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EFFECT OF AUDIT QUALITY ON FINANCIAL STATEMENT FRAUD IN THE NIGERIA DEPOSIT MONEY BANKS

BY

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DEPARTMENT OF ACCOUNTING

FACULTY OF MANAGEMENT SCIENCES

UNIVERSITY OF ABUJA

MAY, 2023

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BEING A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF A BACHEOR OF SCIENCE (B.Sc.) DEGREE IN ACCOUNTING

FACULTY OF MANAGEMENT SCIENCES

THE DEPARTMENT OF ACCOUNTING

UNIVERSITY OF ABUJA

MAY, 2023

DECLARATION

I hereby declare that this project titled “Effect of Audit Quality on Financial Statement Fraud in Nigerian Deposit Money Banks” was conducted by me. The idea, observations, and recommendations presented express my understanding of the findings. All past works employed in this study were duly referenced.

____

Okoye Maryann Sopuruchukwu

REG NO: 18261138

CERTIFICATION

This Project titled **"Effect of Audit Quality on Financial Statement Fraud in Nigerian Deposit Money Banks"** has been read, and approved by the undersigned, as having satisfied the conditions governing the award of a Bachelor of Science (B.Sc.) degree in Accounting of the University of Abuja for its contribution to knowledge and literary presentation.

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Dr. K.F.A. Ibrahim Date

Project Supervisor

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Dr. K.F. A. Ibrahim Date

Head, Accounting Department

…………………………………….. ……………………

External Examiner Date

DEDICATION

I dedicate this research work to God Almighty for seeing me through the course of my study. And to my mum, Dr (Mrs.) Uchenna Enem and my sisters for their love, financial support and care.

ACKNOWLEDGEMENTS

In this heartfelt acknowledgment, I express my gratitude to several individuals who have played significant roles in my academic journey and the completion of my project. First and foremost, I thank God Almighty for guiding me through these academic years and supporting me in writing this project. I am truly grateful.

I would also like to extend special thanks to my Supervisor, Dr. K.F.A. Ibrahim. He has been wonderfully supportive, providing me with fatherly guidance and profound knowledge at every step of my project. I truly value the corrections he made and the tutorials he provided. I have gained valuable knowledge, particularly in resourcefulness and resilience.

To my amazing mother, Dr. Mrs. Uchenna Enem, I appreciate your kindness, love, prayers, understanding, and financial support throughout my journey in school and in writing this project. Your contributions have brought me this far, and I am sincerely grateful.

I cannot forget to mention my wonderful siblings, Pamela, Amaka, Ifunanya, and Ifechukwu. You have been by my side through thick and thin. Your love, corrections, provisions, and ability to accept me for who I am are qualities I will forever admire. Thank you for being my backbone and helping me stand strong.

I would like to express my gratitude to Dr. Simon Enem, a fatherly figure who has been there for me throughout my journey. You have provided for me and ensured I had a roof over my head. Your support in my academic pursuit has been invaluable.

I am reminded of the words of late Mohammed Ali (the great boxer), who

said, "Friendship is the hardest thing in the world to explain. It's not something you learn in school. But if you haven't learned the meaning of friendship, you really haven't learned anything." To my wonderful friends, Perpetual, Uche, Agatha, Christabel, Elah, Promise, Sonia, Victory, and Oluchi, I sincerely appreciate you all. You have made my time in school beautiful and fun in various ways, and I am grateful for your presence in my life.

In conclusion, I want to express my heartfelt thanks to everyone who has contributed to my journey. Your support and presence have made a significant impact, and I am truly grateful.

ABSTRACT

This study examined the effect of audit quality on financial statement fraud in Nigeria deposit money. The study's population is made up of the 13-deposit money banks listed on the Nigeria Exchange Group as of 2023. Three banks out of the 13 deposit money banks listed make up the sample size. Data were gathered using secondary source. Random sampling technique was used as the sampling methodology, while data analysis was done using multiple regression model. According to the study's findings, auditors' independence showed no effect on financial statement fraud, while auditors' competence and audit fee were found to have significant impact on financial statement fraud. It was recommended that Nigerian deposit money banks are to establish policy mechanisms to control auditors' actions and prevent compromising long-term auditor-client relationships, ensuring independence. Additionally, they are advised to continue engaging the highly competent and reputable Big 4 auditors, while providing adequate remuneration to foster commitment and resistance to external pressures.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Corporate organizations like banks are fundamentally social-technical devices made up of human and physical actors who process inputs and simultaneously carry out some roles and/or tasks that result in the achievement of certain goals, and these stakeholders, who are likely both inside and outside the organizations, may have engaged in fraudulent financial activities for a variety of reasons (Akenbor *et al*., 2013). One of the most regulated and controlled industries in Nigeria is the banking sector, but fraud has nevertheless persisted in the industry despite this. Fraudulent financial activities are illegal actions carried out to amass wealth, either singly, collectively, or in an organized manner, and that violate the laws or accounting standards that govern the economic activities and management of the organization (Yio and Chand, 2013).

Audit reports on firm operations aim to give users of such reports current, accurate, and comparable information to enable informed decision-making (Kamaruzaman *et al*., 2009). This auditor's opinion provides shareholders and other stakeholders with reassurance regarding the credibility and dependability of the report; it also reduces the possibility of misstatements and boosts confidence in the capital markets, which lowers the cost of capital for businesses (Watts *et al*., 2012). In recent years, it has been noted that firms that received unqualified audit opinions have failed soon after being given the all-clear (Itoro *et al*., 2019). British Telecom detected an accounting fraud issue that surfaced at the start of the second quarter of 2017. At one of its business lines in Italy, the enormous British corporation fell victim to accounting fraud. Since Price Waterhouse Coopers (PwC), the world's top public accounting firm and one of the "big four," missed the accounting fraud, the British Telecom scandal affected its public accountants, as other accounting fraud scandals do. Instead, a whistleblower first discovered the fraud, and KPMG then conducted a forensic accounting. The method of accounting fraud used by British Telecom involved inflating the company's profits through the extension of fictitious contracts and invoices as well as the creation of fictitious vendor transactions (Haryono *et al*., 2019). The failure of Parmalat in 2003 and Cadbury Nigeria Plc in 2006 can both be seen as instances of businesses whose preparation and reporting of transactions were false (Itoro *et al*., 2019). Also, the credibility of financial data and the level of service rendered by external auditors have gained importance ever since the crisis of confidence that occurred in 2001-2002 with the collapse of the audit firm "Arthur Andersen" as a result of its involvement in a complex fraud case with Enron in the United States (Azhaar *et al*., 2021). Laws created to address these scandals have played a major role in this evolution. These include the Financial Security Act of 2003, the Green Paper on Auditing, and the Sarbanes-Oxley Act of 2002 in the United States (Azhaar *et al*., 2021). Numerous direct and indirect factors can affect audit quality. In line with the stakeholder theory (Khan, 2006), different stakeholders have different perceptions of audit quality depending on how directly involved they are in audits and how they view the quality of assurance. Inputs, outputs, and context factors are the three main perspectives from which audit quality can be viewed. Inputs to audit quality include the auditor's characteristics, such as skills and experience, ethical values, and mindset, in addition to auditing standards. The audit process, which includes the validity of the audit methodology, the efficacy of the audit tools employed, and the accessibility of adequate technical support geared toward supporting a high-quality audit, is another crucial input (Itoro *et al*.).

The prevention of fraud can be achieved through the implementation of four key security pillars, one of which is addressing corruption (Enggar, 2020). The first pillar involves fostering a strong organizational culture based on principles of integrity. The second pillar focuses on establishing robust internal control systems. The third pillar emphasizes the role of internal auditors in identifying and investigating signs of fraud within the company. Lastly, the fourth pillar highlights the importance of impartial and independent external examinations. The ability of auditors to detect fraud is crucial, as their independence and competence play significant roles in their success in fraud detection (Haryono et al., 2019). Pratomo and Putra (2017) suggest that an auditor's independence, skills, and experience influence their capacity to identify fraud. In this study, the relationship between audit quality and financial fraud will be explored further, specifically examining the factors of auditor independence, competence, and audit fees.

1.2 Statement of the Problem

The financial statement of any company holds significant importance as it serves various purposes such as aiding decision-making, guiding investment choices, satisfying creditors, and more. To ensure the authenticity and accuracy of financial statements, audits are conducted. Financial fraud and misstatements can cause severe damage to organizations as they undermine investor confidence, tarnish the organization's credibility, and hinder potential opportunities. Auditors are responsible for detecting and reporting such fraudulent activities to management, but in certain cases, it has been alleged that instances of fraud were not identified during the audit process, resulting in compromised audit quality.

