committee on audit quality of banks in Nigeria.

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- (ii) evaluating the influence of board independence on audit quality of banks in Nigeria.
- (iii) examining the influence of the size of the audit committee on audit quality of banks in Nigeria.
- (iv) investigating the influence of the number of board of directors' meetings on audit quality of banks in Nigeria.
- (v) assessing the influence of the number of audit committee meetings on audit quality of banks in Nigeria.

Accordingly, the following null hypotheses have been formulated to guide the study:

Ho₁: Board of directors' size does not have a significant influence on the audit quality of banks in Nigeria.

Ho₂: Board independence does not significantly influence the audit quality of banks in Nigeria.

Ho₃: There is no significant relationship between the size of the audit committee and the audit quality of banks in Nigeria.

Ho₄: The frequency of board of directors' meetings does not significantly influence the audit quality of banks in Nigeria.

Ho₅: There is no significant relationship between the audit committee meetings and the audit quality of banks in Nigeria.

The influence of governance structures on audit quality of deposit money banks in Nigeria, when established, would, in addition to extending the frontiers of knowledge, provide a platform to initiate reform and amend the existing code of corporate governance for the listed deposit money banks in Nigeria. It would help restore the confidence level that investors demand in the audited financial statements, used as the basis for their investment decisions. It would also help to exhibit the monitoring roles of the board and its committees in influencing audit quality.

Following the introduction in section one, the structure of the remaining part of the paper is as follows: section two reviews the relevant literature and theories on governance structures and audit quality; section three discusses the methodology, highlighting the data of the study and model specification, while section four presents the analysis of data and research findings. Section five concludes the research by summarizing the findings' salient aspects, highlighting the policy implication of the findings, and providing useful recommendations for users, preparers and regulators of financial statements.

2.0 Literature Review

According to Vanstraelen (2000), audit quality is the ability of an auditor to detect and report material misstatement in the investigated sample during the auditing process and also to report occurring material misstatement. When such measures are taken, the auditing process is considered more effective and of high quality. Richard (2006) sees audit quality as a balance between the auditor's competence and independence. Turley & Willekens (2008) state that audit quality is normally related to the ability of the auditor to identify material misstatement in the financial statements and their willingness to issue an appropriate and unbiased audit report based on the audit result. Audit quality has become a topical issue in modern management since the well-known Enron and Worldcom scandals in the United States. The scandals, which were traced to audit quality failures, led to loss of confidence in financial reporting and external auditing services. To enhance the credibility of financial reports and reduce corporate scandals, an audit must be of sufficient quality.

However, operationalizing and measuring the audit quality of financial statements has been problematic, owing to its context-specificity and different perception among different constituents. Consequently, many researchers measure audit quality differently. A general evaluation of prior literature has shown that audit quality can be assessed using auditor size, fees, tenure and independence (Ikphantan & Daferighe, 2019). This study adopts audit fees as a measure of audit quality. This is because it can be calculated based on the information in the annual reports and is consistent with previous studies on audit qualities (Craswell, Francis & Taylor, 1995; Carcello, Hermanson, Neal & Riley, 2002; Hay & Knechel, 2006).

Previous studies have shown that audit quality is a function of many direct and indirect influences, not excluding the governance structure of the audited entity. Governance structures relate to the various monitoring mechanisms put in place to check management excesses in an entity. In Nigeria, several governance codes have been put in place to regulate financial reporting practices (Security and Exchange Commission (SEC) code of corporate governance 2003, reviewed in 2011; Central Bank of Nigeria (CBN) code of 2006 and National Insurance Commission (NAICOM) code of 2009), and many others. Central to these codes is the monitoring mechanisms such as the board of directors' size, the existence of non-executive directors, audit committee, frequency of the committees' meetings and others. Each of these structures, believed to influence audit quality, is reviewed accordingly.

