



AUDIT CONTEXTUAL FACTORS AND ACCOUNTING CONSERVATISM AMONG LISTED FIRMS IN NIGERIA

Aruna Ishola MAMIDU¹ & Dr. Oladeji E. OLADUTIRE²

1. Post Graduate Student; Department of Accounting, Faculty of Administration and Management Sciences, Adekunle Ajasin University, Akungba Akoko, Ondo State.
2. Lecturer; Department of Accounting, Faculty of Administration and Management Sciences, Adekunle Ajasin University, Akungba Akoko, Ondo State, Nigeria

ABSTRACT

This study investigated the moderating effect of financial regulation on the connection between audit inputs and accounting conservatism among listed firms in Nigeria. The number of reported cases of corporate failures had been on the increase. Studies had been piloted on the connection among audit quality features and conservatism in accounting, there are lacunas with previous studies. The study employs correlation and cross sectional research designs. The population of the study is 151 firms. The study made use of panel regression analysis to process the data collected. The result shows that financial regulation moderating effect on the relationship between audit qualities and accounting conservatism was negative and statistically significant power. This implies that the current financial regulation is not contributing to accounting conservatism among the listed firms in Nigeria. There is the need to rejig the current financial regulation among the listed firms in Nigeria. Nigeria external auditors must be on their toes so as to stem down the current high rate of corporate failures in the country. The value from this study is that the study exposed the moderating effects of financial regulation on the connection between audit input characteristics and accounting conservatism. This is the first study in this area that covered the whole Nigeria sectors at a time, with all the firms (151) listed on a wider period of study.

Keywords: Audit input; audit independence; audit firm size; audit tenure and accounting conservatism.

1.0 INTRODUCTION

Conservatism in accounting parlance could be described as an accounting application that does not mind increases in revenue without due care, on the other hand it anticipates totally losses that could result from business undertaken (Alkurdi et al., 2017; Hamdan et al., 2012). Conservatism could be defined as the correctness of payments that call for better verification to ascertain noble news bulletin as achievement, more than to recognize none noble news as loss (Givoly & Hayn, 2000). Krismiaji (2021) describes conservatism as a choice point of reference among accounting principles. Prior studies established that accounting conservatism have improved intensely (Krismiaji, 2021; Yuxiang & Wanli, 2021). An unambiguous component of accounting information quality is accounting conservatism (IASB, 2018). Thus, accounting conservatism entails mechanism on curbing stated revenues by lessening down revenue acknowledgement, accelerating acknowledgement of outflows, pull down asset valuation and increasing commitment assessment.

Studies on audit quality and conservatism in accounting had also continued to be areas of attraction to researchers because of the fact that accounting conservatism remains one of the foremost ideologies or concepts of Accounting (Thijee et al., 2018; Ying, 2019). Accounting conservatism had been identified to have increased over time. Conservatism is still inevitable for the reason that it can bring-in increase into the reliability on

business information by stakeholders (Mohammed et al., 2019). Therefore, Ball and Shivakumar, 2006 posited that accounting conservatism would have the opportunity to promote the usefulness of financial statements and upturns the value of firms. International Auditing and Assurance Standards Board (IAASB) pronounced five main determinants of audit qualities as audit input, audit process, audit output, audit interacting variables and audit contextual factors (IAASB, 2020).

This study examines the moderating effect of one of the audit contextual factors (financial regulation) on the connection between audit input and accounting conservatism. In order to assist efficient investment and put in place an established and transparent regulatory environment, and for good policy making on corporate bodies, Companies and Allied Matters Act (CAMA, 2020) was introduced (Abdulmalik & Ahmad, 2016; Uzoka, 2020). Financial Reporting Council of Nigeria (FRCN) is mandated towards control on matters concerning the monetary reporting and corporate governance (CG) of listed firms in Nigeria. Thus, a good audit input might produce an excellent accounting conservatism if the financial regulation quality is perfected.

In order to present an acceptable and reliable financial statements that meet global acceptance, there is the need for good audit inputs. AL-Qatamin and Salleh (2020) opines that audit input includes: certified expertise, specialized experience, and proficient skepticism. Thus, audit inputs might include audit independence, audit firm size and audit tenure. Financial regulation in any country are usually introduced to usher in the needed conservatism (prudence) into corporate entities (FRCN, 2019). Hence, the interactions between audit inputs, financial regulation and accounting conservatism are expected to bring in the needed control that should bring stability into corporate entities.

