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I. Title page
II. Abstract (150-250 words)
III. Keywords (3-5)
IV. Introduction
V. Literature Review
VI. Methodology
VII. Results and Discussion
VIII. Conclusion and Recommendations
IX. References (APA 7th Edition)
X. Appendices (if necessary)
XI. Author Biographies (optional)

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THE INFLUENCE OF QUALITY ATTRIBUTES ON FINANCIAL STATEMENT FRAUD IN NIGERIAN QUOTED DEPOSIT MONEY BANKS

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ABSTRACT

This article examines the intricate relationship between the quality attributes of financial reporting and the prevalence of financial statement fraud within Nigerian quoted Deposit Money Banks (DMBs). Drawing on existing literature and theoretical frameworks, it posits that robust qualitative characteristics of financial statements. The article explores how weaknesses or deliberate manipulation of these attributes can create opportunities for fraud, discusses the implications for stakeholders, and suggests pathways for enhancing financial reporting quality to mitigate fraud risks in Nigeria's banking sector.

INTRODUCTION

The financial sector, particularly deposit money banks, plays a pivotal role in the economic stability and growth of any nation. In Nigeria, DMBs are the cornerstone of the financial system, facilitating credit, managing payments, and mobilizing savings. Consequently, the integrity and reliability of their financial statements are paramount, not only for regulatory oversight but also for investor confidence and public trust. However, the recurring incidence of financial statement fraud, as evidenced by corporate scandals and regulatory sanctions, raises serious concerns about the quality of financial reporting within these institutions. This article delves into how the qualitative attributes of financial information, as prescribed by accounting standards, can either foster transparency and accountability or, if compromised, create fertile ground for fraudulent activities.

According to (Arens, Elder, and Beasley 2014), CPA firms are classified according to their size as follows: (1) The Big Four International firms, (2) National firms, (3) Regional and Local firms, and (4) Small Local firms, with the distribution determined by total revenue, partner count, professional count, and office count. Meanwhile, Deis and Giroux assert that the size of an audit firm can be determined by the number of clients and the percentage of audit fees collected (Watkins et al., 2004). Meanwhile, Hayes (2014) divides public accounting firms into two categories: Big Four and non-Big Four. The big four public accounting firms participate through their international headquarters, which have more developed technology, procedures, and regulations than small regional public accounting firms. Farber (2005) demonstrates that businesses that commit fraud frequently avoid hiring the big four external auditors. This finding demonstrates that the big four have a higher audit quality than other external auditors, lowering the risk of a company committing fraud. The big four public accounting firm maintain a positive reputation by providing high-quality audits that inspire public confidence (Nizar, 2017). Becker et al. (1998) quantified audit quality by examining discretionary accruals. This research is motivated by a study indicating that non-Big Six auditors allow more earnings management than big six auditors. According to Zhou and Elder (Antonia, 2008), companies audited by reputable public accounting firms are less likely to commit fraud before the initial public offering than companies audited by the big four public accounting firms. It demonstrates that businesses face a barrier to entry when choosing one of the big four public accounting firms. According to (Lennox & Pittman 2010; Chen 2016), the big four accountants assist businesses in avoiding financial scandals. Weiner (2012) asserts that the size of the auditor firm is indicative of credibility, followed by disclosure of corporate fraud. Similarly, Fimanaya & Syafruddin (2014) asserted that the audit firm's size affects the likelihood of financial statement fraud.

Theory predicts that audit effort (measured by audit fees) and financial report restatements should be negatively associated because more audit effort means that auditors should be more likely to find errors or other issues that could lead to later restatement (Shibano, 1990; Matsumura and Tucker, 1992; Lobo and Zhao, 2013). However, many studies have found either a positive association or no association between audit fees and subsequent restatements (Kinney et al., 2004; Stanley and DeZoort, 2007; Cao et al., 2012, Hribar, Kravet, and Wilson, 2014). Lobo and Zhao (2013) respond to this inconsistency by correcting for two factors that have biased the results. After controlling for pre-audit misstatement risk using Dechow et al.'s (2011) predicted probability of misstatement, and excluding unaudited reports (i.e., interim quarterly reports), they find a negative association between audit effort (i.e., audit fees) and annual report restatements. Internal control is expected to be significantly associated with audit fees because the audit process should be adjusted according to the auditors' assessment of the client firm's internal control environment. Hogan and Wilkins (2008) investigate the relationship between audit fees and internal control deficiencies to determine whether audit firms exert more effort during their audits of client firms with internal control deficiencies. They find that, on average, a thirty-five percent increment in audit fees when there are disclosures of internal control deficiencies. The lack of strong internal controls is a potential factor leading to financial reporting restatements. Both non-intentional clerical accounting errors and intentional fraud are more likely to occur in environments with weak internal controls