Size of Board of Directors

The board of directors exists to protect shareholders' interests, owing to the divorce of management from ownership in corporate entities (DeZoort *et al.*, 2002). They are saddled with the responsibility of providing independent oversight of management performance, and monitoring and disciplining management for the overall interests of the shareholders (DeFond & Jiambalvo, 1994; Dichev & Skinner, 2002). Board size is fundamental to effective corporate decision making (CBN, 2003; CBN, 2006). Board size is potentially related to directors' ability to monitor and control operations. Some studies found a positive relationship between the number of directors and financial reporting quality, and by extension, audit quality (Anderson *et al.*, 2004; Williams, 2009; Akeju & Babantuntde, 2017; Kankanamage, 2015; Obigbemi *et al.*, 2016; Lipton & Lorseh, 1992; Shehu, 2013; Swastika, 2013). These studies argue that larger boards possess more specialized skills and are better equipped to exercise monitoring on management. However, Nugroho & Eko's (2011) study on Indonesia reported an insignificant relationship between board size and reporting quality. Since the board of directors exists to check management excesses, the apriori expectation of this variable is that, the more the number of persons on the board, the higher the audit quality.

Board of Directors' Independence

Although board size is seen to be related to directors' ability to monitor and control operations, a general belief is that boards are more effective in their monitoring of management when there is a strong base of independent directors on the board (Beasley, 1996; Peasnell *et al.*, 2000; Klein, 2002; Xie, *et al.*, 2003). Board independence is measured by the total number of non-executive directors to the total number of directors on the board. Non-executive directors are expected to bring independent judgment and necessary scrutiny to the proposals and actions of the management and executive directors especially on issues of strategy, performance evaluation and key appointments, including the appointment of external auditors (Nigerian SEC code of corporate governance 2011). According to Fama & Jensen (1983), non-executive directors provide the mechanism for ameliorating agency conflicts between managers and owners. They are expected to provide the necessary checks and balances to enhance board effectiveness and efficiency (Franks & Mayer, 2001). The relationship between the proportion of non-executive directors and audit quality is mixed. Some scholars believe that larger independent board membership is associated with lesser earnings management and higher financial reporting quality (Farber, 2005; Chen & Jaggi, 2007; Haniffa & Cooke, 2002; Roodposhti & Chashmi, 2011; Salleh *et al.*, 2006, Hassan & Bello, 2013), while others believe that larger number of independent directors is associated with higher

use of discretionary accruals (Fodio *et al.*, 2013). Non-executive directors exist to reduce agency conflict between managers and shareholders; hence a positive relationship is expected between board independence and audit quality.

Size of Audit Committee

The existence and size of an audit committee is another important governance structure that influences the audit quality of an entity. An audit committee exists to oversee the integrity of financial statements, the efficiency and effectiveness of the internal control system, and monitoring of both internal and external auditors. The existence and size of audit committee members could help balance different views of management and external auditors towards providing high quality reports (DeFond & Jiambalvo, 1994).

The size of an audit committee is measured as the number of members present in the audit committee at the end of the fiscal year (Yang & Krishnan, 2005). The audit committee is responsible for the recommendation and the selection of an external auditor, ensuring the soundness and quality of internal accounting and control practices, and monitoring the external auditor's independence from senior management (Anderson, *et al.*, 2004). Mitchell *et al.* (2008) add that the existence of an audit committee could potentially improve the quality of reports to the external stakeholders. Felo, Krishnamurthy & Solieri (2003); and Bradbury, Mak & Tan, (2006) share the same opinion. However, Yang & Krishnan (2005) found a negative relationship between the size of the audit committee and the quality of reports, whereas Davidson and Robinson (2003) found no significant relationship between audit committee size and the quality of reporting. This study expects a direct relationship between audit committee size and audit quality.

Board of Directors' Meetings

The frequency with which the board of directors meets enhances the board's effectiveness and by extension, reporting and audit quality. Frequency of meetings captures the board's activity levels. Also, regular board meetings allow the board members to identify and resolve potential problems that may arise in their firm, particularly those related to its financial health. The meeting offers the board the opportunity to generate and analyze strategic planning aimed at achieving predetermined objectives. The code of corporate governance for banks and discount houses in Nigeria, 2014 provides that the Board shall meet at least four times a quarter, to effectively perform its oversight function and monitor management's performance. Every Director is required to attend all meetings of the Board and Board Committees. From the foregoing, a direct relationship is also expected between the frequency of board meetings and audits of banks in Nigeria.

