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AUDIT FEES AND FINANCIAL PERFORMANCE OF DEPOSIT MONEY BANKS IN NIGERIA

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Audit fees, Deposit Money Banks, Earnings Power, Financial performance, Return on Assets, Return on Equity, Nigeria.

ABSTRACT

This study investigates the impact of audit fees on the financial performance of listed Deposit Money Banks (DMBs) in Nigeria using regression analysis, correlation analysis, and descriptive statistics. The study adopted the Ex-post facto research design to analyse the data under E-views 10. The dependent variable is financial performance measured with return on asset, return on equity and earnings power, while the independent variable is audit fee. Data was extracted from the Nigerian Stock Exchange and the annual reports of these banks spanning a period of 7 years (2017-2023). This study's findings reveal that audit fees have a positive and significant relationship with return on equity, but a negative relationship with return on assets and earnings power. The study recommends that banks should allocate audit resources based on the areas that maximize shareholders' value, such as those directly enhancing ROE, which will involve focusing audit efforts on aspects that bolster equity returns while ensuring essential compliance is maintained.

Main Paper starts here…

CHAPTER ONE

1.1 Background to the Study

Management is responsible for providing financial reporting to all stakeholders, allowing them to account for their stewardship. This involves preparing and presenting annual reports detailing the entity's financial position and performance. These reports are provided to shareholders and other relevant users—creditors, analysts, government agencies, and the public—enabling them to assess the entity. Amahalu et al., (2019).

The main purpose of an audit practice is to provide independent assurance that the management of any business has presented an accurate and true report of the financial performance of its business. External audit plays a significant role in the originality and quality of a company's financial report. (Farouk &Hassan, 2014). Audit quality is important for Deposit Money Banks (DMBs) to achieve efficient management of resources resulting in an improvement of the bank's performance.

Audit quality in the form of fees charged for audit services is a necessary expense used to examine the quality of a bank's financial information It also serves as a measure to assess risks and conduct audit tasks. Therefore, audit fee is a measure of both past and present performance (Moutinho, Cerqueira & Brandão, 2012). The purpose of audit quality will not be achieved if audit fees are not commensurate with the auditor's effort in assessing banks' financial reports. (Zhou, Lou, Wu & Zhang, 2022).

In measuring the financial performance of deposit money banks in Nigeria, certain performance indicators will be studied such as Return on Assets(ROA), Return on Equity (ROE), and Earnings Power (EAP). Return on assets (ROA) is a performance indicator that helps internal and external stakeholders evaluate the operations of businesses and make informed decisions. Higher ROA attracts the interest of investors and other stakeholders to a business by observing key operating indicators and the return on each asset individually. Another measure that reflects the financial condition of a bank and can boost the confidence of investors in the bank's operations is the Return on Equity (ROE). ROE is calculated as profits before interest expenses for the financial period divided by total shareholder value for the same period (Isa, Gurama & Murtala, 2020).

Furthermore, earnings power is another key performance indicator that indicates the ability of a firm to generate profits from its operations. Stakeholders need these performance indicators to make investment decisions that will benefit the business. Given the above, this research aims to investigate the relationship between audit fees and a bank's financial performance in terms of ROA, ROE and earnings power by using financial information of deposit money banks listed on the Nigerian exchange from the period between 2017 and 2023.

1.2 Statement of the Problem

Several corporate scandals all over the world have brought to bear the fact that many companies' earnings are the aftermath of accounting gimmicks and shenanigans. This discovery has not only cast doubt on the integrity of preparers of accounting reports, but has also led to the loss of confidence in stakeholders such as internal and external auditors, analysts, and government regulators. Osazevbaru (2012),

Nigeria is not left out as there have been recent concerns about the current state of audit quality practised by firms in Nigeria. The collapse and taking-over of firms like Intercontinental Bank, Afribank, Oceanic Bank, FinBank, and Union Bank in 2009, the 2006 financial accounting scandal in Cadbury Nigeria Plc and the like are all due to the absence of well-efficient audit quality measures practised by these firms. This enforces the need for more robust and stringent audit regulations to prevent the financial mismanagement of funds, boost public confidence in financial reporting, and attract the interest of potential investors.