The effectiveness of an audit can influence how much fraud is found. Organizations where an audit was conducted and it was found that the audit quality was extremely inadequate as a result of the fraud cases that were later discovered. This may be due to the auditor's negligence, bias, loss of focus, abandonment of his duties, avoidance of specific areas, or as a result of the fees received for his services, and if caution is not exercised, it may result in business failure. On this note, the researcher decides to assess how well audits are done about financial fraud.

1.3 Research Questions

1. What is the influence of the auditor's independence on financial Statement fraud in Nigerian deposit money banks?
2. What is the extent of the relationship between the auditor's competence and financial Statement fraud in Nigerian deposit money banks?
3. What is the effect of audit fee on financial Statement fraud in Nigerian deposit money banks?

1.4 Objectives of the study

The main objective of this study is to ascertain the effect of audit quality on financial fraud at deposit money banks, while the specific objectives are to:

1. Examine the influence of auditors' independence on financial Statement fraud in Nigerian deposit money banks.
2. Investigate the relationship between auditor competence and financial Statement fraud in Nigerian deposit money banks.
3. Determine the effect of audit fee on financial Statement fraud in Nigerian deposit money banks.

1.5 Statement of Hypothesis

To achieve the above objectives and also to provide answers to the research questions, the following alternatives were formulated:

i. H_{01} There is no significant influence on the auditor's independence on financial Statement fraud in Nigerian deposit money banks

ii. H_{02} There is no significant relationship between auditors' competence and financial Statement fraud in Nigerian deposit money banks

iii. H_{03} The audit fee does not have a significant effect on financial Statement fraud in Nigerian deposit money banks.

1.6 The Significance of the Study

This study will assist Nigerian deposit banks in easily identifying traces of financial fraud in the financial statements. It will provide these banks with ways to improve the audit process to detect financial fraud. Furthermore, it will enable banks to provide accurate, true, and fair financial statements and also increase confidence in their financial statements and the banks themselves, which will be useful to the users of the information.

1.7 Scope of the Study

This research investigates the impact of audit quality on financial statement fraud in Nigerian deposit money banks, aiming to ascertain the existence of a significant relationship between audit quality and financial statement fraud. The study focuses on prominent commercial banks in Nigeria, specifically Access Bank, Zenith Bank, and First Bank, analyzing their financial reports. The Nigeria Deposit Insurance Commission (NDIC) reported a significant rise in fraud losses suffered by Nigerian banks, with approximately N15.5 billion ($41.6 million) in 2018 alone, surpassing the losses incurred in the previous four years. From 2014 to 2017, the sector experienced losses totaling N12.30 billion due to various fraudulent activities, with a significant majority (89%) involving electronic methods. This study will examine the audited reports of the mentioned deposit money banks, with a particular emphasis on Access Bank, First Bank, and Zenith Bank over a five-year period from 2018 to 2022.

1.8 Plan of the study

The research plan for this study consists of the following key components:

The study is structured into five chapters, each addressing distinct aspects.

Chapter one: This chapter serves as an introduction to the study, providing background information, stating the objectives, outlining the scope and significance, presenting the study plan, and defining key terms.

Chapter two: This chapter conducts a comprehensive review of relevant literature, exploring theoretical frameworks and examining empirical analyses on the impact of audit quality on financial fraud in Nigerian deposit money banks.

Chapter three: In this chapter, the methodology employed for conducting the research is outlined. It includes the research design, data collection methods and sources, sampling techniques, and data analysis approaches.

Chapter four: This chapter focuses on the presentation and analysis of data, hypothesis testing, and discussion of the findings.

Chapter five: The final chapter summarizes the study, presents the conclusions drawn from the research, and provides recommendations based on the study's finding.

1.9 Operational Definition of Terms

Audit quality: This pertains to an auditor's capacity to fulfill the primary objective of presenting an accurate and unbiased financial statement, addressing any identified deficiencies in the audit report accordingly.

Financial fraud: This involves unlawfully converting a company's assets for personal gain through deceptive tactics or illegal methods driven by greed.

Financial statements: This comprises quantitative data that reflects an organization's economic activities, revealing the business's performance and financial position. They typically include a statement of financial position, an income statement, other comprehensive income, and a statement of cash flow.

CHAPTER TWO

2.0 Introduction

This chapter dealt with the review of related literature conceptually, theoretically, and empirically. The concept of audit quality, and its effect on financial Statement fraud, as well as the organizations being studied, which are Nigerian deposit money banks, are discussed in this chapter. The previous works of several researchers on this issue are presented as well.

2.1 Conceptual Review

2.1.1 Concept of Audit Quality

According to Ogbodo *et al* (2018) and Usifoh *et al* (2019), auditing primarily serves as one of the strategies to close the knowledge gap on accounting numbers and reduce the residual loss brought on by managers' opportunism in the accounting process. Audit quality is therefore important. A framework of audit quality includes audit professionals, audit procedures, and audit results. Researchers concur that a quality audit is possible when the auditor's given judgment is trustworthy and supported by sufficient and appropriate audit evidence gathered by an engagement team with the necessary features (Ajagbe *et al*, 2021). Investors place more weight on the qualities of the engagement team conducting the audit, but professional auditing standards are the primary determinant of audit quality (Glover *et al*, 2016).

The term "audit quality" has been conceptualized in a number of ways, but as of late no definition has received unanimous recognition and approval (Ajape *et al*, 2021). According to Ibrahim et al, (2018), Zalata *et al*, 2020, one of the most instructive definitions of audit quality is predicated on the technical abilities of the auditor to detect any significant discrepancies and demonstrate independence to guarantee remedies and disclosure in the audit report. Based on their utility, different stakeholders define audit quality in a variety of ways. A high-quality audit, for instance, would prevent material misstatements in the financial statement, as stated by those who use financial statements, on the other hand, society and the auditing firm can view a high-quality audit as one that the company can effectively survive legal action (Gladness *et al,* 2020). The essential goal of audit quality is to guarantee that there is a reasonable assurance that the financial report is accurate and that any faults found are disclosed in the audit report. The financial report of a corporation offers transparency and insight into its operations and financial situation. It allows the company's stakeholders access so they can make more wise decisions. The effectiveness of the choices made and made available to the users of the financial report depends on the caliber of the audit report produced by such a corporation. It gives a company's financial report, the company itself, and the public confidence. Given that investors put a great deal of emphasis on auditor qualities, additional input-related disclosures may be helpful to readers of financial statements in assessing the audit quality (Christensen et al, 2016).

As per (Suharti and Apriyanti, 2019), Auditors should have the option to accomplish quality work in light of the fact that the auditor hosts an extraordinary obligation regarding the gatherings engaged with the organization's financial statements, including the general public. As well as depending on clients, auditors are generally qualified gatherings to confirm and test that the financial statements are decently introduced following perceived bookkeeping standards. It is realized that the nature of audits led by auditors is high when auditors fulfill audit guidelines and quality control principles, as indicated by the Certified Public Accountants Professional Standards (CPAPS).

2.1.2 Determinant of audit quality

Determinant are various ecological or context-oriented factors, for example, regulations and guidelines, corporate administration etcetera which can possibly affect the quality of an audit and directly or indirectly has an impact on financial fraud. Crucean and Hategan, (2019) portray determinant as significant ideas, components and variables that impact another examination point. In the perspective on Ghebremichael (2018), determinant can likewise be depicted as qualities and aspects of an idea or variable. From the above it tends to be seen that figuring out these variables, traits or components that impacts or have results on the audit quality, are an incredible significance both for the audit organizations, controllers as well with respect to the clients of the budget reports. It has been seen that few determinants, both internal and external, can influence audit quality, including auditor professional knowledge and skills, skepticism, independence, standards compliance, working conditions, audit duration and quality control. Different measures have been utilized in previous works as determinant factors. Olabisi *et al* (2020), utilized audit firm sie, audit independence, joint audit, audit tenure and audit fees as measures of determinants. Hardiningsih *et al* (2019) utilized professional skepticism, auditor's competence, independence, tenure audit, and professional ethics to gauge determinants of audit quality. From audit of writing by Crucean and Hategan, (2019). The determinants of audit quality that is applied in this study are: auditors independence, auditors' competence, and audit fees.