The scandals and collapse experienced by corporate establishments virtually all over the world in recent time have called for better attention on the quality of firms' financial reports. These commercial disasters had stimulated researchers to doubt the efficacy of financial regulation power on the moderating role between audit inputs and accounting conservatism globally. These company disappointments have occasioned the yearning expected at strengthening of the quality and competence of audit input, financial regulation and conservatism in accounting. Consequently, studies had been piloted on the connection among audit quality features and conservatism in accounting (Al-Matari, 2022; Geimechi & Khodabakhshi, 2015; Talab et al., 2018). The gap in the reviewed studies was that most of the studies investigated the association between auditing feature in three areas of audit input, audit process and audit output on accounting conservatism.

The effects of audit contextual factors like financial regulation on accounting conservatism had not been fully considered (Asiriuwa et al., 2018; Hamdan, 2020; Kharashgah et. al., 2019). Hence, there is a dearth of evidence of a significant relationship in Nigeria to explain the moderating effects of financial regulation on the connection between audit input characteristics and accounting conservatism comportment. Most of the erstwhile studies are inadequate in era and sectorial coverage. As a result, a gap exists due to previous studies that have not painstakingly addressed audit quality characteristics, audit contextual factors (financial regulation) and accounting conservatism. There is therefore the need to fill the identified gap. Therefore, this study covers the whole Nigeria sectors on a ten year coverage, looking at the moderating effects of financial regulation on the relationship between audit inputs and accounting conservatism among the listed firms in Nigeria.

Having specified the background of the study and the statement of the problem indicated, it is apposite at this junction to bring out the research questions as: To what extent does financial regulation moderates the connection between audit independence and accounting conservatism among the registered firms in Nigeria? To what extent does financial regulation moderates the connection between audit firm size and accounting conservatism among the registered firms in Nigeria? To what extent does financial regulation moderates the connection between audit tenure and accounting conservatism among the registered firms in Nigeria? The objective of this study is therefore to investigate the moderating role of financial regulation on the link between audit inputs characteristics in areas of audit independence, audit firm size and audit tenure and accounting conservatism among the listed firms in Nigeria between 2012 and 2021.

This study is of great practicality to strategy makers, government and researchers who are essential to conduct longitudinal study in the midst of firms. In addition, this research makes available a data-base for upcoming researchers on financial regulation, audit quality and accounting conservatism amongst listed firms in Nigeria, since no study, to the best of the researcher's knowledge, has extensively covered this area of study by considering financial regulation and audit inputs holistically covering all the segments of Nigeria economy. Finally, the study offers the breathing space of educating and expanding accounting conservatism in connection to audit quality features.

The above introduction covers the background to the study, the remaining sections of this paper is organized as follows: **Section 2** exhibits the review of literature and the development of hypotheses. **Section 3** deliberates on the methodology and **Section 4** makes available the outcomes of the study and dialogue on the results. Lastly, **Section 5** presents the summary, conclusion and the proposals for upcoming studies.

2.0 LITERATURE REVIEW

This segment presents the conceptual review of literature and the development of hypotheses and empirical review for the study. Existing literature were studied to bring out what other scholars have found on the link with reference to financial regulation, audit input and accounting conservatism. The audit inputs were proxy by auditor independence, audit tenure and audit firm size (IAASB, 2020).

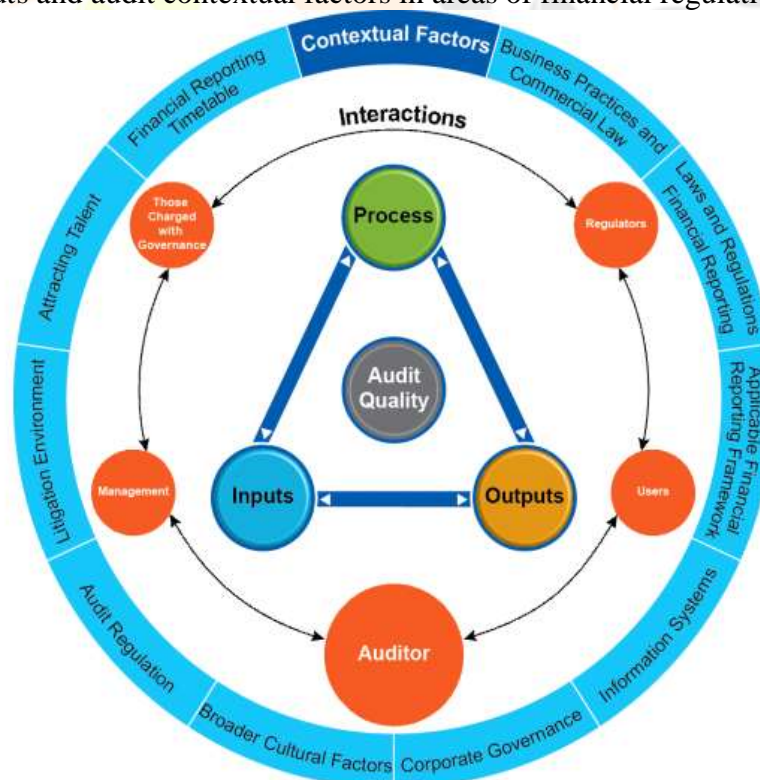
• Accounting Conservatism (AC)

