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MODERATING EFFECTS OF AUDIT QUALITY ON CREDIT RISK MANAGEMENT AND FINANCIAL PERFORMANCE: EVIDENCE FROM LISTED COMMERCIAL BANKS IN NIGERIA

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Key words: *Bank Performance, Capital Adequacy Ratio, Credit Risk Management, Non-Performing Loans to Total Deposit, Return on Asset.*

ABSTRACT

The study investigated the moderating effects of credit risk management proxy by capital adequacy ratio on the performance of commercial banks in Nigeria. Ex-post facto research design was adopted due to the deploy of quantitative and secondary data that are already public and cannot be altered. Utilising the census sampling techniques, a total of 13 Commercial Banks (CBs) listed on the Nigerian Exchange Group were sampled. Thus, the panel data obtained from the audited annual report of the sampled banks for the period 2010-2021, were analysed through the STATA version 16 software using Shapiro – Wilk and the general least square regression statistical tool. Findings made revealed that capital adequacy ratio has positive and significant effect on the financial performance (ROA) of CBs in Nigeria. The study also discovered that audit quality has no moderating effect on the relationship between capital adequacy ratio and financial performance in term of ROA of CBs in Nigeria. Based on the above findings, it was recommended that, commercial banks should effectively manage, monitor and improve their credit risk management strategies. Since it was concluded that credit risk management in terms of capital adequacy ratio has major effect on the financial performance of CBs in Nigeria. The regulators should also strengthen its monitoring capacity in this regard.

1. INTRODUCTION

The strength of banking sector of every country plays an important role in the economic growth and development of that country. Banks act as intermediary between investors who have a surplus and the investors who borrow these money to cover their investment needs. Mostly the performance of deposit money banks is affected by transformation of financial system, technological developments and deregulation (Muhammad, Qaisar, Mumtaz &

Zainab, 2021). Such factors form the shape of performance and costs incurred by management. In every financial institution acceptable generation of revenue is the major concern also take severity of risk exposure in its consideration (Raza et al., 2019). The financial system of any economy always contributes a lot in transmitting funds from different sources into gainful investments which can increase economic growth and decreased inequality of income in an economy. Bank contributes a lot in the growth of an economy because banks are intermediaries between those who provides funds to banks in the form of deposits and those who are in the need of funds as borrowers (Muhammad, Qaisar, Mumtaz & Zainab, 2021). Financial Performance of banking sectors is an estimation of how better a bank can use its assets from its private instrument of business and generate profits. This term is used as the general estimation of an organization's overall financial performance over a given period of time (Akhtar & Nazmoon, 2018). Financial performance can be used by the analysts to compare different firms and organizations in aggregate. A company has many stakeholders that consists of trade creditors, employees, bondholders and management. Each of them has their own interest in analysing the financial performance of any organization (Harcourt, 2019). According to Boadi e t al., (2019) stakeholders get information regarding financial performance of any organization from the annual reports published by the company. Stakeholders use these reports for getting accurate and consistent information given in financial statements that provide an outline of a company's financial performance. Banks' credit creation is considered the primary means of financial intermediaries/banks making money/profit. However, there are always risks attached to it when measures are relaxed to the extent that (all and sundry) customers are granted loan facilities without necessary security measures to recover liabilities. Credit risk management is a strategy that banks worldwide have resorted to in protecting bank balance sheets and depositors' savings. Relaxed regulatory measures typically result in what is perceived as institutional governance failure or systemic market failure (Jackson & Jabbie, 2019). The process of channelling surpluses from one sector of an economy into areas considered as highly indebted is what financial intermediaries have engaged themselves with for decades since the inception of banking operations all around the world (Boateng, 2019).

In the aftermaths of global economic crisis, banks were under serious pressure to develop better credit risk management (CRM) strategies, especially as the lack of powerful CRM is one of the factors that helped trigger the recent financial crisis in Nigeria (Emerson & Edmund 2022). The supervisory bodies looking for higher capital requirements and liquidity protections, the cost of banking business is increasing globally. Credit risk remained one of