Auditors bear a fundamental responsibility to strengthen the capital market by providing a reliable assessment of financial information prepared by corporate management. Stakeholders heavily rely on auditors' perspectives to assess the financial value of a business during a given period (Crucean and Hategan, 2019). If a company collapses despite its financial report failing to accurately reflect its declining financial status, performance, or going concern issues, it is reasonable to question the roles of company directors and auditors. Likewise, if investment decisions are based on financial reports that inaccurately represent a company's financial position and performance, doubts may arise. Therefore, it is in the best interest of directors and audit committees to support the audit process, as they hold responsibility for the financial report's quality, which is inherently linked to the audit's quality (ASIC, 2022). This entails ensuring that management promptly and accurately produces high-quality financial information and that the audit is appropriately resourced. Choosing auditors based solely on price is strongly discouraged, as it does not guarantee a high-quality audit. To instill confidence in the accuracy of financial reports for investors and other users, auditors must obtain reasonable assurance of the absence of material misstatements, exercise skepticism toward accounting estimates and treatments, and address any identified deficiencies (ASIC, 2022).

2.1.3 Concept of Auditors independence

Babatoolu et al (2019) dissidents that auditor's independence has been for some time acknowledged as the underpinning of the public accounting professional and that has favored to administer itself. It is imagined to mean both "independence of mind also, independence for all intents and purposes" (Ajape, Alade and Agbaje, 2021) and guarantee the likelihood that an external auditor would report any distinguished material misquotes in the financial explanations brought about by misrepresentation or blunder (Otuya, 2019). The prerequisites from the IFAC code act as a rule for auditors to guarantee conformance with legal and professional necessities for delivering of audit administrations (Salawu, 2017). The Institute of Internal Auditors defines independence as a situation or condition in which an internal auditor is free to perform his duties without being subjected to any pressure that would prevent him from acting impartially when drawing conclusions. Audit firms that are more independent are probably going to offer administrations that increase the value of the client subsequently offering greater quality audit. Supporting this line of contention, Fadjarenie (2019) affirm that nature of audit relies upon auditor independence. Thus, on the off chance that the auditor's independence is suspicious, it can lessen the quality of an audit. The independence of the auditor meaningfully affects the audit's quality. Auditing guarantees an independent review of financial information to assess the internal control system sufficiency in presence (Olabisi et al, 2020).

Throughout the long term, enhancement for the examining process has been upgraded to introduce quality audit practice by further developing auditors' freedom both by all accounts and as a main priority, consequently relieving the gamble of organizations' breakdown in the wake of giving clean audit report (Abbah and Sadah, 2020). All in all, the audit will be of more prominent quality, as well as the other way around, the more autonomous the auditor is. To effortlessly report any occurrences of misrepresentation, an auditor should be free. An autonomous auditor doesn't submit to the executives or any other individual, which forestalls instances of duplicity and financial statement control. The four markers of independence that are known to be the most delegate in making sense of idle independence factors are an irreconcilable situation, obstruction checking, material audit proof, and audit proof (Shivangi Mathur, 2016). Auditors have the obligation to tell the truth in all audit commitment. This addresses the bedrock of all audit commitment. Auditors' independence is the independence from constraints influencing auditors' objectivity and expert judgment in this way expanding partners' trust in the auditing system and upgrading audit quality (Wakil *et al*, 2020). To improve objectivity and alleviate information imbalance, auditors should be believed to be autonomous at the top of the priority list and apparently. Hence, outright independence requires the presentation of expert doubt with next to no excessive impact. The effects of this research are that in order to improve the quality of audit results, the crucial components that should be improved are independence from conflicts of interest, independence from interference to identify and remove specific parts that were inspected, independence in choosing the object to be examined and the required evidence, and independence in gathering audit evidence

2.1.4 Concept of auditors' competence

Auditors should be skillful to rapidly and precisely distinguish the utilization of misrepresentation prompting cheats and designing ploys. A research led by Hartan *et al*. (2016) shows that competence affects the auditor's capacity to recognize fraud. An auditor needs competence to identify rapidly and exactly the presence or nonattendance of fraud on an organization's financial statements. Syah *et al,* (2018) express that the competence of an auditor influences the consequences of the audit quality. Likewise, an auditor should have independence in leading audits in request to have the option to give sentiments or ends as they are with no impact from closely involved individuals. Nasriana *et al,* (2015) defined competence as a crucial quality of a direct individual impact on one's prosperity at work or can foresee phenomenal execution. The first general Standard Audit Standards section 210 in the Professional Standards for Public Accountants (2011) states that the audit should be done by an individual or who has adequate specialized skill and training as an auditor. Wulandari (2017) expressed in his examination that an auditor should have insight in his audit exercises, formal schooling and work insight in the accounting profession are two significant and corresponding things all together to deliver great audit quality. Kovinna and Betri's (2015) in their research highlighted that competence has a great impact an auditor in creating great audit quality. In view of the portrayal above, it tends to be noted that a competent auditor is an individual who has skills in the field of auditing who generally gains from previous occasions. Subsequently, audits are done with experience that will bring about better audit quality.

The objective of auditing is to plan unprejudiced judgment in regard to the level of conformity of an organization's financial statement with the characterized standards (umar dan Purba, 2018). As indicated by the Public Accountant Professional Code of Ethics (PAPCE) while applying proficient information and expertise to offer skillful expert types of assistance, it should be inspected cautiously. To keep up with capacities, steady mindfulness and comprehension of the improvement of applicable business abilities are required. Proceeding with professional preparation and advancement is vital to upgrade and keep up with practioners capacity to perform successfully in proficient settings. This research recommends that increasing an auditor's competence is one method for recognizing fraud. Two components of capabilities are information (information adequate to play out the audit, capacity to play out the audit by relevant auditing standards, and capacity to rapidly examine the audit too) and mental qualities (the capacity to speak with the audited too, have an extraordinary interest in the competence of the audit, have the option to help out the audit group, and have a decent eye for perception in audit strategies) (Shivang, 2016). In conducting audits, auditors with high competence generally stick to a prospect of rules to guarantee that they can create high-quality audits following audit standards. Auditors who lead audits to help their professionalism as a certified public accountant must be guided by audit standards set by statutory bodies. The Auditor must adhere to professional codes of conduct, which govern auditor behavior when doing professional activities for other members and the general public, in addition to audit requirements. According to (Nandari and Latrini, 2015), an auditor's sense of accountability for completing audit work can have an impact on the caliber of their job.

2.1.5 Concept of Audit Fees

The term "audit fee" refers to the service price for doing an audit (Ilechukwu, 2017). It also refers to the costs associated with conducting yearly audits and reviews of financial statements for the most recent fiscal year (Afesha, 2015). The CAMA's Segment 361 states that the directors may choose the auditors' compensation. However, in some circumstances, the organization's annual general meeting or a general meeting of the organization may decide to set the compensation (Nwakaego *et al*, 2019). Because the audit market is heavily controlled and there are few opportunities to make rents, it is generally accepted in the accounting literature that audit fees represent the work of auditors. Audit companies demand a higher price corresponding with the amount of labor required in the auditing process in expectation of more audit work, such as more thorough reviews and closer staff supervision (Krishna *et al,* 2013). As a result, audit fees indicate to the market that the financial information now has more trustworthiness, raising business value. Sukrisno Agoes (2012) characterizes an audit fee as how much the charge depends, among others, the gamble of the task, the intricacy of the services gave, the degree of ability expected to complete the services of capability level, the expense design of the firm concerned and other professional contemplations. Due to the financial ties that exist between the auditor and auditee, large audit fees may be seen as having an impact on auditor independence. The credibility of the audit and financial statements are harmed if lenders believe that the independence of the auditors is in danger. The need for audit, on the other hand, is thought to rise as agency issues do (Esplin *et al,* 2018). As a result of the audit effort (more work hours) and the auditor's experience (higher fees per hour), greater audit fees may be seen as the outcome of the auditor's monitoring being more successful (Paul Munter, 2022).

2.1.6 financial fraud

According to Udeh and Ugwu (2018), fraud is the deliberate misrepresentation of facts, involving falsification or fabrication, with the intention to gain an advantage or conceal illicit activities, leading to misleading information and potential loss for users. Fraud is a pervasive concept, often difficult to detect until it is too late. The Institute of Internal Auditor's International Standards for the Professional Practice of Internal Auditing (Standards) defines fraud as any unlawful act characterized by deception, concealment, or violation of trust, without necessarily involving violence or physical coercion. Parties and organizations engage in fraud to acquire money, property, or services, evade payment or loss of services, or secure personal or business benefits (The IIA's 2017). One constant aspect of fraud is its ever-changing nature, as fraudsters continually devise new methods to commit fraud and cover their tracks. Consequently, managing fraud is a complex and ongoing process that requires a deep understanding of its underlying causes and effective mitigation strategies (Georgios, 2019). Fraud is also a deliberate negation of transactions, relationships, and associations (Natalia et al., 2019). Building upon Cressey's fraud triangle theory and the expanded version of Wolfe and Hermanson's fraud diamond theory, fraud occurs when individuals are compelled or motivated to engage in fraudulent behavior, possess the capability and opportunity to do so, and are able to rationalize their fraudulent actions.