Audit Committee Meetings

For an audit committee to effectively perform its oversight function and monitor management's performance, it must meet regularly. Thus, the frequency of audit committee meetings is a strong determinant of audit quality. Collier & Gregory (1999) studied audit committee activity and agency cost in the UK and documented that the frequency of audit meetings increased the effectiveness of monitoring. This means that the more regular an audit committee meets, the more likely it will have fewer reporting problems (Menon & Williams 1994). Price Water House (1993) suggests that audit committees should meet at least four times a year and make provisions for special meetings where necessary. In tandem with prior studies, a positive relationship is also expected by this study between audit committee meetings and audit quality.

Theoretical Framework

Theoretically, the relationship between governance structures and audit quality revolves around several theories, including the agency theory, the stewardship theory, signally theory and the auditors' theory of inspired confidence. However, this study is anchored specifically on the agency theory.

Agency problems arise when the principal (owners, shareholders) employs the agent (board/management) to undertake duties on their behalf for a reward. Thus, the management is acting in the capacity of an agent to the principals and owes the principals fiduciary duty of care to run the organization in the best interests of the owners for a given reward (Berle & Means, 1932; Jensen & Meckling, 1976). According to Jensen & Meckling (1976), the theory presupposes that shareholders require protection because management may not always act in the best interest of shareholders. They, however, argue that conflicts of interest do inevitably exist between the management and the owners of the businesses especially in cases where owners are not managers. This is because the agency theory assumes a model of managers as a man that is self-interest seeking, self-serving, individualistic and optimistic, that only prefers to maximize their personal utility functions at the expense of the owners (principals). To deal with this, governance structure has to be put in place to monitor and control the excesses of the board/management. In essence, agency theory places economic self-interest at the centre of theoretical expectations. Certain contractual relationships combined with information asymmetry indicate a corresponding demand for investment in control and monitoring mechanisms including board size, board independence, audit committee size, frequency of board meetings and frequency of audit committee meetings. In summary, the theory is built on the assumption that always, there exists a divergence of objectives between the goals of the management and those of the shareholders, and governance structures are intended to mitigate the agency problems.

3. Methodology

This study adopted an *ex-post facto* research design to assess the influence of governance structures on the audit quality of banks in Nigeria. This is because the *ex-post facto* research design allows for examination of variables in retrospect and without any intentional manipulation and control. The fourteen (14) deposit money banks listed on the Nigerian Stock Exchange (NSE) as at 31st December, 2020 formed the population of the study, with 11 banks purposively selected, based on the availability and accessibility of annual reports, as the sample of the study. Data for the study is sourced from annual reports and accounts of the sampled banks, for sixteen (16) years, from 2005 to 2020, resulting in 176 data points. The variables of interest examined in this study are grouped into dependent, independent and control variables. The dependent variable is audit quality, proxied by audit fees (AF). Board of directors' size (BDS), board independence (BIND), audit committee size (ACS), board of directors' meetings (BDM) and audit committee meetings (ACM) are the independent variables, while firm size, proxied by total assets (TA), leverage and liquidity are the control variables. The audit fees and total assets are transformed to a natural log to achieve normality of data in order to prevent the largest banks from unduly influencing the findings. The variables of the study, their description and the expected relationship with audit quality are summarized in Table 3.1

Table 3.1: Variables Description and Their *Apriori* Expectation

Variables	Description	Code	Relationship
Dependent			
Audit Quality	Audit fees paid to the external auditor	AF	
Independent Variables			
Board of Directors Size	Number of directors in the board	BDS	(+)
Board Independence	The ratio of non -executive directors to total directors in the board	BIND	(+)
Audit Committee Size	The total numbers of audit committee members in a year	ACS	(+)
Board of Directors Meetings	The total numbers of the board of directors' meetings in a year	BDM	(+)
Audit Committee Meetings	The total numbers of audit committee meetings in a year	ACM	(+)

Control Variables

Firm Size	Log of Total Assets	TA	(+)
Leverage (Debt Ratio)	Total debts divided by total assets	LEV	(-)
Liquidity	The ratio of current assets to current liabilities	LIQ	(+)

Source: Researchers' Compilation (2022)

