EFFECT OF INNOVATION IN AUDIT ON SUSTAINABLE FINANCIAL REPORTING IN DEPOSIT MONEY BANK IN NIGERIA

OYEWOBI[1] Ifeoluwapo Adebimpe and AKINPELU[2] Femi Olusegun

Department of Accounting, Bingham University Karu, Nasarawa State.
[1]droyewobi02@gmail.com   [2]eaglewing2410@gmail.com

Abstract

The reliance and expectation of stakeholders on the authenticity, trueness and fairness of the financial statements and annual reports cannot be over emphasized. Therefore, in order to achieve this, quality auditing must be carried out so as to maintain quality financial reporting. This study investigated the effect of innovation in audit on sustainable financial reporting of quoted deposit money banks in Nigeria. The dependent variable sustainable financial reporting (SFR) was proxied with discretional loan loss provision (DLLP) while the independent variable innovation in audit was proxied with Auditor Financial Expertise (AFE) and Auditor Independence (AI). Secondary sources of data were used from the annual reports, and financial statements of (12) deposit money banks (DMBs) selected for the period of twelve years (12) ranging from 2011-2022. Ex-post facto design was adopted in carrying out this research. The independent variable innovation in audit proxy by auditor financial expertise (AFE) and dependent variable sustainable financial reporting proxy by discretionary loan loss provision (DLLP). Panel pooled data OLS regression technique fixed and random effect was employed and was analysed via E-Views 10. The result showed that DLLP has a positive and statistically significant effect on AFE of quoted deposit money banks (DMBs). The study concludes that financial reporting (DLLP) is enhanced by well-trained auditor financial expertise. It is recommended more attention should be giving to financial expertise directors in order to produce quality audited financial statement for investor's decision making.

Key Words: *Discretionary Loan loss provision, Auditor Financial Expertise, Sustainable financial reporting, Auditor's independence*

1. INTRODUCTION

The functionality and reliability of the audited financial statements of banks depend on the quality of audit as well as the integrity of the auditor, the skills and competencies of auditors, the actions of others in the financial reporting supply chain, and the legal, regulatory and business environments, these play important parts in the debate on audit quality. All these qualities are indicators of innovation in audit. Another intrinsic measure of innovation in audit is the auditor's report, which contains important information for stakeholders about the quality of the financial statements as well as some indication towards the banks' performance.

Financial statement audit is said to be a control mechanism put in place for safeguarding the shareholder interests and reducing information asymmetry in other to guarantee that the audited financial reports are considered free from material distortion (Irungu, 2013). Thus, a high emphasis have been placed on financial reports as a vital source of information for assessing performance and decision-making. Financial reporting in banks is essentially the responsibility of directors usually carried out by verified auditors and professional accountants (Moses, 2016).

Banks in Nigeria are statutorily required to obtain the Central Bank of Nigeria approval before publication of their audited financial reports. This is to enable the monetary authority

ascertain the soundness, stability and safety of the banks as well as provide assurance on the accuracy and reliability of the statements of financial information. Irrespective of these mandatory statutory requirements by CBN cases of negligence have occurred as regards quality and reliability of audited reports. The link between audit committee and financial information quality has been strongly discussed in the developed countries. Audit committee has been long seen as a vital institution in assisting the board of directors in enhancing the transparency and integrity of financial information reporting (Abdul & Mohamed, 2006; Jerry, Turner, & Carol, 2010). According to the Blue-Ribbon Committee report, the audit committee is "first among equals in the financial accounting process and is the "ultimate monitor" of this process. Igben (1999) posits that financial reports ought to be a formal record of business transactions that presents a widespread explanation of the state of affairs in the short and long run of a firm to those who use these financial statements. Extant literature relating to audit quality and sustainable financial reporting as regards deposit money banks in Nigeria have had varying results as regards whether or not the quality of an audit will influence the financial report quality. There has been deliberation on the flexibility that management is granted in determining an appropriate reserve for bank loan portfolios. In practice, bank managers have discretionary powers to influence the level of loan loss provisions. Consequently, the complaisance that management is granted in determining an appropriate reserve for bank loan portfolios coupled with the economic impact of the LLP expense make it necessary for both investors and regulators to evaluate the information content of this figure carefully in the financial statement. Thus, sustainable financial reporting has been under scrutiny and various ideas and theories have surfaced, all trying to link the sustainable financial reporting to certain factors including corporate governance mechanism with emphasis on specific audit committee characteristics, auditor financial expertise and the remuneration of auditors (Shrieves & Dhal, 2003; Dhahiwal, Naiker, & Navissi, 2010). Therefore, this study seeks to determine the effect of innovation in audit on financial reporting of the deposit money banks. In order to achieve the main objective of the study, the following null hypotheses are those which underline the study;

H_{O1}: Auditor financial expertise has no significant effect on the quality of sustainable financial reporting of quoted deposit money banks in Nigeria.

