AUDIT QUALITY, GOVERNANCE MECHANISMS, AND THE FINANCIAL PERFORMANCE OF NIGERIAN DEPOSIT MONEY BANKS.

Safiyanu Sule
Department of Accounting
Federal University Dutse, Jigawa State

Nura Isah
Department of Accountancy
Jigawa State Polytechnic Dutse

Azeez Abiodun Ajibola
Department of Accounting and Finance
Baze University, Abuja

Irma Tyasari
Department of Accounting
Universitas PGRI Kanjuruhan Malang, Indonesia.

Correspunding author: safidut96@gmail.com

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Abstract
The present study aims to investigate the direct influence of audit quality and corporate governance mechanisms on listed Deposit Money Banks financial performance in Nigeria. It is driven by continued challenges of financial transparency, independence of auditors and quality of governance in Nigerian banks despite several regulatory reforms. The sample consists of 11 banks from the year 2014 to 2024 (a balanced panel of 121 observations). The financial performance was measured with Return on Assets (ROA). Audit quality was measured by Big-4 affiliation, audit fees, non-audit fee ratio, auditor tenure and the specific auditor specialization; whereas governance mechanisms were board independence, audit committee independence and audit committee expertise. Panel regression estimation was used in the analysis with robustness checks, such as fixed effects and random effects model and Driscoll–Kraay standard error correction. The findings reveal that audit fees, independence and expertise of the audit committee have a significant positive impact on ROA indicating higher monitoring quality and better reporting credibility. On the other hand, non-audit fee ratio and leverage negatively and significantly affect ROA, indicating that risk level may increase and auditor independence gets eroded. The findings of this study suggest that improving audit committee quality, restricting non-audit services procurement and enhancing audit effort are all crucial for better outcomes of financial performance in the Nigerian banking sector.

Keywords: Audit committee, audit quality, corporate governance, firm performance, non-audit services, Nigeria.

1.0 Introduction

In banking institutions, where management and stakeholders have deep information asymmetry, the independence and effectiveness of external audits are vital to supervision's ability to lower agency costs and protect investors' interests. Scholars and policymakers have focused on audit quality's role in fostering trust in financial reporting. Many basic indicators have been used to proxy audit quality, but everyone has their own definition. Measurements include being audited by a Big 4 auditor, the ratio of audit fees to total revenue (a low ratio indicates high cost-effectiveness), how long it has been since you last changed auditors, and whether the auditor specializes in the industry sector. These measures are supposed to assess an auditor's competency and

independence (Francis et al., 2023; Goh, 2025). One or all of these determines the type of financial statements that reliably contribute to business performance, which is crucial. Recent data suggests that these audit quality metrics may not operate everywhere, especially in emerging markets where poor institutional frames and enforcement infrastructures limit audit effectiveness (Kanu & Chukwuma, 2024; Uwuigbe et al., 2024).

A clear link between these disagreements is audit quality. In industrialized economies, most research shows that companies with strong audits are more lucrative and have higher stock market valuations. Francis et al. (2023) made this observation. Research in emerging countries like Nigeria yields varied results. Some research demonstrates that Big 4 membership improves report dependability and greatly reduces earnings management (Khalil & Ozkan, 2016). Others show minimal or no correlations between auditor size and performance (Kanu & Chukwuma, 2024). Again, non-audit service fees' economic dependency has prompted many to contend that they undermine auditor independence. Some research suggests that such fees may boost audit efficiency by spilling knowledge (Salehi et al., 2023). The dispute over auditor tenure continues: longer term may lead to better client understanding and reports, but in practice it creates threats of familiarity. These decrease independence and objectivity (Goh et al., 2025). Given these contradicting findings, a more extensive investigation is necessary to determine whether audit quality enhances financial performance.