Multiple regression analysis is used for data analysis, using the empirical model:

$$AF_{i,t} = \rho_0 + \alpha_1(BDS)_{i,t} + \beta_2(BIND)_{i,t} + \delta_3(ACS)_{i,t} + \alpha_4(BDM)_{i,t} + \alpha_5(ACM)_{i,t} + \beta_6(TA)_{i,t} + \delta_7(LEV)_{i,t} + \alpha_8(LIQ)_{i,t} + \varepsilon_{i,t}$$

Where:

- AF = Audit Fees
- BDS = Board of Directors Size
- BIND = Board Independence
- ACS = Audit Committee Size
- BDM = Board of Directors Meetings
- ACM = Audit Committee Meetings
- TA = Total Assets
- LEV = Leverage
- LIQ = Liquidity
- i, t* = bank *i* in year *t*;
- $\rho, \alpha, \beta, \delta, \varepsilon$ = Coefficients of the variables, and Error term.

4. Discussion of Results

Descriptive Statistics of the variables

Table 4.1 summarizes the general characteristics of all the variables used in this study. These characteristics involves the mean, median, minimum, maximum, standard deviation, skewness and kurtosis.

Table 4.1: Descriptive Statistics of the Variables

	AF	BDS	BIND	ACS	BDM	ACM	TA	LEV	LIQ
Mean	7.992 8.000	14.072	0.6132	5.9030	6.3272	4.2303	11.852	0.7790	2.3990
Median	0 8.940	14.000	0.6000	6.0000	6.0000	4.0000	11.930	0.8500	1.1400
Maximum	0 6.780	20.000	0.9200	7.0000	12.000	8.0000	12.800	1.4100	77.390
Minimum	0 0.420	7.0000	0.3800	4.0000	3.0000	2.0000	10.290	0.0000	0.2300
Std. Dev.	9 -	2.9643	0.0958	0.4308	2.2337	0.9603	0.4843	0.2525	7.8166
Skewness	0.1861 2.431	0.2008	0.7234	-3.2868	0.7971	0.6455	-0.4621	-2.3439	8.0366
Kurtosis	8 3.172	2.6757	3.7906	15.233	2.9898	4.4234	2.8015	7.9307	70.741
		1.83246							

Jarque-Bera	0	2	18.690	1325.9	17.476	25.391	6.1435	318.23	33325
	0.204	0.40002							
Probability	7	4	0.0000	0.0000	0.0001	0.0000	0.0463	0.0000	0.0000
	1318.	2322.00							
Sum	8	0	101.18	974.00	1044.0	698.00	1955.5	128.55	395.85
Sum Sq.	29.06	1441.12							
Dev.	0	7	1.5057	30.448	818.32	151.24	38.471	10.461	10020
Observation									
s	165	165	165	165	165	165	165	165	165

Source: Researchers' Computation (2022)

From Table 4.1, AF has a minimum value of 6.78 and a maximum value of 8.94. This means that external auditors charge fees for their auditing engagement. The average value of AF is 7.99, with a median of 8.00 and a standard deviation of 0.42, signifying that the data deviate from the mean value from both sides by 0.42. However, the coefficient of Skewness of -0.186, implies that the data is negatively skewed, and thus, does not meet the symmetrical distribution, which suggests a value of 0 for Skewness. Similarly, the value of kurtosis of 2.43 supports that most of the values are lower than mean, thus the data is platykurtic.

The minimum and maximum values of the board of directors' size (BDS) are 7 and 20 respectively, with the mean value of 14.072, median of 14 and standard deviation of 2.964. This shows that there is a dispersion of board size from the mean in the sample firms. The kurtosis value of 2.67 also suggests that the board of directors' size data are platykurtic and does not meet the normal distribution criteria. On the other hand, the coefficient of Skewness 0.20 implies that board size across the banks is positively skewed, and thus, the data does not meet the symmetrical distribution, which suggests a value of 0 for Skewness.

Board independence (BIND), represented by the ratio of non-executive directors to the total directors of the banks shows a minimum value of 0.38 and a maximum value of 0.72, with the mean value of 0.61, median of 0.60 and standard deviation of 0.09. This shows that there is a dispersion of board independence from the mean in the sample banks. The kurtosis value of 3.79 also shows the normality in the distribution of board independence across deposit money banks in Nigeria. On the other hand, the coefficient of Skewness of 0.72 implies that the data for board independence is positively skewed. Thus, the data does not meet the symmetrical distribution, which suggests a value of 0 for Skewness.

