



SCHOOL OF POSTGRADUATE STUDIES (SPGS)

**IMPACT OF ACCOUNTING REGULATORY REFORMS ON AUDIT
QUALITY OF LISTED COMPANIES IN NIGERIA**

A Ph.D. THESIS SUBMITTED

BY

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DECLARATION PAGE

I hereby declare that this thesis titled: “Impact of Accounting Regulatory Reforms on Audit Quality of Listed Companies in Nigeria” is a record of my research. It has neither been presented nor accepted in any previous application for higher degree.

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APPROVAL PAGE

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DEDICATION

This thesis is dedicated to my beloved Mom, Mrs Rahmah Bola Uthman

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ABSTRACT

Audit mistakes, causing confidence erosion in accounting numbers and demonstrated by takeover of banks by the Asset Management Corporation of Nigeria (AMCON) and fraud cases have become more worrisome and affected the country's economy. However, the regulatory reform through establishment of Financial Reporting Council of Nigeria (FRCN) appears ineffective, and IFRS Adoption by the FRCN is also perceived by financial reporting stakeholders to have compounded the problems. Therefore, it became imperative to study how audit quality may have been affected by the regulatory reform efforts of the government. The specific objectives of this study are: (i) evaluate the effect of IFRS adoption on audit quality of Nigerian listed companies; (ii) assess the moderating effect of audit fee premium on the relationship between IFRS adoption and audit quality of listed companies Nigerian; (iii) examine whether audit firm size moderate the relationship between IFRS adoption and audit quality of listed companies in Nigeria; (iv) investigate if the effect of IFRS adoption on audit quality of listed companies Nigerian is moderated by auditors' industry specialization; and (v) examine how FRCN rules and pronouncements have affects audit quality of listed companies in Nigeria. The study drew data from primary and secondary sources. Extracted data from financial reports of 52 listed companies in Nigeria covering periods between 2005 and 2019 form the secondary data employed in the study. With 517 observations, secondary data were analysed with the use of longitudinal econometric models. The primary sources involved interview of 11 respondents comprising of auditors, accountants and staff of the FRCN. Schematic analysis was conducted on the primary data and corroborated with document analysis. Evidence from both sources were triangulated to conduct a mixed-method research. The findings of the study are: (i) adoption of IFRS significantly affect audit quality ($t=-1.66$, $p<0.10$ & $t=-1.66$, $p<0.10$) in the non-financials services industry. In the financial services industry, the results indicate that adoption of IFRS does not significantly affect audit quality ($t=-0.78$, $p>0.10$ & $t=-0.16$, $p>0.10$); (ii) audit fee premium after the IFRS adoption led to significant reduction in audit quality for the non-financial firms ($t=4.88$, $p<0.01$ & $t=4.87$, $p<0.01$). For firms in financial services, the relationship of IFRS adoption and audit quality was not significantly affected by audit fee premium as indicated by the results. ($t=4.312$, $p>0.10$ & $t=12.16$, $p>0.10$); (iii) audit firm size after the IFRS adoption led to the reduction in audit quality for the non-financial firms ($t=4.68$, $p<0.01$ & $t=4.68$, $p<0.01$) indicating that Big 4 firms audit quality significantly reduced for the non-financial services sector while there was indifferent moderation of audit firm size on the effect of IFRS adoption on audit quality given the result IFRS ($t=-0.89$, $p>0.10$ & $t=0.02$, $p>0.10$) in the financial services sector; (iv) IFRS adoption led to significant reduction in the audit quality of both financial ($f=6220.57$, $P<0.01$ & $f=6225.71$, $P<0.01$) and non-financial services ($t=1.69$, $p<0.10$ & $t=1.69$, $p<0.10$) industries; and (v) the rules and pronouncements of the FRCN were all found to improve audit quality with the exception of monitoring and review rules which has not been initiated. The study concluded that different aspects of regulatory reform affected audit quality differently. It specifically submits that IFRS adoption improves audit quality but there are aspects of FRCN, such as monitoring and review, which do not improve audit quality. The study recommends, among others, the need for the FRCN regulation to include oversight on audit fee, auditor industry specialization and audit firm size to inform better audit quality.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Nations across the world – developed and developing alike – have reformed the regulation of accounting profession at one time or the other. Reform explains the dynamism required of a system in a dynamic environment. The uses of financial information expand over time and their users increase in response to such expansion. Dynamism in a system usually forces a change and leads to demand for new and more ‘appropriate’ financial accounting regulations (Hassan, 2008). As a result, the accounting literature has documented various reasons for the reform that have been taking place in the regulation of accounting profession.