Despite the current regulatory and corporate governance reforms, Nigerian banks have not yet achieved significant improvements in financial transparency, liquidity risk exposure, and asset quality issues. There are remaining doubts as to whether audit quality is strong enough to ultimately curb borderline managerial opportunism, especially when auditors provide non-audit services that may impair their independence. Meanwhile, corporate governance mechanisms, such as the level of board independence and the characteristics of audit committees, differ among banks, resulting in varying levels of oversight strength. Existing empirical studies in Nigeria report conflicting and weak evidence about how audit quality and governance interplay to influence bank performance. Several studies provide evidence of positive effects, and others suggest little or even negative impacts. These inconsistencies have raised a question about the role of particular audit and governance attributes in performance outcomes in the Nigerian banking context. This gap is being addressed by this study, which therefore investigates the direct impact of audit quality and corporate governance mechanisms on the financial performance of quoted deposit money banks between 2014 and 2024.

Our study examines the direct effects of audit quality and corporate governance mechanisms on the financial performance of listed deposit money banks in Nigeria. Consequently, it rigorously analyses the impact of board independence and audit committee attributes on the audit quality and financial performance of Nigerian banks. Audit quality indicators—Big 4 membership, audit fees, non-audit fee ratios, auditor tenure, and industry specialisation—and governance variables like board independence, audit committee independence, and audit committee expertise are examined to determine how they affect firm performance as measured by return on assets. By focussing on Nigeria, the study addresses an area where little research exists about governance-audit interactions in emerging economies. It also gives regulators, boards, and policymakers' ideas for how to make the financial system more stable by using better audit and corporate governance practices. This study has two goals. First, it

examines if audit indicators affect Nigeria's banking sector's financial performance. Second, it explores whether board independence and audit committee characteristics increase (or diminish) this link. Governance structure and company performance are interconnected; thus, the challenge is how to understand them. The study contributes to the literature by moving from direct connections to a multivariate framework that captures the dynamic relationship between governance and audit quality and business performance. These findings could guide Nigerian and other emerging economy policymakers' deliberations concerning auditor rotation, non-audit services, and corporate governance changes.

2.0 Literature Review

Audit Quality and Bank Performance

Audit quality relates to external auditors' ability to provide reasonable assurance that financial statements are free from material misstatements, thus increasing the reliability and trustworthiness of financial reporting (Uwuigbe et al., 2024). In the banking industry, audit quality is crucial for the credibility of reported performance measures due to the inherent high level of risk and leverage.

Membership in the Big Four is commonly associated with significantly improved technical expertise and a higher level of compliance behaviour, which might improve earnings transparency and financial performance (Francis et al., 2023). However, some earlier research suggests that the benefits of Big Four audit quality may vary in full accordance with the institutional setting and the company's internal governance mechanisms (Aljaaidi & Mardini, 2023). Audit fees often serve as a proxy for audit effort. Greater audit fees imply greater audit scope and quality, which may depress reporting irregularities (Fields 2004). On the other hand, non-audit services could compromise auditor independence when the auditor becomes economically dependent on management (Frankel et al., 2002). Empirically, there is a negative relationship between non-audit fee ratios and performance because of impaired independence and increased incentives for earnings management (Al-Saidi, 2023; Salehi et al., 2023).

Auditor tenure and industry focus also impact audit quality. Long tenure increases auditor familiarity with the bank's internal controls and risk environment even though an extended tenure may raise familiarity threats (Goh et al., 2025). Auditor specialisation helps the auditor by increasing the efficiency of audits due to greater industry knowledge (Choi et al., 2024).
Overall, empirical results provide some evidence in favour of the role of enhanced audit quality in bank financial performance (Saleh et al., 2022; Almasan et al., 2024).

Corporate Governance and Bank Performance

Corporate governance mechanisms are instrumental in aligning managerial actions with stakeholders' interests. High board independence provides more neutral monitoring and decreases agency problems (Khalil & Ozkan, 2016). However, the effectiveness of a board is contingent on the involvement and financial literacy of its members (Agyei-Mensah, 2022).

Audit committees are specialised governance mechanisms that monitor the integrity of financial reporting. The independence of the audit committee monitors efficiency and opportunistic reporting (Alzoubi, 2021). Audit committee financial expertise enhances this oversight role and arms the committee with an ability to understand the audit evidence and nature of management's judgement (Abubakar et al., 2021; Galal et al., 2022).