the topical issues on the current financial studies that enjoyed special attention from both scholars and professionals. In fact, this debate was more pronounced immediately after the global economic crisis of 2009. A number of scholars concede that one of the key causes of severe banking trouble is motionless credit risk control, and since supply of credit is still the primary business of every bank, credit quality is regarded as a major sign of financial dependability and healthiness of banks. The interests that are charged on loans and advances from substantial component of banks' assets, as such, non-payment of loans and advances, created serious hindrance not only for borrowers and lenders but also for the whole financial system of a country. Studies of banking tragedies all over the world have exposed those poor loans (asset quality) is the key cause of bank distresses. Furthermore, Hambolu, Omuemu, & Abdul Majeed (2022) lending behaviour affects borrowing firm's performance, the performance of borrowing firms itself has a significant impact on the way lenders extend loans. This paper tackles this problem by taking advantage of the natural experiment provided by a natural disaster, which allows us to single out a purely exogenous shock to firms' bank financing. Risk management is the individual effort which incorporates acknowledgement of risk, risk evaluation, developing policies to control it, and lessening of risk by means of managerial resources.

Credit risk is a risk of borrower default, which happens when the counterpart fails to pay on time. There can be many reasons for default. One of the most common ones is the obligor is in a financially stressed situation. Besides, if a borrower with high credit quality has deteriorated profile, it can also cause credit risk loss to the banks. Banks invest in debt of those customers however, the loss from the default of the bank does not have to be great (Serwadda 2018). It depends on the percentage of recovery from obligor and total exposure of banks. A good risk management tries to avoid high exposure on risk (Serwadda 2018). Although the regulations have been evolutionarily developed, the three Basel Accords all have placed explicitly the onus on banks to adopt sound internal credit risk management practices to assess their capital adequacy requirement. Chuke, & Chinedu, (2018) further assert that credit risk is one of the most common causes of bank failures and the success of their banking business depends on accurate measurement and efficient management of credit risk more than any other risks. Countries in the Europe and North America instantly felt the impact as it manifested in form of a drastic reduction in available credit and the consequential slump in aggregate demand. Nigerian Banking industries affected by economic meltdown particularly those that had large portfolio exposure to the oil and gas sectors, the capital market and through rareness of off-shore credit lines. The Nigerian banking sector has been stressed with

the dwindling value of its credit assets as a result of the huge drop in stock market indicators, worldwide oil prices, and rapid drop of the value of Naira compared with international currencies (CBN, 2019). The concern for adequate risk management in deposits money banks has been on the increase as a result of increasing activities engaged in by the banks which exposed the banks to various kind of risk such as rising on non- performing loans and the dynamism of the banking sector. Credit risk management is the core of lending in the banking industry. Many Nigerian banks had failed in the past due to inadequate risk management strategy. The possibility of yet another round of systemic failure in the Nigerian banking industry, as raised by the Nigerian Deposit Insurance Corporation, calls for quick, concerted and pre-emptive action. NDIC report (2019) revealed, that weak credit risk management is tipping the financial sectors toward a complex and difficult crisis with a similar alarm raised by the International Monetary Fund anchored on weak regulation and adverse operating conditions. The economy is falling short of growth projections, urgent extraordinary measures have to be adopted to prevent a calamity. This is despite stringent and elaborate rules, weak credit risk management cultures had rebounded in the banking system and along with ineffectual controls have presented to the regulators the possibility of bank failures. For regulators, the fear had prompted the conduction of tests and moves to stave off adversity (Nwanna, 2019).

These risks have increased, especially in recent times as banks diversify their assets in the changing market. In particular, with the globalization of financial markets over the years, the activities and operations of banks have expanded rapidly including their exposure to risks. More so, the non-performing loans of DMBs have been continuously in deteriorating part since 2012 (Chinedu 2018). As a result of this Assets Management Company of Nigeria (AMCON) was established in 2010 to manage the fallen assets of the DMBs in order to avoid collapse of the banking sector (NIDC Report 2018). In line with the above regulations were put in place by the Central Bank of Nigeria and other regulatory bodies. The banking sector is still overwhelmed with high credit risk in the form of non-performing loans (Central Bank of Nigeria 2019). It is estimated that, rate of non-performing loans to total deposits had its peak of 37.3% in 2009 and had a low rate of 3.0% in 2014 and has been constantly increasing at the rate of 11.4% in 2018. Managing credit has been challenging to numerous deposits money banks in Nigeria even with the best practices measures put in place by the management of these banks in managing credit risk, customers still have solid tendencies to delay or completely stop repayment of their loans and these often lead to the problems of risk management in the banking sector. Numerous studies that were conducted on credit risk