Another variable for audit quality is audit tenure. The length of the audit tenure can affect two factors that ultimately affect audit quality: the auditor's independence and competence (DeAngelo, 1981). According to the independence factor, the longer the audit tenure, the more emotional the relationship with the client becomes, resulting in decreased independence, which is reflected in the auditors' fewer objective assumptions (Dinuka & Zulaikha, 2014). Additionally, a lengthy audit engagement period increases the possibility of developing economic ties, with the auditor agreeing to the client's efforts to manipulate financial statements through accounting techniques (Nasser et al., 2006). From the auditor's perspective, if the client being audited already has adequate control over the financial statements and management demonstrates integrity and competence, auditors tend to have expectations that the client will retain these characteristics, which exacerbates the auditor's skeptical attitude diminished (Carcello & Nagy, 2004). Meanwhile, if viewed from the competency factor, the longer the audit tenure can increase knowledge about a specific industry and client-specific information such as in terms of business processes, accounting systems, and internal controls so that this knowledge can increase the competence of auditors to detect material misstatement in financial statements. Johnson et al., 2002). However, if there is a change of auditors, the specific knowledge about the client will be limited to the new auditor (DeAngelo, 1981). And the process of understanding the specific industry and client companies takes at least one year after the change of auditors (Knapp, 1991; Krauss & Zulch, 2013).

According to Arens et al. (2011), "Auditor specialization is auditor as having deep understanding (knowledge) and long experiences of the client's specific business and industry, having knowledge about the company's operations, and specific accounting and auditing guidance which are essential for doing a high-quality audit. The nature of the client's business and industry affects clients' business risk and the risk of material misstatements in the financial statements". Tuanakotta (2011) and Cohan et al. (2010) states that: "Industry Specialist Auditor is auditor as having long experiences and deep understandings of how general and specific accounting guidance applies to the specific client's industry and includes understanding of operational challenges and nuances of such industry. Rittenberg et al. (2010) and Balsam et al. (2003) argue that accounting firm that engage the auditor specialization in the audit process of its client in a particular industry, will be able to select and implement audit procedures that are more precise and effective than the non-auditor specialization. Competence and expertness are obtained from repetition of the same audit procedures in certain industries for many years.

Users of financial statements demand nothing less than a report that conveys accurate and reliable information relevant for decision-making. This is made possible by auditors through the provision of quality services. Salehi and Kangurloueri (2010) posit that audit firms with higher quality guarantee more financial reporting quality than firms with low audit quality. This statement was supported by Al-Khaddash (2013), who avers that audit efficiency, the reputation of auditing office, auditing fees, the size of audit firm and the proficiency of the auditor are good indicators of audit quality. Again, violation of financial fraud can lead to lower the integrity of the financial information that may affect several parties including lenders, investors, employees, auditors, even competitors (Ansar, 2012). Reducing fraud in reporting financial information certainly takes the role of the auditor as a party that can ensure the fairness of the financial statements.

This study effect of audit quality attributes on financial statement fraud likelihood of quoted deposit money banks in Nigeria apart from contributing to the existing body of knowledge will also significantly benefit the following stakeholders: Since auditing is a self-regulating profession, professional bodies will benefit from the findings of this study in terms of strengthening the attributes that will limit the possibility of the presence of financial statement fraud.

Regulatory bodies such as CBN, SEC, etc who are responsible to strengthening corporate governance measures will benefit from the findings of this study by taking appropriate measures to improve the overall financial reporting quality.

Firstly, for investment decisions, investors assess the overall performance of a company through the annual financial statement published by the company. Information contained in the report determines the level of decision-making. However, the quality of information gathered from the annual report dictates how investors are involved. Therefore, the outcome of this study provides indicator for the investors on the audit quality that have the potential to influence the likelihood of fraud. This also facilitates timely investment decision and to take adequate and appropriate action while selecting audit quality in their respective firms. This study assists investors in having an understanding fraudulent activity of the companies that can aid investment decisions.

