



Audit Firm Characteristics and Litigation Risk among Quoted Deposit Money Banks in Nigeria

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ABSTRACT

This study examines the relationship between audit firm characteristics and litigation risk among quoted deposit money banks (DMBs) in Nigeria. Guided by agency theory and reputation capital theory, the study uses a positivist philosophy, deductive approach and ex post facto design. A census of 13 quoted DMBs on the Nigerian Exchange Group (NGX) was conducted using secondary data from annual reports for 2015-2024. Litigation risk was measured with an unweighted disclosure-based index, while audit fees, audit tenure, audit firm size and audit firm specialization were the principal explanatory variables. Audit firm age and audit committee independence were included as controls. Panel diagnostics included unit-root, VIF, Hausman and residual cross-section dependence tests, followed by fixed-effects estimation. The results indicate that audit fees have a positive and significant relationship with litigation risk, whereas audit tenure, audit firm specialization and audit firm age have significant inverse relationships. Audit firm size and audit committee independence are not statistically significant. The findings suggest that experience and banking-specific expertise are more closely associated with lower disclosed litigation exposure than audit firm size alone, while higher audit fees appear to signal greater underlying client risk. The study recommends attention to risk-based audit pricing, appropriate auditor tenure within regulatory requirements, industry specialization and continued development of audit-firm experience.

Keywords: Audit quality; audit fees; audit tenure; industry specialization; litigation risk; Nigerian banks

1. Introduction

Banking litigation risk has become more relevant as financial institutions face regulatory enforcement, complex transactions and greater stakeholder scrutiny. Litigation may arise from misleading disclosures, financial reporting failures, regulatory non-compliance, weak internal controls, fraud and other governance failures. These exposures affect not only banks but also external auditors, whose professional and reputational standing may be affected when material reporting problems are not detected or appropriately reported (Kelleher & Dennis, 2019; Onwubiko et al., 2024).

Nigeria's banking sector operates within an increasingly demanding regulatory environment. Recent reforms by the Central Bank of Nigeria (CBN), Securities and Exchange Commission (SEC) and Financial Reporting Council of Nigeria (FRCN) have strengthened governance, prudential requirements, risk management and reporting expectations (Udo & Bello-Osagie, 2026; Yahaya & Yusuf, 2026). At the same time, reported regulatory sanctions and substantial customer claims illustrate the financial and reputational consequences of compliance and reporting failures. Nigerian banks were reported to have incurred more than \$10.7 million in regulatory fines for 2024 contraventions, while customer litigation claims had previously reached about ₦4.1 trillion (Orjiude-Ndibe, 2025; Tokede, 2023).

External auditors are a key monitoring mechanism because independent verification can reduce information asymmetry between management and stakeholders. Yet the extent to which audit firm characteristics affect litigation exposure remains an empirical question. Audit fees may reflect audit effort and a risk premium, but they may also signal higher underlying client risk. Audit tenure can increase knowledge of the client's systems and risks, although prolonged relationships may create familiarity threats. Audit firm size may provide greater resources and quality-control capacity, while deep-pocket arguments suggest that large firms may also be attractive litigation targets. Industry specialization can improve knowledge of banking-specific regulations and reporting risks. These competing explanations make the Nigerian banking setting particularly relevant.

Prior studies report mixed findings on audit fees, tenure, firm size and specialization, and much of the evidence comes from non-banking sectors or countries with different institutional arrangements (Onatuyeh & Nwabuko, 2016; Sagin & Ogbodo, 2023; Alhazmi et al., 2024; Pratiwi et al., 2024; Alsulami & Zaytoun, 2025). Evidence directly linking audit firm characteristics to litigation risk among Nigerian quoted DMBs remains limited. This study addresses that gap by examining 13 quoted DMBs over 2015-2024. It focuses on four principal audit firm characteristics, with audit firm age and audit committee independence included as controls.