Accounting principle of conservatism predates the book of Pacioli's innovative manuscript on double-entry accounting. The principal application of conservatism might be inferred as lower-of-cost-or-market assessment in modern accounting terminology. An initial instance of the use of conservatism was in 1408, where a man's fixtures and implements were valued by evaluators at a reduced amount of less than the cost because the asset had depreciated (Ahmed, 2016). Accounting conservatism is an essential principle of Accounting. Chiedu et al. (2022) and Krismiaji (2021) maintained that accounting conservatism perceived that one should recognize payments and obligations as soon as probable, but to identify incomes and assets simply when individual is certain that such incomes and assets are certain. The study added that, this principle predisposes to inspire the acknowledgement of losses earlier, reasonably than future period.

Alkurdi et al. (2017) conducted study on title structure and accounting conservatism. The study examined among the Industrial and Financial Jordanian registered firm, supported by Jia (2018) maintained that conservatism in accounting has no one common definition, and that attempts in having a broad definition of conservatism in accounting had opened up the study to scholars. Alkurdi et al. (2017) defines conservatism in accounting as skill of anticipating no profits, but to anticipate completely all losses and therefore established it as an anticipation that net assets would not be considerably as the market value in the long-run.

• Audit Quality Characteristics

IAASB (2020) pronounced five distinguished audit qualities characteristics as: audit inputs, audit process, audit outputs, audit interactions variables and audit contextual factors. This is shown in figure 1. This study investigated audit inputs and audit contextual factors in areas of financial regulation.



Source: IAASB, (2020)

Figure 1: Auditor quality framework showing audit quality characteristics – audit inputs, audit process, audit outputs, audit interactions and audit contextual factors.

• **Contextual Factors - Financial Regulation**

This study made use of financial regulation as one of the contextual factors of audit quality features (IASB, 2020). Nigeria commercial and legal settings copied that of the British arrangement. The main lawful and governing outline for businesses' regulation in Nigeria is the Companies and Allied Matters Acts (CAMA, 2020). The colonial masters introduced the Companies Ordinance of 1922, the first corporation law in Nigeria. This ordinance does predate the country's independence of 1960. In 1968, after Nigeria independence, the Corporations Act of 1968 came into being; it repealed the Corporations Decree of 1922. The Corporations and Associated Matters Act 1990 was introduced due to several socio-political and economic manifestations (Abdulmalik, & Ahmad, 2016).

The national government of Nigeria gives the power to regulate companies in Nigeria to Financial Reporting Council of Nigeria (FRCN) through FRCN bill act, section 11 (FRCN, 2011). FRCN is empowered to safeguard stockholders and other interested parties in the undertakings of companies. FRCN is also charged to give controls on matters concerning the monetary reporting and corporate control (CC) to bodies listed in Nigerian Exchange Group Plc. Financial Reporting Council of Nigeria is to guarantee good corporate governance practices in both public and private segments of the Nigerian economy.

• **Development of Hypotheses**

Three hypotheses were developed for the study in line with financial regulation, audit independence and accounting conservatism; financial regulation, audit firm size and accounting conservatism; financial regulation, audit tenure and accounting conservatism.

• **Financial Regulation, Audit Independence and Accounting Conservatism**

Ugwunta et al. (2018) speaks out that extraordinary high audit fees charged by external auditors might cultivate a monetary connections among the firm administration and the external auditor. This might compromise the autonomous of the auditor. The study describes audit as a none bias of assessor's deed in an engagement and forthright decisions for the era of an audit and that independence indicates real element of freedom beginning from praise, muse, incentive or mechanism of which in the absence of independence, the implication of the audit purpose will be greatly negotiated.