In the Republic of China, accounting regulation reform was triggered by the need to align financial accounting practices with internationally accepted norms (Chalmers, Navissi & Qu, 2010). The reform of the regulation of the United States’ accounting was ignited principally by the global financial crisis and the Eron saga (Gilsinan, Seitz, Fisher, Islam & Millar, 2013) while the Australian accounting reform was a subject of efficiency, effectiveness and economy of the financial management process (Mir & Rahaman, 2006). Other motives of accounting reform noted by prior studies include reduction in prevalent corruption, loss of confidence in accounting information as well as reduced audit quality (Koumbiadis & Pandit, 2014; Hopper & Lassou, 2017).

The Nigerian accounting reform took place as an outcome of a deliberate attempt, through the World Bank’s Observance of Standards and Codes, to strengthen the accountancy institutional framework against the odds of incessant accounting scandals and the plethora of bank failures which gulped about N2 trillion in banks’ deposits and investments within the space of 5 years (World Bank, 2011). Submitting to the policy recommendations of the World Bank’s (2011) report, the Financial Reporting Council (FRC) Bill was promulgated to replace the defunct Nigerian Accounting Standard Board (NASB) while simultaneously adopting the International Financial Reporting Standards (IFRS) in order to toe the line of convergence already in vogue. The essence of the duo was to strengthen the accounting institutional framework and thus improve Audit Quality (World Bank, 2011).

Meanwhile, the reform received reactions for accountants, whose job is practically affected by the reform and hence, affecting the entire audit market. The most pronounced of such reaction was the upward review of the scales of professional fees chargeable by auditors (Institute of Chartered Accountants of Nigeria (ICAN), 2011). Accountants and auditors provide services to their clients beyond the traditional audit and are usually faced with independent threats as documented in extant audit literatures. The independent threats emanate from auditor accruing so much revenue from a single client thereby becoming fee-dependent on such client (Lin & Yen, 2016). Since the enterprise culture inherent in audit firm will usually fuel desire for more profit, perhaps, at the expense of audit independence and thus quality, most auditors would rather hide the proceeds from non-audit services provided to their clients to reshape the perception of financial reporting stakeholders on audit quality (Sikka et al, 2018). Apparently considering the antics of professional auditor, the Financial Reporting Council of Nigeria (FRCN) has been empowered by its Act to provide rules, aside those promulgated in its law to put auditors on check always (FRC Act, 2011). This power has been in use since the reform process came into force.

Following these efforts and reactions thereto, high profile corporate scandals and anomalies are still being reported. This development presupposes a fault in the credibility of audit despite recent reform. Prominent among the cases of audit failure were the Subsidy Scam which named Akintola Williams Deloitte (AWD), a foremost and respected audit firm in Nigeria as well as naming Olusola Adekanola and co. as complicit because subsidies were paid with absolute reliance on their oversight functions as auditors to the Petroleum Product Pricing Regulatory Agency (PPPRA) (House of Representatives, 2012). Klynveld, Peat, Marwick and Goerdeler (KPMG) Professional Services was also found negligent in the audit of the financial statements of Stanbic IBTC Holdings for years 2013 and 2014 respectively (Financial Reporting Council of Nigeria, 2015).