The study contributes to the literature in three respects. First, it applies a disclosure-based litigation-risk measure to quoted Nigerian DMBs, a sector in which public reporting provides a consistent source of information on legal and regulatory exposure. Second, it distinguishes between audit characteristics associated with pricing, continuity, size and industry expertise. Third, it provides evidence on whether these characteristics remain significant after controlling for audit firm age and audit committee independence. The paper is organised into literature review and hypotheses, methodology, results and discussion, and conclusion and recommendations.

2. Literature Review and Hypotheses

Litigation risk refers to the possibility that a firm, its directors or auditors may face legal action arising from alleged misstatements, regulatory non-compliance, fraud or failure to meet statutory or professional obligations. Banks face particular exposure because they manage public funds, undertake complex transactions and operate under extensive regulation. Sources of exposure include inaccurate disclosures, inadequate loan-loss provisions, compliance failures, governance weaknesses and other operational risks (Chang et al., 2024; Bajpai et al., 2026).

Litigation risk can be represented by actual lawsuits, financial distress indicators or disclosure-based measures. This study uses an unweighted disclosure index derived from annual reports. The measure captures seven indicators covering pending cases, regulatory sanctions, provisions for legal claims, settled cases, contingent liabilities, tax disputes and legal issues associated with compliance or governance. A disclosure measure is appropriate where publicly documented litigation may not fully capture the underlying exposure. Dong and Zhang (2019) similarly conceptualise litigation-risk disclosure through information reported in corporate documents.

2.1 Audit Fees and Litigation Risk

Audit fees are affected by client size, complexity, risk and the level of audit effort. Audit pricing theory provides two relevant explanations. Under the risk-premium view, auditors charge more when the client's litigation or engagement risk is high. Under the audit-effort view, higher fees may finance additional work intended to reduce audit failure. Evidence that foreign exchange exposure, corruption risk and cyber risk can increase audit fees is consistent with the view that pricing incorporates perceived risk (Chang et al., 2024; Hadjigavriel et al., 2024; Bajpai et al., 2026). Conversely, stronger information environments and higher managerial ability can reduce perceived risk and audit fees (Ali et al., 2025; Youssef & Tawfik, 2026). The present study therefore treats audit fees primarily as a signal of the client's risk exposure. A positive relationship is expected because banks with greater inherent, reporting or regulatory risk may require more audit effort and attract a higher risk premium, it was hypothesized that:

H1: *Audit firm fees have a significant positive impact on litigation risk among quoted DMBs in Nigeria.*

This expectation is consistent with studies showing that auditors adjust fees to perceived litigation and reporting risk, although evidence from risk-reducing firm characteristics points in the opposite direction. The mixed evidence reinforces the need for sector-specific testing.

2.2 Audit Tenure and Litigation Risk

Audit tenure is the number of consecutive years an audit firm audits a client. Longer tenure can improve the auditor's knowledge of the client's systems, controls, transactions and risk profile. Such familiarity may enhance the identification of anomalies and reduce reporting failures. Evidence from Malaysia, Indonesia and Egypt associates longer tenure with improved audit outcomes, including lower fraud risk or shorter reporting delays (Ismail et al., 2025; Pratiwi et al., 2024; Aboulela et al., 2025).

The opposing argument is that prolonged tenure may create familiarity threats and weaken professional scepticism. Nwaeze (2025) argues that auditor independence may decline as tenure increases, while Alhazmi et al. (2024) report a relationship between tenure and discretionary accruals. Thus, tenure may have context-dependent effects. In the Nigerian banking environment, the study expects accumulated client knowledge to outweigh the potential familiarity threat, producing a lower level of litigation exposure.