The Financial performance of deposit money banks DMBs in Nigeria plays an important role in enhancing the operations of these banks. A true and fair report that indicates high profitability will help such banks in attracting capital and minimize capital costs. Banks with high financial performance will attract the interest of investors and other stakeholders. However, these stakeholders heavily rely on the authenticity of the audited financial reports provided by auditors to specify the efficiency and effectiveness of the bank's operations. One of the determining factors of the fees charged on audit practices is the expertise of the audit firm.

In a bid to attract investors, and present a reliable financial report, businesses will need to invest in quality audit measures which will attract a high fee. These highly professional services rendered by independent auditors which come with a charge, have a significant influence on the financial performance of any business. This is felt in the area of sustained public confidence and trust in the originality and authenticity of transactions reported in the audited financial statement (Okoye, Adeniyi & Nwankwo, 2019).

Studies regarding the impact of audit fees on deposit money banks have gained the attention of various researchers such as (Aigienohuwa, 2012; Ogunbanjo, 2019; Uche & Testimony, 2022; Adeyemo, Akinyele & Omole, 2023). However, these studies made use of return on assets and return on equity as a measure of financial performance. In light of the above, this study contributes to the existing body of knowledge by seeking to make use of an additional measure of financial performance, which is, earnings power for a more recent period, 2017-2023 in examining the impact of audit fees on the financial performance of Deposit Money Banks in Nigeria.

1.3 Objectives of the Study

This study aims to evaluate the impact of audit fees on the financial performance of DMBs listed on the NSE. Its objectives seek to:

1. Assess the impact of audit fees on the Return on Assets (ROA) of DMBs in Nigeria.
2. Examine the effect of audit fees on the Return on Equity (ROE) of DMBs in Nigeria.
3. Assess the impact of audit fees on the Earnings Power (EAP) of DMBs in Nigeria.

1.4 Research Questions

Having stated the above objectives, the study will also address the following research questions.

1. What is the effect of audit fees on the Return on Assets (ROA) of DMBs in Nigeria?
2. What is the effect of audit fees on the Return on Equity (ROE) of DMBs in Nigeria?
3. What is the effect of audit fees on the Earnings Power (EAP) of DMBs in Nigeria?

1.5 Research Hypothesis

In light of the research questions, the study formulated the following hypothesis:

1. H01: Audit fees have no significant effect on the Return on Assets (ROA) of DMBs in Nigeria
2. H02: Audit fees have no significant effect on the Return on Equity (ROE) of DMBs in Nigeria
3. H03: Audit fees have no significant effect on the Earnings Power (EAP) of DMBs in Nigeria

1.6 Significance of the Study

These research findings are of immense value to policymakers as they will guide them in formulating an effective banking policy framework that will help regulate banking and auditing operations in Nigeria. The recommendations will hold significant importance for government agencies and regulators responsible for audit standards and corporate governance in the banking sector.

This study's findings will give insights into how audit fees can affect the profitability of banks and the yield on individual and corporate investment. It also adds to the existing literature on the influence of audit fees on the financial performance of DMBs in Nigeria, filling a gap in the current research. As a result, it will serve as a reference point for future research endeavours aimed at enhancing the profitability of banking operations in Nigeria and other nations.

1.7 Scope of the Study

This study focuses on 11 Nigerian Deposit Money Banks (DMBs) listed on the NSE, using recent data from the period 2017 to 2023. ROA, ROE, and EAP will be performance metrics to assess the relationship between audit fees and the financial performance of DMBs in Nigeria. This study excludes non-listed DMBs, non-deposit money banks, and banks operating outside Nigeria.