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management and financial performance of listed deposit money banks in Nigeria shows conflicting findings for instance, study of Nwude and Chinedu (2018) reveals a positive relationship between credit risk management proxy by Non–Performing Loans (NPLs) and (NPLR) and financial performance proxy by Return on Capital (ROE) and Return on Asset (ROA). Rehman, Muhammad, and Sarwar (2019) examined the effect of risk management on credit risk using multiple regression analysis. The result of the study showed that credit risk management has a significant impact on performance. The finding reveals that there is positive relationship between credit risk management and financial performance. Furthermore, Omorokunwa and Ogbeide (2020) examine the impact of credit risk management proxy for financial performance and the bank non-performing loan ratio. The result of the empirical tests showed a positive and significant relationship between risk management and financial performance. A more recent study by Philip and Abisola (2019) found a positive and significant relationship between credit risk management and financial performance of listed deposit money banks in Nigeria. However, in contrast the work of Prakash and Poudel (2019) reveals a negative relationship between credit risk management and financial performance of deposit money banks in Nepal. Nevertheless, Hambolu, Omuemu, and Abdul Majeed, (2022) argued that credit risk management has a negative and insignificant impact on financial performance of deposit money banks in Nigeria and that is consistent with the study of Adebayo and oluwaremi (2017). Nevertheless, evidence from Ndoka and Islam (2016) found that a negative relationship between credit risk management proxy by NPL and financial performance proxy by ROE and ROA of deposit money banks in Albenia and this was in line with the result of Ucheaga, Achugamon, Therefore, based on the above discussion, previous studies have clearly indicates that there is a mixed finding between risk management and financial performance of deposit money banks. Hence, there is need to introduce a moderating variable. Therefore, this study introduced audit quality as a moderating variable to moderate the relationship between credit risk management proxy by capital adequacy ratio and financial performance proxy by ROA.

1.1 Objectives

The broad objective of this study is to investigate the moderating effects of audit quality on credit risk management and financial performance of listed commercial banks in Nigeria. Specifically, the study intends to:

1. assess the extent of relationship between capital adequacy ratio and the financial performance of commercial banks in Nigeria.

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2. determine the moderating effect of audit quality and capital adequacy ratio on financial performance of commercial bank in Nigeria.

1.3 Hypothesis of the study

The following hypotheses, in their null form, have been formulated for this research work:

H_{o1}: Capital adequacy ratio has no significant relationship with financial performance of commercial banks in Nigeria.

H_{o2}: There is no moderating effect of audit quality on the relationship between capital adequacy ratio and financial performance of commercial bank in Nigeria.

2. LITERATURE REVIEW

2.1 Conceptual Review

2.1.1 Credit Risk Management

Credit risk management is a set of procedures and methodologies used to identify measure, monitor and control risks arising from bank activities. Organizational risk management is a system of risk management faced by the organization comprehensively for the purpose of increasing company value (Mardina, Endah & Dianata, 2018). Credit risk management aims to manage risks for the organization to survive, and or to optimize risk. The study of Mardina, Endah and Dianata (2018), Credit risk management is critical to every business, especially to banks whose stock is cash. The main profitable activity of the bank is lending money and the underlying principle of lending is risk mitigation, which goes with determining a borrower's ability and propensity to repay the loaned amount. The importance of credit risk management has become heightened in today's competitive economic world. These cannot be underemphasized as the practice of risk management minimizes financial losses to the firm. Companies often deliberately take certain risks, seeing the potential returns behind those risks. The importance of risk management has become a concept and has been given more attention from practitioners in today's competitive economic world. The study of Gadzo, Oduro, and Asiedu, (2021), cited that these cannot be underrated or overlooked as the practice of risk management minimizes financial losses to the firm. Banks that manage their risks have a competitive advantage.

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2.1.2 Concept of Capital Adequacy Ratio

Capital adequacy is the capital expected to maintain balance with the risk's exposure of the financial institution such as credit risk, market risk and operational risk, in order to absorb the potential losses and protect the financial institution's debt holder. "Capital Adequacy Ratio (CAR) is also an independent variable and is chosen because it is the core measure of a bank's financial strength from a regulator's point of view. Capital adequacy ratio consists of the types of financial capital considered as the most reliable and liquid, primarily shareholders' equity. Bank with good Capital Adequacy Ratio have good profitability. With good capital requirement, commercial banks are able to absorb loans that have gone bad (Grace, Godwin & Innocent 2020)". In addition to these, a bank with a strong capital adequacy is also able to absorb possible loan losses and hence avoids bank run, insolvency and failure. CAR is a measure of the amount of bank's capital expressed as a percentage of its risk weighted exposure. It consists of the types of financial capital considered the most reliable, primarily shareholders' equity. Theoretically, banks with good capital adequacy ratio have a good performance. A bank with a strong capital adequacy is also able to absorb possible loan losses and thus avoids bank run, insolvency and failure (Tassew & Hailu, 2019).

