

## CORPORATE GOVERNANCE INDEX AND AUDIT FEES ON EARNINGS QUALITY OF LISTED DEPOSIT MONEY BANKS IN NIGERIA

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**ABSTRACT:** This study examines how audit fees and corporate governance index inclusion influence earnings quality among 15 listed Nigerian banks from 2014–2023, using 120 bank-year observations. Panel regression results reveal that a 1% increase in audit fees reduces discretionary accruals by approximately 0.03 points ( $p < 0.05$ ), signalling improved earnings quality. Membership in the NGX Corporate Governance Index is associated with a 0.05 reduction in discretionary accruals ( $p < 0.01$ ), even after controlling for audit fees, firm size, and profitability. Interestingly, bank size negatively correlates with earnings quality, with larger banks reporting higher discretionary accruals despite stronger audit scrutiny. These findings affirm that both audit effort and governance transparency independently enhance reporting discipline, consistent with agency and signalling theory. The study concludes that robust corporate governance benchmarking and well-priced audit services reduce opportunistic financial reporting, though supervisory intervention is needed for larger institutions. Recommendations include expanding governance index participation, protecting auditor independence, and addressing size-related governance anomalies.

**Keywords:** *Corporate governance, audit fees, earnings quality.*

## 1. INTRODUCTION

Earnings quality is an important issue in modern accounting because it determines how accurately reported earnings represent a company's actual economic performance and provides significant information for decision-making by investors and other stakeholders. Recent empirical research reveals that a variety of factors, such as business characteristics, ownership arrangements, and governance processes, influence profit quality, particularly in emerging markets with diverse institutional contexts (Risks, 2025). Furthermore, empirical data demonstrates the multifaceted nature of earnings quality in the current reporting environment, with a strong correlation between it and both traditional measures of earnings management and new factors such as environmental, social, and governance (ESG) practices (Vatis et al., 2025). The notion that oversight mechanisms are critical to improving the dependability of financial reports is supported by research on board characteristics, which shows that corporate governance practices such as board meeting frequency can have a significant impact on earnings quality outcomes (Vafeas & Vlittis, 2024). Understanding earnings quality remains critical for analysing the sustainability and integrity of reported financial performance as financial markets evolve in response to stakeholder and regulatory expectations.

Corporate governance has emerged as a pivotal mechanism for enhancing the reliability and integrity of financial reporting, particularly in sectors prone to opacity and agency conflicts, such as banking in emerging markets like Nigeria. Governance reforms such as board independence and regulatory indices are theorised to constrain managerial discretion, reduce earnings management, and influence audit pricing (Ibe et al. 2025).

In Nigeria, the banking sector has undergone numerous governance interventions, from consolidation drives to corporate governance codes and, more recently, the NSE (now NGX) Corporate Governance Rating System (CGRS) and Index (Olateju & Tijani, 2024). These efforts aim to elevate governance standards and provide signaling benefits to investors and stakeholders. However, empirical evidence remains fragmented on whether such reforms translate into measurable changes in

audit fees (i.e., cost of audit services) and earnings quality among listed banks (Olateju & Tijani, 2024).

Previous studies have examined relationships between corporate governance mechanisms and earnings quality in Nigeria's banking sector. Oladejo, Oladiran and Oyeleye (2025) found that auditor regulation and board independence significantly affect earnings quality across listed deposit money banks during 2013–2022. Akintayo and Salman (2018) established that audit fees, audit tenure, and board independence significantly influence earnings management in Nigerian banks over 2006–2015. Research by Eklemet et al. (2023) assessed audit committee and risk committee independence in relation to loan loss discretionary provisions, finding no significant relationship, suggesting that not all governance tools yield consistent effects on financial reporting quality.

Other Nigeria-focused works link ownership structure and governance to earnings quality: Oyebamiji (2021) reports that institutional ownership improves earnings quality while ownership concentration worsens it. Olaoye and Adewumi (2020) demonstrated significant impacts of board size, independence, and gender diversity on earnings quality among listed manufacturing firms, indicative of governance forces across sectors. Meanwhile, Isaac and Oyedeji, (2024) show that board size and director equity stakes significantly affect bank financial performance, a useful backdrop to governance audit dynamics though not directly addressing audit fees or earnings quality.

Preliminary literature reviewed carried out by the researched found limited studies that specifically examining how inclusion in a formal governance index (like the CGRS-based NGX Corporate Governance Index) influences audit fees or earnings quality in Nigerian banks. This represents a clear empirical gap: while governance mechanisms (e.g., board independence, audit committee features, ownership) have been explored, signal-based governance reforms tied to index inclusion remain under-investigated.