Recent findings in Nigeria and other similar environments have adduced that firms with more independent, expert audit committees enhance their reporting credibility as well as better firm performance (Olayinka & Akinniyi, 2024; Muhammad & Oladele, 2024; Lazarus, 2024). This indicates that corporate governance mechanisms are still meaningful in high-reporting-risk settings.

Interrelationship between Audit Quality and Corporate Governance

Audit quality and corporate governance are essentially related mechanisms that affect monitoring and accountability in banking organisations. Whereas the external mechanism of audit quality is to maintain financial statement credibility, corporate governance, as an internal measure, would shape managerial behaviour and protect stakeholders through board structures and committee monitoring (Wang, 2024). Audit quality is not isolated; it is part of the firm's governance structure.

Institutions also influence the choice, compensation, and independence of external auditors. Boards and their audit committees select auditors, bargain over fees, approve non-audit service arrangements, and evaluate the results of audits. An independent audit committee which is a financial expert in high-quality audits is more likely to demand high-quality audits and to resist pressures from management in reporting (Agyei-Mensah, 2022; Abubakar et al., 2021). Audit committee independence, in particular, reinforces the auditor's ability to remain objective, increasing audit rigour and reducing the likelihood of earnings manipulation (Alzoubi, 2021).

On the other hand, audits enhance governance accountability by providing the board with an independent evaluation of its financial reporting risks, internal control inefficiencies, and compliance shortfalls. The results of the audit may lead to reforms in governance and improvements or sanctions to control where they are required. This two-way association signals the warping of governance mechanisms and AQ theoretically, inter-relatedly functioning as complementary monitoring devices (Rahman, 2022; Galal et al., 2022).

But that complementarity varies with institutional environment. In those emerging markets, including Nigeria, where the degree of ownership concentration, regulatory compliance setback and managerial discretion are different from one bank to another, audit quality and corporate governance effectiveness do not seem to be consistent (Kanu & Chukwuma, 2024; Olayinka & Akinniyi, 2024). Weak governance structures can and likely will constrain the effective outcome of external auditing, even when good auditors are employed. The absence of industry-specific expertise among auditors limits the scope of independent governance groups (Choi et al., 2024; Goh et al., 2025).

Theoretical Framework and Hypotheses Development

This work is based largely on the agency theory, which suggests that managers (agents) can have incentives that are inconsistent with the interests of shareholders (principals), especially in an environment of information asymmetry and weak control mechanisms (Jensen & Meckling, 1976). Audit quality and corporate governance mechanisms serve as monitoring devices to mitigate agency conflicts by increasing transparency, imposing accountability, and aligning managerial actions with the interests of stakeholders. The assurance offered by external auditors reduces the prospects for opportunistic reporting governance structure, particularly independent and expert audit committees (Abubakar et al., 2021; Abor & Baku, 2014; Agyei-Mensah, 2022).

Resource Dependence Theory (Pfeffer & Salancik 1978) adds to this view by stressing that access to external expertise is strategically important. Independent directors and audit committee members not only provide expertise in financial matters as well as accounting, but also their skills and professional judgement can strengthen overseas capabilities. Heenan and Perera (2008) also argue that an FGAC can provide governance bodies with the ability to make effective communication with auditors regarding audit findings and influence the decisions affecting the internal control process. This suggests that governance bodies play a significant role in monitoring effectiveness and financial outcomes.

Stewardship theory (Donaldson & Davis, 1991) provides an alternative perspective, recognising that managers can act as responsible stewards when provided with appropriate structures, trust, and accountability mechanisms. In such environments, audit and governance controls do not just limit behaviour; they enhance ethical conduct and performance.

Taken together, these theories justify the anticipation that both audit quality and governance devices have a direct impact on bank performance. The audit quality reduces opportunism due to the enhancement of reporting credibility, while governance mechanisms enforce the effectiveness of monitoring and strategic supervision.