In 2019, after close to two decades of periodic audit of OANDO Plc. by the Big 4 firms and the consistent issuance of clean bill of health on the numbers in the financial statements of the companies, the Securities and Exchange Commission (SEC) ordered some board members to resign as a result of investigations indicted them of alleged false disclosures, misstatement of financial statements, market abuses, internal control failures, poor board oversight among other offences (Admin, 2019). Although, the auditor (Ernst & Young) flagged its concern about the going concern of the company in 2018 due to huge losses and negative assets (Hassan, 2018),

the auditors' communications to the management were silent on the possibility of existence of infractions later discovered. SEC also directed that, the affected directors and individuals pay monetary penalties. However, the issue is still a subject of legal quandary with substance of the matter pending judicial decisions (Admin, 2019). In another corporate fraud, a former Managing Director of Fin Bank was jailed for involvement in the diversion of N18bn bank's money for personal benefit (Odunsi, 2020). This was revealed by the CBN and NDIC examination on the bank which led to a bail-out loan of ₦50 bn. After the loan, the board were noted to have begun to approve special packages for the executives to the tune of ₦200m to the interim chairman among others (Odunsi, 2020). These infractions went on for years of compulsory audit by the Big 4 without a mention to neither the shareholder nor putting the public on notice.

Several other cases in the public sector have named auditors as indirect accomplices thereby questioning audit quality. Such cases include the revelations made in the Report of the Federal Ministry of Finance (2018) administrative panel of inquiry on violation of financial regulation, Skye Bank Takeover by the Federal Government in 2017. A KPMG forensic review commissioned by the Federal Ministry of Finance in 2010 identified sharp financial practices that led to "significant underpayment of domestic crude cost to the Federation Account" (KPMG, 2010, p.19) as well as deliberate deprivation of the federation, the timely utilization of funds accruable to it.

Other untoward financial practices led to "under-remittance of domestic crude sales proceeds into the Federation Account, which according to KPMG's (2010) analysis, "subsidy over-deduction for 2007, 2008 and 2009 was estimated at ₦2.0bn, ₦10.3bn and ₦16.2 bn respectively" (p.33). Similarly, the report of the ad-hoc committee of the House of Representatives (2012), spanning the period between 2009 and 2011 revealed how the subsidy regime was manipulated to unlawfully deprive the federation of colossal sums. The committee concluded that a sum of about ₦1.7 tr was lost to non-remittance and under remittances within the period covered by the investigation. While these malpractices occurred during the pre-reform era, they, perhaps among the factors led to recommendation for and implementation of the reform processes.

The widely reported case of non-remittance of oil revenue to the federal government came to fore through the allegation of the Ex- CBN Governor, Sanusi Lamido Sanusi in a letter to the president, leaked to the press. The letter reported under-remittance of \$49.8 billion (₦ 22

trillion) initially and later agreed to \$20 billion (~~₦9~~ trillion) after reconciliation efforts were made with the NNPC Pricewaterhousecoopers (PWC, 2015). On the recommendation of the Finance Minister, PricewaterhouseCoopers (PWC) Limited was commissioned in 2014 to conduct an independent forensic audit on the allegation (CBN, 2014). The scope of the audit was to analyse the remittance shortfall, submissions were made with respect to the analysis likewise reports were produced on the findings thereafter (PWC, 2015). The audit exercise traverse seven distinct issues including revenue generated, revenue remitted, other third-party financing arrangements, Premium Motor Spirit (PMS) and Dual-Purpose Kerosene (DPK) Subsidy, NPDC lifting, pipeline maintenance and management costs as well as crude oil and product losses (PWC, 2015).

The revenue generated were underreported by \$2.34 billion (~~₦1.05~~trillion) within the period understudied (PWC, 2014). This represent the sum of \$29 million (~~₦13~~ billion) on export equity crude, \$22 million (~~₦ 9~~ billion) on domestic crude revenue, \$1 billion on FIRS tax oil, DPR royalty crude oil of \$42 million (~~₦18.9~~ billion), NPDC crude oil of \$82 million (~~₦ 36.9~~ billion) as well as other third-party financing of \$43 million (~~₦ 19.35~~ billion). As a result, instead of the \$67 (~~₦ 30.15~~ billion) reported to have been generated by the NNPC, \$69 billion (~~₦ 31.05~~ trillion) was discovered as their revenue for the period under consideration (PWC, 2015). The review unveiled taxes and royalties of a sum of \$1.7 billion (~~₦765~~ billion) paid by the NPDC, a subsidiary of the NNPC, on estimates as actual tax and royalty payments were not assessed for the underlying revenues. This clearly contravenes financial prudence and ethical corporate practices. Certain sales of Oil Mining Leases (OML) assigned by the Department of Petroleum Resources (DPR) at a consideration of \$1.85 billion (~~₦ 832.5~~ billion) were remitted to the federation as \$ 100 million (~~₦ 450~~ billion) (PWC, 2015). Summarily, the estimated withheld amount by the NPDC on the transaction of the outright sale of the OML stood at \$5.11 billion (~~₦2.2~~ trillion).