Ndubusi et al. (2017) investigated audit quality determinants; the study examined evidence from Quoted Health Care Firms in Nigeria as to the relationship between audit independence and audit quality. The study found that there was a positive and statistically significant relationship between audit independence and audit quality during the period under investigation. The main lacuna faced from this study was that, the study only covered healthcare sector. There are other ten sectors on the Nigerian Exchange Group Plc. left out, considering one sector was grossly underestimated. Also, the researcher considered only seven years of which two were before IFRS adoption and five years post-IFRS. The two by seven years is considered unbalanced periods for pre-IFRS and post-IFRS adoption in Nigeria. The period of seven years is equally considered too short for the study.

In the research on the influence of audit quality characteristics and accrual quality Usifoh et al. (2019) used the population of the fifty three manufacturing firms on the Nigeria Exchange Group Plc. The ten years study period spanned from 2008 to 2017. Thirty firms out of the population was sampled. Accrual quality was the dependent variable, while the independent variables were: audit firm independence, audit firm size, audit committee expertise, audit tenure and sector based specialization. The study employed generalized least square method to analyze the gathered data in order to test the raised hypotheses. It was found that there exist insignificant but positive effect among audit firm independence and accrual quality (accounting conservatism). The main gap in this study remains the use of mono dependent variable for the study. The study would have become more robust if more independents variables were employed.

Srichoke et al. (2021) researched into the controlling influence of corporate control on the link between Chief Executive Officer (CEO) and accounting conservatism. The study was carried out in United States of America (USA) beginning 2008 to 2013. The study relied on archival research to source data (secondary source). The study employed positive accounting theory, the agency theory, the signaling theory, the resource dependence theory and stewardship theory. The population of study was the USA listed companies. Five hundred USA companies were sampled for the study. The investigation of data was done through multiple regression analysis. The outcome shows CEO bonus compensation and conservatism in accounting are adversely connected. An affirmative moderating power of corporate governance strength (CGSTRENGTH) on the link among CEO additional benefit (bonus) payment and accounting conservatism was anticipated

(BONUS*CGSTRENGTH). The results indicates that there existed no strong evidence for the moderating influence of corporate control power and accounting conservatism. Further studies could be carried out with financial regulation as a moderating variable. The preceding discussion leads to our first hypothesis which states that:

H₀₁: *There is no significant moderating effects of financial regulation on the relationship between audit independence and accounting conservatism*

● **Financial Regulation, Audit Firm Size and Accounting Conservatism**

Hamdan et al. (2012) studied the effects of auditing quality characteristics (using audit firm size as one of the features) on the level of accounting conservatism among Jordanian companies. The study employed multiple regressions of Ordinary Least Squares (OLS) analysis method for the study. The Book to Market Ratio and Abnormal Accruals were used to proxy the accounting conservatism as dependent variables. Size of the audit firm was measured by dummy variable as one (1) was assigned if the audit firm was among the big five auditing firms; zero (0) was allocated if otherwise. The findings from the sampled thirty nine companies revealed that the big auditing firms, the Big 5, in Jordan were able to force companies to observe a high level of bookkeeping conservatism when making financial statements. The result reveals that audit firm size has positive and significant effect on accounting conservatism among the Jordanian firms in the period under consideration. The gap observed was that audit interacting and audit contextual factors were not considered in the study.

Geimechi and Khodabakhshi (2015) researched into the influences touching the level of accounting conservatism in the financial statements of the companies listed in Tehran Stock Exchange. The study used panel regression on data collected from one hundred and twenty one (121) firms. The period of study covered 2009 to 2013. The found that there was no significant relationship between audit firm size and the level of conservatism accounting. The gap noticed in this study was that a period of more than five years would have given a more robust result.

Jerry and Saidu (2018) researched into the effects of Audit Firm Size on Financial Reporting Quality in Insurance Companies registered in Nigerian Exchange Group (NGX Group) Plc. for the period 2008 to 2015. The study employed the use of descriptive statistics, and multiple regressions (Ordinary Least Square) for the analysis. The sampled firms consist of thirty-three (33) firms. The researchers found that audit firm size has a positive and significant influence on financial reporting quality of Insurance Companies registered in Nigerian Exchange Group (NGX Group) Plc. It was recommended that small accounting firms should devote more resources in staff training in specialized businesses like Insurance firms. This allow them to compete favourably with other accounting firms (the big 4) in auditing services.