Hence, in this research we test the following direct-effects hypotheses:

H_{01}: We predict that there will be a positive relationship between the level of audit quality (Big Four auditors, higher audit fees and auditor industry specialisation) and bank performance.

H_{02}: The high reliance on non-audit services, together with the high leverage, contributes negatively to the performance, as it compromises auditor independence and expands financial risk.

H_{03}: It is anticipated that the independence and expertise of the audit committee will have a favourable impact on performance through effective monitoring and enhanced reporting credibility.

3.0 Methodology

Using the data of the listed Nigerian deposit money banks, the study rhymes in the form of ex-post facto research design with panel data. This approach is suitable for the variables audit quality, board independence, audit committee independence and financial performance because history, and thus reality, cannot be altered. The design facilitates causal inference without experimental intervention, in keeping with the preceding governance audit (Francis et al., 2023). The population consists of 14 deposit money banks listed in Nigeria. The focus banks are limited to 11, i.e., those with consistent annual reports between 2014 and 2024, to ensure reliability and minimal auditor rotation, as required by the Central Bank of Nigeria. Secondary data were obtained from annual audited financial statements published by the Nigerian Exchange Group (NGX), banks' investor relations portals, and relevant corporate governance disclosures. Return on Assets (ROA) was extracted as the financial performance indicator. Audit quality variables (Big Four affiliations, audit fees, non-audit fee ratios, auditor tenure, and auditor specialisation) and governance variables (board independence, audit committee independence, and audit committee expertise) were

manually extracted from annual reports and validated through cross-referencing with auditor transparency reports.

Model Specification

Panel regression is employed to capture both cross-sectional and time-series dynamics. The model is expressed as:

$ROA_{it} = \beta 0 + \beta 1 AQ_{it} + \beta 2 GOV_{it} + \beta 3 CONTROLS_{it} + \mu i + \epsilon it$

Where; ROA_{it} is financial performance of bank *i* in year *t,* AQ_{it}represents audit quality indicators, GOV_{it}represents governance attributes, μi captures unobserved bank-specific effects and ϵit is the idiosyncratic error term.

Panel estimation began with Pooled OLS for baseline comparison, followed by Fixed Effects (FE) and Random Effects (RE) models. The Hausman test was applied to determine the more appropriate estimator. Given evidence of heteroskedasticity, autocorrelation, and cross-sectional dependence—characteristics common in banking panel datasets—Driscoll–Kraay standard errors were applied to the Fixed Effects estimator to obtain robust and reliable coefficients. The Variance Inflation Factor (VIF) test was used to assess multicollinearity, while the Wooldridge test confirmed serial correlation.All data employed in the study were sourced from publicly available financial disclosures and regulatory filings. No confidential or proprietary information was accessed, and all reporting aligns with standards of academic integrity and research transparency while STATA 17 was used for the analysis.

Table 1:
Variable Measurement

Variable Category	Variable	Proxy / Code	Measurement Definition	Supporting Source(s)
Dependent Variable	Financial Performance	ROA	Profit After Tax ÷ Total Assets	Begum et al. (2023)
Audit Quality Variables	Auditor Size	Big4	1 = Big-4 audit firm; 0 = Otherwise	Francis et al. (2023); Saleh et al. (2022)
	Audit Effort	AuditFee (ln)	Natural log of audit fees paid to external auditor	Fields (2004); Wang (2024)
	Non-Audit Service Intensity	NonAuditFeeRatio	Non-audit fees ÷ Total auditor fees	Frankel et al. (2002); Al-Saidi (2023)
	Auditor Tenure	Tenure	Number of consecutive years auditor is retained	Goh et al. (2025)
	Auditor Industry Specialization	AuditSpecialist	1 = Auditor specializes in banking sector; 0 = Otherwise	Choi et al. (2024); Aljaaidi & Mardini (2023)
Corporate Governance Variables	Board Independence	BoardIndependence	Independent non-executive directors ÷ Total board size	Khalil & Ozkan (2016); Olayinka & Akinniyi (2024)
	Audit Committee Independence	AuditCommitteeIndependence	Independent audit committee members ÷ Total audit committee size	Agyei-Mensah (2022); Alzoubi (2021)