CHAPTER TWO
LITERATURE REVIEW

This section provides an overview of relevant literature about the main concepts and background of the subject of study. It includes the conceptual review that explains the concepts of Audit fees, ROA, ROE, Earnings power and financial performance. It also introduces the discussions on the theoretical foundations that underpin the study which is an understanding of the theories that are relevant to the study; and the empirical review that leverages the work previously done by academics and researchers who have worked and reported on studies relating to the subject of this study.

2.1 CONCEPTUAL REVIEW
2.1.1 Concept of Audit Fees

Audit fees refer to the amount of money charged by auditors/auditing firms for their specialized services, based on several factors such as the skill level of the auditors/auditing firm, the intricacy of their services, and so on. Gammal (2012), defines audit fees as the amount of expenses (salaries) received by the auditor for the audit process of the company (audited). Audit fees are usually determined by a concession between the auditing firm and its client, depending on the number of employees required for the audit process, the services rendered, and the duration of the audit procedures. It is worthy of note that the fees paid to auditors are set before the audit process.

Agos (2012) defines audit fees as the amount of the charge which depends amongst others, on the risk of the assignment, the complexity of the services provided, the level of expertise required to carry out the services, the cost structure of the firm concerned and other professional considerations. The amounts that make up this fee are called the audit fee. In determining the fees paid to auditors, an agreement has to be reached between the auditors and their clients, which in this case, are the DMBs. These audit fees are a vital part of the auditors' performance because they serve as incentives for the auditors to carry out the audit process on the financial operations of deposit money banks. Hence, the audit fee is the price paid for the audited financial statements.

2.1.2 Concept of Financial Performance

Financial performance is a measure of how well an organization can use assets from its primary mode of business to generate revenues (Grimsley, 2018). It informs investors and other stakeholders about the health of a business. It shows the economic stability or instability of a business, reflecting the efforts of its management. Stakeholders such as management, investors, creditors, regulators, the government, employees and even investors track the financial performance of a business to make informed decisions. The financial performance reveals the ability of a business to consistently generate revenue through its assets, minimize operational costs, settle financial obligations, and also manage the financial interests of its stakeholders. Measurement of firms' performance should start by evaluating whether it has been able to achieve the objectives set by stakeholders (Hofstrand, 2018).

Financial performance is measured by some indicators such as earnings power, return on assets (ROA), return on equity (ROE), etc. However, this study adopts return on assets (ROA), return on equity (ROE), and earnings power to measure financial performance according to Vânia Nogueira Moutinho (2012). These performance indicators will be extracted from the annual financial statements of deposit money banks and will help provide information for decision-making to various users of financial statements.

2.1.3 Concept of Return on Assets (ROA)

Return on Assets is a financial performance index that assesses the profitability of a business with its total assets. This ratio indicates how well a business is performing by comparing the profit (net income) it is generating, to the capital it is investing in assets. It is calculated by dividing a company's total revenue after deducting interest and tax by its total assets.

ROA= Net Income / Total Assets.

Corporate management, analysts, and investors can use this ratio to determine how a business can generate revenue with its resources. The higher the return on assets, the more effective and efficient the management of a business is in utilizing its resources.

2.1.4 Concept of Return on Equity (ROE)

This is another measure of the financial performance of a business. Return on equity is considered a gauge of a corporation's profitability and how it generates those profits. It indicates the ability of a company to grow and reinvest its profits. It is calculated by dividing net income by shareholders' equity because shareholders' equity is equal to a company's assets minus its debts. Its formula is expressed as;

ROE = Net Income / Shareholders' Equity

ROE is a powerful tool for evaluating how well a company performs against its peers. Higher ROE reveals the efficiency of a company's management in generating revenue and sustaining growth. Conversely, a lower ROE shows a lapse in the efforts of the management to generate profits for the business. Companies with high ROE may generate sufficient profits to fund future growth without needing to take on additional debt.

2.1.5 Concept of Earnings Power

Earnings power (EAP) represents a company's ability to generate revenue. It compares a company's income to its total assets. The basic earning power ratio (BEP) includes non-operating income, such as dividends. This is one of the reasons why investors include a company's earning power in their assessment of whether to buy a company's shares or even sell existing shares. EAP takes into account several elements including a company's total assets, plus recent growth or loss trends. It is calculated by dividing earnings before interest and taxes (EBIT) by total assets.