Although the management of each and every department is fundamentally entrusted and answerable for the recognition of fraud, internal auditors are practically made in the organization to give esteem value services and urged to have adequate information on ideas and signs of fraud (Elsayed *et al*, 2017), for they are particularly and roughly situated to the internal functions of the association (Breslin *et al*, 2017). and have the option to impartially decide the dependability and uprightness of the business activities important to forestall, distinguish, or limit fraud. Investors suffer large losses each year as a result of fraud. Asset theft, improper financial reporting, or, more broadly, corruption, are all types of frauds that have an impact on issuers and their investors. According to the Association of Certified Fraud Examiners ("ACFE"), firms lose 5% of their annual income to fraud, translating to a loss of $4.7 trillion globally (ACFE, 2022). As a result, auditors must continuously reevaluate fraud risks during the audit, especially while analyzing the audit outcomes and assessing if they have independently gathered enough relevant audit evidence. For instance, when carrying out analytical methods, auditors should determine whether any unusual or unexpected transactions or links are found that might be a sign of a fraud risk that has not yet been discovered.

2.3 Theoretical Review

The study is based on three theories: the agency theory, the auditors' theory of inspired confidence, and the fraud triangle theory

2.3.1 Agency Theory

The agency theory is a well-established concept in the fields of management and economics, as highlighted by Daily *et al*. (2003) and Wasserman (2006). It delves into the challenges that arise within businesses due to the separation of owners and management. Specifically, agency theory provides insights into the various governance structures implemented to regulate the behavior of agents in jointly held corporations. Adam Smith (1937) was one of the early proponents who raised concerns about the possibility of an agency problem within organizations. He drew attention to the risk that managers, who are not the actual owners, may prioritize their own interests instead of acting in the best interests of the owners. Building on this idea, Berle and Means (1932) conducted a thorough examination of the ownership structure of major American corporations in their thesis. Their findings shed light on the fact that these corporations were predominantly managed and controlled by agents who acted on behalf of the owners.

According to Jensen and Meckling (1976), moral hazard is a circumstance in which agents may be faced with the choice of working against the interests of their principals in order to maximize their own income. Principals are unable to assess whether an agent's activities are in the firm's best interests since they do not have access to all the facts at the time the agent makes a choice. Principals and agents participate in contracting to attain optimality, including the implementation of monitoring procedures like auditing, to lessen the possibility of the moral hazard. When principals designate agents and grant them some decision-making authority, they are putting their faith in the agents' ability to act in their best interests. Principals may, however, lack confidence in their agent due to knowledge asymmetries between them and the agent's various motivations, in which case they may need to put in place mechanisms, such as the audit, to bolster this confidence. Therefore, agency theory is a useful economic theory of accountability that aids in explaining how audit quality has evolved.

Perrow (1986) criticized positivist agency scholars for focusing solely on the agent side of the 'principal and agent dilemma,' arguing that the problem might also occur on the principal side. He noted that the principals who deceive, shirk, and exploit the agents are unaffected by this theory. Furthermore, he stated that agents are unknowingly dragged into work in a hazardous working environment with no room for encroachment, where principals act opportunistically. In another sense, he felt that humans are honorable and labor morally for the benefit of the company. This debate lasted in the finance literature and evolved into the stewardship idea (Donaldson, 1990). Even though agency theory is very pragmatic and popular, it still has several limitations, as documented by many authors such as Eisenhardt (1989), Shleifer and Vishny (1997), and Daily et al. (2003). The theory implies a limited or limitless future contractual arrangement between the principal and agent. When the future is uncertain. The theory suggests that contracting may solve the agency problem, but in practice, it is hampered by issues such as information asymmetry, rationality, fraud, and transaction cost. Shareholders' main interest in the firm is to maximize their return, yet their position in the firm is limited. Directors' functions are confined to monitoring managers, and their additional responsibilities are unclear. The theory regards managers as opportunistic and disregards managerial competence.

This idea, which is related to this study, discusses how managers administer the company on behalf of the shareholders who own the company. The managers' next tasks include managing the company successfully, making sure that resources are utilized effectively, and providing an update on the company to the shareholders. This theory led to the establishment of auditing to ensure that management provides shareholders with a genuine and fair report.

2.3.2 Auditor's theory of Confidence

The Limperg Institute in the Netherlands created the auditors' theory of inspired confidence in 1985. It provides a connection between the users' need for credible and accurate financial reporting and the ability of the audit processes to satisfy those needs. It considers how these needs of the general public (stakeholders) and the Processes are audited throughout time. According to the idea of inspired confidence, the need for expert and independent examination as well as the necessity for an expert and independent judgment backed by the examinations are what give the auditor acting as a confidential agent in his broad duty in society. The public continues to anticipate a low percentage of audit failures thus accountants and auditors are required to be aware of this.

The notion of inspired confidence's fundamental premise is that the auditors' obligations and responsibilities are a result of the public's belief in the effectiveness of the auditing process and the assurance provided by the accountant's view. A betrayal of confidence logically results in the process or function being terminated because this confidence determines whether the process exists. When society's faith in the efficiency of the audit process and the audit report is misplaced, Carmichael (2004) asserted in a discussion of the social significance of the audit, the audit's value relevance is undermined. Because an audit failure effectively means the end of a career, auditors are expected to maintain sufficient quality assurance.

This theory, like this research, emphasizes the need to carry out an efficient and impartial investigation in order to deliver an accurate and impartial report to the society and stakeholder who are the users of the information. Users of financial reports must have faith in the information provided to them; as a result, they anticipate a thoroughly audited report with little to no evidence of fraud or other defaults. To create a report with high confidence, the audit process must be carried out properly, all regulatory requirements must be followed, and all other necessary requirements or processes must be followed.

2.3.3 Fraud triangle theory

According to the fraud triangle theory, which Donald Cressey created in 1971, there are three main elements that influence people to commit fraud. These elements include perceived opportunity, felt pressure, and perceived justification. This theory's central assumption states that every fraudster is driven by perceived pressure, which may come from work- or personal-related sources. The perceived pressure acts as a driving force for the individual to commit fraud in order to satisfy the expectation, specifically the financial pressure that is being placed on him or her. Psychologically, the fraudster feels that he or she cannot be discovered while doing the crime. However, this view backs up the idea that for a person to commit fraud, there must have been lax internal controls and punitive measures in place before the crime was casually carried out. As a result, the fraudster will find it simple to justify their actions as morally righteous.

In the fraud triangle theory proposed by Cressey (1971), it is suggested that individuals participate in corporate fraud when they identify an opportunity or loophole and choose to exploit it. However, this theory lacks consideration of various internal and external factors that can contribute to fraud, resulting in negative impacts on the market value of organizations. This gap in the theory led to the development of alternative hypotheses, including the differential association fraud theory introduced by criminal scholar Edwin Sutherland in 1974. According to this theory, individuals acquire knowledge of fraud through their interactions with other fraudsters, indicating that maintaining relationships with experienced criminals can lead individuals to become professional fraudsters themselves. However, this theory overlooks the underlying motivations that drive individuals to engage in fraud. While it highlights the ease of learning criminal activities, it fails to address the root causes behind individuals' decisions to commit fraud. The theory emphasizes the need for transforming business ethics to achieve significant reductions in fraud. Therefore, within the framework of this hypothesis, without management addressing and modifying corporate ethics, the likelihood or persistence of fraud is expected to increase.

This theory focuses specifically on the factors that contribute to fraud, including the presence of perceived pressure. In situations where employees are faced with significant pressure, such as being assigned high objectives with tight deadlines, managers may occasionally encourage their employees to engage in fraudulent activities. These employees may feel compelled to cut corners because they perceive it as their only option. Additionally, the theory suggests that for an employee to commit fraud, there must have been a weak internal control system within the organization. This implies that the internal controls were ineffective, administrative controls were poorly implemented, physical controls were not properly enforced, and the internal audit failed to conduct a thorough and unbiased investigation.