H2: *Audit firm tenure has a significant inverse impact on litigation risk of quoted DMBs in Nigeria.*

2.3 Audit Firm Size and Litigation Risk

Audit firm size is commonly represented by whether the auditor belongs to the Big Four. Large firms possess wider resources, established methodologies and stronger internal quality-control systems. Reputation capital theory suggests that these firms have incentives to protect their brands by avoiding audit failures. Evidence has linked Big Four auditing with better financial reporting quality, while some Nigerian evidence associates larger audit firms with lower audit-related litigation (Alhazmi et al., 2024; Sagin & Ogbodo, 2023). The deep-pocket perspective provides a competing explanation because larger firms have greater financial resources and may therefore be attractive defendants. Nigerian evidence is also mixed. Onatuyeh and Nwabuko (2016) found no significant association between audit firm size and litigation risk, while Sagin and Ogbodo (2023) reported a significant relationship. Given the stronger resources and quality-control argument, this study hypothesises an inverse relationship.

H3: *Audit firm size has a significant inverse relationship with litigation risk of quoted DMBs in Nigeria.*

2.4 Audit Firm Specialization and Litigation Risk

Audit firm specialization refers to concentrated experience in a particular industry. Banking specialization can provide knowledge of sector-specific accounting issues, prudential requirements, regulatory expectations and recurring risk patterns. Knowledge spillover theory suggests that repeated exposure to an industry strengthens an auditor's ability to identify unusual transactions and misstatements. Studies have associated specialization with improved audit quality and lower opportunistic reporting (Hung et al., 2024; Ayoola et al., 2025). Evidence also suggests that the effect depends on how specialization is measured and sustained. Alsulami and Zaytoun (2025) find different results when specialization is based on clients rather than revenues or assets, while Mnif and BenSaid (2026) report that sustained specialization can improve outcomes within an experience range but may show diminishing benefits thereafter. For highly regulated banks, industry-specific expertise should nevertheless reduce reporting and compliance failures that can lead to litigation.

H4: *Audit firm specialization has a significant inverse impact on litigation risk of quoted DMBs in Nigeria.*

2.5 Audit Firm Age and Audit Committee Independence

Audit firm age and audit committee independence are included as controls. Audit firm age represents accumulated organisational experience, professional routines and institutional knowledge. Older firms may possess more developed risk-assessment procedures and stronger familiarity with reporting requirements. Direct evidence on age and litigation risk is limited, but firm age is commonly used to capture maturity and experience in risk-disclosure research (El-Deeb et al., 2024).

Audit committee independence represents the proportion of independent or non-executive members and is intended to capture internal oversight. An independent committee can improve monitoring of financial reporting, management opportunism and the external audit process. Nigerian evidence links audit committee characteristics with financial reporting quality, although the effectiveness of formal independence may be constrained by institutional conditions, ownership structures, competence and enforcement (Abdullahi, 2024; Ashiru et al., 2024). These controls therefore help separate audit firm effects from organisational experience and governance characteristics.

2.6 Theoretical Framework

This research is anchored primarily on Agency Theory, complemented by Reputation Capital Theory. Together, these theories explain the emergence of litigation risk in banking institutions and how audit firm characteristics mitigate such risk.

2.6.1 Agency Theory

Agency conflicts in banking, characterized by complex transactions and intense regulatory scrutiny, heighten litigation risk through information asymmetry and managerial opportunism. Aggressive accounting and non-disclosure of material risks increase the likelihood of financial misstatements, regulatory sanctions, and litigation. Empirical evidence confirms this association. Foreign exchange volatility raises audit risk and reporting uncertainty, thereby increasing litigation risk (Chang et al., 2024). Cyber-risk disclosure predicts adverse events and prompts auditors to adjust fees based on perceived litigation exposure (Bajpai et al., 2026).

External audit serves as a critical monitoring mechanism to reduce agency conflicts. Auditors add credibility to financial statements as independent verifiers of management's representations. However, the effectiveness of this monitoring role varies with audit firm attributes.

First, audit fees reflect both monitoring intensity and perceived client risk. Regulatory reforms increasing legal and reputational risk lead to higher audit fees, indicating that auditors price litigation risk into engagements (Hadjigavriel et al., 2024). Conversely, superior information environments reduce perceived risk and audit fees (Ali et al., 2025).