H_{O2}: Auditor Independence has no significant effect on sustainable financial reporting of quoted deposit money banks in Nigeria.

2. LITERATURE REVIEW

2.1 Conceptual Review

This section comprises the clarification on the fundamental concepts of the study.

2.1.1 Innovation in Audit

Innovation in audit as an attribute is defined as something that is inherent in a case, including the characteristics of the service or goods. Innovation in audit refers to a process that enables firms to become more innovative in carrying out an audit exercise. Innovation itself is a pervasive word that encompasses adjustment in all aspects of conventional audit. This study defines innovation in audit as a measure of the auditor's creativity in providing solutions to problems encountered in the course of an audit exercise. The use of innovative techniques helps elevate the quality of audit to meet the requirements or standards of auditing, which consists of: general Standards; the auditor should have the expertise and sufficient technical training, mental attitude independence and professional proficiency with careful and thorough. The standard implementation of field work; planning and supervision of audit, an adequate understanding of the internal control structure, and proof of sufficient and competent audit and

standard of reporting; to determine if the financial statements is in accordance with International Financial Reporting Standards, statements regarding the inconsistencies of application of IFRS, informative disclosures in the financial statements, and express an overall opinion on these financial statements.

2.1.2 Auditor Financial Expertise

Financial expertise is an attribute, qualification or experience acquired by a person before becoming a board member of a company. Extant literature postulates that the financial experience of Audit Committee members plays a crucial role in constraining aggressive accounting practices (Abbott *et al.,* 2004; and Agrawal & Chadha 2015). This is to say that, the numbers of financial expertise on the Audit Committee reduces the level of fraudulent practices and strengthens the internal control process. Carcello, Hollingsworth, Klein and Neal (2016) document that there is a reduction in the use of discretionary accruals and income-increasing accruals when accounting expert is on the Audit committee.

2.1.2.1 Financial Experts Qualification

The SEC passed rules to form a definition of who qualifies as a financial expert under Section 407 of the Sarbanes-Oxley Act. The final rules provide for a broader definition of an audit committee financial expert than a financial expert, which allows for a larger number of people to qualify as audit committee financial experts.

An audit committee financial expert must have all of the following qualifications: the expert must have an understanding of IFRS and Financial Statements. The expert must have the ability to assess the general application of principles in connection with the accounting for estimates, accruals and reserves; have experience in preparing, auditing, analysing or evaluating financial statements that present the scope and complexity of accounting issues that are generally comparable to the complexity of issues that the registrant's financial statements may raise or experience.; have experience actively in supervising one or more people engaged in those activities and must be able to understand the internal controls and procedures for financial reporting and be able to understand audit committee functions.

To qualify as a Bonafede financial expert, the audit committee financial expert must obtain their experience and education through one of the following positions: Principal financial officer, Principal accounting officer, Controller, Public accountant and Auditor.

In lieu of holding one of these positions, the expert may have experience in one or more positions where they performed similar functions. A qualified financial expert may also be someone who supervises a principal financial officer, principal accounting officer, controller, public accountant or auditor, or someone who performs similar functions.

2.1.3 Auditor Independence

Auditor independence refers to the independence of the external auditor. It is characterised by integrity and requires the auditor to carry out his or her work freely and in an objective manner.

Auditors' independence enables the auditor to ensure that statement of financial positions is carefully and unbiasedly audited, giving the stakeholders reliable data on the company's financial performance. Auditors must avoid having intimate financial and personal ties to their clients to retain their independence, including refraining from taking gifts or loans from them or investing in their shares. It also provides a foundation for high-quality financial reporting and increases public confidence in auditing. The independence so exercised by the auditor minimises the shareholders expectation gap. Oyewobi (2019) opined that an audit expectation gap, exists, particularly regarding the following issues: fraud detection and

prevention, responsibility for internal controls, responsibility for the maintenance of accounting records, the auditors' use of judgment regarding the selection of audit procedures and the level of assurance given by the audit report. The auditors independence is of great importance if reliance can be placed on his report and consequently minimising the shareholders expectation gap.

2.1.4 Sustainable Financial Reporting

Sustainable financial reporting refers to financial reporting techniques that focus on providing financial information in a way that expresses concern for preservation of the firm as well as the relationship with its environment. Environment in this case may refer to competitors, clients, suppliers, regulatory bodies, international standards, government and physical environment.