2.4 Empirical Review

Several studies have evaluated the quality of audits carried out by Nigerian DMBs,

Emeka-Nwokeji et al, (2022) carried out an investigation of the determinants of audit quality of companies listed on the Nigerian Exchange group and employed a panel data technique. Ex post facto study design and the positivist research paradigm were used. Thus, secondary information was gathered from a sample of 14 businesses that were purposefully chosen from non-financial enterprises between the years of 2012 and 2019 and resulted in 112 firm-specific observations. The dependent variable is audit quality as determined by accrual quality as defined by Dechow and Dichev in 2002. The independent variables include audit fee, audit independence, audit switching, and audit effectiveness (audit firm size). The study's findings showed that the independent factors employed in the study collectively explained around 11% of the difference in the audit quality of the tested organizations. A study by Adeyemi, Adeyemi, and Ogundipe (2019) revealed that the quality of audits undertaken by

DMBs in Nigeria was typically low, since auditors commonly failed to discover financial wrongdoing. The study also revealed that DMBs with greater audit fees tended to have higher audit quality. The audit fee, audit independence, audit switching, and audit effectiveness (audit firm size) were all negatively but not significantly correlated with accrual level, according to the beta coefficients of the variables. This shows that by lowering the accrual threshold, the independent factors improve audit quality. The study came to the conclusion that audit quality of the chosen companies was positively but insignificantly impacted by audit fee, audit independence, audit switching, and audit effectiveness by lowering accrual level. The study supports the Agency theory's contention that a third party hired by the owners can lessen managers' opportunistic behavior.

Concerns regarding the effectiveness of audit quality and fraud mitigation techniques were highlighted in a recent study conducted by Hela et al. (2022). The study proposes a combination of Z-score and Beneish M-score as a more comprehensive indicator for assessing fraud risk. Using regressions based on the Logit model, the study analyzed a sample of 5,613 publicly traded US companies. The findings suggest that certain factors, such as having an internal auditor and independent members on the audit committee, can potentially reduce the risk of fraud. Additionally, engaging a reputable external auditor who is remunerated with substantial fees also proves beneficial. The study reveals that corporate profitability and growth prospects have a negative impact on fraud risk, while firm leverage acts as a catalyst for false financial reporting. It is important to note that the study emphasizes the monitoring function of audits in mitigating fraud risks. The chosen approach also facilitates the early detection of fraud by various stakeholders, including management, bankers, auditors, and regulators, enabling timely actions to be taken.

Shaojin Yang (2022) in his study, an empirical study on audit quality and financial fraud of audited companies found that in recent years, the seemingly endless cases of corporate financial fraud revealed, set off a wave, the detrimental effect on maintaining the market economy's order is significant, while causing widespread concern among scholars. In order to study financial fraud behavior in depth, this paper selects the violation information of listed companies in 2010-2020 as the research sample, through the use of Studying the connection between audit quality and corporate financial fraud reveals that raising audit quality efficiently suppresses the incidence of financial fraud.

In his study titled "Factors Affecting Auditors' Ability to Detect Fraud," Almir Dian (2022) investigated the influence of auditor independence, competence, professionalism, skepticism, and time restrictions on their ability to identify fraud. The research obtained primary data from auditors employed by a Public Accounting Firm (KAP) based in East Jakarta, with permission from the Ministry of Finance and data collection completed by November 2021. A convenience sample technique was used to select 52 participants for the study. Multiple regression models in SPSS 25 were employed to test the hypotheses. The findings indicate that auditor independence has a positive impact on the auditor's ability to detect fraud. However, no significant impact was observed for auditor competence and time pressure. On the other hand, professional skepticism was found to have a positive impact on the auditor's ability to detect fraud.

The effect of experience, competence, independence, and professionalism of auditors on fraud detection is discussed by Lingga and Supriyati (2015). they analyzed the impact of professionalism, experience, competence, and independence as independent factors on fraud detection as the dependent variable. The auditors who work for Surabaya-based public accounting firms make up the study's population. The sample for this study is made up of 58 auditors from 12 Surabaya public accounting firms. Data was gathered by surveying senior accountants who work for the Surabaya City-based public accounting firm who answered the questionnaires. Purposive sampling is used as the sampling methodology, and multiple regression analysis is used to evaluate the study data using SPSS version 20.00. According to the research findings, the factors of experience, competence, and professionalism have an impact on fraud detection. However, the independent variable has no impact on the detection of fraud.

(Yudistira and Armanto, 2020) analyzed the impact of auditors' professional skepticism, independence, expertise, and experience on their ability to detect fraud. This study has a causality or causal connection research design. Purposive sampling was employed to choose the 74 respondents for the study's sample, all of whom are auditors at public accounting companies. Multiple linear regression analysis is the data analysis technique employed. The findings demonstrated a beneficial relationship between professional skepticism, competence, and experience and auditors' capacity to identify fraud. The independence of the auditor's ability to detect fraud has a negative consequence. The study's main finding is that competence is the most important factor for auditors to promptly and properly determine whether there is fraud.

Uche Okoro (2022) set out to determine if audit fees paid by Nigerian deposit money banks were related to their financial performance. Panel data gathered from the financial reports of ten (10) Nigerian banks for the years 2014 to 2020 were utilized in the study, which used an ex-post facto research approach. Financial performance was the dependent variable, as determined by return on asset, and audit fee was the independent variable. Leverage and firm size both served to modify the variables. The data was examined using E-Views version 10 and the Generalized Method of Moments (GMM) Model. The findings showed that audit fee has a positive and significant impact on banks' financial performance, but company size and leverage have a negative but significant impact. As a result, the study draws the conclusion that audit fees have a favorable impact on the financial performance of Nigerian banks. The report suggests, among other things, that bank management make sure that the auditors' audit fees translate into greater audit quality, on which financial users rely.

2.5 Summary

This chapter provides an introduction to the concepts discussed in the literature review. It covers the concept of audit quality and its importance in closing the knowledge gap on accounting numbers and reducing the risk of financial fraud. The chapter also highlights the determinants of audit quality, including auditors' independence, competence, and audit fees. Furthermore, it discusses the significance of auditors' independence, which ensures that they have the freedom to carry out an audit and report any material misstatements in financial statements resulting from fraud or errors. The concept of auditors' competence is also explored, emphasizing the need for auditors to have the skills and knowledge to detect and prevent fraud. Additionally, the chapter introduces the concept of audit fees, which reflect the amount paid to auditors for the work and effort put into the auditing process. Finally, the chapter defines financial fraud as the intentional misrepresentation of facts to gain an advantage or hide illicit activities, emphasizing the need to address and prevent fraud to protect users of financial information.

Overall, Chapter Two provides a comprehensive overview of the concepts and factors related to audit quality and financial fraud. It sets the foundation for the subsequent chapters of the project, where these concepts will be further examined and analyzed in the context of Nigerian deposit money banks. The chapter establishes the importance of audit quality and highlights the key determinants that influence it. Additionally, it emphasizes the significance of auditors' independence, competence, and the role of audit fees in ensuring high-quality audits. Finally, it defines financial fraud and emphasizes the need to address and prevent fraudulent activities to maintain the integrity of financial information.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research design.

This study employs both descriptive and historical research designs due to the nature of the study. Historical research means looking for facts from an integrated narrative of past events using published financial statement of Zenith, First and Access bank from 2018- 2022. The purpose of historical research is to provide a clear perspective on current issues that can be better understood through past history. The descriptive design explains and simplifies what the phenomenon is in a more comprehensible form or way.

3.2 Population of the study

According to the Central Bank of Nigeria (CBN), there are currently 33 depository banks in Nigeria. The study population consists of 15 depository banks listed by the Central Bank of Nigeria companies.

Table 3.2.1 below presents list of Banks as listed on the Nigeria Exchange Group (NXG)

S/No	Bank	Date listed on NSE
1.	Access bank	18th November, 1998
2.	Diamond bank	25th May, 2005
3.	Ecobank Nigeria plc	24th April, 2006
4.	Fidelity Bank Nigeria	17th May, 2005
5.	First Bank of Nigeria	March, 1971
6.	Wema Bank	13th February, 1991

7.	Guaranty Trust Bank	9th September, 1996
8.	Skye Bank	24th November, 2005
9.	Stanbic IBTC Holding Plc	November 23, 2012
10.	Sterling Bank	17th August, 1993
11.	Union Bank of Nigeria	March 30, 1969
12.	United Bank for Africa	March 31, 1970
13.	Zenith Bank Plc	21st October, 2004
14.	FCMB	21st December, 2004
15.	Unity Bank Plc	Jan 1, 1970

Source: NXG (Listed companies 2022).