CONCEPTUAL FRAMEWORK

Financial Statement Fraud and Quality Attributes

Financial Statement Fraud

Financial statement fraud refers to the deliberate misrepresentation or omission of financial information in an entity's financial statements with the intent to deceive users. It is a form of white-collar crime that can involve manipulating revenues, expenses, assets, liabilities, or disclosures. The motivations behind such fraud often include presenting a better financial picture to attract investors, secure loans, meet analyst expectations, avoid regulatory penalties, or even facilitate personal enrichment through bonuses tied to reported performance. In the banking sector, such fraud can conceal non-performing loans, overstate assets, or understate liabilities, creating a false sense of solvency and profitability.

Quality Attributes of Financial Information

The International Accounting Standards Board (IASB) Conceptual Framework for Financial Reporting outlines the qualitative characteristics that make financial information useful to users. These are typically categorized into fundamental and enhancing qualitative characteristics:

Fundamental Qualitative Characteristics:

Relevance: Financial information is relevant if it is capable of making a difference in the decisions made by users. It has predictive value (can be used to predict future outcomes) and confirmatory value (confirms or corrects prior expectations).

Faithful Representation: Financial information must faithfully represent the phenomena it purports to represent. It requires completeness (all necessary information is provided), neutrality (information is presented without bias), and freedom from error (no material errors or omissions).

Enhancing Qualitative Characteristics:

Comparability: Information should be presented in a way that allows users to compare the financial statements of different entities, and the same entity over different periods.

Verifiability: Different knowledgeable and independent observers could reach consensus that a particular depiction is a faithful representation. This implies supporting documentation and audit trails.
Timeliness: Information is available to decision-makers in time to be capable of influencing their decisions.

Understandability: Information is classified, characterized, and presented clearly and concisely.

Concept of Audit Quality

Audit quality is an important issue that is considered by various interest groups in the company, the audit scope and capital market. Because audit quality is barely visible in practice, research in this area has always been faced with many problems. In this study audit quality components introduced are as follows: Audit fees, audit firm size, auditor tenure and auditor industry specialization. Although, according to International Auditing and Assurance Standards Board (IAASB, 2011), there has been several attempts to conceptualize “audit quality” in the past. However, none has resulted in a definition that has achieved universal recognition and acceptance. Audit quality is, in essence, a complex and multi-faceted concept. The classic definition of audit quality that is cited by most audit researchers is that of DeAngelo (1981) which states that audit quality is the market-assessed joint probability that a given auditor will both (a) discover a breach in the client's accounting system and (b) report the breach. The definition highlights two important aspects of audit quality: (1) the competence of the audit firm that determines how likely it is that a misstatement will be detected and (2) the independence and objectivity of the auditor that determines what the auditor is likely to do about a detected misstatement. This definition has been quite useful to audit quality studies.

The import of DeAngelo (1981) definition is that audit quality is a probability that an auditor will discover and truthfully report material errors, misrepresentations, or omissions in the client's financial statements. Davidson, Stening and Wai (1984) simply posit that audit quality is the accuracy of auditor's information reporting while Wallace (1987) shows that audit quality is a measure of the auditor's ability to reduce noise and bias and meticulously improve accounting data. Davidson and Neu (1993) provide further that an audit quality definition is based on the auditor's ability to detect and eliminate material misstatements and manipulations in reported net income.

Again, Arens, et al (2011) defines the quality of the audit to mean how well an audit detects and report material misstatements in financial statements, the detection aspects are a reflection of auditor competence, while reporting is a reflection of ethics or auditor integrity, particularly independence". Davidson and Neu (1993) define audit quality as the ability of auditors to discover and reveal light material misstatements and manipulations in net income reported. This is corroborated by findings from Salehi and Azary (2008) who stressed that the capability of an auditor in the project of the interest of users of financial statements through the detection and reporting of material misstatements and diminution of information asymmetry between the users of financial statement and management explains audit quality. They further opined that the existence of audit quality is validated when a financial statement is free from information asymmetry. According to Palmrose (1988), in defining audit quality, actual quality and perceived quality have been contended as essential issues. While actual quality is regarded as the likelihood of reducing the associated risk of reporting a material misstatement in financial statement, perceived quality has to do with what the users of financial statement believe about the ability of auditor to reduce material misstatement.