2.1.3 Financial Performance

A company's financial performance forms the backbone on which a profit seeking entity would continue to exist. According to Fauzi, Svensson and Rahman (2010), financial performance is the outcomes of management processes in relation to the goals that were set. It is the capability of the company to use its resources more efficiently and effectively so as to accomplish those goals. Furthermore, Trivedi (2010) defined financial performance as the act of performing a financial activity measured against preset standards of accuracy, completeness, cost, and speed. It is the degree to which financial objectives of an organization are being met or has been accomplished Performance is the most common measure of bank profitability. Performance is measured using the following criteria: Return on Assets (ROA) is equal to net profit/total asset shows the ability of management to acquire deposits at a reasonable cost and invest them in profitable investments (Okere et al., 2018). This ratio indicates how much net income is generated per naira of assets. The higher the ROA, the more the profitable the bank is. Return on Equity (ROE) is equal to net profit/ total equity. ROE is the most important indicator of a bank's profitability and growth potential.

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2.1.4 Audit Quality and Financial Performance

Audit quality is lending credibility to the financial reporting process through an assurance engagement as to whether the financial statement is fairly presented in compliance with applicable financial framework. In order to guarantee its quality, audits are typically conducted in accordance with statutory legislations and international standards on auditing. Patrick, Vitalis and Mdoom (2017) posits the need for auditors to deliver quality audit so as to meet expectations of users of accounting information. According to DeAngelo (1981) cited in Soyemi (2020), audit quality is defined as twin possibilities of an auditor detecting material misstatements in the course of audit engagement, as well as reporting such via an audit report. While the former describes competence of auditors, the latter refers to auditor independence. The study maintained the unobservable nature of audit quality, hence, its attendant difficulty in measurement and usage of proxies such as Big4 (Soyemi 2020; Ezejiofor & Erhirhie 2018).

2.2 Theoretical Framework

In examining the moderating effect of audit quality on the link between CRM and financial performance of listed CBs in Nigeria, the Safety and Soundness Theory were used to underpinning the study.

2.2.1 Safety and Soundness Theory

The theory's foundational ideas emerged with the development of financial regulation and risk management principles. Concepts around the need for capital adequacy to ensure financial stability were discussed by various scholars and practitioners. The formalization of safety and soundness principles began with the establishment of the Basel Committee on Banking Supervision (BCBS) in 1974. The Basel Accords (Basel I in 1988, Basel II in 2004, and Basel III in 2010) provided a structured framework for capital adequacy, risk management, and financial stability, reflecting the underlying principles of safety and soundness. The theory as it stands today is a product of ongoing developments in banking regulation and financial stability efforts rather than the work of a single individual. The Safety and Soundness theory posits that a higher Capital Adequacy Ratio enhances a bank's stability and reduces risk, leading to better financial performance. A strong capital base allows banks to absorb losses and maintain operations during economic downturns, which can boost investor confidence and lead to improved profitability. According to this theory, a higher CAR indicates better financial health and stability, potentially leading to improved performance. Therefore, banks with higher CARs are seen as less risky, which can lower borrowing costs and improve profitability and this stability may also attract more customers and investors.

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2.3 Empirical Review

According to Mardiana, Ayyu, and Mirza (2018) investigate the effect of CRM on Capital Adequacy Ratio (CAR) at least 8% in Indonesian banking sector. The purpose of study is to examine the relationship between CRM proxies by Capital Adequacy Ratio (CAR) at least 8%. A panel regression model was adopted as an estimation technique. Findings suggested that CAR (a measure of credit risk) has a negative and significant effect on the performance.