3.3 Sampling and sampling techniques

Data were gathered from previous studies by researchers and from published financial statements of deposit money banks listed by the Central Bank of Nigeria. To guide omission of data and ensure fair representation and availability of the required data, this study follows scientific methods for determining sample size. When selecting deposit banks from the population, the study used simple random selection to select the study sample and three banks were selected. they are**:** Access Bank, Zenith Bank, First Bank.

3.4 Sources and methods of data collection

This study uses secondary sources of data collection. Secondary sources of data for this study were obtained from previous studies by the researchers and audited financial statements of deposit money banks used in this study. Data gotten were from the annual reports of three selected First Bank. Zenith Bank and Access Bank over a period of 5 years spanning from 2018-2022. The researcher made use of the metrics that includes Financial

Fraud, Auditors independence, Auditors competence, Audit Fee and Audit size. Also, data were gotten from journals, publications, magazines, newspapers, papers presented at symposia, and books of authors that contributed to the review of literature in the previous section.

3.5 Techniques of Data Analysis

Secondary source was utilized to collect the data for investigating the correlation between audit quality and financial fraud. A multiple regression analysis was conducted to assess the relationship between the independent variables and the dependent variable, while correlation coefficients were employed to measure the strength and direction of the relationship between the variables. The validity of the model was assessed using various techniques, including descriptive analysis, correlation coefficient (r), and regression analysis.

3.6 Measurement of Variables

The independent variable is audit quality (AQ), which is represented by the independence, competence, audit fees of the auditors, and audit firm size. While the dependent variable is financial fraud (FINFRA). The measurements for each of these variables are shown below.

S/N	Model	Measurement	Source
1	Auditors Independence	Measured in terms of number of years spent as auditor for sample banks. If greater than 3, we assign 1, else 0.	Ezejiofor, Erhirhie (2018)
2	Auditors Competence	"1" if there is there is a change in audit firm and "0" if otherwise	Amahalu, Beatrice (2017)

3	Audit fee	Natural log of audit fees paid by the deposit money bank	Nwoha and Udeh (2020).
4	Audit size	Number of total directors/ non-executive director on the committee	Ejiofor, Erhirhie (2018)
5	Financial Statement fraud	Z-Score	Saleh, Aladwan (2021)

3.7 Model specification

The model used by Celestine and Collins (2021) is adopted in this study. The model is as follows:

$FSF_{it} = b_0 + b_1AUNIND_{it} + b_2AUDCOM_{it} + b_3AUDFEE_{it} + U_t$ ………..(i)

Where:

FSF= Dependent variable

b_0 = Constant of the regression equation

b_1, b_2, b_3= Coefficients

U_{it}= Error term

The above adopted model is modified to become as follows:

$FINSTFR_{it} = b_0 + b_1AUDIND_{it} + b_2AUDCOM_{it} + b_3AUDFEE_{it} + b_4AUDCOS_{it} + U_t$ ………..(ii)

Where:

FINSTFR= Financial Statement Fraud

AUDIND = Auditor's Independence

AUDCOM = Auditor's Competence

AUDFEE=Audit Fee

AUDCOS= Audit Committee Size

$b_0 =$ regression constant

b_1, b_2 , b_3, and b_4 are regression coefficient

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 DATA PRESENTATION

This section presents descriptive and inferential statistical analyses of data collected in the study in line with the variables identified in the research study. The variables include: Financial Fraud (FINFRA), Auditor's Independence (AUDIND), Auditor's Competence (AUDCOM), Audit Fee (AUDFEE), and Audit Committee Size (AUDCOS).

4.2 Descriptive Data Analysis

Table 4.1 Descriptive Statistics

```
. tabstat audind audcom audfee audcos finfra, statistics( mean median count min m
```

stats	audind	audcom	audfee	audcos	finfra
mean	.3333333	.2666667	380.7333	11.93333	2.38558
p50	0	0	500	12	.7264
N	15	15	15	15	15
min	0	0	25	6	.0275
max	1	1	660	18	7.882
sd	.48795	.4577377	269.5532	3.104528	2.933073
skewness	.7071068	1.05529	-.5175625	.3459133	.9310654
kurtosis	1.5	2.113636	1.46372	2.837973	2.141073

The results in Table 4.1 above shows the minimum, maximum, mean and standard deviation for all the variables of the 3 listed banks: First Bank, Zenith Bank and Access Bank. The variable "AUDIND," which represents the years of experience of auditors, has a mean of 0.3333333, a range of 0 to 1, and a standard deviation of 0.48795. The higher standard deviation compared to the mean suggests a high level of variability.

The variable "AUDCOM," representing auditors' competence, demonstrates a range from 0 to 1, with an average value of 0.2666667. Its standard deviation of 0.4577377 highlights considerable variability compared to the average set at 26%. These findings suggest that a significant proportion, ranging from 26% to 45%, of financial fraud can be attributed to inadequate audit quality, specifically arising from the incompetence of auditors.

The variable (AUDFEE), representing auditor fees, has an average value of 380.7333, ranging from a minimum of 25 to a maximum of 660. It also has a standard deviation of 269.5532, indicating the level of variability in financial fraud that can potentially occur in selected deposit money banks due to the fee paid to auditors. The relatively low standard deviation of 269.5532, compared to the mean of 380.7333, suggests a moderate level of variability in this context.

(AUDCOS) shows a mean of 11.93333 and a standard deviation of 3.104528. The minimum and maximum values are 6 and 18 respectively. This indicates the level of financial fraud attained if the audit quality measured by audit committee size is effective in the selected deposit money bank. The standard deviation of 3.104528 and mean of 11.93333 shows a low variability of the mean from the standard set.

Specifically, auditors' competence has a minimum value of 0 and a maximum value of 1 with a mean of 0.2666667 and a standard deviation of 0.4577377. From the data above, it can be observed that (AUDCOM) has the lowest standard deviation of 0.4577377 showing its most contribution to the model while the other variables with higher standard deviations depicts their least contribution to the model. Finally, the mean value of (FINSTFR) is 2.38558 and the standard deviation is 2.933073. indicating that the probability of financial fraud occurrence between 2018 and 2022 is about 23%.

Table 4.2 Normality Test

	N	Skewness	Kurtosis

	Statistic	Statistic	Std. Error	Statistic	Std. Error
AUDIND	15	.788	.580	-1.615	1.121
AUDCOM	15	1.176	.580	-.734	1.121
AUDFEE	15	-.577	.580	-1.667	1.121
AUDCOS	15	.386	.580	.306	1.121
FINSTFR	15	1.038	.580	-.695	1.121
Valid N (listwise)	15				

Source: SPSS Output

Table 4.3 shows the normality test (skewness and kurtosis) values on all variables. The AUDIND shows a skewed value of 0.788 which indicates the values are positively skewed to the right and at a moderate level on the normal curve. The value of kurtosis represented as -1.615 (which is a negative value) shows the point of the data. The skewed and kurtosis standard error of 0.580 and 1.121 indicates a moderate level of uncertainty.

AUDCOM shows a skewed value of 1.176 which indicates that most of the data are positively skewed to the right in contrast to the symmetrical distribution curve. The kurtosis shows a value of -0.734 indicating a negative value and representing the peak of the data.

AUDFEE has a skewed value of -0.577 indicating a negatively skewed data to the left which is in violation of the symmetrical assumption but still within the acceptable range of -3 and +3. The value of kurtosis of -1.667 also is negative reveals the point of the data. The standard error of 1.121 shows a moderate level.

AUDCOS reveals a skewed value of 0.386 which is positively skewed to the right as relating to the data distribution. The value of 0.306 on kurtosis shows a positive value and represents the peak of the data. The value suggests that the data is at the moderate level with the mean. The standard error of 1.121 indicates an acceptable level.

Table 4.3

Correlation results of the Annual Report of the deposit money bank listed on NGX

		AUDIND	AUDCOM	AUDFEE	AUDCOS	FINSTFR
AUDIND	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	15				
AUDCOM	Pearson Correlation	-.426	1			
	Sig. (2-tailed)	.113				
	N	15	15			
AUDFEE	Pearson Correlation	-.140	.051	1		
	Sig. (2-tailed)	.618	.857			
	N	15	15	15		
AUDCOS	Pearson Correlation	.063	.164	.381	1	
	Sig. (2-tailed)	.824	.559	.161		
	N	15	15	15	15	
FINSTFR	Pearson Correlation	.088	-.258	-.891**	-.343	1
	Sig. (2-tailed)	.754	.353	.000	.211	
	N	15	15	15	15	15

**. Correlation is significant at the 0.01 level (2-tailed).

Source: SPSS Output

The table above shows the correlation results on the relationship between (FINSTFR), (AUDIND), (AUDCOM), (AUDFEE), and (AUDCOS). The auditor's competence shows a negative relationship and is statistically insignificant at 1%.