Earnings Power = EBIT / Total Assets

2.2 THEORETICAL FRAMEWORK.

Agency Theory
The Agency theory was propounded by Michael C. Jensen and William H. Meckling, (1976). This theory proposes that due to self-interest and information asymmetries, principals do not trust their agents. As a result, principals will invent ways to resolve this distrust by putting in place mechanisms to connect the interests of the principals with their agents. This will eventually help to limit opportunistic behaviour and information asymmetries.

Just like the director-shareholder relationship which signifies the agent-principal relationship, auditors also take the role of agents to their principals, which is their client firms, Due to this similarity, the issue of confidence and trust arises on the part of various stakeholders as one will wonder who is auditing the auditors.

Auditors who act as agents can be trusted by their principals without being under any obligation to give the auditors any incentive or setting up regulations that monitor their practices. However, this simple agency model would posit that agents are not trustworthy.
Auditors, just like directors, will also have their motives and interests to put into consideration. For instance, being conscious of their potential liability auditors will initiate risk management processes leading to certain restrictions in the scope of their work. They may be risk averse causing these restrictions in their practices and caveats in their audited reports thereby frustrating the principal (that is, the client firms). The independence of the auditors from the view of various stakeholders, including the management is a very important factor in helping to achieve audit quality (ICAEW, 2005)

Therefore, agency theory addresses the gap in stewardship and accountability between the auditors and their client firms by providing audit services. Syder and Miebaka (2022).

2.3 EMPIRICAL REVIEW

Ugwu, Aikpitanyi, & Idemudia (2020) evaluated the effect of audit quality on financial performance of all the 15 listed Deposit Money

Banks in Nigeria from 2011-2017 with emphasis on audit fee as the independent variable in addition to firm size and joint audit, while ROA which is the dependent variable was proxy for financial performance. Secondary sources of data were used and obtained from the annual reports of the listed banks. The study used ex-post facto research design while extracted data were analyzed using correlation and multiple regressions. The study revealed a negative insignificant relationship between audit fee and ROA.

Illiemena & Okolocha (2019) evaluated the effect of audit quality on the financial performance of Industrial goods companies in Nigeria. The study employed both descriptive and ex-post facto research designs while the collected data upon analysis showed that there is a significant positive effect of audit quality on financial performance of Industrial companies in Nigeria which was measured using return on assets.

Elewa and Elhaddad (2019) investigated the relationship between audit quality and Egyptian firm performance with respect to ROA and ROE. The study extracted data from secondary sources and used the ex-post facto research design. The findings of the research showed no evidence to support the existence of a significant positive relationship between audit quality, ROA and ROE.

Miettinen (2011) studies the association between audit quality and financial performance. Audit quality was measured using auditor size. The outcome of the study proves that audit quality has a direct effect and a mediated effect through audit size on financial performance. Bouaziz (2012) studied the association among auditor size and financial performance on a sample of 26 Tunisian firms registered on the Tunis Stock Exchange. The outcome shows that auditor size has a substantial impact on the financial performance of firms concerning Return on Assets ROA and Return on Equity ROE.

CHAPTER 3

3.1 Methodology

The population for this study was the 22 Deposit Money Banks (DBMs) listed on the Nigeria Exchange Group (NGX) as of 30 September 2024, for a period of 7 years (2017-2024). Eleven (11) DMBs were purposely selected out of the 22 DMBs listed on the NGX because they were and had financial data covering the study years, as listed in Table 3.1.