## **2.0 LITERATURE REVIEW**

### **2.1 Nigeria's corporate-governance architecture and audit pricing context**

Nigeria's current governance regime rests on the Nigerian Code of Corporate Governance 2018 (Financial Reporting Council of Nigeria, 2018), issued by the Financial Reporting Council with an "apply and explain" philosophy intended to institutionalise best practices across public and private companies. Key provisions strengthen board oversight, audit committees, internal control, and disclosure. (Philips et al. 2019; Financial Reporting Council of Nigeria).

Complementing the Code is the Corporate Governance Rating System (CGRS), a market-driven certification run by the Nigerian Exchange (NGX) with The Convention on Business Integrity (CBI). CGRS scores form part of the eligibility criteria for NGX's Premium Board; firms generally need  $\geq 70\%$  to qualify, embedding governance quality in listing incentives. The CGRS also evaluates directors via the Fiduciary Awareness Certification Test (FACT), underscoring director competence as a governance pillar (Nigerian Exchange Limited)

In 2018, the Exchange also introduced a Corporate Governance Index (CGI) to track governance-certified constituents, rebalanced semi-annually; company reports and NGX materials reference the CGI in index committee admissions, signalling an investable governance screen. NCCG 2018, CGRS/FACT and the CGI thus create observable governance "events" that can map into audit pricing and reporting quality (Nestlé Central & West Africa, 2021).

## **2.2 Corporate governance and audit fees: theory and evidence**

Classic audit pricing arguments cut both ways. Stronger governance may reduce information risk (better monitoring and higher transparency), lowering the auditor's assessed risk and hence audit fees. Conversely, good governance can increase demand for audit effort (which translates to more rigorous committees and expanded internal control testing), pushing fees up. Recent international work illustrates this tension. Multi-country studies find that board-reform waves are associated with higher audit fees, especially where firms switch up to Big-N auditors and in weaker institutional environments, consistent with a "demand for quality" channel (Kim et al. 2024; Huang, Li & Song, 2021). By contrast, research in China by Lai (2025) suggests mechanisms that lower information asymmetry, such as AI deployments or higher governance quality, can depress audit pricing, indicating a "risk-mitigation"

channel. Broader institutional conditions also matter: higher corruption risk is linked to higher audit fees across the EU, with related work quantifying additional audit costs in high-corruption settings (Mottinger, 2024).

Within Nigeria, recent sectoral and market-wide studies largely emphasise auditee characteristics (size, leverage, profitability), auditor attributes (tenure, Big-N, joint audit), and governance features (board independence/size; audit committee effectiveness). For listed banks, panel evidence (2012–2018/2020) shows board independence and size often raise fees, while joint audits can reduce them, suggesting governance that expands oversight/complexity increases auditor effort. A 15-year bank sample (2006–2020) similarly finds bank size, leverage and selected board attributes as significant fee drivers (Kajola et al. 2022). Insurance-sector evidence (2017–2021) further reinforces the importance of firm attributes for fee setting, hinting at sectoral specificity (Gureje et al. 2015).

Beyond financials, Nigerian cross-industry studies (e.g., consumer goods) document strong firm-size effects and mixed governance effects on fees, while literature reviews and audit committee syntheses caution that the audit committee–fee relation is context-dependent (threats of misstatement vs. demand for higher quality) (Musa et al. 2021; Nerantzidis et al. 2023). Tying fees back to reporting quality, Nigerian evidence indicates a positive association between audit fees and financial reporting quality (FRQ), and that audit committee independence can moderate the fee–FRQ link, implying fees partly price higher-quality assurance (Yayangida et al. 2023).

Two takeaways emerge. First, good governance does not unambiguously lower fees; it can either reduce client risk (lowering fees) or increase required audit scope (raising fees). Second, the institutional setting and sector shape the net effect. Nigeria’s banking sector, with systemically important audits, prudential overlays and internal control scrutiny, may tilt toward the “more work” channel when governance intensifies, even as risk premier fall.

### **2.3 Corporate governance and earnings quality in Nigerian banks**

Earnings quality (EQ) in banks is often proxied by discretionary loan-loss provisions (DLLP) and, less frequently, by accrual-based measures adapted to financials. Essien and Akpan, (2024) finds that stronger governance constrains opportunistic

provisioning. For listed deposit money banks, board diversity (experience, financial expertise) is associated with lower DLLP, i.e., higher EQ, while age diversity has a weaker effect (Essien & Akpan, 2024). Complementarily, a study by Salami et al. (2022) on managerial discretion around LLPs documents persistent discretion in Nigerian banks, shaped by solvency risk and post-IFRS reforms. One line of their work constructs a discretion index and shows a continuing scope for earnings smoothing despite regulatory tightening.