	Audit Committee Expertise	AuditCommitteeExpert	Members with accounting/finance qualification ÷ Audit committee size	Abubakar et al. (2021); Galal et al. (2022)
Control Variables	Leverage	Leverage	Total Liabilities ÷ Total Assets	Kanu & Chukwuma (2024)
	Firm Size	TotalAsset (ln)	Natural log of total assets	Uwuigbe et al. (2024)

Source: Authors Compilation, 2025.

4.0 Results and Analysis

Descriptive Statistics Outcome

Table 2:

Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max
ROA	1.709	1.049	0.002	3.86
BIG4	0.95	0.218	0	1
lnAuditFee	5.838	0.779	3.807	7.937
Non-Audit Fee Ratio	0.103	0.075	0.04	0.426
Tenure	4.884	2.784	1	11
Audit Committee Independence	33.58	17.279	0.25	67
Audit Committee Expertise	0.956	0.147	0.33	1
Board Independence	27.972	21.084	0.105	79.1
Leverage	0.916	0.167	0.816	1.972
lnTotalAsset	17.095	3.428	12.853	24.433

Source: Authors' Computation, 2025.

Table 2 reveals that Nigerian banks average return on assets (ROA) was 1.71%, which means that basic business growth was moderate. Big4 firms audited 95% of banks, increasing external audit quality. The log-transformed audit fee averaged 5.84 and the SD was 0.78. The average non-audit fee ratio was 10%, low. The average auditor tenure was 4.88 years, and audit committee independence and expertise were 33.58% and 95.6%, indicating governance supervision. Average board independence was 27.97%. Leverage was 0.92, firm size 17.09.

Correlation Analysis

Table 3:

Correlation Matrix (Selected Variables)

Variable	ROA	BIG4	lnAuditFee	NAFR	Tenure	Leverage	Ln TotalAsset
ROA	1						
BIG4	0.367***	1					
lnAuditFee	0.306***	0.254**	1				
NAFR	–0.362***	0.115	–0.007	1			

Tenure	0.031	–0.133	0.290**	0.154	1		
Leverage	–0.378***	0.085	–0.064	0.021	–0.078	1	
lnTotalAsset	–0.305***	–0.201**	0.355***	0.384***	0.156	0.230**	1

Source: Authors' Computation, 2025.

Table 3 shows Pearson correlation. ROA is positively correlated with Big4 audit engagement ($r = 0.367$, $p < 0.01$) and audit fee ($r = 0.306$, $p < 0.01$), suggesting that Big4 audited institutions and those paying higher audit fees report higher profitability. However, non-audit fee ratio ($r = -0.362$, $p < 0.01$) and leverage ($r = -0.378$, $p < 0.01$) have substantial negative correlations with ROA. These findings support the idea that large debt and non-audit services hurt corporate performance. No correlations exceeded 0.70, indicating no multicollinearity.

Regression Results

Table 4:

Pooled OLS Estimation

Variable	Coef.	Std. Err.	t	p-value	Sign
Big4	0.083	1.225	0.07	0.946	NS
lnAuditFee	0.792	0.533	1.49	0.14	NS
Non-Audit Fee Ratio	–9.669	1.017	–9.50	0	***
Tenure	0.022	0.022	1.01	0.312	NS
Audit Comm. Independence	0.037	0.004	8.53	0	***
Audit Comm. Expertise	5.164	1.973	2.62	0.01	**
Board Independence	–0.004	0.004	–1.00	0.318	NS
Leverage	–2.521	0.778	–3.24	0.002	**
lnTotalAsset	1.114	0.49	2.27	0.025	**
Constant	–5.789	1.923	–3.01	0.003	**
R^2 / Adj. R^2	0.703 / 0.679				
F-statistic	29.20 (p = 0.000)				

Source: Authors' Computation, 2025.