Second, audit tenure influences independence and effectiveness. Longer tenure enhances client-specific knowledge but may compromise independence through familiarity. Auditor independence is highest early in engagements and may decline over time (Nwaeze, 2025), with extended tenure linked to higher discretionary accruals and reduced reporting quality (Alhazmi et al., 2024).

Third, audit firm size enhances monitoring capability. Larger firms possess superior resources, methodologies, and quality-control systems. Empirical evidence demonstrates that larger audit firms significantly reduce the likelihood of audit-related litigation (Sagin & Ogbodo, 2023).

Fourth, industry specialization improves detection of opportunistic reporting. Specialist auditors reduce income smoothing and enhance audit quality (Hung et al., 2024), with detection effectiveness increasing with sector-specific experience in banking (Mnif & BenSaid, 2026). Finally, audit committee independence, included as a governance control, strengthens oversight, limits managerial opportunism, and reduces fraud risk (Ismail et al., 2025). Agency Theory thus explains litigation risk as arising from information asymmetry and managerial opportunism, and identifies monitoring strength, measured through audit fees, tenure, size, specialization, and governance structures, as the mechanism through which audit firm characteristics mitigate such risk in Nigerian deposit money banks.

2.6.2 Reputation Capital Theory

Reputation Capital Theory (DeAngelo, 1981) provides complementary insight. Audit quality depends on auditor competence in detecting misstatements and independence in reporting them. Large, established firms accumulate substantial reputation capital, a valuable economic asset creating strong incentives to deliver high-quality audits and avoid litigation or reputational damage. For deposit money banks under intense regulatory and investor scrutiny, reputational stakes are elevated. Big Four auditors are associated with lower discretionary accruals and higher reporting quality (Alhazmi et al., 2024), while larger firm size correlates with reduced audit-related litigation (Sagin & Ogbodo, 2023).

Specialization reinforces this logic. Specialist auditors develop industry-specific knowledge that enhances detection of complex misstatements and fraud, reducing income smoothing and opportunistic reporting (Hung et al., 2024). In Nigerian banking, specialization positively impacts audit quality through effort and experience (Ayoola et al., 2025), though marginal gains may decline over time (Mnif & BenSaid, 2026).

Audit firm age further aligns with reputation theory. Older firms build institutional credibility and methodologies over time, becoming less inclined to compromise audit quality. The collapse of Arthur Andersen illustrates how reputational damage from audit failure and litigation can destroy even established firms (Onatuyeh & Nwabuko, 2016). Crucially, Reputation Capital Theory resolves the apparent contradiction posed by Deep Pocket Theory. Although larger firms may attract litigation due to financial resources, they simultaneously face greater reputational risk, incentivizing rigorous quality control. Thus, superior audit quality reduces misstatements, which in turn lowers litigation risk.

3. Methodology

The study adopts a positivist research philosophy, deductive reasoning and an ex post facto design. The design is appropriate because the study uses historical observations without manipulating the explanatory variables. The period 2015-2024 was selected to provide a recent ten-year panel.

The population comprises all 13 quoted DMBs listed on the Nigerian Exchange Group during the study period. A census approach was used because the population is small and manageable. Annual reports for the 13 banks provided the secondary data. The resulting panel contains bank-level observations across ten years. Panel estimation is appropriate because it accounts for both differences between banks and changes over time (Baltagi, 2021). EVIEWS 9 was used for the econometric analysis, with statistical significance assessed at the 5% level.

3.1 Model Specification

The empirical model examines litigation risk as a function of audit fees, audit tenure, audit firm size, audit firm specialization and two controls. The specification is adapted from Sagin and Ogbodo (2023):

$$\text{LITRISK}_{it} = \alpha + \beta_1 \text{AFEES}_{it} + \beta_2 \text{ATEN}_{it} + \beta_3 \text{AFZ}_{it} + \beta_4 \text{AFSPEC}_{it} + \beta_5 \text{AFAGE}_{it} + \beta_6 \text{ACIND}_{it} + \varepsilon_{it}$$

where LITRISK is litigation risk, AFEES is audit fees, ATEN is audit tenure, AFZ is audit firm size, AFSPEC is audit firm specialization, AFAGE is audit firm age, ACIND is audit committee independence, α is the intercept, β represents the coefficients and ε is the stochastic error term. The subscript i identifies the bank and t identifies the year.