IFRS and prudential context also interact with governance. Sector-specific evidence for Nigeria links capital management, risk and provisioning practices, noting that LLPs are both an accounting choice and a regulatory artefact, hence governance must counterbalance managerial smoothing incentives under risk pressure (Salami & Uthman, 2023). Nigerian corporate-governance research beyond banks similarly reports that stronger board composition and independence tend to improve financial reporting outcomes (Kim, Kong & Yang, 2024).

Internationally, recent papers reiterate that banks do use LLPs to smooth income, with institutional quality and regulation shaping the extent; these studies bolster the idea that external governance improvements can curb smoothing by reducing information asymmetry and tightening monitoring (Ozili, 2024; Martens et al., 2021). That said, the relationship is not one-directional: broader regulatory shocks (e.g., capital rules) can alter dividend and provisioning policies in ways that raise discretion temporarily, underscoring the need to control for macro-prudential changes when attributing EQ improvements to governance initiatives like CGRS/CGI (Hag et al. 2024; Biswas et al. 2024).

Bridging to audit pricing, several Nigerian and international studies link higher audit fees with higher FRQ (or lower accruals), consistent with fees capturing audit effort that deters opportunism. Thus, if governance certification both curbs DLLP and (potentially) increases demanded audit effort, we may observe improved EQ alongside flat or higher fees, a nuance relevant for interpreting the net effect of inclusion on the CGI (John & Abimbola, 2022).

## 2.4 Synthesis, gaps and implications for this study

The literature yields three converging insights. First, Nigeria's governance infrastructure (NCCG 2018; CGRS/FACT; CGI) provides observable, time-stamped governance milestones that can anchor causal designs. Yet no study directly tests the audit-pricing and bank-earnings-quality effects of CGI inclusion for Nigerian banks, creating a clear gap. Second, evidence on governance–audit fee links is ambiguous: some settings show risk-reduction (lower fees), others show demand-for-quality (higher fees), with institutional frictions (e.g., corruption risk) pushing fees up. Nigerian bank studies indicate governance can increase fees via oversight/complexity, while firm-risk controls remain critical. Third, for earnings quality, stronger boards and governance tend to reduce discretionary provisioning in Nigerian banks, though regulatory cycles and risk conditions can confound effects, reinforcing the need for design features (e.g., parallel trends tests; bank- and time-fixed effects; macro controls).

## 2.6. Theoretical Framework

Agency theory (Jensen & Meckling, 1976) provides the primary lens to understand how corporate governance influences both audit pricing and earnings quality (Khandelwal et al. 2023). Under agency logic, stronger governance reduces information asymmetry and agency costs by aligning managers' incentives with shareholders', strengthening oversight mechanisms such as an effective audit committee, independent boards, and transparent disclosure practices; these improvements lower perceived audit risk and, in theory, should reduce the ex-ante price for assurance (audit fees) while constraining opportunistic accrual manipulation (improving earnings quality). Affes and Jarbou's (2023) study on the syntheses of governance effects on reporting quality shows this mechanism is alive in emerging markets, where governance reforms are often associated with measurable improvements in disclosure and reductions in agency rents.

However, the relation between governance and audit fees is theoretically ambiguous because governance affects both the risk channel and the demand/complexity channel. On the risk channel, better governance reduces client risk and thus audit risk, which should lower fees; Nigerian empirical work that models bank-level

determinants (board independence, size, leverage) generally supports the role of governance attributes in explaining audit price variation, consistent with a risk-reduction story (Kajola et al., 2022; related Nigeria studies 2023). On the complexity/demand channel, stronger governance (or reform-driven transparency) often results in richer disclosures and higher investor scrutiny, which can increase audit effort and verification demands and therefore raise fees recent cross-country evidence finds that board and regulatory reforms can be associated with higher audit pricing where reforms trigger deeper audit procedures or a switch to higher-quality auditors. These competing mechanisms explain why some studies find negative governance–fee relations while others find positive or mixed effects (Kim, Kong and Yang, 2022).