This according to Gamali Gadzo (2019) examined the relationship between credit risk management and banks' performance in Nigeria. Capital adequacy ratio was used as proxy of banks' performance, while non-performing loan rate, liquidity rate and loan-deposit ratio were used as proxies of credit risk management. The study employed both descriptive and panel regression analyses for ten commercial and microfinance banks between 2008 and 2017. Hausman test and Random effect model were employed. The study found direct relationships between capital adequacy ratio (banks' performance) and liquidity rate, loan-deposit ratio (credit risk management) and return on asset. It concluded that credit risk management had significant impact on banks' performance in Nigeria and that most banks under study were fairly managing their credit risks.

Agu, Bertram and Nwankwo (2019) examined the effect of capital adequacy ratio on performance in a cross-country study of 12 banks from Europe, Australia and North America. The study found a significant positive relationship between capital adequacy and performance indicating that banks with higher capital ratio are more profitable than banks with fewer capital ratio.

Odawo (2019) examine the impact of CRM and banks' profitability in Nigeria. The main objective of the study was to investigate CRM and banks' profitability in Nigeria. Secondary data was used. In analysing the data, a STATA software version 11 was used to compute the descriptive statics and panel data regression model was also used. The study displayed that there is a substantial correlation between bank performance (in the field of profitability) and credit risk management (in terms of CAR). The study recommended that banks should effectively manage their credit risk for a better performance.

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3. MATERIAL AND METHOD

The study employed the ex-post factor research design. The population comprised all commercial banks listed on the Nigeria Exchange Group (NXG). Under this method, events that have already taken place, are utilised as experimental, thus the researcher worked with these phenomenon as it was obtained to his or her control). Data were extracted from the annual reports and accounts of commercial banks for the period 2010-2021. The research design is justified base on the nature of the data collected and the analysis carried out on it. To examine the impact the following models are used:

ROA= f (CAR, FS) ……Eqn 1.

Where;

ROA: Return on Assets

CAR: Capital Adequacy Ratio

FS: Firm size

$ROA_{it} = \beta_0 + \beta_1 CAR_{it} + £_{it}$……Eqn 2.

Where;

β0 = Constant parameter/Intercept

β1 – β3 = Coefficients of independent variables

£ = Error term

Equation 2 was postulated to ascertain the effect of capital adequacy ratio on financial performance. Therefore, the coefficient β_1 in the model is the independent variables. β_1 is expected to be positive and significantly associated with financial performance.

This section presents the model to confirm the moderating effect of audit quality on the present study. The model is presented below:

$ROA = \alpha + \beta_1 CAR + \beta_2 CAR * AQ + €$ ……Eqn 3.

Equation 3 examines the effect of audit quality on the relationship between credit risk management and financial performance. The coefficients β_1 in the model is the independent variables. Coefficients β_2 is the moderating variable. β_2 is expected to be positive and significant. The sum of β_2 (AQ) is expected to move towards the coefficients value of 1.

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4. RESULT AND DISCUSSIONS

4.1 Data Analysis

4.1.1 Descriptive Statistics

This section presents the results of the analysis conducted on the data collected from the annual report and accounts of Nigerian deposit money banks. Correlation and regression results are presented in the subsequent sub sections.

Table 1: Descriptive Statistics

Variable	Obs	Mean	Std.Dev.	Min	Max
ROA	156	0.0269	0.0488	0.0004	0.5850
CAR	156	0.1980	0.0713	0.1000	0.7400
AQ	156	0.9679	0.1767	0	1
FS	156	12.1703	0.4693	10.4883	13.0694

Source: Computed by the Author from Annual Reports of the Sampled CBs (2010-2021) using STATA 15.0

Note: *ROA: Return on asset, CAR: Capital adequacy ratio AQ: audit quality FS: Firm Size*

Table 1 summarizes the key descriptive attributes of the data extracted from annual reports of sampled banks. Reflects the descriptive statistics of 156 observations. The results indicate that the mean of Return on asset (ROA) is 2.69% with a minimum of 0.04% and a maximum of 58.5%, and a standard deviation of 0.0488 or 4.88%. This suggests that on the average, the selected banks make a return of 2.69% on their total assets, but this increases to a maximum of 58.5% and as low as 0.04%. It clearly suggests that the sampled banks are not performing well.

The capital adequacy ratio (CAR) has an average of 19.8% (more than the CBN's minimum figure for national banks of 10%, and also more than that of international bank of 15%). CAR also has a minimum of 10.00% and a maximum of 74.0%, and a standard deviation of 0.071 or 7.1%. This is also means that the deviation from the mean is very high which is at variance with the Central Bank of Nigeria regulation. An indication that the banks have marginal ability to bear losses. Beside, audit quality indicates an average of 96.79 percent. The result of the descriptive analysis also shows that the minimum proportion that employ the services of the big four audit firm in sampled Nigerian listed DMBs is 0.00 percent and a maximum of 1 percent. This implies that almost all the commercial banks employed the service of the big four audit firm.