Table 3.1: listed of sampled DMBs listed in NGX

S/N	Company
1	ACCESS BANK PLC
2	ECOBANK NIGERIA LIMITED
3	FIDELITY BANK PLC
4	FIRST CITY MONUMENT BANK LIMITED
5	FIRST BANK PLC
6	STANBIC IBTC BANK LIMITED
7	UNITED BANK OF AFRICA PLC
8	UNITY BANK PLC
9	WEMA BANK PLC

10	ZENITH BANK PLC

Source: Nigeria Exchange Group (NGX) (September 2024)

This empirical study aimed to assess the impact of audit fees on the financial performance of deposit money banks listed on the Nigeria Exchange Group. Utilizing an ex-post facto research design, the study analyzed cross-sectional panel data extracted from the annual financial statements of various DMBs listed on the NGX from 2017 to 2023. Financial performance (FPC), the dependent variable, was measured using Return on Assets (ROA), Return on Equity (ROE), and Earnings Power (EAP), while the independent variable was Audit Fee (AUF). The variables are detailed in Table 3.2.

Table 3.2: Regression Model Variables Specification

Variables	**Abbreviations**	**Measurement**	**Source**
Audit Fee	AUF	The Logarithmic transformation of Naira-value remunerated of actual audit fees paid to auditors for their services each year.	Ado, Rashid, Mustapha, & Ademola, (2020).
Return On Assets	ROA	(Net Income/Total Assets) x 100%	Akintoye, Adegbie & Onyeka-Iheme, (2020)
Return On Equity	ROE	(Net Income/Equity) x 100%	Masrivah, & Rijanto, (2024), Alsmady, (2022).
Earnings Power	EAP	EBIT/Total Assets	Alsmady, (2022).
Financial Performance		FPC = (ROA + ROE + EAP)/3	Ado, Rashid, Mustapha, & Ademola, (2020), Alsmady, (2022), Akintoye, Adegbie & Onyeka-Iheme, (2020)

Source: Researcher’s study (2024)

To achieve the study's objective, descriptive statistics were utilized to succinctly and comprehensively summarize the collected data using numerical methods (Nsude, 2015). The study examined key characteristics of the data, including the mean, maximum, minimum, and standard deviation. Additionally, inferential statistical analyses were conducted on the collected data. The Multiple Regression Model was employed as the statistical tool for this study, using E-views 10 to predict the value of the variables. The student t-test with p-values was applied to assess the estimated numerical values of the coefficients for statistical significance at a 5% level, aiding in operationalizing the research hypotheses. The R square (r^2) was used to evaluate the strength of the variables in predicting the relationship between Audit Fees and Financial Performance of DMBs listed in Nigeria. The f-statistic was utilized to assess the aggregate effect of the independent variable on the dependent variable. A correlation matrix analysis was performed to detect serial correlation among the variables. The multiple regression formula was: $FPC = \beta 0 + \beta 1\ AUFit + \mu it$