From Table 4.1, audit committee size (ACS) shows the minimum and maximum values of 4 and 7, respectively. On average, the size of the audit committee of the studied deposit money banks in Nigeria has a mean value of about 6 members with a median of 6 members and a standard deviation of 0.43. This implies that the sample firms varied in terms of audit committee size. The coefficient of Skewness is -3.29, implying that the data is negatively skewed and therefore does not conform to the symmetrical distribution requirement. Moreover, the coefficient of Kurtosis of 15.23 indicates that audit committee size are leptokurtic and does not meet the Gaussian distribution criterion.

Board of directors' meetings (BDS) have a minimum and maximum values of 3 and 12 respectively with a mean value of 6.32, a median of 6.00 and a standard deviation of 2.23. The coefficient of skewness of 0.797 implies that the data is positively skewed, and does not conform to the symmetrical distribution requirement. Moreover, the coefficient of Kurtosis of 2.99 indicates the presence of normality in the board of directors' meetings.

Audit committee meetings (ACM), which is the number of times the audit committee meets in a year, shows a minimum value of 2 and a maximum value of 8, with the mean value of 4.23, median of 4.00 and standard deviation of 0.96. The kurtosis value of 4.423 also shows the absence of normality in the distribution of board independence across deposit money banks in Nigeria. On the other hand, the coefficient of Skewness of 0.645 implies that the data for board independence is positively skewed, and thus, the data does not meet the symmetrical distribution, which suggests a value of 0 for Skewness.

The control variables used in the study are – firm size, proxied by the logarithm of total assets (TA), leverage (LEV) and Liquidity (LIQ). From the banks investigated, TA has a mean of 11.85 and a median of 11.93, with a minimum and maximum value of 10.29 and 12.80, respectively. The standard deviation stood at 0.48. Leverage, defined as the ratio of total debts to total assets, has a minimum value of 0.00 and a maximum value of 1.41, with the mean value of 0.78, median of 0.85 and standard deviation of 0.25. The kurtosis value of 2.93 shows that data for leverage of deposit money banks in Nigeria are mesokurtic. On the other hand, the coefficient of Skewness of -2.34 implies that the data for leverage is negatively skewed. Thus, the data does not meet the symmetrical distribution, which suggests a value of 0 for Skewness. The minimum and maximum values for liquidity of deposit money banks in Nigeria for the period under review are 0.23 and 77.390, respectively, with an average value of 2.40, a median of 1.14 and a standard deviation of 7.82. The skewness and kurtosis value for liquidity is 8.04 and 70.74, respectively. This shows that the data is positively skewed but leptokurtic in peakness.

In summary, the analysis of the descriptive statistics of the data collected for the study suggests, to a large extent that the data are not normally distributed. This indicates that the data for the study did not fit into a normal bell curve.

Correlation Analysis of the Variables

The correlation matrix of the variables was computed to measure the degree of association between the dependent and the independent variables. The sign of the correlation coefficients indicates the direction of the relationship, while the numerical value of the coefficient measures the strength of the correlation. A correlation of 1 or -1 means a perfect correlation, and on the other hand, a correlation of 0 indicates no relationship between the variables. The essence of the correlation test is to check whether multicollinearity among the explanatory variables is strong enough to invalidate the simultaneous inclusion of the explanatory variables in the regression. According to Tabachnick & Fidell (2001) and Gujarati (2003), multicollinearity could only be a problem if the pair-wise correlation coefficient among regressors is above 0.80. The correlation matrix of the variables is presented in Table 4.2

Table 4.2 Correlation Matrix of the Variables

	AF	BDS	BIND	ACS	BDM	ACM	TA	LEV	LIQ
AF	1.0000								
BDS	0.3602	1.0000							
BIND	-0.5054	-0.3419	1.0000						
ACS	-0.0285	-0.0994	0.0784	1.0000					
BDM	0.0389	0.3315	-0.0519	-0.0111	1.0000				
ACM	0.3265	0.0283	-0.1008	-0.1667	0.1124	1.0000			
TS	0.6852	0.5147	-0.5358	-0.0323	0.1953	0.2071	1.0000		
LEV	0.4053	0.3519	-0.5333	-0.0529	-0.0396	0.1310	0.3507	1.0000	
LIQ	-0.2195	-0.2041	0.2903	0.0388	-0.0156	0.0352	-0.2250	-0.5058	1.0000

Source: Researchers' Computation (2022)

The correlation matrix analysis from Table 4.2 shows that the correlation coefficients of the variables are mixed; some variables reporting positive coefficients and some reporting negative coefficients. However, the association between the independent variables is relatively small and below the threshold of 0.80, suggesting the absence of the multicollinearity problem in the predictor variables (Tabachnick & Fidell, 2001; Studenmund, 2000).