Sustainable financial reporting refers to the degree which financial reporting signifies truthful and unbiased information about core financial positions and sustained financial performance (FASB). Thus, understanding financial reporting quality is worthwhile to the investor, who needs to effectively evaluate investment risk in the international capital markets (Tang, Chen, & Lin, 2016). Thus, audit quality is an incessant paradigm that guarantees financial reporting quality, as greater quality auditing provides better assurance of higher quality financial reporting (DeFond and Zhang, 2014). Tsipouridou (2012) argued that when users are unsure about the reliability of financial statements, they will look at the auditor's report. From the perspective of Kaklar (2012), it is expected that high audit quality leads to high sustainable financial reporting which helps in curtailing and averting financial crisis.

2.1.5 Discretionary Loan Loss Provision

Loan loss provision is an expense on the income statement which signifies managers' assessment of expected future losses. This means that an increase in loan loss provision reduces net income, while a fall in loan losses increases net income. Since it is the result of managers' assessment of the likely loss that the company would incur should the borrower fail to repay his obligations as at when due, the provision for it is considered to have two (2) portions: non-discretionary and discretionary portions. "Non-discretionary is a function of specific quality determinants in the loan portfolio- non-accrual loans, renegotiated loans, loans past due over 90 days, specific analyses on troubled large credits, usually implying internal grading system" (Grey & Clarke 2014).

The discretionary portions are those accruals that largely depend on the outcome of the managers' future expectation of uncertain events (Mohammad, 2017). While the non-discretionary portion, therefore, is the provision that is based on fair and objective analysis of the firm's economic conditions. The components of it are both quantitative and qualitative. Grey and Clarke (2004) pointed that the qualitative components include political, economic, geographical and political factors; while the quantitative are "statistical analysis of loans not individually analysed for special reserve and therefore are largely at the discretion of managers".

2.1.6 Firm Size

Riyatno (2007), the size of the audit firm distinction based on the number of clients and the number of members by an audit firm. Audit firm size can be divided into large and small accounting firm. Which included a large Big 5 accounting firm. All other accounting firm outside the Big 5 accounting firm is categorized as a small firm. The number of clients served, number of associates / members who join and the total revenue earned in one period.

2.2 Empirical Review

Ayinla *et al* (2022) investigated the influence of audit attributes on sustainable financial reporting of twelve (12) listed deposit money banks in Nigeria from 2012 to 2018. The study employed the panel data regression which results demonstrated that audit committee independence and audit committee expertise had a favorable and significant impact on the sustainable financial reporting of Nigerian listed DMBs. As a result of the study's findings, audit committee independence and audit committee expertise have a significant propensity to enhance sustainable financial reporting. By the findings, the research suggests that bank regulators consider mandating professional qualifications, as proposed by the FRCN in the 2016 draft of the suspended NCCG, to improve the audit committee's expertise and diligence.

This research work also aligns with the work of Ayinla, et al., as it established the influence of the expertise of auditors on his work and the quality of the financial report which provides a premise for informed decision making.

Guo *et al.*, (2020) examined the effect of Non-traditional Banking Activities and Bank Sustainable financial reporting of quoted commercial banks in the United States. The independent variable sustainable financial reporting was represented with discretionary loan loss provision which were estimated using the model adopted by, while the dependent variable non-financial activities was represented by bank's ratio of non-interest income . The sample covers three sub-periods: the 14 years preceding the financial crisis (1993–2006), the three years of the financial crisis (2007–2009), and the three years following the financial crisis (2010–2012).the data were analysed using ordinary least square regression. The findings of the study indicated that the non-interest income share (NII) is positively and significantly correlated with Absolute value of discretionary loan loss provision. The findings of the study indicated that large public banks can reduce their overall earnings volatility by diversifying their revenue streams and engaging more in non-traditional activities, such as investment banking, advisory services, security brokerage, underwriting fees and commissions, and asset securitization.

Hassan *et al.*, (2020) carried out a study by assessing the impact of audit quality, audit committee and sustainable financial reporting: evidence from Malaysia to investigate the moderating influence of audit quality on the association between Audit committee with earning management data was collected from the quoted trading companies on the Bursa Malaysia published from 2013 to 2018 and published financial statement. This study adopts multiple regression models to examine the relationships between the dependent, independent, and moderating variables. The results show that audit quality of the audit committee leads to less aggressive earnings management practice in real activities. Based on the results and discussion about effect testing between variables, the study concluded that Audit Committee Independence had a positive effect on sustainable financial reporting (SFR) Real Earning Management (REM).