Moreover, there are certain fundamental characteristics to watch out for when audit quality is a subject of discussion. This according to Yuniarti (2011) include Reliability (which has to do with how dependable are the auditor's findings and to what extent do the findings reflect a true and fair view of audited entity's financial statement), Significance (what value is tied to the audit?), Scope (which has to do with whether the entire aspects of the audit is properly addressed), Objectivity (what level of independence was exhibited in the audit process?), Clarity (was the audit outcome well communicated and recommendations made?), Timeliness (was the duration of the audit work too long, too short or just normal before the audit report was submitted?), Effectiveness (does the audit actually achieved its objective?) and Efficiency (was the cost of the audit outweighed by the associated benefit?). According to him, the integration of these characteristics as a whole gives' quality to the audit. This implies that audit quality is prominent where these characteristics can be identified.

An important issue regarding the definition of audit quality is whether to distinguish audit firm quality from audit quality. Several studies (Clarkson, 2000; Colbert & Murray, 1998) do not make this distinction but instead use the concepts interchangeably. However, under certain conditions, audit firm quality and audit quality might be used interchangeably. According to the underlying assumptions in the DeAngelo's (1981) definition, when an auditor provides only one level of quality of audit service, audit firm quality and audit quality may be akin to and correspond with each other. Meanwhile, Lam and Chang (1994) points out that audit quality should be defined on a service–by–service basis because an audit firm may not conduct its entire audit with the same level of quality.

Perceived audit quality and actual audit quality also appear to be different concepts; Actual audit quality is unobservable and can be evaluated only after audits have been conducted. For instance, Palmrose (1988) measures actual audit quality using auditor's litigation activities. Deis & Giroux (1992) analyzed quality control reviews to get a measure of actual audit quality in the public sector. Krishnan & Schauer's (2000) measure of actual audit quality is based on how audited financial statements comply with certain specific GAAP reporting requirements. Deis & Giroux (1992) and Krishnan & Schauer's (2000) both measure actual audit quality in the not-for-profit sector. However, results of studies in the not-for-profit sector might not be used to generalise for for-profit setting. It therefore suffers from generalization problems. Many studies test perceived audit quality due to the difficulty in measuring actual audit quality directly. DeAngelo (1981) analytically demonstrates that the larger the auditor, the less incentive the auditor has to behave opportunistically and the higher the perceived quality of the audit. Moreland (1995) investigates how SEC enforcement actions against Big 8 accounting firms affect their market perceived audit quality. Hogan (1997), documents that perception of higher audit quality is associated with less underpricing in the IPO market. It is difficult to measure actual audit quality but market perceptions of audit quality are more amenable to measurement.

Audit quality is subject to many direct and indirect influences. In tandem with the stakeholder theory (Khan, 2006), perceptions of audit quality vary amongst stakeholders depending on their level of direct involvement in audits and on the perspective through which they assess audit quality. audit quality may be perceived from any of three fundamental perspectives: inputs, outputs, and context factors. Inputs to audit quality, apart from auditing standards, include the auditor's personal attributes such as auditor skill and experience, ethical values and mindset. Another important input is the audit process including the soundness of the audit methodology, the effectiveness of the audit tools used, and the availability of adequate technical support geared towards supporting a high-quality audit.

Audit quality is the soul of audit profession. It is related to the vital interest of the public. Audit quality has been considered a multifaceted concept by the International Auditing and Assurance Standard Board

(IAASB). Users, auditors, regulators, investors (shareholders), and other stakeholders in the financial reporting process may have divergent views as to what constitute audit quality which will influence the type of indicators one might use to assess audit quality. The auditor conducting the audit may define high audit quality as satisfactorily completing all tasks that is required by the firm's audit procedures. The auditor may decide to evaluate high audit quality as one for which the work can be defended against any challenges in an inspection by a court of law. Regulators on their standpoint may view audit quality as one that complies with the professional standard. The public may consider high audit quality to avoid economic problems for a company or the market (Enofe, et al 2013)