3.2 Measurement of Variables

Litigation risk is measured with an unweighted disclosure index based on seven annual-report indicators. Each item receives one point when disclosed and zero otherwise. The resulting score captures the extent to which the bank reports legal and regulatory exposure. Audit fees are measured as the natural logarithm of annual audit fees. Audit tenure is the number of consecutive years the auditor has served the bank. Audit firm size is a dummy equal to one for Big Four auditors and zero otherwise. Specialization is coded one where the auditor specializes in banking or financial services through multiple DMB engagements and zero otherwise. Audit firm age is the number of years the audit firm has existed, while audit committee independence is the proportion of independent/non-executive members.

Table 1. Measurement of Litigation Risk (Unweighted Index)

S/N	Indicator	Litigation risk item	Annual-report source	Score
1	LIT1	Pending or ongoing court cases	Notes to financial statements	Yes=1; No=0
2	LIT2	Regulatory sanctions or fines	Directors' report / compliance notes	Yes=1; No=0
3	LIT3	Provision for legal claims	Provisions / contingent liabilities note	Yes=1; No=0
4	LIT4	Legal cases or lawsuits settled	Notes to accounts / directors' report	Yes=1; No=0
5	LIT5	Legal contingent liabilities	Contingent liabilities note	Yes=1; No=0
6	LIT6	Tax-related legal disputes	Taxation / contingent liabilities note	Yes=1; No=0
7	LIT7	Compliance or governance-related legal issues	Corporate governance / risk management	Yes=1; No=0

Table 2. Operationalization of Variables

S/N	Variable	Type	Measurement	Source	Apriori
1	LITRISK	Dependent	Unweighted disclosure-based index	Sagin & Ogbodo (2023)	Nil
2	AFEES	Independent	Natural log of annual audit fees	Jérôme et al. (2025)	+
3	ATEN	Independent	Continuous years of auditor service	Ismail et al. (2025)	-/+
4	AFZ	Independent	1=Big Four; 0=non-Big Four	Sagin & Ogbodo (2023)	-
5	AFSPEC	Independent	1=specialist banking auditor; 0=otherwise	Ayoola et al. (2025)	-
6	AFAGE	Control	Years audit firm has existed	El-Deeb et al. (2024)	-/+
7	ACIND	Control	Proportion of independent/non-executive committee members	Abdullahi (2024)	-

4. Results and Discussion

The analysis proceeds from stationarity and multicollinearity diagnostics to model selection, cross-sectional dependence and fixed-effects estimation. The tests provide the basis for selecting and interpreting the panel model.

4.1 Panel Unit Root Test

Table 3 reports the ADF-Fisher and PP-Fisher panel unit-root tests. The variables are reported as I(1), indicating that the series become stationary after first differencing. The results are therefore considered in the context of the panel estimation rather than treating the variables as level-stationary. The finding also reduces concern that relationships are driven solely by non-stationary series.

Table 3. Panel Unit Root Test

Variable	ADF-Fisher χ^2	PP-Fisher χ^2	ADF p	PP p	Order
LITRISK	8.46211	38.7220	0.0397	0.0000	I(1)
AFEES	26.5140	59.3163	0.0276	0.0001	I(1)
ATEN	8.68346	19.4841	0.1922	0.0034	I(1)
AFZ	2.45505	3.83395	0.2930	0.0371	I(1)
AFSPEC	8.36649	12.7711	0.0390	0.0125	I(1)
AFAGE	3.34473	13.2442	0.1878	0.0013	I(1)
ACIND	14.0639	28.3641	0.0401	0.0004	I(1)

4.2 Multicollinearity Test

The VIF results in Table 4 indicate no material multicollinearity among the explanatory variables. Excluding the constant, VIF values range from 1.2228 for audit tenure to 2.0404 for audit firm size, well below the conventional threshold of 10. The explanatory variables can therefore be entered jointly without evidence of severe collinearity.