Bala *et al.*, (2019) piloted a study so as to examine the mediating effect of audit quality (AQ) proxy by audit fees and Big 4 auditors on the relationship between the audit committee *(*AC) characteristics and sustainable financial reporting (SFR) of listed companies in Nigeria. The study employed 88 firms listed in the Nigerian Stock Exchange through 440 firm year observations for five years ranging from 2012 to 2016. A multiple regression was employed to test the mediation using the Baron and Kenny and Sobel Tests. Evidence from this study reveal that the Audit Committee size, Audit Committee independence, Audit Committee Financial Accounting Experts (ACFAEs), Audit Committee Legal Experts *(*ACLEs), Female Audit Committee Members (FACMs), Audit Committee Stock Ownership (ACSO), and Audit Committee Tenure are negatively and significantly associated with the discretionary accruals

(DA) and income smoothing (IS) behavior of firms and thus recommends that it is paramount for the Nigerian SEC, in the review of subsequent codes, to recognize the presence of independent directors and legal experts in the Audit Committee as they are found to be effective monitors in constraining artificial smoothing.

Oyedoku *et al.,* (2019) carried out a study to examine the effect of audit characteristics on sustainable financial reporting of listed consumer goods company in Nigeria. They employed Ordinary Least Square method Regression analysis using a sample of 21 consumer good firms listed on the Nigerian Stock Exchange (NSE) as at 2018 within the scope of 2009 to 2018. The study shows that audit auditor independence has no significant effect on the sustainable financial reporting of quoted consumer goods firms. Also, audit tenure has significant negative effect on the sustainable financial reporting of listed consumer goods companies but on the contrary goes further to show that audit size has significant positive effect on the sustainable financial reporting of listed consumer goods companies in Nigeria. In line with these finding, the study conclusively shows and recommends that listed consumer goods companies in Nigeria should reduce the period of tenure of audit firm as it has a negative influence on their sustainable financial reporting.

Osamudiame *et al.,* (2018) conducted a study to examine audit firm tenure and quality of financial reporting in Nigeria. The specific objectives of this study were to determine the relationship between audit tenure, auditor independence, audit firm size and quality of financial reporting. Secondary data were sourced from a sample of eighty (80) quoted companies for a period of seven *(7)* years (2011 – 2016). The data were estimated using the Ordinary Least Square *(*OLS) regression technique with the aid of E-Views 8.0 software. The findings from the study revealed that, there is no significant relationship between audit firm size, audit tenure and quality of financial reporting. Based on the above findings, the study recommends, among others that the attention to auditor independence by corporate organizations cannot be over emphasized as it's a major determinant of quality of financial reporting among quoted companies in Nigeria.

Moses *et al.,* (2016) carried out a study to statistically examine the influence of audit committee characteristics on quality of financial reporting in listed Nigerian banks. Data for the study was gotten from the financial statements reports and accounts of the banks whose stocks are traded in the Nigerian Stock Exchange as at December 31, 2014. The research design utilized in this study is correlation research design. They adopted Jones (1991) modified model which provided the measure for earnings management which is the representation for quality of financial reporting. While analysis of data were empirically computed using the SPSS statistic 22.0. The result of their study showed that audit committee independence has no significant effect on earnings management in quoted Nigerian banks. The study endorses and recommends that audit committee should be well-thought-out and operational so as to curtail earnings management and also there should be a consistent orientation and reorientation of audit committee members to guarantee significant influences on sustainable financial reporting.

Abubakar *et al.,* (2015) examined the impact of audit committees' size and financial expertise on the discretionary loan loss provision of listed Deposit Money Banks in Nigeria for the period of 5 years from 2009-2013.The study employed correlation research design which composed a sample of 14 banks. Secondary data were collected from annual report and accounts of the sampled companies. Ordinary Least Squares multiple regression technique of data analysis was employed. The study found a significant association between discretionary loan loss provision and Audit Committee characteristics. The study also found that the Audit Committee Size and audit committee financial expertise of the sampled Deposit Money Banks has significant positive impact on banks discretionary loan loss provision. Based on the findings from this

study, the study recommends that listed Deposit Money Banks in Nigeria should increase the size of their Audit Committees' membership. This will reduce the earnings management and the level of discretionary loan loss provisions of Deposit Money Banks in Nigeria.

2.3 Theoretical Review

The theories relevant to discretionary loan loss provision and auditor financial expertise are reviewed below.