Regression Results

The Board of directors size (BDS), board independence (BIND), audit committee size (ACS), board of directors meetings (BDM) and audit committee meetings (ACM) of deposit money banks in Nigeria were regressed with audit fees (AF) of the banks. This was to estimate the individual and the collective influence of these variables on audit fees paid by the banks. The result of the regression is as summarized in Table 4.3

Table 4.3 Regression Estimation of Governance Structures and Audit Quality

Dependent Variable: AF
 Method: Panel Least Squares
 Date: 03/20/22 Time: 13:52
 Sample: 2005 2020
 Periods included: 16
 Cross-sections included: 11
 Total panel (balanced) observations: 176

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.416022	0.502334	-2.818889	0.0054
BDS	-0.014308	0.005819	-2.458722	0.0150
BIND	0.014136	0.186161	0.075936	0.9396
ACS	0.018210	0.032115	0.567015	0.5715
BDM	-0.021459	0.006590	-3.256404	0.0014
ACM	0.063781	0.015006	4.250478	0.0000
TA	0.777571	0.037386	20.79854	0.0000
LEV	0.184140	0.073322	2.511383	0.0130
LIQ	0.000460	0.002027	0.226976	0.8207
R-squared	0.839499	Mean dependent var	7.993212	
Adjusted R-squared	0.831268	S.D. dependent var	0.420945	
S.E. of regression	0.172912	Akaike info criterion	-0.619070	
Sum squared resid	4.664159	Schwarz criterion	-0.449655	
Log likelihood	60.07326	Hannan-Quinn criter.	-0.550298	
F-statistic	101.9945	Durbin-Watson stat	0.890920	
Prob(F-statistic)	0.000000			

Source: Researchers' Computation (2022)

From Table 4.3, the adjusted R-squared statistics, which is the model's coefficient of determination is 0.831. This implies that about 83% of the variation in audit quality of banks in Nigeria is explained by the combined influence of the board of directors' size (BDS), board independence (BIND), audit committee size (ACS), board of directors' meetings (BDM) and audit committee meetings (ACM) of the banks. The coefficient of the constant, estimated to be -1.416 indicates that audit quality will decrease by 1.416 units if all the explanatory variables included in the equation are held constant. The coefficient of F- statistics is 101.99 with a probability value of 0.0000, indicating that the model is a good fit and significant at a 5% level of significance. The Durbin-Watson statistic for the model is 1.890 (greater than 1.5 and less than 2.5), suggesting the absence of first order autocorrelation in the model (Gujarati, 2004)

Test of Hypotheses

Test of Hypothesis One

The first Hypothesis of the study was to find out if the size of the board of directors have a significant influence on the audit quality of banks in Nigeria. From table 4.3, the board of directors' size has a negative and significant relationship with audit quality, with a coefficient of -0.0143 and a probability of 0.0150. This inverse relationship implies that an increase in board size may not necessarily increase audit quality. Although this result deviates from the apriori expectation, it could be justified by the fact that the size of the board might not reflect the quality of the board in terms of expertise, competence and effectiveness. This finding conforms to the findings of Nugroho & Eko (2011). However, this relationship is significant, given the probability of the t-statistics of 0.0150. Given the significance of this relationship, we reject the null hypothesis. Therefore, the study submits that there is a significance relationship between board size and audit quality of banks in Nigeria.

Test of Hypothesis Two

Board independence (BIND) has a positive coefficient of 0.0141 with audit quality, and his suggests that higher board independence ensures higher audit quality. This relationship is insignificant as the probability of its t-statistics of 0.9396 is greater than 0.05. Because of the insignificance of this relationship, the null hypothesis that board independence has no significant relationship with audit quality could not be rejected. The study, therefore, submits that board independence has no significant influence on the audit quality of the bank.