Youssef and Hamid (2017) investigated the effects of audit quality on accounting conservatism. The population for the study was the topmost fifty non-financial firms listed on Egyptian Stock Exchange. The study hypothesized that there is no significant relationship between audit firm size and accounting conservatism. With a p-value of 0.647, the null hypothesis could not be rejected. The study therefore concluded that there is no significant relationship between audit firm size and accounting conservatism among the Egyptian non-financial firms listed on Egyptian Stock Exchange (2015 - 2016). A longer period of research and introduction of a moderating variable would have made the research more robust qualitatively.

Saeed & Saeed (2018) investigated the moderating character of audit quality on the relationship among corporate governance and conservatism in accounting. The study was conducted in South Asia. The three countries covered were Bangladesh, India and Pakistan from 2000 to 2015. Three hundred (300) firms were sampled, One hundred (100) firms from the firms listed in Bangladesh, India and Pakistan. Most of the data is extracted from the annual reports of individual firms. The dependent variable for the study was accounting conservatism, the independent was corporate governance while the moderating variable was audit quality. The result suggested that accounting conservatism positively associated with corporate governance importance. The study observed that a greater audit quality and disclosure quality weakens this association among corporate governance and conservatism in accounting. The study recommended that where corporate governance is complex, stakeholders should ponder on audit quality and its disclosures. The study failed to consider the moderating weight of financial regulations (corporate governance strength) on the connection between audit quality characteristics and conservatism in accounting. Thus, this gap was filled by this study. The preceding discussion leads to our second hypothesis which states that:

H₀₂: *There is no significant moderating effect of financial regulation on the relationship between audit firm size and accounting conservatism*

• Financial Regulation, Audit Tenure and Accounting Conservatism

In order to reinstate self-confidence to business reporting, it was specified in the United States of America by Sarbanes-Oxley (SOX) Act of (2002) that a lead audit and the review partner must interchange the audit every single five years. Studies accompanied on this subject matter are inconclusive on the achievement of the SOX Act (Uwhejevwe-Togbolo, 2016). There are contradictory outcomes on whether companies have involved in a reduced amount of or additional earnings management after Sarbanes-Oxley (SOX) Act. Thus, there have not be there the concluding total of years an auditor would be engaged in audit work.

Soliman (2014) investigated the influence of audit quality on accounting conservatism among the listed firms in Egypt. One of the independent variables tested as determinants for audit quality in the study was audit tenure. The population for the study were Egyptian firms from among the top fifty most active-traded firms listed over the period 2007 - 2010. The study relied on secondary and primary data as statistics were extracted from the annual reports, direct contacts and web sites too. The study found that there was positive significant relationship between audit tenure and accounting conservatism. The study recommended that professional bodies in Egypt and the government should endeavour to improve the auditing quality in Egypt, as the features of auditing quality have effects on the improvement of the level of accounting conservatism. The gap observed was that audit interacting and audit contextual factors were not considered.

Pashaki and Kheradyar (2015) conducted a study on the effect of audit quality on accounting conservatism in Tehran Stock Exchange on listed companies. The study covered the period 2009 to 2013. The study used non-probability sampling method as only firms that were listed in 2009 and have their balances brought forward at the beginning of 2009. Also to qualify as sample, the firm must have its year ending as 31st March of each year. Finally intermediation, investment, holding, banks, leasing companies, financial and insurance institutions were excluded from the sample. The study finally sampled one hundred (100) companies for the study. The study made use of ordinary least square to analyze the secondary data sourced. It was established that the relationship between auditor tenure and accounting conservatism was evaluated to be positive and significant. The observed gap stemmed from the fact that, researchers need to investigate a wider research coverable period to confirmed the positive and significant relationship between the audit firm tenure and accounting conservatism.

Pashaki and Kheradyar (2015) equally evaluated the relationship between auditor tenure and accounting conservatism. The study covered the period from 2009 to 2013. The population of study was all companies listed in Tehran Stock Exchange. Using non-probability sampling method one hundred (100) companies were sampled. Using Ordinary Least Square statistical method, the study found that there is positive and significant relationship between auditor tenure and accounting conservatism. The gap observed from this study is the missing role of a moderating variable. This is so because of the positive association between auditor tenure and investigating accounting conservatism found by this study. Hence, using audit contextual variable as moderating variables in the study of audit quality and accounting conservatism would have produced a robust result as audit contextual factors affect audit quality (Ejeagbasi et al., 2015; Ogoun & Perelayefa, 2020).