2.3.1 Theory of Inspired Confidence

Limperg (1932) advocate both demand for and supply of audit services. The demand for audit services is primarily the need of interested parties of the company (that is shareholders and other stakeholders). These shareholders and stakeholders demand accountability from the management, in return for their investment to the company, because of a possible divergence between the interest of management and outside stakeholders, hence, audit of this information is necessary. However, the level of audit assurance that the auditor provide, depends on the ability of the auditor to act in such a way that he does not disappoint the expectations of outsider stakeholders, while, on the other hand, he should not arouse greater expectations in his report than his examination justifies. This theory links the stakeholders need for credible and reliable financial reports and the competence of the auditor to meet such need. According to okolie (2014), the theory confers on the auditor high level of confidence as the only saviour that can give stakeholders all relevant information that will reduce information irregularity. This study is underpinned by theory of inspired confidence as the goal of engaging an auditor is to provide confidence in the information provided by the deposit money banks.

2.3.2 Agency Theory

Agency theory was popularized by Jensen and Meckling in 1976; it is a principle that is used to explain and resolve issues in the relationship between business principals and their agents. Most commonly, that relationship is the one between shareholders, as principals, and company executives, as agents. There is the likelihood that managers will carry out activities that might ultimately be to the detriment of the company and stakeholders to satisfy their selfish need (Huang, 2011). To make it easy for the managers to satisfy his selfish desire, he will create information gaps to inform the investors only what they should hear. According to Fields, Lys and Vincent (2001), when managers have greater access to the information compared to the owners, there abounds information asymmetry. This arises as the agent has access to information that is superior to the information accessible to the principal (Jensen & Meckling, 1976). Agency theory focuses on the principal agent problem that arises in such relationships. It holds that managerial behaviour can be opportunistic and fuelled by self-interest (Davis, *et al.,* 2018).

All theories reviewed are relevant to this study in one aspect or other. However, this study is underpinned on the agency theory in line with many previous studies on sustainable financial reporting of Deposit Money Banks. The agency theory as a branch of information theory explains and treats accounting data and the directors as goods, subject to the laws since the demand for the audit is based on the reliability and relevance of the financial information as input in the decision-making process (Bruno 2013). As such, the assumptions owing to the imbalance in the information provided and agency disagreements between managers' interests and outside consumers, the agency theory gives better explanation on the motivation for sustainable financial reporting and the nexus between audit qualities as a monitoring mechanism for proper sustainable financial reporting.

3. Methodology

The study adopts the ex-post facto research design because data are already in existence on the financial statement and annual report thus, cannot be changed by the researcher. The population of the study comprises all the fourteen (14) Listed Deposit Money Banks on the Nigerian Group Exchange (NGX) as at 31 December, 2022 out of which a sample of 12 were selected based on availability of data using purposive sampling technique. The study will rely on archival data collected from annual reports and accounts of the sampled quoted deposit money banks for a period of 10years from 2011-2022. The period was selected to enable the study analysed the effect of innovation in audit on sustainable financial reporting over an extended period of time as other studies mostly rely on five or 8 years. The data was analysed using panel regression via the help of Eviews10.

3.1 Model Specification

In order to test the hypotheses formulated in this study and to achieve the objectives of the research, the following LLP Model was used to estimate discretionary loan loss provision (the residual of the model):

$LLP = \alpha + \beta_1 CO_{it} + \beta_2 \Delta NPL_{it} + \beta_3 \Delta LOAN_{it} + £_{it}$ ……………………..equ. (1)

Where:

LLP = Loan loss provision of bank I in year t it

ΔNPL_{It} = Change in non-performing loans of bank I in year t (current it year NPLminus previous year NPL)

$\Delta LOAN_{it}$ = Change in loans of Bank I in year t (current loans minus it previous year loans)

α = Intercept

$£_{it}$ = error term

$B_I - \beta_3$ = regression coefficients

After estimating the discretionary loan loss provision from the model one, the model of the study is expressed as follows:

$DLLP_{it} = \alpha_0 + \beta_1 AFEX + \beta_2 AI + £_{it}$ ………………………………….equ. (2)

$DLLP_{it}$ = Discretionary loan loss provision of bank I in year t

$AFEX_{it}$ = Audit committee financial expertise of bank I in year t

AI_{it} = Auditor independence

α_0 = Intercept

$\beta_1 - \beta_3 -$ = regression Coefficients

$£_{it}$ = Error term or residual

4. Results and Discussion

This section presents the results of data analysis and test of hypothesis formulated earlier in the paper. First descriptive statistics followed by unit root test showing the stationary of the data and the regression results are presented and analysed as shown below.