Concept of Fraud

The concept of fraud in itself disordered. But scholars vary significantly in their expressions about fraud. The cause is sometimes confused with effect. Defining fraud is as difficult as identifying it. Fraud is defined by EFCC (2004) as the non-violent criminal and illicit activity committed with objective of earning wealth illegally either individually or in a group or organized manner thereby violating existing legislation governing the economic activities of government and its administration. Nwaze (2012) defined fraud as a predetermined as well as planned tricky process or device usually undertaken by a person or group of persons with the sole aim of cheating another person or organisation to gain ill-gotten advantage which would not have accrued in the absence of such deceptive procedure. Onuorah and Appah (2012) as cited in Bello (2001) and quoting Russel (1978) remarked that the term fraud is generic and is used in various ways. Okafor (2004) added that fraud embraces all the multifarious means which human ingenuity can devise, which are resorted to by an individual to get advantage over another in false representation. No definite and invariable rule can be laid down as a general proposition in defining fraud as it includes surprise, trick, cunning and unfair ways by which another is cheated fraudulently (Ojaide, 2000).

Fraud has been variously described in literature. No one description suffices. Wikipedia dictionary describes Fraud as crimes against property, involving the unlawful conversion of property belonging to another to one's own. Williams (2005) incorporates corruptions to his description of financial crimes. Other components of fraud cited in Williams (2005) description include bribes, cronyism, nepotism, political donation, kickbacks, artificial pricing and frauds of all kinds. The array of components of financial crimes, some of which are highlighted above, is not exhaustive. The EFCC Act (2004) attempts to capture the variety of economic and financial crimes found either within or outside the organization. The salient issues in EFCC Act (2004) definition include

"violent, criminal and illicit activities committed with the objective of earning wealth illegally…

in a manner that violates existing legislation… and these include any form of fraud, narcotic drug, trafficking, money laundering, embezzlement, bribery, looting and any form of corrupt malpractices and child labour, illegal oil bunkering and illegal mining, tax evasion, foreign exchange malpractice including counterfeiting, currency, theft of intellectual property and piracy, open market abuse, dumping of toxic waste and prohibited goods, etc. This definition is all-embracing and conceivably includes financial crimes in corporate organization and those discussed by provision authors (William, 2005 and Khan, 2005). At the level of corporate organizations, financial crimes were known to have led to the collapse of such organizations.

Cotton (2003) attributes the collapse of Enron, WorldCom, Tyco, Adelphia, to corporate fraud. $460 billion was said to have been lost. In Nigeria, Cadbury Nig Plc whose books were criminally manipulated by management was credited to have lost 15 billion Naira. In the case of the nine collapsed commercial banks in Nigeria, about one trillion naira was reported to have been lost through different financial malpractice. This is still being investigated by EFCC under the EFCC Act (2004). Generally, financial fraud is varied and committed by individuals and institutions.

Karwai (2002) and Ajie and Ezi (2000) are of the view that financial fraud in organizations vary widely in nature, character, and method of operation in general. Fraud may be classified into two broad ways: nature of fraudsters and method employed in carrying out the fraud. Based on the nature of the fraudsters, fraud may be categorized into three groups, namely, internal, external and mixed frauds. Internal fraud relates to those committed by members of staff and directors of the organizations while external fraud is committed by persons not connected with the organization and mixed fraud involves outsiders colluding with the staff and directors of the organization. Karwai (2002) reported that the identification of the causes of fraud is very difficult. He stated that modern day organizations frauds usually involve a complex web of conspiracy and deception that often mask the actual cause. Ajie and Ezi (2000) are of the view that studies have shown that on the average out of every 10 staff would look for ways to steal if given the opportunity and thus only 4 could be normally honest.

Ramamoorti (2007) argued that fraud is a human endeavor, involving deception, purposeful intent, intensity of desire, risk of apprehension, violation of trust, and rationalization. It is therefore important to understand the psychological factors that might influence the behavior of fraud perpetrators. The rationale for drawing on behavioral science built on evident from the intuition that one needs to think like a crook to catch a crook. Karwai (2002) and Ajie and Ezi (2000) are of the view that fraud in organizations vary widely in nature, character, and method of operation in general. Fraud may be classified into two broad ways: nature of fraudsters and method employed in carrying out the fraud. On the basis of the nature of the fraudsters, fraud may be categorized into three groups, namely, internal, external and mixed frauds. Internal fraud relates to those committed by members of staff and directors of the organizations while external fraud is committed by persons not connected with the organization and mixed fraud involves outsiders colluding with the staff and directors of the organization. Karwai (2002) reported that the identification of the causes of fraud is very difficult. He stated that modern day organizations frauds usually involve a complex web of conspiracy and deception that often mask the actual cause.