The pooled regression model (Table 4) explains 70.3% of ROA fluctuations (Adj. $R^2 = 0.679$). Overall model significance is indicated by the F-statistic (29.20, $p < 0.001$). Profitability is significantly increased by audit committee independence ($\beta = 0.037$, $p < 0.01$), expertise ($\beta = 5.164$, $p < 0.01$), and business size ($\beta = 1.114$, $p < 0.05$ However, non-audit fee ratio ($\beta = –9.669$, $p < 0.001$) and leverage ($\beta = –2.521$, $p < 0.01$) negatively impact ROA. Big4 client overlap may explain why audit quality proxies (lnAuditFee) are positive but not significant.

Random Effects Estimation

Table 5:

Random Effects Regression Results

Variable	Coef.	Std. Err.	z	p-value	Sign
Big4	–0.065	0.575	–0.11	0.91	NS
lnAuditFee	1.697	0.734	2.31	0.021	**
Non-Audit Fee Ratio	–6.641	2.272	–2.92	0.003	**
Tenure	0.006	0.033	0.18	0.86	NS
Audit Comm. Independence	0.028	0.006	4.76	0	***
Audit Comm. Expertise	4.03	0.671	6	0	***
Board Independence	0	0.007	0.02	0.981	NS
Leverage	–1.971	0.615	–3.20	0.001	**
lnTotalAsset	0.276	0.747	0.37	0.712	NS
Constant	–4.328	2.045	–2.12	0.034	**
Overall R^2	0.68				

Source: Authors' Computation, 2025.

After adjusting for firm-specific effects, the random effects model gives consistent estimates. Results (Table 5) indicate that audit fee ($\beta = 1.697$, $p < 0.05$), audit committee independence ($\beta = 0.028$, $p < 0.001$), and audit committee expertise ($\beta = 4.030$, $p < 0.001$) considerably enhance business profitability However, non-audit fee ratio ($\beta = -6.641$, $p < 0.01$) and leverage ($\beta = -1.971$, $p < 0.01$) remain significant negative predictors. Therefore, independent and financially informed audit committee members supported by proper audit remuneration improve corporate performance, whereas overreliance on debt or non-audit services weakens it.

Robustness and Diagnostic Tests

The Driscoll–Kraay fixed effects estimator corrected heteroskedasticity and autocorrelation. Results support the RE model: audit fee ($\beta = 2.434$, $p < 0.001$) is significant; leverage ($\beta = -0.496$, $p < 0.01$) is negative; and board independence ($\beta = 0.033$, $p = 0.059$) is marginally significant. The Wooldridge test shows serial correlation ($F = 24.82$, $p < 0.01$), validating robust estimators. VIF readings (mean = 7.86) show modest but tolerable multicollinearity. The dynamic GMM model had unstable coefficients due to short sample size, but instrument validity tests (Hansen $p = 1.000$) verified RE condition resilience.

Discussion of Findings

The findings of the study furnish very relevant information on the influence of audit quality and corporate governance indicators on financial performance in listed Deposit Money Banks in Nigeria. The positive and significant impact of audit fees on ROA indicates that higher payments result in more efficient monitoring and improved financial constraints. "Under Agency Theory (Jensen & Meckling, 1976), higher fees may be a proxy for increased scope and depth of audit coverage that constrains managerial discretion and attenuates the probability of opportunistic reporting behaviour. This finding supports the assertion that a more rigorous audit process increases transparency and leads to better firm performance (Wang, 2024; Fields, 2004).Conversely, the negative result of the non-audit fee ratio on financial

performance is indicative that a high level of dependence on non-audit services might undermine auditor independence. This result is in agreement with Frankel et al. (2002) and lends support to calls for regulation by suggesting that the economic bond between auditor and client undermines external monitoring. "Under these conditions, diminishing quality assurance erodes value rather than providing it.