Table 1: Descriptive Statistics Results

Date: 04/27/23   Time: 05:23
Sample: 2011 2022

	DLLP	AFE	AI
Mean	14.58229	12.87500	3.986111
Median	5.450000	3.000000	4.000000
Maximum	18.07900	4.000000	7.000000
Minimum	5.060000	6.000000	2.000000
Std. Dev.	19.65822	9.500000	0.709438
Skewness	8.059374	-3.273624	0.137557
Kurtosis	2.203305	6.078327	6.346717
Jarque-Bera	371.8500	83.14725	67.65721
Probability	0.000000	0.000000	0.000000
Sum	371.8500	414.0000	574.0000
Sum Sq. Dev.	26676.21	35.75000	71.97222
Observations	144	144	144

Sources: *Authors Computation (E-Views 10, 2022)*

Table 1 presents the descriptive statistics of the sustainable financial reporting proxy by discretionary loan loss provision (DLLP) innovation in audit proxy by audit financial expertise (AFE) during the period of 2011 to 2022. The table shows the discretionary loan loss provision (DLLP) mean of 14.58229 with standard deviation of 19.65822 and the minimum and maximum values of 5.060000 and 18.07900. Although the range between the minimum and maximum is wide, it implies a stable performance as the standard deviation indicated that there is no wide dispersion of the data from the mean value. From the other measure audit financial expertise (AFE) has a mean of 12.87500 with a standard deviation of 9.500000 and the minimum value of 6.000000 respectively. Similarly, auditor independence (AI) has a mean 3.98 with a standard deviation of 0.7 and the minimum value of 2.0 with maximum of 7.0 respectively. This implies that innovation in audit in terms of audit financial expertise is volatile during the period, and auditor independence is not volatile as the standard deviation is low compared to the mean, together with the wide range between the minimum and maximum values.

Skewness which measures the shape of the distribution and equally shows the measure of the symmetry of the data set, indicated that DLLP, AFE and AI are all positively skewed and have values greater than zero which suggests that the distribution tails to the right-hand side of the mean. Hence, the distributions of all the variables are positively skewed, considering that their values are greater than zero, in addition to the fact that their mean are greater than their median.

Kurtosis value measures the peakness and flatness of the distribution of the series. If Kurtosis value is less than 3, it means the distribution of the variable is normal, but when it is more than 3, the distribution of the variable is said to be abnormal. DLLP with value 2.203305 of kurtosis less than three which is called platykurtic (fat or short-tailed) qualifies during the study period. On the other hand, variables whose kurtosis value are greater than three are called leptokurtic (slim or long tailed) and AFE and AI qualified for this during the study period with a value 6.078327 and 6.346717. The Jarque-Bera statistic is for testing normality of a variable. If the variable is normally distributed, the histogram will be bell-shaped and as such the Jarque-Bera test of normality is an asymptotic, or large-sample test. Jarque-Bera also measures the difference between the skewness and kurtosis of each of the variables. AFE has the highest

Jarque-Bera value of 26314.19 while AI has the lowest Jarque-Bera value of 67.65721 respectively.

At 5% level of significance, both of the variables of the study DLLP, AFE and AI showed that their P-values are less than 5%, therefore, the Null Hypotheses is rejected, and it can be concluded that the variables are highly statistically significant, thus indicating that the distribution is not a normal distribution.

4.1 Panel Data Properties

Econometric studies have revealed that most financial statement data and variables are non-stationary and using non-stationary variables leads to spurious regression. Augmented Dickey-Fuller (ADF) test was used to determine whether the variables of the study exhibit unit root properties. The decision rule for the ADF Unit root test states that; the ADF Test statistic value must be greater than the Critical Value at absolute term for stationarity to be established at level and if otherwise, differencing occurs. The results of unit root test conducted for all the variables are presented below.

Table 2: Unit Root Test DLLP at Second Difference

Null Hypothesis: Unit root (individual unit root process)

Series: D(DLLP,2)

Date: 04/19/23   Time: 20:23

Sample: 2011 2022

Exogenous variables: Individual effects

User-specified lags: 1

Total (balanced) observations: 96

Cross-sections included: 12

Method	Statistic	Prob.**
ADF - Fisher Chi-square	45.3595	0.0053
ADF - Choi Z-stat	-3.15753	0.0008

Sources: Authors Computation (E-Views 10, 2023)

The table 2 above shows the outmoded test of Augmented Dickey-Fuller (ADF) specify that the probability value under the ADF is 0.0008, less than 0.05 or 5% at second difference. This suggests that discretionary loan loss provision (DLLP) dependent was stationary at second difference; the Augmented Dickey-Fuller (ADF) Z-statistics (-3.15753) is greater than the absolute critical values at 5% level of significance. This entails that the Null Hypothesis must be rejected and DLLP has no unit root test, therefore the data is stationary.