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The control variable which is Firm Size (FS) has a mean value of 12.1703, a minimum value of 10.4883 and maximum value of 13.0694.

4.1.2 Correlation

The correlation between the dependent and independent variable is presented in Table 1.The correlation matrix shows the relationship between the variables in the regression model; the relationship between the explanatory variables with the explained variable.

Table 2: Correlation Matrix

	ROA	CAR	AQ	FS	VIF
ROA	1.0000				
CAR	0.5278	1			1.67
AQ	0.5072	0.4842	1		1.36
FS	-0.0464	-0.1017	-0.1016	1	1.02

Source: Computed by the Author from Annual Reports of the Sampled CBs (2010-2021) using STATA 15.0

Table 2: shows the correlation coefficients on the relationship between the dependent variable (ROA), independent variable (capital adequacy ratio), moderating variable (audit quality) and control variable (firm size). ROA is negatively related with FS, the value of the correlation coefficient is negative and positively related with CAR and AQ, the value of the correlation coefficient is positive, the sign indicates the direction of the relationship (positive or negative), the absolute values of the correlation coefficient indicate the strength, with larger values indicating stronger relationships. The correlation coefficient on the main diagonal is 1.0, because each variable has a perfect positive linear relationship with itself. As shown in table 2, the correlation coefficient for FS -0.0464 which show a weak negative relationship. On the other hand CAR have a moderate positive relationship with ROA with value of 0.5278. Similarly, AQ is found to have a moderate positive relationship with ROA and with value of 0.5072 at 5 percent level of significance.

4.1.3 Regression Results

This section presents results of the analysis conducted on the data collected from the annual reports and accounts of CBs in Nigeria and the diagnostic checks are presented in the following sub-sections.

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4.1.4 Diagnostic Tests Results

The diagnostic test was conducted in order to improve the validity of all statistical inferences for the study. The tests include Breusch-Pagan/Cook-Weisberg test for heteroskedasticity and the normality test. These are discussed below.

4.1.4.1 Heteroskedasticity

From the heteroskedasticity test on the model, the result of the test reveals that there is no presence of heteroskedasticity in the model because the probability of the chi square is 0.9726. This signifies absence of heteroscedasticity and existence of homoscedasticity, which is the ideal condition of the test. In the homoskedastic model, it is assumed that the variance of the error term is constant for the values of independent variable.

4.1.4.2 Multicollinearity test

Multicollinearity test result shows that the variance inflation factor (VIF) is less than 5 and tolerance value is less than 1, which indicate absence of multicollinearity. The rule of thumb states that there is evidence of collinearity if the tolerance VIF is greater than 1 or if the largest VIF is greater than 5 as indicated by table 2.

Table 3 shows the results of panel regression analysis for capital adequacy ratio, audit quality, firm size and ROA. The Hausman specification test indicates that Fixed Effect (FE) model is preferred to its Random Effects (RE) counterpart. This follows the rejection of null hypothesis, as a result of significant chi-square value at 0.05 (significance) levels. Therefore, FE model is adopted in this analysis.

Table 3. Results of OLS, Fixed and Random Effects

	Fixed Effect			**Random Effect**			**Pool OLS**		
Variables	**Coef.**	**t-value**	**P-value**	**Coef.**	**t-value**	**P-value**	**Coef.**	**t-value**	**P-value**
CONS	0.775	0.36	0.722	0.760	0.55	0.579	0.761	0.56	0.574
CAR	0.238	3.45	0.001	0.224	3.66	0	0.224	3.66	0
AQ	0.293	3.45	0.001	0.276	3.97	0	0.276	3.98	0
FS	0.048	0.27	0.786	0.054	0.5	0.617	0.054	0.51	0.613
R-square		0.3915			0.392			0.3919	
Adj								0.3717	
prob. F-St		0.0000			0.0000			0.0000	
Obs		156			156			156	

Source: Computed by the Author from Annual Reports of the Sampled CBs (2010-2021) using STATA 15.0

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Table 3 presents the regression result and conclusion is arrived at considering the result of the robust regression estimations. The results show that capital adequacy ratio and audit quality has a significant positive impact on ROA at 0.05 significant levels with p-value of 0.001 while firm size which is the control variable has positive but insignificant impact on ROA of the sampled CBs in Nigeria. The R2 showed that the model explained 39.15 % of variance in ROA and it was found to be fit as the F-statistic was also significant at 1% level of significance.