Test of Hypothesis Three

Audit committee size demonstrated a positive but insignificant relationship with audit quality, with a coefficient of 0.0182 and a probability of t-statistic of 0.5715. This implies that banks with higher audit committee size tends to have higher audit quality. This positive relationship is not surprising as an audit committee exists to oversee the integrity of financial statements, ensures the efficiency and effectiveness of the internal control system and monitoring of both internal and external auditors. This finding is in tandem with the submission of Aderemi, Osarumwense, Kehinde and Ben-Caleb (2016) and Toh (2013), but contradicts the findings of Ojeka, Iyoha & Asaolu (2015). In view of the insignificance of this relationship, the study accepts the null hypothesis that audit committee size has no significant relationship with the audit quality of banks in Nigeria.

Test of Hypothesis Four

The regression estimation of the board of directors' meeting with audit quality shows a negative but significant relationship, with a regression coefficient of -0.0215 and a probability of t-statistics of 0.0014. This suggests that the number of times the board meets does not directly influence the audit quality of the banks. However, this relationship is significant with a probability value of 0.0014. Hence, the study fails to accept the null hypothesis that there is no significant relationship between the board of directors' meetings and audit quality of banks in Nigeria. In other words, the study concludes that the frequency of board of directors' meetings significantly influences the audit quality of the banks in Nigeria. This finding contrasts the findings of Taghizadeh & Saraemi (2013) and Oyeride (2014), who submitted that the frequency of board of directors' meetings does not significantly influences the audit quality.

Test of Hypothesis Five

The last hypothesis of the study was to find out if the frequency of audit committee meetings significantly influences the audit quality of banks in Nigeria. From table 4.3, audit committee meetings have a positive and significant relationship with audit quality, with a coefficient of 0.0638 and a probability value of 0.0000. This positive relationship implies that the more the audit

committee meets, the higher the audit quality of the banks. This result is in tandem with the apriori expectation as the audit committee meets to consider audit related issues. Therefore, the more such meetings, the better the expected audit quality. This finding conforms to the findings of Zhang and Zhou (2007) and Bryan, Liv & Tiras (2004). Given the significance of this relationship, the study rejects the null hypothesis. Therefore, the study submits that there is a significant relationship between audit committee meetings and audit quality of banks in Nigeria.

5. Conclusion and Recommendations

The study was carried out to evaluate the relationship between governance structures audit quality of deposit money banks in Nigeria. This was necessitated by the widespread lack of confidence in the audit reports of banks in Nigeria, following the incessant collapse of banks in Nigeria, even with unqualified audit reports. Data were obtained from annual reports of eleven out of the fourteen (14) listed deposit money banks in Nigeria for sixteen years, covering 2005 to 2020. Descriptive and inferential statistical analyses were conducted on the data to address the research objectives and hypotheses. Audit quality of the banks was measured through the amount of fees the banks pay to external auditors (audit fees), while board of directors' size (BDS), board independence (BIND), audit committee size (ACS), board of directors' meetings (BDM) and audit committee meetings (ACM) were the selected governance structures of the banks.

The data analysis reveals that audit quality, as well as governance structures vary among deposit money banks in Nigeria. Findings reveal that board independence, audit committee size and audit committee meetings have positive relationships with audit quality of deposit money banks in Nigeria, while the board of directors' size and board of directors' meetings have negative relationships with audit quality of deposit money banks in Nigeria. This result is consistent with the apriori expectation that a bank governance structure influences its audit quality. Based on the empirical findings, the study concludes that governance structures enshrined by corporate governance codes influence the audit quality of deposit money banks in Nigeria. Following the findings that board of directors' size and the frequency of its meetings do not necessarily influence audit quality, the study recommends that expertise and competence should be prioritized in constituting the board and not just the size. Also, the quality of meetings should be emphasized over the frequency and this will improve the quality of financial reports and restore the credibility of audited financial reports. The positive interaction between the frequency of audit committee meetings and audit quality demands that the existing corporate governance codes for banks be amended to accommodate more meetings for the audit committee, leadings to effective monitoring and supervision of all banking activities.

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