Ndubusi et al (2017) evaluated the determinants of audit quality. Audit tenure was one of the independent variables tested for effect on audit quality. The population of study encompasses all the ten healthcare firms listed on the Nigerian Exchange Group (NGX) Plc. as at 31st December, 2016. Secondary information were used as data were extracted from fact book published in the Nigeria Exchange Group (NGX) Plc. website. The study considered the following firms: Fidson Healthcare Plc, Union Diagnostic and Clinical Services Plc, Ekocorp Plc, Morison Industries Plc, Nigeria German Chemicals Plc and Pharma-Deko Plc., Neimeth International Pharmaceuticals Plc, Evans Medical Plc, GlaxoSmithKline Consumer Nigeria Plc, and May and Baker Nigeria Plc. The study empirically found that there was a positive and statistically significant relationship between audit tenure and audit quality. One of the lacunas observed in this study was narrow data collection sources. Firms' websites was additional untapped source of information.

A study was conducted in Tunisia by Sakka and Jarbou (2016), the study investigated the association between company control, external auditor's features guide, and timeliness in Tunisia corporate bodies between from 2006 to 2013. The methodology of the study shows that the ordinary least square (OLS) method of data analysis was used on panel data gathered for the study. The dependent variable for the study was Timeliness. The independent variable was Corporate Governance (CG). The study established that the corporate governance good structures shows an important character in enhancing the quality of timeliness of financial information. The gap found in the study was that the study failed to work on the five distinguished audit qualities as pronounced in IAASB, (2020), the study only concentrated on the audit process. Audit input and audit output were left untouched. Also, the study sampled twenty eight (28) firms for the study. This was considered too small by this researcher. The period of study (seven years) was also considered too small. The study failed to consider the moderating effect of financial regulations (corporate governance strength) on the relationship

between audit quality characteristics and accounting conservatism. Thus, these gaps were filled by this study. The preceding discussion leads to our third hypothesis which states that:

H₀₃: *There is no significant moderating effect of financial regulation on the relationship between audit tenure and accounting conservatism.*

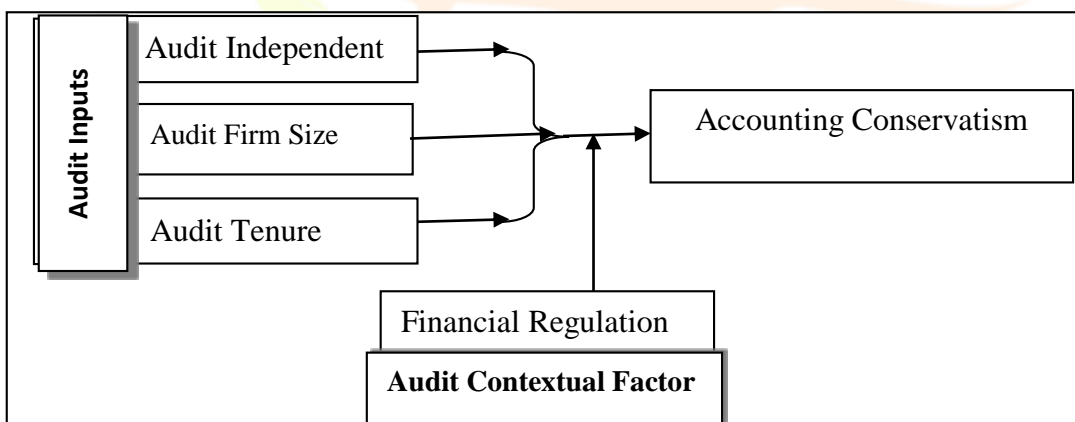
2.2 Theoretical Framework: Agency Theory

This study is anchored on Agency Theory. Ola (2018) posited that the greatest conspicuous and commonly used or stated theory in auditing is the Agency theory. The theory pointed out that there are two principal actors in corporations, the principal and the agent. The agent is working for the principal, while the principal remunerates the agent for the services rendered. Clash of interest usually happens owing to the separation of ownership from management (Ogiriki & SuwarI, 2022).

The assumptions of the theory hinges on the fact that at the commencement of a business, its owners usually manage it on their own. As the business expands, there would be the necessity to appoint employees that would oversee the business in order to have effective monitoring of the business. The agents are to run the business in the best interest of the owners. The parting of the proprietorship from management led to the problem of agency (Ola, 2018). Zadeh (2022) relied on Agency Theory in the study of Accounting conservatism and earnings quality. The study employed Agency Theory to provide answers to the mixed results in the literature of corporate governance mechanisms, as a moderator variable on the link between accounting conservatism and earnings quality. Mshelizah (2020) employed the use of Agency Theory in the study of Audit committee statutory attributes and financial reporting quality in Nigeria. Thus, this study is anchored on Agency Theory as it is very much relevant to the study.