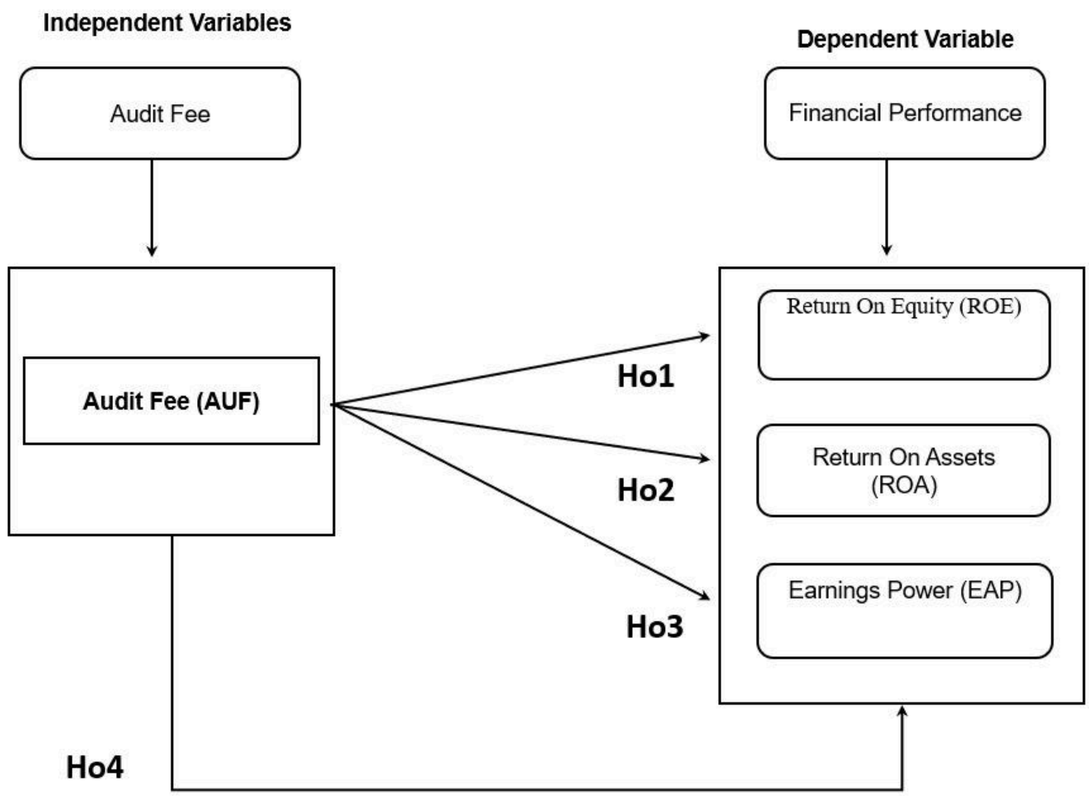
3.2 Mathematical Model

To evaluate
$Y = f(X)$
Y = Dependent variable (Financial Performance) (FPC)
X = Independent variable (Audit Fee) (AUF)
X and Y are broken down as follows:
$Y = (y1, y2, y3)$
$X = (x1)$
Where y1 = Return On Assets (ROA)
y2 = Return On Equity (ROE)
y3 = Earnings Power (EAP)
and x1 = Audit Fee (AUF)
These will result in an expanded functional model of:
ROA = f(AUF) ------------------------------------ Function 1
ROE = f(AUF) ------------------------------------ Function 2
EAP = f(AUF) ------------------------------------ Function 3

Which is expressed as:
$ROA = \beta 0 + \beta 1\ AUFit + \mu it$ --------------------------- Model 1
$ROE = \beta 0 + \beta 1\ AUFit + \mu it$ --------------------------- Model 2
$EAP = \beta 0 + \beta 1\ AUFit + \mu it$ --------------------------- Model 3

Where:
β0 is the intercept and β1 represents the estimated parameters for audit fees.
μ = error term or stochastic variable

3.3 Researcher's Conceptual Model



Source: Researcher's Concept (2024)

Chapter 4

Results and Discussions

This section shows the empirical results under each research objective. It captures the correlation and regression analysis to establish if audit fees significantly affect the financial performance of deposit money banks (DMBs) in Nigeria based on the data gathered from the Nigerian Exchange Group and the annual financial reports of these banks.

4.1 Descriptive Statistics

The descriptive statistics of all the variables namely Audit fees, Earnings power, ROA, and ROE for eleven deposit money banks listed on the NSE from 2017 to 2023 are presented in the table below:

Table 2.1 Descriptive Statistics Results

	AUDIT FEES	EARN. P	ROA	ROE
Mean	294192.5	0.126412	0.035770	0.158436
Median	295000.0	0.027818	0.015170	0.127749
Maximum	787550.0	0.971601	0.649525	0.722689
Minimum	13000.00	-0.112735	-0.113185	-0.012132
Std Deviation	199437.6	0.281092	0.096895	0.125169
Observation	77	77	77	77

Source: Computed using E-view 10.