It is also found that audit committee independence and ACER have positive significant associations with performance. Resource Dependence Theory (Pfeffer & Salancik, 1978) supports these results and emphasises the strategic role of board competence in facilitating effective decision-making. Independent and financially competent audit committees improve the quality of monitoring, lead to compliance discipline and strengthen the oversight of internal control (Agyei-Mensah, 2022; Galal et al., 2022). Interestingly, there is no significant effect of auditor size (Big4) and auditor tenure on the performance. This could be due to the high homogeneity and regulatory convergence in audit processes in the Nigerian banking sector, as audit practices are regulated by central regulations which may reduce the separating effects that the Big Four brand name or long auditor tenure could bring about. In a setting of that kind, audit quality could then be determined more by regulators' enforcement efforts than by firm-specific auditor characteristics.Generally, this result suggests that the influence attributed to substantive governance and audit, rather than structural compliance, is significantly related to improving bank performance in Nigeria.

5.0 Conclusion and Recommendation

The paper empirically investigated the effect of audit quality and certain corporate governance mechanisms on the financial performance of listed Deposit Money Banks in Nigeria from 2014 to 2024. The research was inspired by the contribution of efficient monitoring devices in promoting financial stability, transparency and performance in banking a highly regulated industry that is systemically important. The selected audit quality measures (auditor size, audit fees, non-audit fee ratio, auditor tenure and an indicator for the industry specialisation of the auditor) and the association with corporate governance attributes (audit committee independence, audit committee expertise and board independence) were examined in conjunction with leverage and firm size as control variables. Panel data analysis, and the random effects model as the preferred model, highlighted salient implications for policy, practice and regulatory impact assessment.

The results were indicative that the magnitude of audit effort, proxied by audit fees, positively enhances financial performance. This evidence suggests that more investments in external audits enhance the depth and intensity of assurance, reinforce managerial accountability, and promote earning quality. On the other hand, the non-audit fees to total auditor fees ratio was negatively associated with firm performance. It is argued that when audit firms receive significant non-assurance fees, they might face a threat to independence which leads to low quality of audit monitoring and hence less wealth or a loss. This echoes the continuing worldwide debate regarding the restriction of non-audit service provision so that conflicts of interest can be avoided.

The investigation also offers robust support that the independence and expertise of the audit committee have a positive influence on firm performance. Banks that have audit committees which are independent and whose members possess accounting/financial expertise are characterised by greater monitoring and oversight capability, more effective internal control system scrutiny and may be subject to lower agency costs as

managerial decisions become better aligned with shareholder interests. There is a conclusion to be drawn from these findings, and that is the importance of content of governance quality as distinct from, or in addition to, form. Nevertheless, board independence had no statistically significant effect; it indicates that independence alone did not lead to effective monitoring unless punctuated with professional competence, involvement and understanding of the context.

The inverse relationship between leverage and performance is consistent with the risk consequences of substantial external financing in banks. Leverage plays an important role and can support asset growth but may also make it more susceptible to market and regulatory shocks if not accompanied by effective risk management. Size and auditor tenure had no significant impact on performance, indicating that while size and audit longevity were important, they did not drive performance in the Nigerian banking industry.

These results suggest that banks should remain committed to investing adequate resources towards high-quality audit processes and cover sufficient fees in order to obtain quality assurance services. Appropriate regulatory authorities such as the Financial Reporting Council and the Central Bank of Nigeria need to strengthen their oversight over non-audit services provided to auditors in order to avoid influencing auditor independence. Audit committee membership should favour independence and expertise, with governance codes to expressly embrace the importance of domain knowledge. Criteria for independent boards should be reinforced by the obligation of board members to actively engage on a continuous basis, while those directors who do not demonstrate such performance should step down so that they do not fill tokens. Banks must also exercise caution in their use of leverage, determining their capital structure based on their risk tolerance and the current macroeconomic conditions.

In general, this study adds to the increasing body of evidence supporting the notion that the effectiveness of governance and audit arrangements depends on not just their existence but also their quality. Further improvisation of audit regulation and augmentation of audit committee functionality still represent significant routes to the promotion of sustainable financial performance in the Nigerian banking industry.

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