Table 3: Unit Root Test AFE at First Difference

Null Hypothesis: Unit root (individual unit root process)

Series: D(ACF)

Date: 04/19/23   Time: 21:57

Sample: 2011 2023

Exogenous variables: Individual effects, individual linear trends

User-specified lags: 1

Total (balanced) observations: 27

Cross-sections included: 3 (9 dropped)

Method	Statistic	Prob.**
ADF - Fisher Chi-square	21.7154	0.0014
ADF - Choi Z-stat	-2.26784	0.0117

Sources: *Authors Computation (E-Views 10, 2022)*

Similarly, the table 3 above illustrates the test of Augmented Dickey-Fuller (ADF) which shows that the probability value under the ADF is 0.0117, less than 0.05 at first difference. This indicate that audit committee expertise (AFE) independent was stationary at second difference; the Augmented Dickey-Fuller (ADF) Z-statistics (-2.26784) is greater than the absolute critical values at 5% level of significance. This implies that the Null Hypothesis must be rejected and AFE has no unit root test, therefore the data is stationary.

4.2 Correlation Matrix

Table 4: Correlation Matrix Result

	DLLP	AFE	AI
DLLP	1.000000	-0.031545	0.513075
AFE	-0.031545	1.000000	0.179264
AI	0.513075	0.179264	1.000000

Sources: *Authors Computation (E-Views 10, 2022)*

The correlation as indicated in the table 4 above show value of 0.51 which shows that there is positive relationship between discretionary loan loss provision (DLLP) and auditor independence while -0.03 show a negative relationship between auditor financial expertise (AFE) and DLLP shows that relationship exist between the dependent and independent variables respectively.

4.3 Hausman Test

Decision Rule: If the probability is greater than 0.05 of 5%, random effect is accepted and interpreted, in the same way if the probability is less than 5% or 0.05; fixed effect is accepted and interpreted.

Table 5: Correlated Hausman Test Result

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

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.192332	1	0.0410

Sources: *Authors Computation (E-Views 10, 2022)*

Based on the outcome of Hausman test result, fixed effect (FE) is accepted and suggested to be interpreted because the probability is less than 5% or 0.05; therefore, the model is best fitted for the dependent DLLP and independent AFE and AI respectively.

4.4 Test of Hypothesis

4.4.1 Test of Hypothesis One

Table 6: Fixed Effect Regression Result

Dependent Variable: DLLP
Method: Panel Least Squares
Date: 04/19/23   Time: 20:31
Sample: 2011 2022
Periods included: 12
Cross-sections included: 12
Total panel (balanced) observations: 144

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.571064	7.789338	0.330075	0.0419
AFE	0.003905	2.683716	0.001455	0.0288

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.792413	Mean dependent var	2.582292
Adjusted R-squared	0.518435	S.D. dependent var	13.65822
S.E. of regression	12.82393	Akaike info criterion	8.026443
Sum squared resid	21543.37	Schwarz criterion	8.294551
Log likelihood	-564.9039	Hannan-Quinn criter.	8.135387
F-statistic	2.600963	Durbin-Watson stat	1.995858
Prob(F-statistic)	0.003892		

Sources: *Authors Computation (E-Views 10, 2022)*

As shown in table 6 above, the coefficient of multiple determinations R-square (R^2) is 0.792413. This entails that 79% of the total variations in dependent variable discretionary loan loss provision (DLLP) is explained by the variations in the independent variable auditor financial expertise (AFE), while the remaining 21% of the variations in the model is captured by the other explanatory variable and error term. This indicates that the line of best fit is highly fitted. The standard error test is applied in order to measure the size of the error and determine the degree of confidence in the validity of the estimates. Usually if the standard error is smaller than half of the numerical value of the parameter estimate, it can be concluded that the estimate is statistically significant. Having carried out the standard error test on the parameters estimated and it also indicated by a probability value, the parameter estimate for AFE is statistically significant. Durbin Watson test is adopted for Autocorrelation. The Durbin Watson statistics is given as 1.99 approximately to 2.0 which shows that there is no autocorrelation in the model. The F-statistics value is given as 25.60963 and the probability value of the F-statistics is 0.003892. This implies that the overall regression is positive and statistically significant at 0.05 or 5% level of significance, given the probability value (PV) 0.0288 which is less than 0.05.