Table 2.1 shows the mean, median, maximum, minimum, and standard deviations for the audit fees of deposit money banks used in the main analysis over the 7-year study period from 2017 to 2023. According to the data, the three performance metrics, Earnings power, Return on Assets and equity, have mean values of approximately 12.6%, 3.5% and 15.8%, respectively. The average fees paid to audit the average audit fees for DMBs in Nigeria is ₦294192.5 million. The highest median value is the audit fee value of ₦295,000 million. These banks' maximum recorded audit fee value reached ₦ 787550 million, while the minimum value was ₦13000 million. The differences between the maximum and minimum audit fees suggests that while some banks invest heavily in audits, others operate with leaner audit budgets, which may reflect their operational scale or audit requirements.
The standard deviation from the mean for the audit fees of deposit banks in Nigeria between 2017 and 2023 was ₦199437.6 million. This shows the degree of variability of the values of audit fees around the average during the 7-year study period.

4.2 Correlation Matrix

Table 2.2 Correlation Matrix for All Variables

	AUDIT FEES	EARN. P	ROA	ROE
AUDIT FEES	**1.000000**			
EARN. P	-**0.434094**	**1.000000**		

ROA	**-0.169496**	**0.399868**	**1.000000**	
ROE	**0.271259**	**0.006084**	**0.701391**	**1.00000**

Source: Computed using E-view 10

Table 2.2 presents the findings of the correlation matrix between the dependent and independent variables used in the banks' performance model. This research identified correlations between the Earnings power (Earn. P), return on assets (ROA) and return on equity (ROE) with the audit fees of -0.434094, -0.169496, and 0.271259 respectively. The strongest correlation coefficient, which shows a significant positive correlation between the independent and dependent variables, was discovered linking return on equity and audit fees. This illustrates how the extent of audit fees can significantly influence a bank's return on equity.

The correlation coefficient between gross audit fees and return on assets was negative. This shows a negative relationship between audit fees and return on assets. Hence, a correlation did not exist between both variables.

The correlation coefficient of earnings power and audit fees was also negative. Consequently, audit fees could potentially have an adverse effect on the earnings power of banks. Recognising that correlation is not causation is important, and further study is required to fully comprehend the mechanisms underlying these relationships.

4.3 Regression results

Regression analysis was employed to assess the impact of audit fees on the financial performance of DMBs in Nigeria. The study's objectives, stated in Chapter One, were tested through hypothesis testing to achieve its aim.

Table 2.3 Regression Results on the Impact of Audit Fees on Earnings Power, ROA and ROE

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
Earnings Power	-159571.3	79657.45	-2.003219	0.0489
ROA	-1097034	324199.0	-3.383827	0.0012

ROE	1030032	230033.9	4.477742	0.0000
C	190410.7	37955.11	5.016733	0.0000
R-squared	0.363326	Mean dependent var		294192.5
Adjusted R-squared	0.337162	S.D. dependent var		199437.6
S.E. of regression	162371.9	Akaike info criterion		26.88372
Sum squared resid	1.92E+12	Schwarz criterion		27.00547
Log likelihood	-1031.023	Hannan-Quinn criter.		26.93242
F-statistic	13.88614			
Prob(F-statistics)	0.0000			

Source: Computed using E-view 10.0

The constant term is 190410.7 which indicates that the audit fees is constant, and the value of earnings power, return on assets and return on equity will be about 190410.7. Also, the coefficient of earnings power, ROA and ROE are -159571.3, -1097034, and 1030032 respectively. This means that a unit increase in audit fees will increase ROE by 1030032 and reduce earnings power and ROA by 159571.3, and 1097034 respectively.

The adjusted R2 of the model is 33% and the value for the coefficient of determination (R2) in this model is 0.363326 which endorses a 36% variation in the earnings power, return on assets and return on equity caused by variations in the audit fees. This implies that the effect of audit fees can account for approximately 36% of the variation in the financial performance of deposit money banks, as measured by earnings power, ROA and ROE. The remaining 64% of the variation is covered by the independent variable.

The p-value, or probability, shows the least amount of evidence needed to reject the null hypothesis and indicates the significance of the link. The statistical p-value i.e., 0.000 is less than the significance level (0.05). As a result, audit fees significantly affect the financial performance of DMBs in Nigeria. Consequently, the null hypothesis that audit fees do not affect earnings power, return on assets and return on equity is rejected, leading to the acceptance of the alternative hypothesis.