Table 4. Variance Inflation Factor (VIF) Results

Variable	VIF
AFEES	1.5276
ATEN	1.2228
AFZ	2.0404
AFSPEC	2.0320
AFAGE	1.4945
ACIND	1.4158

4.3 Hausman Test

The Hausman test produces a chi-square statistic of 30.860636 with six degrees of freedom and a probability of 0.0000. The null hypothesis of no systematic difference between the fixed- and random-effects estimators is rejected. Fixed effects is therefore selected for the main estimation.

Table 5. Panel Hausman Test

Test	Chi-square statistic	d.f.	Prob.
Cross-section random	30.860636	6	0.0000

4.4 Residual Cross-Section Dependence

The cross-section dependence tests provide mixed evidence. The Breusch-Pagan LM test is significant (119.7546, $p=0.0017$), whereas the Pesaran scaled LM ($p=0.2213$), bias-corrected scaled LM ($p=0.1141$) and Pesaran CD ($p=0.0606$) are not significant at 5%. The evidence therefore does not establish pervasive residual dependence across the banks, although the significant LM statistic warrants caution in interpreting the results.

Table 6. Panel Residual Cross-Section Dependence Test

Test	Statistic	d.f.	Prob.
Breusch-Pagan LM	119.7546	78	0.0017
Pesaran scaled LM	1.302208		0.2213
Bias-corrected scaled LM	1.579986		0.1141
Pesaran CD	1.947588		0.0606

4.5 Fixed-Effects Regression

Table 7 presents the fixed-effects estimates. The model explains 76.42% of the variation in the litigation-risk measure ($R^2=0.764179$). The F-statistic is 19.44306 with $p=0.0000$, indicating that the explanatory variables are jointly significant. The Durbin-Watson statistic is 1.504067. Audit fees, audit tenure, audit firm specialization and audit firm age are statistically significant, while audit firm size and audit committee independence are not.

Table 7. Panel Fixed Effects Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AFEES	0.126109	0.045651	2.762447	0.0067
ATEN	-0.007291	0.003029	-2.407065	0.0135
AFZ	0.041735	0.086753	0.481077	0.6314
AFSPEC	-0.053768	0.023011	-2.336622	0.0234
AFAGE	-0.000335	0.000206	-2.597087	0.0071
ACIND	0.000911	0.018561	0.049096	0.9609
C	-0.093932	0.282965	-0.331956	0.7406
R-squared	0.764179			
Durbin-Watson	1.504067			
F-statistic	19.44306			
Prob(F-statistic)	0.000000			

4.6 Hypothesis Testing and Discussion

H1: Audit fees and litigation risk. Audit fees have a positive and significant coefficient ($\beta=0.126$, $p=0.007$). H1 is supported. The result indicates that higher audit fees are associated with higher disclosed litigation risk. The finding is more consistent with the risk-signalling interpretation of audit pricing than with the proposition that higher fees, by themselves, prevent litigation. Banks with more complex or riskier engagements may require greater audit effort and a higher risk premium. The result is consistent with Bajpai et al. (2026), Chang et al. (2024) and Hadjigavriel et al. (2024), which link audit pricing to client or engagement risk. It also complements Ali et al. (2025) and Youssef and Tawfik (2026), who show that risk-reducing information and managerial characteristics can lower audit pricing.

H2: Audit tenure and litigation risk. Audit tenure has a negative and significant coefficient ($\beta=-0.007$, $p=0.014$), supporting H2. The result suggests that longer auditor-client relationships are associated with lower litigation risk in the sampled banks. One plausible interpretation is that accumulated knowledge of banking operations, controls and reporting systems improves the auditor's ability to identify problems before they develop into legal disputes. The result is consistent with Ismail et al. (2025), Pratiwi et al. (2024) and Abouelela et al. (2025). It nevertheless differs from evidence that prolonged tenure can weaken independence, including Nwaeze (2025) and Alhazmi et al. (2024). The Nigerian result therefore supports the knowledge or familiarity explanation within the regulatory setting studied.