Table 4 Regression for Moderating Effect

Variables	Coefficient	Std. err.	T-stat	Prob. T
CONS	0.738	1.529	0.48	0.630
CAR	0.236	0.164	1.44	0.151
AQ	0.285	0.138	2.06	0.041
FS	0.053	0.108	0.49	0.624
CAR_AQ	-0.003	0.047	-0.07	0.942
F(8, 147)		11.88		
Prob > F		0.000		
R-squared		0.3927		
Adj R-squared		0.3596		
Obs		156		

Source: Computed by the Author from Annual Reports of the Sampled CBs (2010-2021) using STATA 15.0

This section analysed the moderating effect of audit quality on the link between CAR and financial performance of the sampled listed CBs in Nigeria. The result was presented in model on Table 4. The result showed the value of the overall R2 as 0.3927 which is the coefficient of determination that gives the proportion of the total variation in the dependent variable explained by the explanatory variable. Hence, it signifies that approximately 39.27% of total variation in financial performance of sampled listed CBs in Nigeria is caused by capital adequacy ratio and audit quality did not moderated CAR. It also showed that F-statistics value of 11.88 with the corresponding P-value of 0.0000. This implies that there is 99.9% probability that the relationships among the variables were not due to mere chance based on significance level of 1% and as such the results from the regression can be relied upon. In addition, it means that the explanatory variable reliably predict the dependent variables of the study. Table 4 also showed that AQ has negative and insignificant moderating effect on the

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link between CAR and financial performance at 5% level of significance (coeff= -0.003, t= -0.07). This implies that AQ has no moderating effect on the link between CAR and financial performance and it is not statistically significant. This findings is consistent with those of Agu, Bertram and Nwankwo (2019) and Adawo (2019) who found a significant positive relationship between capital adequacy and performance indicating that banks with higher capital ratio are more profitable than banks with fewer capital ratio.

4.2 Test of Hypotheses

4.2.1 Hypothesis One

H_o: Capital adequacy ratio has no significant relationship with financial performance of commercial banks in Nigeria.

Table 3 above present the coefficient of CAR as 0.238, which shows a positive value and implying that one percent increase in the capital adequacy ratio as an independent variable causes the financial performance of commercial banks in Nigeria to increase by 23.8%. In the case of the significant level, the p value is 0.001 which is less than the p value 0.05. Since it is less than p value of 0.05. Null hypothesis which states that, "capital adequacy ratio has no significant relation with financial performance of commercial banks in Nigeria" is rejected. Therefore, it can be concluded that, capital adequacy ratio has a positive and significant relation with the financial performance of commercial banks in Nigeria during the study period.

4.2.2 Hypothesis Two

H_o: There is no moderating effect of audit quality on the relationship between capital adequacy ratio and financial performance of commercial bank in Nigeria.

The coefficient of moderating effect of audit quality on the relationship between CAR and financial performance as depicted in table 4 above is -0.003, which shows a negative value and this implying that one percent increase in audit quality as a moderating variable does not causes the financial performance of commercial banks in Nigeria to increase. In the case of the significant level, the p value is 0.942 which is greater than the p value 0.05. Hence, the Null hypothesis which states that, "There is no moderating effect of audit quality on the relationship between capital adequacy ratio and financial performance of commercial bank in Nigeria." is accepted. Therefore, the study concluded that, there is no moderating effect of audit quality on the relationship between capital adequacy ratio and financial performance of commercial bank in Nigeria during the study period.

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CONCLUSION AND RECOMMENDATION

The study is on the moderating effect of audit quality on the relationship between credit risk management proxy by capital adequacy ratio and financial performance of CBs. The study concludes that capital adequacy ratio have significant influenced on the financial performance (ROA) of CBs in Nigeria. The study also concludes that audit quality has no moderating impact on the link between credit risk management and financial performance in term of ROA of CBs in Nigeria. The study recommended that, commercial banks should effectively manage, monitor and improve their credit risk management strategies. Since it was concluded that credit risk management in terms of capital adequacy ratio has major impact on the financial performance of CBs in Nigeria.

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