Conclusion

This study investigated the effect of audit fees on the financial performance of DMBs in Nigeria over seven years (2017-2023), using Earnings Power, Return on Assets (ROA), and Return on Equity (ROE) as performance measures. Additionally, it utilized a regression model to explore the correlation between audit fees and deposit money banks' financial performance.

The analysis highlighted several key insights:
Regarding the return on equity banks, previous studies (Knechel, W. R., & Willekens, M. 2006; Huang, H.-W., Liu, L.-L., Raghunandan, K., & Rama, D. V. 2007; Francis, J. R., & Yu, M. D. 2009; Al-Shaer, H., Salama, A., & Toms, S. 2017) reported a positive relationship between Audit fees and the return of equity of deposit money banks. This study discovered that banks paying higher audit fees experienced better ROE, likely because high audit fees may reflect greater audit scrutiny, which enhances earnings quality and investor trust.

The study also finds a negative relationship between Audit fees and ROA. This suggests that an increase in audit fees a bank pays affects the ROA of that bank negatively which means high audit costs can drain resources that might otherwise be used to enhance the operational performance of such banks. This finding is in line with (Hay, D., Knechel, W. R., & Wong, N. 2006; Sun, J., & Liu, G. 2011; Hassan, M. M., & Naser, K. 2013; Eshleman, J. D., & Guo, P. 2014). Therefore, higher audit fees could be associated with lower ROA in banks due to the administrative burden and financial strain of regulatory compliance costs.

Similarly, this research revealed a negative relationship between audit fees and the earnings power of deposit money banks in Nigeria. This indicates that a unit increase in audit fees paid by these banks can reduce the earnings power of DMBs.
An increase in audit fees reflects a high cost which can shorten the amount of resources available for profit-yielding operations in any organization. For example, allocating substantial bank resources to audit expenses can restrict the funds available for other crucial investments, such as technology upgrades, lending activities, or expansion efforts that could otherwise enhance the bank's Earnings Power. This finding is in line with (Sikka, P., Willmott, H., & Puxty, A. G. 1995; Abbott, L. J., Parker, S., Peters, G. F., & Raghunandan, K. 2003; Hope, O.-K., & Langli, J. C. 2010).

In summary, the findings reveal that although audit fees positively impact shareholder value, their influence on other financial performance measures is more nuanced. As such, adeptly managing audit fees is instrumental in striking a balance between regulatory compliance and sustainable business growth.

Recommendations

Based on these findings, the following recommendations are proposed.
First, banks should thoughtfully evaluate their audit expenses, striking a balance between the need for comprehensive audits and cost-effectiveness. Implementing a more scalable fee structure could assist in managing the financial impact on operational performance indicators such as ROA and Earnings Power.
Banks could allocate audit resources based on the areas that maximize shareholders' value, such as those directly enhancing ROE. This might involve focusing audit efforts on aspects that bolster equity returns while ensuring essential compliance is maintained.
Implementing robust financial monitoring processes is crucial to address the negative relationship between audit fees and return on assets. By adopting effective internal financial controls, banks can proactively manage audit-related expenses and prevent them from compromising asset efficiency.

By further investigating optimal audit fee structures for banks with varying sizes and complexities, researchers could uncover practices that effectively align audit expenditures intending to enhance performance. This would provide the banking industry with valuable, customized insights to better manage audit fees and drive improvement.

Limitations and Suggestions for Future Research

This study encountered constraints, notably its dependence on financial performance metrics that may not fully encapsulate the multifaceted impacts of audits. Prospective research should consider adopting longitudinal approaches and employing a broader range of performance measures to gain deeper insights, while also exploring causal linkages through more sophisticated statistical techniques.

In conclusion, this study examines the relationship between audit fees and the financial performance of deposit money banks in Nigeria. Banks can potentially enhance financial performance by managing audit fees effectively while ensuring compliance and stakeholder trust.

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