The Association of Certified Fraud Examiners (2008) defined fraud as the use of one's occupation for personal enrichment through deliberate misuse or misapplication of the employing organization's resources or assets. It is therefore any act of misappropriation, theft or embezzlement of corporate assets in a particular economic environment. It has been considered as is any act of deception performed by somebody to cheat or deceive another person to his detriment or the detriment of any other, or to cause injury or loss to another person while the perpetrator has a clear knowledge of his intension to deceive, falsify or take advantage over the unsuspecting and innocent victim Robinson (1976) resulting to suffering loss or damage Stanley (1994).

According to Udoayang and James (2004) fraud is simply stealing by tricks. Ramamoorti and Olsen (2007) in their definition of fraud argued that it "is a human endeavour, involving deception, purposeful intent, intensity of desire, risk of apprehension, violation of trust and rationalization. Fraud is an intentional act done by human beings through deception, trickery and misrepresentation (Ramamoorti, 2008). Fraud could be any deliberate actions taken by management at any level with the intention to deceive, con, swindle, or cheat investors or other stakeholder Drew and Drew (2010). Many authors Ojo and Adewunni (1986) in Hamilton and Gabriel (2012); Sydney, (1986); Ojigbede (1986) agreed that fraudulent activities involve the use of deceit and tricks to change the truth so as to deprive another person of his right.

Frauds are committed in all spheres of human activities: business, public and financial sectors Ratlift *(*1996). It is a strategy to achieve a personal or organisational goal or to satisfy human needs. Fraud is any action, behaviour or oral expressions deliberately aimed at deception and /or misinformation. It is a sequence of activities perpetrated to obtain money, property or services, to avoid payment or of services or to secure personal or business advantages. These acts are not dependent upon the application of threat of violence or of physical force (International Standards for Professional Practice of Internal Auditing, 2002). Pedneault, Sheetz, and Rudewicz (2012) agreed that modern definition of fraud appears to be derived from case and statute law even though many of the ancient components still obtain. It can be traced to the Latin noun *fraus*, which conveys a range of meaning centered on the idea of harm, deceit and wrongdoing (Silverstone & Sheetz, 2007). "The modern definition derived from case law focuses on the intent of the fraudster(s) to separate the trusting victim from property or a legal right through deception for his or her own benefit (Silverstone & Sheetz, 2007).

Even though the reasons for fraud occurrence or causes of fraud in an organisation is not really the interest in accounting, but that of the behavioural sciences like sociology, psychology, criminology and anthropology, the interdisciplinary approach of fraud examination and forensic accounting in the development of theory and in practice lend support for understanding why fraud occurs by accountants interested in its prevention and detection. In fact, Ramamoorti (2008), argued for the integration of the behavioral sciences in fraud and forensic accounting curricula for fraud to be effectively prevented and detected.

In any case, all the definitions of fraud stresses on acts that are capable of deceiving and misappropriation perpetrated deliberately. Such acts are carried by somebody or group of persons against another person or an organisation, and can be expressed verbally or through behaviour. The concept of fraud in itself disordered. But scholars vary significantly in their expressions about fraud. The cause is sometimes confused with effect. Defining fraud is as difficult as identifying it. Fraud is defined by EFCC (2004) as the non-violent criminal and illicit activity committed with objective of earning wealth illegally either individually or in a group or organized manner thereby violating existing legislation governing the economic activities of government and its administration. Nwaze (2012) defined fraud as a predetermined as well as planned tricky process or device usually undertaken by a person or group of persons with the sole aim of cheating another person or organisation to gain ill-gotten advantage which would not have accrued in the absence of such deceptive procedure.

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The researcher is of the view that if the government auditor wishes to place valiance on the Internal Audit function in the Ministries and extra – ministerial departments, the auditor will need to assess its effectiveness and degree of independence. Millichamp (1996) opined that Internal control is "the whole system of Controls, financial and otherwise, established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records". Rittenberg and Schwieger (2001) defined Internal Control as "a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) reliability of financial reporting, (2) compliance with applicable laws and regulations, (3) effectiveness and efficiency of operations and (4) safeguarding of assets". The researcher agrees with the explanation made by the above authors on internal control.