• Conceptual Framework

Figure 2 shows the conceptual framework of this study. It shows the moderating action of audit contextual factor (financial regulation) on the link between audit inputs and accounting conservatism. The dependent variable for the research is accounting conservatism. The independent variables were Audit Independence, Audit Tenure and Audit Firm Size.



Source: Researcher's Compilation, (2023)

Figure 2: Conceptual framework

3.0 METHODOLOGY

The study uses correlational and cross sectional research designs. The population of study comprises of 151 firms listed on the Nigerian Exchange (NGX) Group as at 31st December, 2021. The sample size is made up of one hundred and fifty one (151) companies. They were selected using census sampling method. The entire firms were used since erstwhile studies focused on mono sectorial study, none of them used the whole firms. Therefore, the usage of the complete firms. In analyzing the hypotheses, the study engaged specific analysis for each of the independent variables using the random effect for the regression.

• Model Specification

The moderator hypothesis was established or overruled on the basis of outcome whether the moderating term is of significant effect or is of insignificant effect. This study relied on the line modeling of moderated association by Wahhab & Al-Shammari (2021), it is hereby reproduced as follows:

$$Y=Y_{it} = \alpha_0 + \alpha_1 X1_{it} + \alpha_2 X2_{it} + \alpha_3 X1_{it} * X2_{it} \dots\dots\dots 3.1$$

Where:

$Y=Y_{it}$ = Dependent variable

α_0 = Intercept

$\alpha_1 X1$ = Influence of Linearity of X1

$\alpha_2 X2$ = Influence of Linearity of X2

$\alpha_3 X1 X2$ = Influence of moderating of X2 on X1

The model of Wahhab & Al-Shammari (2021) was modified and adapted by this study as:

$$btm = \text{Accounting Conservatism} \dots\dots\dots 3.2$$

$$btm = \int_0(\text{audind} * \text{fin} + \text{audten} * \text{fin} + \text{audfsiz} * \text{fin} \text{fsize} + \text{flev}) \dots\dots\dots 3.3$$

Stated in econometrics form:

$$btm = \beta_0 + \beta_1 \text{audind} * \text{fin}_{it} + \beta_2 \text{audten} * \text{fin}_{it} + \beta_3 \text{audfsiz} * \text{fin}_{it} + \beta_4 \text{fsize} + \beta_5 \text{flev}_{it} + \mu_{it} \dots\dots 3.4$$

$$\beta_1 > 0; \quad \beta_2 > 0; \quad \beta_3 > 0$$

Where:

- btm = Book to Market value Approach
- $i.$ = The cross-sectional measurement of companies
- t = The period sequence element of variables (2012 to 2021)
- β_0 = Perpetual
- β_1 to β_5 = The slope of the autonomous and controls variables
- audind_{it} = Auditor's Independence of company "i" in year "t"
- audten_{it} = Auditor's Tenure of firm "i" in year "t"
- audfsz_{it} = Size of Audit firm "i" in year "t"
- fsize_{it} = Firm Size of company "i" in year "t"
- flev_{it} = Leverage of company "i" in year "t"
- ℓ_{it} = Error term of company "i" in year "t"
- $\text{audindp} * \text{fin}_{it}$ = Moderating effect of financial regulations on auditor integrity
- $\text{audten} * \text{fin}_{it}$ = Moderating effect of financial regulations on auditor consistency
- $\text{audfsize} * \text{fin}_{it}$ = Moderating effect of financial regulations on auditor competency

- **Data analyses and Findings**

The data was analyzed by inferential and descriptive statistics. The data were collected across 151 companies for the period of 2012 to 2021 (10 years). The necessary tests were conducted in order to ensure the robustness of the study. The F-statistic value of 5.570 (0.00) and 27.744(0.00) for fixed and random effect models respectively shows that both models are valid for drawing inference since they are both statistically significant at 10% and 1%. In selecting from the two panel regression estimation results, the Hausman test was conducted and the test is based on the null hypotheses that the random effect model is preferred to fixed effect model. A look at the Hausman test shows 5.005(0.990), it infers that we cannot reject the null hypothesis and accept the alternative hypothesis at 5% level of significance. This implies that the study should adopt the random effect panel regression results in drawing our conclusion and recommendations on the model.