The correlation between (AUDFEE), (AUDIND)and (AUDCOM) are -0.140 and 0.051. There exists a positive relationship between audit fee and audit competence. Which shows that the competence of audit work undertaken depends on the fee paid to auditors.

The correlation between (FINSTFR), (AUDIND), (AUDCOM), (AUDFEE), and (AUDCOS) are 0.088, -0.258, -0.891 and -0.343. It shows that there exists a negative relationship between financial fraud and auditor's competence, audit fee and audit committee size while a positive relationship subsists amongst the independence of auditors and the level of financial fraud.

4.3 Test of hypothesis

Table 4.4: Regression Results

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	6.286	1.370		4.587	.001
	audit independence	-1.037	.804	-.173	-1.291	.226
	audit competence	-1.898	.853	-.296	-2.225	.050
	audit fee	-.010	.001	-.927	-7.165	.000
	audit committee size	.066	.124	.070	.535	.605

a. Dependent Variable: financial fraud

Source: SPSS Output

The table presented above displays the coefficient results for the variables (FINSTFR), (AUDIND), (AUDCOM), (AUDFEE), and (AUDCOS). Specifically, the coefficient result between (AUDIND) and (FINSTFR) is (r = -1.037, p = .226). This indicates a negative relationship, but the p value is above the significance level, rendering the result statistically insignificant. Hence, we accept the null hypothesis, which suggests that the auditor's independence has no significant influence on financial fraud in Nigerian deposit money banks.

The result of coefficient between (AUDCOM) and (FINSTFR) is (r=-1.898 p =0.050) which is negative (a negative relationship) with a beta of 0.050 which is exactly at the significant level of 0.050. We therefore reject the null hypothesis which states there is no significant relationship between auditor's competence and financial fraud in Nigeria deposit money banks.

The result of coefficient between (AUDFEE) and (FINSTFR) is ($r=-0.10$, $p = 0.000$) which shows a negative relationship and a beta value of 0.000 less than the significant level of 0.05. We therefore conclude that audit fee significantly affect the level of financial fraud and we reject the null hypothesis which states that the audit fee does not have a significant effect on financial fraud in Nigeria deposit money banks.

The table also contains the coefficients of the regressors. The constant, **$\alpha 0$** has an unstandardised beta coefficient of 6.286 (p value $\leq$ .001). (AUDIND) has a coefficient, **$\alpha 1$**, of -1.037 (p value $\leq$ .226), confirming a negative, relationship between financial fraud and audit competence, earlier established from the correlation analysis.

(AUDCOM) has a coefficient, **$\alpha 2$**, of -1.898 (p value $\leq$ .050), showing a negative relationship and its statistically significant at 5%. (AUDFEE) has a coefficient, **$\alpha 3$**, of -0.010 (p value $\leq$ .000), corroborating the negative relationship and statistically significant at 5%. Audit Committee Size (AUDCOS) has a coefficient, **$\alpha 4$**, of 0.066 (p value $\leq$ .605), showing a positive relationship between the audit committee size and level of fraud detection. This therefore means that the size of the audit committee (quality) will determine the level of fraud that will be committed.

4.4 Discussion of Findings

This study's objective was to investigate how audit quality affects financial fraud in Nigerian deposit money banks. Previous sections presented both descriptive and inferential analyses of data collected for the study.

These analyses were carried out in line with the research objectives which are specifically set to examine the effect of auditor independence on financial fraud, evaluate the relationship between auditor competence and financial fraud as well as to find out if audit fees affects financial fraud in Nigerian deposit money banks. The analysis phase involved conducting descriptive statistics, normality testing, correlation analysis, regression analysis, and hypothesis testing. These statistical techniques were utilized to investigate the potential impact of audit quality on financial statement fraud within deposit money banks in Nigeria. Both null and alternative hypotheses were formulated to thoroughly examine this relationship. Rejecting the null hypothesis would be necessary if the results of the regression analysis were significant (F-statistics 0.05). On the other hand, if the F-statistics are greater than 0.05 (F-statistics $\geq$ 0.05) this indicates that the result is not significant, and we would accept the null hypothesis, which corresponds to the variable or test that we are trying to measure or test. In order to conduct the analysis, statistical software like SPSS and STATA was used. This allowed for an evaluation of the research hypotheses and the compilation of findings that matched the objectives of the study.

The first independent variable (auditor's independence) was measured in terms of number of years spent as auditors for sampled banks. If greater than 3, we assign 1, else 0. The descriptive analysis was carried out and it had a minimum value of 0 and a maximum value of 1, the value of 0.3333333 has a standard deviation of 0.48795. The fact that the standard deviation, which is 0.48795, is more than the mean, which is 0.3333333, suggesting that there is a lot of variability. Financial fraud and auditor's independence are positively correlated, with a result of 0.088 indicating that there is a link between the extent of financial fraud and auditor's independence. auditor's independence displays a skewed value of 0.788, indicating that the values are positively skewed to the right and at a moderate level on the normal curve; a kurtosis value of -1.615, indicating the point of the data; and standard errors for skewed and kurtosis of 0.580 and 1.121, respectively, indicating a moderate level of uncertainty. This shows that auditors have a little tendency to show more independence than dependency. This is encouraging since the independence of auditors is essential to preserving objectivity and impartiality in their work. For the test of the hypotheses, the result of the coefficient between auditor's independence and financial fraud is -1.037 p value of 0.226. This shows a negative relationship and a p-value above the significant level which makes the result insignificant. We therefore accept the null hypothesis which states that there is no significant influence of the auditor's independence on financial statement fraud in Nigeria deposit money banks. The current finding aligns with previous studies conducted by Lingga and Supriyati (2015) and Yudistira and Armanto (2020), which concluded that auditor's independence does not significantly affect fraud detection. However, it contradicts the findings of a study conducted by Almira Dian (2022), which suggests that auditor's independence positively influences the ability to detect fraud.

The second variable, auditor's competence, was determined by the following formula: if the audit firm changes, we assign 1; otherwise, we assign 0. For example, if one of the Big Four firms (PwC, KPMB, Earnest & Young, and Deloitte) is auditing a company's financial statements in a given year, we assign 1; otherwise, we assign 0. The average level of competence for auditors is 0.2666667, with a minimum score of 0 and a maximum score of 1. Its standard deviation, which is 0.4577377 (46%), portends that there is a lot of variability compared to the average, which is 26%. This further demonstrates the extent of financial fraud caused by audit quality as determined by the competency of the auditors at a level between 26% and 45%. A skewed value of 1.176 indicates that the majority of the data are positively skewed to the right. The kurtosis displays a value of -0.734, which denotes a negative value and the data peak. This implies that most auditors demonstrate a high level of competence and that majority of auditors possess similar level of competence. The auditor's competence and audit fee are correlated by 0.051. The audit fee and audit competence have a positive relationship. It demonstrates how the compensation given to auditors affects their ability to do an audit. Financial statement fraud and auditor's competence have a negative correlation (-0.258). It shows that financial statement fraud and auditor's competence have an unfavorable association. For the test of hypotheses, the result of the coefficient between auditor's competence and financial statement fraud is -1.898 with a p value of 0.050 which shows a negative relationship with a p-value of 0.050, precisely at the significant level of 0.050. Therefore, based on the obtained results, we can reject the null hypothesis that suggests no significant correlation between financial fraud in Nigerian deposit money banks and auditor competence. These findings are consistent with the research conducted by Yudistira and Armanto (2020), which indicates a positive relationship between auditor competence and their ability to detect fraud. Moreover, their study emphasizes the crucial role of competence in enabling auditors to promptly and accurately identify instances of fraud.