These incidences and a host of several others question the quality of audit purported to have been enhanced by accounting regulation reform. While many studies have documented audit quality determinants (Sarwoko & Agoes, 2014; Miko & Kamardin, 2015; Furidy & Kurnia, 2015; Wang & Dou, 2015; Gonzalez-Diaz, Garcia-Fernandez & Lopez-Diaz, 2015), research outputs have hardly addressed the implications of accounting regulatory reform on audit quality. More so, research efforts on accounting reform and audit quality considering the whole reform

process through the triangulation of evidence across methodological approaches in Nigeria is rare. Extant works (Abdul-Baki, Uthman & Sanni, 2014; Uthman & Abdul-Baki, 2014; Ozili & Outa, 2019; Otiya, 2019) in Nigeria on accounting reforms have isolated IFRS adoption with limited approach to its effects on audit quality in Nigeria as quite a number of other studies (Adeniyi, 2013; Zubairu, 2018; Aggreh, 2019) have always isolated some industries to the exclusion of others thereby affecting the generalization of their results. These identified problem and research lacuna provides the motivation for this study. Thus, this study examines the impact of accounting regulatory reform on audit quality of listed Nigerian companies.

1.2 Statement of the Problem

The sensitivity of accounting regulatory reform to the audit market amidst unfolding financial scandals, blamed on accounting malpractices, signals a fault line in the audit process. Accounting regulatory reform in Nigeria came as the duo of FRC enactment and the adoption of IFRS with similar motive but differing methods. That is, improvement of audit quality and financial reporting practices.

The nature and extent of audit failure publicly reported just after the reform suggests that a lot might be needed to really substantiate the purported accounting regulatory reform. Just as the reform measures took shape in 2011, The Institute of Chartered Accountants of Nigeria (ICAN) did an upward review of professional services fees warning practitioners that “charging below the [new] minimum rates is not permissible as it amounts to professional misconduct” (ICAN, 2011, p.iii). Osayande (2012) observed that the reform in accounting regulation has led to the upward review of audit fee occasioned by increased rigour and professional requirements. Such increase led to audit fee premium and impair auditors’ independence. Fees anomaly formed one of the bases of the regulatory decision of the FRCN to suspend KPMG from its engagement with Stanbic IBTC Bank (FRCN, 2015). The FRCN alleged that the fees earned by KPMG could possibly impair audit independence and objectivity which, in turn, is the bedrock of audit quality. The occurrence of such anomaly with a high-profile audit firm presupposes several other unreported cases in the audit market. Whether or not the reform’s effect on audit fees has affected audit quality is still a research quandary.

The widely reported cases of professional misconduct after the reform featured only the ‘big’ firms. Meanwhile, the World Bank (2011) blamed the reduced quality of audit on the monopolization of the audit market by the ‘big firms’ as well as the inaccessibility of small audit

firms to current information and developments in applicable accounting standards. Big firms with international network perform audit for most listed companies (World Bank, 2011) and as a result, employ their monopoly in colonizing the audit market for financial gains at the expense of audit quality (Otusanya & Lauwo, 2012). To buttress this, all the banks named for scandalous practices that led to the loss of N2 trillion were audited by the 'big four' audit firms (Otusanya & Lauwo, 2012). Otusanya and Lauwo, (2012) also indicated that, the major accounting malpractices reported after the 2011 regulatory reform featured both Akintola Williams Deloitte (now Deloitte) and KPMG which are both among the 'big four' audit firms in Nigeria. Although, the reform paved way for mergers among small audit firms, the impact of such mergers on audit quality is yet illusionary in the wake of recent accounting scandals. Studies on audit size and audit quality (Kumar & Lim, 2014; Aggreh, 2019; Oyuya 2019) also neglected the impact of accounting reform which form the crux of this research.