However, the researcher is of the view that internal control when transacted into public sector environment is a "Process designed by our government financial administrators in order to carry on the financial activities of government in an orderly and efficient manner, ensure compliance to government policies, protect the assets and secure as far as possible the completeness and accuracy of the government financial statements". In other words, Internal Control may be a government system installed, to effectively and efficiently prevent, detect and control material accounting errors or frauds on a timely basis. This study will view fraud from the perspective of financial statement.

Agency Theory

The demand for audit of companies' accounts is created by the agency problems which are related to the separation of corporate ownership from control (Eilifsen & Messier, 2000; Gerayli, et al, 2011). The agency problem arises from the existence of asymmetric information in the principal – agent contracts (Jenson & Messier, 2000). Some studies (Trueman & Titman, 1988; Dye, 1988; Schipper, 1989; Warfield, Wild & Wild, 1995) have shown that the existence of information asymmetry between corporate management and company shareholders is a necessary condition for and easy perpetration of earnings misreporting and financial statements manipulations. The audit of a company's accounts is a monitoring or control mechanism that diminishes information asymmetry and protects the interests of the principal. Agency theory originated from the work of Berle and Means (1932) explored the concept of agency and the applications toward the development of large corporations. They found out how the interest of the directors and managers differ from the owners of the firm, thereby using the concepts of agency- principal to explain the genesis of those conflicts.

Jensen and Meckling (1976) further on the work of Berle and Means (1932) to develop agency theory as a formal concept. They also formed a school of thought arguing that corporations are structured to minimize the costs of getting agents (agency costs) to follow the direction and interests of the principals. The theory essentially acknowledges that different parties involved in a given situation with same given goal will have different motivations, and these differences can manifest in divergent ways. This means that there will always be partial goal conflict among parties, because efficiency is inseparable from effectiveness, and thus information will always be somewhat asymmetric between principal and agent.

Agency theory is therefore concerned with contractual relationship between two or more persons called the agent(s) to perform some services on behalf of the principal. Both the agents and the principal are presumed to have entered into mutual agreement or contract motivated solely by self-interest. The principal delegates decision making responsibility to agents (Chowdhury, 2004). It is a concept that explains why behavior, or decisions vary when exhibited by members of a group. Specifically, it describes the relationship between one party, called the principal that delegates work to another, called the agent. It explains their differences in behavior or decisions by noting the two parties often have different goals and, independent of their respective goals, different attitudes toward risk. Invariably, the agents" decision choices are assumed to have effect on both parties. These relationships, according to Bromwich (1992) are perceived in economic and business life and generate more problems of contracting between entities in the economy.

Other related reviews include The Sarbanes-Oxley Act of 2002 (SOX) which requires companies to report on the effectiveness of their internal controls over financial reporting as part of an overall effort to reduce fraud and restore integrity to the financial reporting process. Morris (2011) asserted that software vendors that market enterprise resource planning (ERP) systems have taken advantage of this new focus on internal controls by emphasizing that a key feature of ERP systems is the use of "built-in" controls that mirror a firm's infrastructure. They emphasize these features in their marketing literature, asserting that these systems will help firms improve the effectiveness of their internal controls as required by SOX.Internal control is one of many mechanisms used in business to address the agency problem. Others include financial reporting, budgeting, audit committees, and external audits (Jensen and Payne 2003). Studies have shown that internal control reduces agency costs (Abdel-khalik 1993; Barefield et al. 1993) with some even arguing that firms have an economic incentive to report on internal control, even without the requirements of SOX (Deumes & Knechel 2008). Their argument assumes that providing this additional information to the principal (shareholder) about the behaviour of the agent (management) reduces information asymmetry and lowers investor risk and, therefore, the cost of equity capital.