The third variable, audit fee, was calculated as a natural log of the audit fees paid by the deposit money banks. The amount of financial fraud that may be obtained on chosen deposit money banks as a consequence of the fee paid to auditors shows an average of 380.7333 with a minimum value of 25 and a maximum of 660 as well as a standard deviation of 269.5532. A comparatively low level of variability is shown by the standard deviation, which reveals a value of 269.5532 with a mean of 380.7333. The correlation between audit fee and financial fraud as determined by the coefficient is -0.10, with a p-value of 0.000, indicating a negative relationship and a beta value of 0.000 less than the 0.05 level of significance. As a result, we draw a conclusion that audit fees have a considerable impact on the amount of financial fraud, rejecting the null hypothesis that suggests audit fees have no significant effect on financial fraud in Nigerian deposit money institutions. This occurs as a result of the audit fee having an impact on an auditor's independence. When an auditor receives an unusual salary or a gift from management, it is obvious that this auditor will not be able to do his job with complete independence since he has been compensated to stay away from particular areas where fraudulent activity may be present. Furthermore, it is crucial to ensure that the audit fee adequately reflects the value of the auditor's professional expertise, experience, and time dedicated to performing the audit. A higher audit fee tends to yield better results and enhance the detection of fraudulent activities. The audit fee plays a crucial role in influencing the auditor's motivation to deliver an accurate and unbiased report that is free from fraudulent practices, thus impacting the overall financial performance of the organization. These findings align with the research conducted by Uche Okoro (2022), which indicates a positive and significant relationship between audit fee and the financial performance of banks.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The Nigerian business environment has been perceived by investors as not being conducive., reasons being the inability of financial reports to meet the needs of its users, constant prevalence of fraud, excessive earnings management and other financial crimes. In the light of the impact of fraud on businesses and also the offenders, it is vital to develop strategies to help prevent its occurrence and curb business frauds, after factoring all the risk nature associated with it and establishing systems on how to properly manage them. On the part of auditors, there is still room for improvement in relations to their ability to detect financial misconduct in banks.

In summary, the study was able to establish that fraud and unethical behavior are widespread in banks and have a detrimental effect on their expansion and business flow. In this study, financial fraud in Nigerian deposit money banks from 2018 to 2022 was evaluated in relation to audit quality. It provided a thorough background for the study, discussed the effect of audit quality on financial fraud, and also explained why the years 2018 to 2022 were chosen. The statement of the problem identified the research gap, which served as the basis for the study's objectives and the research questions that guided the search for solutions. The intention of creating the research hypotheses was to determine the significance of the study. To ensure clarity and prevent misrepresentation, this study provided a detailed explanation of the research procedures, including the definitions of key terms. Furthermore, it conducted a comprehensive review of relevant literature, focusing on independent variables such as auditor's independence, competence, and audit fees, as well as the dependent variable, financial fraud. The concepts of audit quality, auditor's independence, auditor's competence, audit fee, and financial fraud were elucidated based on definitions established by previous researchers. Agency theory, the fraud triangle theory and the theory of auditor's confidence relating to this study were reviewed. The works of previous researchers similar to this study were also evaluated. The Ex-post facto research design was then employed as part of the study's methodology to analyze the relationship between each variable and to determine the significant effect of the independent variables on the dependent variable. Thirteen (13) Deposit Money Banks listed on the Nigeria Exchange Group (NXG) made up the study's population, and three (3) banks were selected using simple random selection. Secondary data was used as the mode of data collection for this investigation. the data was gathered from the audited financial statements of the listed banks. In this study, the model proposed by Celestine and Collins (2021) was adapted and applied. The measurements of all variables and their respective sources were clearly stated. The analysis involved descriptive statistics, a normality test, correlation analysis, and hypothesis testing. To examine the hypotheses, a multiple regression model was employed. From the results of the hypotheses testing, it has been discovered that auditor's independence does not have a significant effect on financial fraud in the Nigeria deposit money banks. Auditor's competence had a significant impact on financial fraud in the deposit money banks. Audit fees as well had a significant effect on financial fraud in Nigerian deposit money banks.

5.2 Conclusion

Overall, the role of auditors in preventing financial fraud is crucial. Historical perspectives on audit quality reveals that there have been severe issues with audit quality in relation to financial fraud. However, the impact of audit quality on financial fraud prevention is not always clear-cut. While there are theoretical framework linking audit quality and financial fraud detection, there was also empirical evidence on the relationship between the two. Furthermore, there are numbers of variables that affect audit quality in deposit money banks, leading to several challenges in achieving high audit quality. These variables include auditor's independence and competence, and audit fees. This study assessed these variables on financial fraud in Zenith bank, First bank and Access bank, and examined if auditor's independence, auditor's competence and audit fee have an influence on the level of fraud perpetuated on the listed banks. Based on the analysis conducted this study concludes that the auditor's independence has no significant influence on the level of financial frauds in Nigeria deposit money banks while the auditor's competence and audit fee are found to have a significant influence and pose a great impact on financial fraud.

Maintaining vigilance and proactivity is crucial for auditors in their endeavor to prevent and detect financial fraud. The severe repercussions of fraud on financial institutions and their stakeholders underscore the significance of this ongoing effort. Ultimately, the effectiveness of fraud prevention hinges on the unwavering commitment and dedication of auditors, alongside the support and collaboration of all stakeholders involved.

5.3 Recommendations

Based on the observations above and findings in this research study, the following recommendations are made:

i. Banks should establish policy mechanisms to be put in place to control the actions of auditors in order to checkmate unreasonable long-term auditor-client relationships that may compromise independence.

ii. From the study it is found that the competence of auditors in the discharge of their statutory responsibilities significantly affects the rate at which financial fraud is perpetuated by these firms. Therefore, given that the Big 4's (PwC, KPMB, Earnest & Young, and Deloitte) are considered to be highly competent and have a solid reputation, it is advised that Nigerian deposit money banks continue to use them as their auditors.

iii. There should be adequate remuneration for the works of auditors since the study outcome revealed that audit fee has an impact on the occurrence of financial fraud. Banks should remunerate their auditors attractively so that, in addition to fostering commitment to the audit services, it will also result in improved ability to resist bribes or other forms of pressure from management

5.4 Limitations of the Study

During the course of this research, several challenges were encountered that hindered the progress of the study. One notable challenge was the unavailability of the audited financial statement of First Bank for the year 2022, which limited the collection of essential information required for the study. Additionally, financial constraints posed difficulties, including the cost of obtaining subscription-based data for accessing secondary financial statements and publications online, as well as expenses associated with printing and photocopying. These challenges significantly impacted the smooth execution of the research work.

5.5 Suggestions for Further Research

Future research should focus on exploring additional factors that can impact audit quality, as there may be other determinants beyond the ones considered in this study. Variables such as the auditor's professionalism, skepticism, and audit tenure should be included to enhance the robustness of the analysis and research outcomes related to audit quality and financial fraud. Implementing these measures will contribute to a decrease in the probability of fraudulent activities and enhance auditors' ability to detect fraud effectively during their audit engagements. Furthermore, it is advisable for future research endeavors to employ a mixed-methods approach that combines primary data collection with secondary sources. This approach will offer a more holistic perspective, strengthen the evidence base, and provide a comprehensive understanding of the topic under investigation.

Further research should be undertaken on factors that can influence audit quality. In addition, the number of new variables must be increased should be introduced to facilitate robust analysis and research outcomes on audit quality and financial fraud. This is because there are other determinants of audit quality that affects financial fraud. Determinants such as auditor's professionalism, skepticism, audit tenure and so on, in order to lessen the likelihood of fraudulent acts and make it simpler for auditors to identify fraud while doing their jobs as auditors. Additionally, the study suggests that further researchers should make use of a combination of primary data and secondary sources so that in order to add more proof of perspective.

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APPENDICES

Independent variables: Auditors Independence, Auditors Competence, Audit Fee

Dependent variable: Financial Statement Fraud:

Table 4.0: Data table used for analysis

Table 4.1: Data Presentation of the variables for Zenith bank, First Bank and Zenith Bank 2018 – 2022

BANK	YEAR	AUDIND	AUDCOM	AUDFEE N'000000	AUDCOM	FINFRA
Zenith	**2018**	1	0	535	12	0.2197
	2019	1	0	590	14	0.9331
	2020	0	1	380	13	0.4079
	2021	0	0	500	6	0.0275
	2022	0	0	600	12	0.53
Access bank	**2018**	1	0	380	15	0.1812
	2019	0	1	470	18	0.1619
	2020	0	1	603	10	0.7264
	2021	0	0	603	17	0.3904
	2022	0	0	645	10	1.4642
First bank	**2018**	1	0	660	10	5.4692
	2019	1	0	25	10	6.8952
	2020	0	1	25	10	3.3899
	2021	0	0	25	10	7.882
	2022	0	0	25	12	7.1051

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