Furthermore, the report of the World Bank (2011) report was premised on the accounting malpractice revelations in the banking sector. it specifically drew its examples from the sector, making it seem as if all is not well with the banking sector to the exclusion of other sectors. To establish the veracity of any claim that all may not be entirely well with companies reporting financial performance in other sectors of the economy, a research effort is required. Meanwhile, prior studies (Scott & Gist, 2013; Hoelscher & Seavey, 2014; Dao & Pham, 2014; Nagy, 2014; Fuentes & Sierra 2015) have examined specialization of auditors in specific industries based on the possibility that, industry expertise attained by auditors through experience could cultivate inordinate beliefs of 'perfection' in the auditors and cultivate complacency in the auditee firms due to subconscious belief that transfer of audit service may be practically difficult. Therefore, sectoral disparity of auditee companies may also contribute to the dynamics of audit quality in Nigerian listed companies particularly, as World Bank (2011) study cited the banking industry as the rationale behind its observance of standards and codes in financial reporting.

With the financial reporting reform in Nigeria, stakeholders' awareness on the need for auditors to improve compliance with financial reporting practices has increased, thereby putting the audit quality in the spotlight (World Bank, 2011). The FRC enactment empowers the Financial Reporting Council of Nigeria (FRCN) to issue and enforce rules required to complement the pronouncements made FRC Act (2011) in ensuring improvement in audit quality. The rules have been made but the effectiveness of such rules have hardly been tested through research efforts while the potency of the rules has been with the PWC forensic report (2015) on the

allegations of unremitted \$2.33 billion (₦1.04 trillion) NNPC 's funds to the coffers of the federal government despite its annual audit requirement by the Nigeria law.

Seemingly thus, the potency of FRCN rules and enactments in enhancing audit quality is a question and requires an empirical study. Similarly, how IFRS adoption, through the reform process, has moderated the relationships between audit quality and such variables as Audit Fee Premiums, auditor size and auditor industry specialization is largely vague, as it rarely exists in the contemporary accounting and audit quality literatures.

1.3 Research Questions

Based on the statement of research problems, the following questions were drawn:

- i. Has the audit quality of listed companies in Nigerian been affected by IFRS adoption?
- ii. What moderating effect does audit fee premium have on relationship between IFRS adoption and audit quality of the listed companies in Nigeria?
- iii. Does audit firm size moderate the impact of IFRS adoption on the audit quality of listed companies in Nigeria?
- iv. Has the relationship between IFRS adoption and audit quality of listed companies in Nigeria been moderated by auditors' industry specialization?
- v. How have FRCN's rules and regulatory pronouncements affected the audit quality of the listed companies in Nigeria?

1.4 Objectives of the study

The aim of the study is to examine the effect of accounting regulatory reform on audit quality of listed companies in Nigeria. To achieve this, the following specific objectives were pursued:

- i. Evaluate the effect of IFRS adoption on audit quality of Nigerian listed companies.
- ii. Assess the moderating effect of audit fee premium on the relationship between IFRS adoption and audit quality of listed companies Nigerian.
- iii. Examine whether audit firm size moderate the relationship between IFRS adoption and audit quality of listed companies in Nigeria.
- iv. Investigate if the effect of IFRS adoption on audit quality of listed companies Nigerian is moderated by auditors' industry specialization.

- v. Examine how FRCN rules and pronouncements have affects audit quality of listed companies in Nigeria.

1.5 Statement of Hypotheses

To achieve the stated objectives, the following null hypotheses were tested:

- i. H₀₁: IFRS Adoption does not significantly affect audit quality of listed companies in Nigeria.
- ii. H₀₂: The effect of IFRS adoption on the audit quality of listed firms in Nigeria is not significantly moderated by audit fee premium.
- iii. H₀₃: The relationship between IFRS adoption and the audit quality of listed companies in Nigeria is not significantly moderated by audit firm size.
- iv. H₀₄: Auditor industry specialization does not significantly moderate the relationship between IFRS adoption and audit quality of listed companies in Nigeria.