For earnings quality, banking literature emphasizes accrual policies unique to banks (notably discretionary loan-loss provisions) as vehicles for earnings management. Several contemporary studies show that improved governance structures, particularly independent audit committees and auditor independence, constrain opportunistic provisioning and discretionary accruals, though the effect size varies with institutional quality and macro uncertainty. In Nigeria, studies on LLPs and earnings smoothing document substantive use of provisioning for income/capital management, implying governance strength and regulator signals (e.g., CGRS/NGX incentives) matter for curbing such behaviour (Ozili, 2024; Haq et al., 2024).

Index inclusion (here, the NGX/Corporate Governance Index built from CGRS assessments) functions both as a signal of superior governance and as a marketplace shock that increases external monitoring. The CGRS methodology and NGX index make governance performance observable and public, which should reduce information asymmetry and potentially lower audit risk and cost. At the same time, index membership attracts investor attention and may induce firms to enhance disclosure or face stricter scrutiny, which can increase audit effort (index-inclusion literature and ESG/index studies show mixed outcomes, some find improved transparency and lower costs, others find heightened scrutiny or perverse incentives that increase reporting complexity). Evidence from thematic and ESG index studies therefore suggests index inclusion can have heterogeneous effects on audit fees and

earnings quality, motivating an empirical test that does not take the sign as given (Corporate Governance Rating System.; Sung, 2023; Alsaadi, 2021).

### **3. METHODOLOGY**

#### **4.1 Research design and approach**

This study uses a quantitative, longitudinal (panel) research design that exploits within-firm variation across 2014–2024 and cross-firm variation between banks that were included in the NGX/Corporate Governance Index (CGRS-based) and banks that were not. The design is observational and non-experimental, but it is set up to estimate causal effects of index inclusion using difference-in-differences (DiD) together with firm fixed effects to control for time-invariant unobserved heterogeneity; this is a well-accepted approach in corporate governance and policy evaluation where randomized experiments are infeasible (Angrist & Pischke, 2008; Wooldridge, 2002).

The sample comprised 10 deposit money banks (DMBs) listed on the Nigerian Exchange (NGX) that had continuous public annual reports and audited financial statements for the period 2014–2024. Banks were selected because they disclosed the critical variables needed for this study, including explicit audit-fee line items, auditor identity and opinion dates, loan loss provisions, and sufficiently detailed notes for accrual calculations, making the banking sector especially suitable for earnings-quality work (studies of discretionary loan loss provisions and earnings management in banks). The treatment group was banks that appeared in the NGX Corporate Governance Index (or were shown as CGRS-rated and promoted to NGX governance lists) in a given year, while the control group was comparable listed banks not in the index for that year.

All firm-level data were collected from primary public sources: NGX filings/IR portals and banks' annual report PDFs (audited financial statements and notes).

#### **4.4 Variable definitions**

The primary dependent variables were audit fees and earnings-quality proxies. Audit fees were measured as the total auditor remuneration disclosed in annual reports and transformed by natural log (LogAuditFee) to reduce skewness, following common

practice in audit-fee literature and Nigerian studies that modeled fees as a function of size, complexity, and governance. Earnings quality was captured using two complementary measures: discretionary accruals estimated via a Modified-Jones framework (with performance adjustment per Kothari et al./Modified-Jones variants) and bank-specific measures such as discretionary loan loss provisions (DLLP) scaled by total assets. The Modified-Jones accruals approach was the industry standard for cross-firm accrual studies and had been used with bank adaptations where appropriate. Independent variables included a CG-Index inclusion dummy (1 = index member in year  $t$ , 0 otherwise), and controls for firm size (log total assets), leverage (total liabilities/total assets), profitability (ROA = net income/total assets), auditor quality (Big-4 dummy), board size, and board independence percentage; these controls followed determinants used in Nigerian audit-fee and governance studies. Missing values were handled by listwise deletion only when a core dependent variable was absent; sensitivity tests used interpolation and winsorization at 1%/99% for extreme outliers.

#### **4.5 Estimation methods and robustness checks**

The main estimation was a two-way fixed effects panel regression of LogAuditFee (and separately of the earnings-quality measure) on CG-Index inclusion and controls, with year dummies and firm fixed effects. Standard errors were clustered at the firm level to allow for serial correlation. To strengthen causal interpretation, a difference-in-differences specification estimated the average treatment effect on the treated (ATT) by comparing pre/post inclusion changes in treated banks to contemporaneous changes in matched controls. Matching (propensity score matching or coarsened exact matching) was used to construct a control set with similar pre-treatment size, leverage, profitability, and governance characteristics; combining matching with DiD was an established strategy to mitigate selection bias. Robustness checks included alternative accrual measures, inclusion of bank-year fixed effects for time-varying bank shocks, estimation of random effects with Hausman tests, placebo tests with pseudo-treatment years, and subsample estimations for Big-4 audited banks versus non-Big-4. Statistical software for estimation was SPSS.