- **Findings and Discussion: Financial Regulation Moderation Net Influence**

Table 4.1 shows the pre and post moderation effects. The coefficient of audit independent (audind) stands at 0.138(0.004) before the financial regulation moderation on the relationship between auditor independence and accounting conservatism. The coefficient of audit independent after the financial moderation on the relationship between auditor independence and accounting conservatism (audind*fin) drops to 0.000943(0.000). This infers that the interaction of financial regulation in the relationship between auditor independence and accounting conservatism did not improve the association but rather, the association was adverse (0.000943 - 0.138 = -0.137). Which means that the moderating effect was detrimental to the casual of auditors' independence and accounting conservatism. In addition, the coefficient of audit tenure (audten) stands at 0.0110 with a correspondence probability value of 0.494 before the financial regulation moderation on the relationship between auditor tenure and accounting conservatism. The coefficient of audit tenure after the financial moderation on the relationship between auditor tenure and accounting conservatism (audten*fin) drops to -7.55e-05 with a correspondence probability value of 0.87. This inferred that the interaction of financial

regulation in the relationship between auditor tenure and accounting conservatism did not improve the association but rather, the association was adverse (from 0.0110 to $-7.55e-05$) as it turns from positive to negative value. Which means that the moderating effect was detrimental to the casual of audit tenure and accounting conservatism.

Finally, table 4.1 shows the coefficient of audit firm size (audfsiz) stands at 0.0623(0.050) before the financial regulation moderation on the relationship between auditor's firm size and accounting conservatism. The coefficient of auditor's firm size after the financial moderation on the relationship between auditor's firm size and accounting conservatism (audfsiz*fin) remain negative -0.00128(0.091). This inferred that the interaction of financial regulation in the relationship between auditor's firm size and accounting conservatism did not improve the association but rather, the association was still negative (from -0.0623 to -0.00128) as it does not turn from negative to positive value. The moderating effect of financial regulation on audit input in areas of audit independence, audit tenure and audit firm size and accounting conservatism had been considered above. All the three interactions had negative contributions to accounting conservatism after been moderated. Hence, moderating the association by financial regulation was uncalled for, the enhancement of accounting conservatism was not achieved.

Table 4.1: Financial Regulation Moderating Net Influence

Before Moderation (A)		After Moderation (B)		Conclusion (B - A)
<u>Variable</u>	<u>Coefficient</u>	<u>Variable</u>	<u>Coefficient</u>	
Audind	0.138***	audind*fin	0.000943***	Negative effect
Audten	0.0110	audten*fin	$-7.55e-05$	Negative effect
Audfsiz	-0.0623***	audsiz*fin	-0.00128*	Negative Effect

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Source: Researcher's Computation, (2023)

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

There was a shortage of validation of research outcomes in Nigeria to clarify the moderating effect of financial regulation on audit quality characteristics and accounting conservatism. Thus, a lacuna exists since erstwhile studies have not entirely addressed audit quality characteristics and accounting conservatism. Henceforth, a research that upturns the understanding of audit quality features and accounting conservatism to close these recognized lacuna is sacrosanct. The study therefore examined the special moderating effects of financial regulation on the link between audit quality characteristics in areas of audit independence, audit firm size and audit tenure on accounting conservatism among listed firms in Nigeria. The study use of correlational and cross sectional research designs. Data were sourced from secondary sources as the data were collected across companies' websites and annual reports for the period from 2012 to 2021. The hypotheses were tested using panel data regression analysis. The data was analyzed by inferential and descriptive statistics. The outcomes of the study reveals that Audit tenure and audit firm size have negative effect, but significant and insignificant respectively, while audit independence remain positively significant from the moderating effect of financial regulation.

• Conclusion

This research work investigated and dealt with the prevailing issues that concern the influence of the moderating effects financial regulation on the relationship between audit quality characteristics on conservatism in accounting amongst companies in Nigeria. The moderating effect of financial regulation on audit input had been detrimental to accounting conservatism among firms in Nigeria. All the variables of audit input (audit independence, audit tenure and audit firm size) did not enhance firms' accounting conservatism positively in Nigeria.

• Recommendations

Having done the summary of the study, outcomes revealed and conclusion done, it is hereby recommended that: There is the need for stakeholders to readjust and rejig the current financial regulation in Nigeria. This is

called for in order to change the current negative relationship on the effects of financial regulation interaction on the connection concerning audit input and accounting conservatism. Future research could consider other audit contextual factors like business practices and commercial laws, information system, corporate governance, audit regulation, attracting talent and financial reporting time table.

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