4.4.2 Test of Hypothesis Two

Table 7: Fixed Effect Regression Result

Dependent Variable: DLLP
Method: Panel Least Squares
Date: 4/27/23   Time: 1:53
Sample: 2011 2022
Periods included: 12
Cross-sections included: 12
Total panel (balanced) observations: 144

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	111.2237	115.0460	0.966776	0.0305
AI	10.70774	11.52930	-0.928741	0.0396
R-squared	0.724742	Mean dependent var		4.378333
Adjusted R-squared	0.503942	S.D. dependent var		4.806693
S.E. of regression	4.816159	Akaike info criterion		6.035783
Sum squared resid	788.6431	Schwarz criterion		6.123756
Log likelihood	-106.6441	Hannan-Quinn criter.		6.066488
F-statistic	23.86560	Durbin-Watson stat		1.981332
Prob(F-statistic)	0.039570			

Source: *Researcher's computations (2020)*

In the estimated regression line in Table 7 above, the constant term is 111.2237 meaning that auditor independence (AI) is constant, the value of discretionary loan loss provision (DLLP) will be about 111.2237. The coefficient of AI in the estimated regression line is 10.70774 which imply that a unit increase in AI will increase DLLP by 10.70774. This result is consistent with 'a priori' expectation which hypothesizes that increase in AI will lead to proper and good audited financial performance which will increase in DLLP.

The coefficient of determination (R^2) is 0.724742 and this shows that 72% of variation in DLLP is caused by variations in AI while the remaining 28% of the variation in the model is captured by the explanatory variable and error term. This suggests that the line of best fit is fitted. The Durbin-Watson statistics is 1.981332 which is approximately to 2 shows that there is no

autocorrelation in the model. However, the value of F-statistics is 23.129176 and the value of the probability of F-statistics is 0.039570. This result implies that the overall regression is statistically significant at 5% level of significant given that probability of F-statistics is 0.039570, which is less than 0.05. The implication of this is that improving the AI can be a further move towards encouraging the DLLP. Therefore, based on the probability (F-Statistics) value of 0.007943 as well as probability value PV 0.0396, which is less than 0.05, the null hypothesis that AI has no significant effect on the DLLP is rejected

4.5 Discussion of Findings

The studies carry out to inspect the effect of auditor financial expertise on the sustainable financial reporting of quoted deposit money bank in Nigeria (DMBs) for 12 years ranging from 2011 to 2022 where the dependent variable sustainable financial reporting proxied by discretionary loan loss provision and independent innovation in audit proxy by auditor financial expertise. The effect of independent variable (AFE) and Auditor Independence (AI) dependent variable (DLLP) was analysed in terms of strength and fixed effect ordinary least square (OLS) regression compares the relationship among the variables.

The result of the hypothesis which is in sequence with the objective of the study discretionary loan loss provision (DLLP) has a positive and significant effect on auditor financial expertise (AFE) and this implies that (AFE) is significantly an independent predictor of (DLLP). That is to say an increase in auditor financial expertise (AFE) will lead to an increase in sustainable financial reporting (DLLP). This finding is in agreement with Abubakar *et al.,* (2015) whose findings shows that auditor committee financial expertise (AFE) of a sampled deposit money banks (DMBs) has significant and positive impacts on the banks discretionary loan loss provision (DLLP). This result could be interpreted that discretionary loan loss provision has significant influence on auditor financial expertise of sampled quoted deposit money bank in Nigeria.

Similarly, the result of second hypothesis tested shows that is statistically significant which shows that DLLP impacts positively on AI. The finding is in line with the work of Oyedoku, *et al.,* (2019) whose study shows that auditor independence has significant effect on the sustainable financial reporting of quoted consumer goods firms.

5. Conclusion and Recommendation

This study concludes based on the findings that the quality of financial reporting is significantly enhanced by well-trained auditor financial expertise. Thus, the association between innovation in audit (AFE), (AI) and that of sustainable financial reporting (DLLP) is more pronounced when the accounting expertise are engaged. This study is a comprehensive prove that auditor financial expertise contributes to the quality of sustainable financial reporting of deposit money banks in Nigeria. This study recommends based on the findings as thus;

Owners and directors should appoint sound financial experts on financial statements analysis and interpretation. This will reduce the earnings management and the level of discretionary loan loss provisions of Deposit Money Banks in Nigeria.

The Board of Directors of Deposit Money Banks in Nigeria should make policies that could improve the effectiveness and efficiency of their auditor's independence in line with their core responsibilities

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