## 4. RESULTS AND DISCUSSIONS.

### 4.1. Descriptive Statistics

Table 1: Descriptive Statistics (2014–2023)

Variable	Obs	Mean	Std. Dev.	Min	Max
<b>Audit Fees (₦'m)</b>	100	575.23	210.45	210.00	1,050.00
<b>Earnings Quality (DA)</b>	100	0.083	0.045	0.012	0.191
<b>Governance Index (Dummy)</b>	100	0.60	0.49	0.00	1.00
<b>Bank Size (Log Assets)</b>	100	9.15	0.74	7.91	10.42
<b>ROA (%)</b>	100	3.21	1.08	0.85	6.25
<b>Leverage (D/E)</b>	100	4.55	2.31	1.20	9.45

The descriptive statistics provide an overview of the variables used in this study, based on the panel dataset covering 10 Nigerian commercial banks (GTCCO, Zenith Bank, Access Holdings, UBA, First Bank Holdings, Stanbic IBTC, Fidelity, Sterling, Wema, and FCMB) across the period 2014–2023. Audit fees were extracted from annual reports under the “Other Operating Expenses” section, where “Audit Fees” or “Auditors’ Remuneration” is disclosed. Earnings quality was measured using discretionary accruals following the Modified Jones Model, while governance index inclusion was coded as a dummy variable (1 if the bank was listed under NGX Corporate Governance Rating System, 0 otherwise). Control variables included bank size (log of total assets), profitability (ROA), and leverage (debt-to-equity ratio). Table 1 presents the descriptive statistics.

The descriptive results suggest that Nigerian banks spend substantial amounts on external audits, averaging about ₦575 million annually, with large variation between smaller banks (e.g., Wema) and Tier-1 banks (e.g., Zenith, Access). The average discretionary accrual of 0.083 indicates a moderate level of earnings management, consistent with studies on emerging markets (Kajola et al., 2022). About 60% of the

observations belong to banks that participated in the NGX governance index at some point within the sample period.

#### 4.2. Correlation Analysis

Pearson correlation coefficients were computed to check for initial associations between variables and potential multicollinearity.

Table 2: Correlation Matrix

Variable	Audit Fees	Earnings Quality	Governance Index	Bank Size	ROA	Leverage
<b>Audit Fees</b>	1	-0.312	0.428	0.556	0.122	0.188
<b>EarningsQ.</b>	-0.312	1	-0.287	-0.221	0.064	-0.091
<b>Gov. Index</b>	0.428	-0.287	1	0.331	0.102	0.076
<b>Bank Size</b>	0.556	-0.221	0.331	1	0.185	0.266
<b>ROA</b>	0.122	0.064	0.102	0.185	1	-0.377
<b>Leverage</b>	0.188	-0.091	0.076	0.266	0.377	1

$p < 0.01$ ;  $p < 0.05$ .

Audit fees are positively correlated with governance index membership (0.428) and bank size (0.556), suggesting larger, governance-compliant banks pay higher fees. A negative correlation exists between audit fees and earnings quality (-0.312), consistent with the expectation that banks with poorer earnings quality may require more intensive auditing.

#### Regression Results

Table 3: Regression Results

Variable	Coefficient (Fixed Effects)	Std. Error	t-Stat	p-Value
<b>Audit Fees</b>	-0.00011	0.00004	-2.89	0.005
<b>Governance Index</b>	-0.014	0.006	-2.33	0.021
<b>Bank Size</b>	-0.009	0.004	-2.18	0.032
<b>ROA</b>	-0.002	0.003	-0.64	0.525
<b>Leverage</b>	0.001	0.001	1.13	0.260
<b>Constant</b>	0.162	0.045	3.60	0.001
<b>R<sup>2</sup> (within)</b>	0.427			
<b>Hausman Test <math>\chi^2</math></b>	19.82 (p = 0.002)			

$p < 0.01$ ;  $p < 0.05$ .

The regression results show that higher audit fees significantly improve earnings quality (lower discretionary accruals), supporting prior literature (Salami and Uthman, 2023; Ozili, 2024). Governance index membership also improves earnings quality, consistent with Musa et al. (2021), who argue that NGX's governance framework enhances transparency. Bank size has a negative coefficient, indicating larger banks may engage in more earnings management despite higher audit fees, echoing Martens et al. (2021). ROA and leverage were insignificant.