H3: Audit firm size and litigation risk. Audit firm size has a positive but insignificant coefficient ($\beta=0.042$, $p=0.631$). H3 is not supported. The result indicates that Big Four status, as measured here, does not explain variation in litigation risk after the other variables are controlled. This is consistent with Onatuyeh and Nwabuko (2016) and differs from Sagin and Ogbodo (2023), who reported a significant association. The result suggests that the resources and reputation associated with larger firms may not translate automatically into lower litigation exposure in Nigerian DMBs.

H4: Audit firm specialization and litigation risk. Audit firm specialization has a negative and significant coefficient ($\beta=-0.054$, $p=0.023$), supporting H4. Banks audited by firms with banking-specific expertise exhibit lower disclosed litigation risk. The result is consistent with knowledge-spillover and expertise arguments because specialist auditors are more familiar with sector regulations, reporting practices and recurring banking risks. It is also consistent with evidence linking specialization with audit quality and lower opportunistic reporting (Hung et

al., 2024; Ayoola et al., 2025). The result should be interpreted alongside evidence that the strength of specialization effects depends on the measurement and duration of industry experience (Alsulami & Zaytoun, 2025; Mnif & BenSaid, 2026).

Control variables. Audit firm age has a negative and significant coefficient ($\beta = -0.000335$, $p = 0.007$), suggesting that older audit firms are associated with lower litigation risk. Accumulated institutional experience and established professional routines may help explain this relationship. Direct literature on audit-firm age and litigation risk is limited, so the finding extends an area that has often been treated as a control rather than a central explanatory variable. Audit committee independence is positive but insignificant ($\beta = 0.000911$, $p = 0.961$). Thus, the proportion of independent members alone does not explain litigation exposure. This is compatible with evidence that formal governance structures may have limited effects where competence, authority and enforcement are insufficient (Ashiru et al., 2024).

5. Conclusion and Recommendations

Conclusion

The study examined audit firm characteristics and litigation risk among 13 quoted Nigerian DMBs over 2015-2024. The fixed-effects results show that audit fees are positively associated with litigation risk, while audit tenure, specialization and audit firm age are inversely associated with litigation risk. Audit firm size and audit committee independence are not statistically significant. Taken together, the results suggest that experience and sector-specific expertise have stronger empirical associations with litigation exposure than Big Four status alone. The positive audit-fee coefficient should be read primarily as evidence that audit pricing may capture underlying client and engagement risk rather than as evidence that fees cause litigation.

Recommendations

First, banks and regulators should pay attention to the relationship between audit pricing and client risk. Higher fees should be understood alongside the risk assessment underlying the engagement, with appropriate oversight of pricing practices by relevant regulators. Second, banks should maintain auditor continuity within applicable rotation and independence requirements where the accumulated knowledge benefit is material. Tenure should not be extended in ways that undermine independence. Third, audit committees should consider banking-specific industry expertise when evaluating audit appointments because specialization is significantly associated with lower litigation exposure in the sample. Fourth, the significant role of audit firm age suggests that established professional experience has value, while younger firms may benefit from targeted capacity building in banking audit, regulatory compliance and risk assessment. The insignificant result for audit committee independence indicates that formal independence should be accompanied by competence, authority and effective oversight rather than treated as sufficient on its own.

5.1 Limitations and Future Research Direction

The study is limited to quoted DMBs in Nigeria, so the results may not apply directly to manufacturing, insurance, telecommunications or unquoted firms. Future research can extend the analysis across sectors and compare institutional settings. The study also uses a fixed-effects model and an unweighted disclosure-based litigation-risk index. Future work could test alternative litigation measures and dynamic approaches such as system GMM, dynamic panel models or quantile regression. Given the mixed cross-sectional-dependence evidence, robustness checks using cross-sectionally robust standard errors, including Driscoll-Kraay procedures, would also be useful.

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