During the 1980s, several high-profile audit failures led to creation of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) organized for the purpose of redefining internal control and the criteria for determining the effectiveness of an internal control system (Simmons 1997). They studied the causal factors that can lead to fraudulent financial reporting and developed recommendations for public companies, independent auditors, educational institutions, the Securities Exchange Commission (SEC) and other regulators (COSO 1985). The product of their work is known as the COSO Internal Control—Integrated Framework (Simmons 1997). The framework also points out that controls are most effective when they are "built into" the entity's infrastructure (COSO 1992,) and further states that "built in controls support quality and empowerment initiatives, avoid unnecessary costs and enable quick response to changing conditions" (COSO 1992).

John J. Morris. (2011) separates internal controls into those that are general (entity-wide) controls from those that are specific (account-level) controls. He believes that if management was overriding control features in order to manage earnings, then one would expect to find more Internal Control Weaknesses related to general controls, even if the specific (account-level) controls are effective. This type of behaviour should be uncovered during the audit process since this is an area of concern specifically identified in Auditing Standard No. 5, Paragraph 24, which states that "entity-level controls include controls over management override." On the other hand, a stronger argument could be made that if general controls are in place and working, then one would expect to find less Internal Control Weaknesses related to general controls.

In the Executive Summary of "Enterprise Risk Management-Integrated Framework" 2004 by the Committee of Sponsoring Organizations (COSO, 2004) of the Treadway Commission, Internal controls have been incorporated into policies, rules and regulations to help organizations achieve their established objectives. This is in line with Pany, Gupta and Hayes' assertion that internal controls are meant to help an organization achieve its objectives. The COSO commission was partly instituted in response to a series of high-profile scandals and business failures where stakeholders (particularly Investors) suffered tremendous losses. This study however differs in that it is done for an institution that is not ailing though there are reported incidences of scandals and financial misfeasance. The end results should therefore aid the preventive mechanism rather than being reactionary. Entities exist to provide value to its stakeholders but are normally face with uncertainty.

Implications for Stakeholders

The compromise of financial reporting quality attributes and the resulting financial statement fraud in Nigerian DMBs have severe implications:

Investors: Suffer significant financial losses as the true value of their investments is eroded, leading to a loss of confidence in the capital market.

Depositors: Face risks to their savings, potentially triggering bank runs and wider financial instability.

Regulators: Their credibility is undermined, and they face increased challenges in maintaining financial system stability.

Employees: May lose jobs due to bank failures or restructuring following fraud discoveries.

Economy: Erodes trust in the financial system, deters foreign direct investment, and can contribute to economic downturns.

Conclusion

The quality attributes of financial statements are not mere theoretical constructs; they are practical safeguards against financial statement fraud. In the context of Nigerian quoted Deposit Money Banks, the commitment to relevance, faithful representation, comparability, verifiability, timeliness, and understandability is paramount for safeguarding the banking sector's integrity. By addressing the systemic weaknesses that allow these attributes to be compromised, and by implementing the recommended measures, regulatory bodies, bank management, and other stakeholders can collectively build a more transparent, trustworthy, and resilient financial environment in Nigeria, mitigating the destructive impact of financial statement fraud.

Audit quality of financial reports and its effect have become a topical issue in the literature of Accounting and Finance. Attempt has been made in this study to examine the effect of auditor tenure, audit fees, audit firm size and industry specialization on financial statement fraud likelihood of quoted deposit money banks in Nigeria. The study formulated four hypotheses bothering on the four independent explanatory variables used in the study. Based on the result obtained, the study concludes that in so far, the aggregated audit quality dimensions are concerned, their combined influence on financial statement fraud likelihood of quoted deposit money banks in Nigeria is significant. The effect however gets diluted as the variables are considered on individual basis.

Recommendations

The study offers the following recommendations based on variety of people/organizations that are involved directly or indirectly with audit attributes and audit quality of financial reports of quoted deposit money banks in Nigeria:

In other to improve financial statement fraud using audit quality as a tool in Nigeria, the study recommends that the Government through the various professional bodies should develop robust policies that will help improve audit quality in Nigeria. This can be through an expanded approach in defining the nature of audit quality.

Moreover, a well-defined standard sanctioned by law should be put in place to regulate audit fee and auditors' tenure in Nigeria. This is because they are the most factors frequently used by companies' management to conceal irregularities in the financial reports by increasing the fee of auditors to serve as incentive for them over look fraud and extending auditor tenure in a such a that they become too familiar with audit client.

Auditors should as well ensure that the quality of audited financial statement is improved upon in other to boost the confidence of users of financial statement and the general public.

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