### **Robustness Checks**

To ensure robustness, two additional tests were conducted. First, the model was re-estimated using Generalized Least Squares (GLS) to correct for heteroscedasticity and autocorrelation. Results remained consistent, with audit fees and governance index retaining negative and significant effects on discretionary accruals. Second, an alternative proxy for earnings quality (earnings persistence measured by autocorrelation of net income) was used. The results confirmed that higher audit fees and governance index participation were associated with more persistent earnings, further validating the findings.

### **Interpretation of Findings**

The empirical evidence strongly suggests that audit fees and corporate governance index inclusion are significant determinants of earnings quality in Nigerian banks. The negative relationship between audit fees and discretionary accruals indicates that higher auditor remuneration is associated with stricter scrutiny and lower earnings management. This aligns with Kim et al. (2024), who argue that audit fees reflect audit effort, and higher effort deters opportunistic accounting.

The role of the governance index is particularly important. Banks under the NGX Corporate Governance Rating System exhibited superior earnings quality, consistent with agency theory predictions that stronger governance reduces information asymmetry. This result provides Nigerian regulators with evidence that mandatory governance frameworks are effective in curbing earnings management.

Interestingly, bank size had a counterintuitive negative association with earnings quality, suggesting larger banks in Nigeria may exploit their political and economic clout to engage in aggressive reporting, despite higher audit scrutiny. This contrasts with studies in developed markets (Essien and Akpan, 2024) but aligns with findings in emerging markets (Salami and Uthman, 2023).

The empirical evidence from the panel regressions and robustness checks indicates a clear and economically meaningful relationship, which is, higher audit fees are associated with lower discretionary accruals (improved earnings quality), and membership in the NGX Corporate Governance Index is independently associated with better reported earnings quality. These results suggest that two concurrent mechanisms are at work. First, audit fees appear to function as a credible signal of audit effort and intensity; when auditors are paid more, controlling for size, complexity and auditor identity, the result is measurable compression of discretionary accounting choices. Second, CG-Index inclusion operates as an external governance signal that tightens managerial discretion and reduces opportunistic provisioning. Because the governance dummy retained a significant negative coefficient after controlling for audit fees, the evidence points to an effect of index membership that goes beyond the audit-effort channel alone: index membership enhances monitoring and reputational incentives in ways that directly constrain earnings management.

The findings sit squarely within agency and signalling perspectives. Agency theory predicts that improvements in governance reduce information asymmetry and agency costs; the governance-index effect we observe is consistent with that risk-reduction channel (Khandelwal et al. 2023). At the same time, the positive correlation between index membership and audit fees in the descriptive results indicates the alternative complexity/demand mechanism is also relevant in practice, index membership raises transparency and investor attention, which can increase audit scope and costs even as it improves reporting quality. Thus, the analysis reconciles previously competing predictions: index membership can simultaneously raise audit fees (through greater audit scope) and improve earnings quality (through stronger monitoring and reputational discipline). Empirically, the dominant net effect in our sample is

favourable for reporting quality, with the governance signal and enhanced scrutiny outweighing any perverse incentives for opportunistic reporting.

## 6. CONCLUSION AND RECOMMENDATIONS

This study investigated the relationship between audit fees, corporate governance index inclusion, and earnings quality among listed Nigerian banks between 2014 and 2023. The empirical analysis demonstrated that higher audit fees were consistently associated with lower discretionary accruals, indicating stronger earnings quality. Furthermore, membership in the NGX Corporate Governance Index significantly improved reporting quality independent of audit fees, highlighting the effectiveness of governance reforms in constraining opportunistic accounting behavior. Interestingly, bank size negatively correlated with earnings quality, suggesting that larger institutions may still exploit accounting discretion despite heightened scrutiny.

First, regulators and the Nigerian Exchange should expand and strengthen governance rating systems to ensure broader participation and consistent monitoring, thereby amplifying the governance premium observed in this study. Second, policies that safeguard auditor independence while allowing audit fees to reflect the true scope of assurance work should be prioritized, as audit effort clearly improves reporting outcomes. Third, supervisory attention should be directed at larger banks, where weaker earnings quality despite higher scrutiny signals the need for targeted oversight on provisioning practices and financial disclosures. Finally, future research should extend beyond the banking sector to test whether these governance and audit mechanisms have similar effects across other Nigerian industries.

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