1.6 Justification for the Study

Audit quality though enjoys replete research outputs, lacks specific attention from accounting regulatory reform. Research agenda on accounting reform are either biased towards the efficiency and economy in accounting for public sector finances (Okoroafor, 2016; Enofe, Afiangbe & Agha, 2017; Bakre, Lauwo & McCartney 2017; Zubairu, 2018; Salihu, 2019) or focused on the private sector, considering the nexus between accounting reform and value relevance of accounting information, behavioral aspects of reform as well as the long run implication of accounting reform on other regulatory issues (Mgbame, Eragbhe & Osawuwa, 2012; Adeniyi & Mieseigha, 2013; Miko & Kamardin, 2014; Ozili, & Outa, 2018; Egbunike & Odum 2018). As a result, there is an apparent gap in literature and research output alike with regards to the new developments on accounting reform as it impacts audit quality considering audit market features such as fee premium, auditor size and auditor industry specialization .

This study therefore contributes to fill the identified gap apparent in the problem stated. It contributes to enrich the sparse literature while at the same time expanded the base of academic research on accounting reform beyond its currents sphere through intertwining of theories across social science fields, triangulation of evidence across methodology as well as extension of the extant discourse on accounting regulation, political involvement in accounting standards and internalization of accounting profession.

The output of the time, human and financial resources expended by government to establish the reform mechanisms were established with verifiable evidence. The output of this research also provides recommendation as to whether to re-visit the reform, pursue other possibilities or expand the current reform process. It offers policy guidance to government and policy makers and serve as information source to regulators on the next line of action beyond the establishment of FRCN and the adoption of IFRS. While the aftermath of the reform could present some reactions from some quarters, this research also suggests possible frameworks for managing such reactions and allow for continuous attainment of the rationale behind the reform.

The incidence of audit failure is usually succeeded by public outcry and loss of huge sums to scams and fraudulent financial practices. The research also serves as a means of unveiling to practitioners and user, the events and happenings in the background of audited figures reported in financial statements. Hence, auditors, accountants as well as financial analyst are kept abreast of the interaction between the figures and policy events that underlie those figures. The research guides professional bodies as to the implication of audit fees, audit sizes and other quality determinants for audit quality.

1.7 Scope of the Study

This study examines the impact of accounting regulatory inform on the audit quality of listed companies in Nigeria. The study is motivated by reported audit mishaps and continuous corporate financial infractions that trail the establishment of FRC Act (2011). This study examined the behaviour of audit quality after the enactment of FRC Act (2011) and the adoption of IFRS in Nigeria in 2012. Specifically, it provides evidence on how audit fee premium, audit firm size and audit industry specialization moderate the effect of IFRS adoption on audit quality. These variables are known in literature as determinants of audit quality irrespective of any reforms. It therefore becomes important to investigate how they affect audit quality within the context of IFRS adoption and other regulatory rules and pronouncements.

The study collects data from listed companies in Nigeria from 2005 to 2018 to capture equal periods of seven years each for pre-reform and post reform periods. This period is considered appropriate for this study as it captures two halves of pre-reform and post reforms periods of 2005-2011 and 2012-2018 respectively. Hence, the data analysis will not be biased towards any of the two sides at the expense of the order. This research approach is expected to prevent the outcome of the study from sampling bias and enrich its output. Data were hand-extracted from

financial reports due to unavailability of database for financial report numbers in Nigeria. The extracted data therefore provides appropriate grounds to run econometric models in testing hypotheses 1 through 4. The study also collected primary data through telephone interview in order to answer abstract questions on the effect of the regulatory rules and pronouncements of financial reporting council of Nigeria. In order to capture opinions across relevant stakeholders and professionals, the interview covered accountants, auditors and technical staff of the financial reporting council of Nigeria, thereby ensuring the quality of data collected. The study adopted a mixed-method approach and was able to triangulate data across different data sourced to enhance the quality of evidence provided by the results.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This section reviews extant literature on the discourse of accounting regulatory reforms. It is divided into three major sub sections namely; conceptual, empirical and theoretical reviews. The conceptual aspect reviews the various concepts of the research work including the concepts of reform, accounting reform, audit quality, accounting regulation and as well, domesticated each of the review to the Nigerian context. The theoretical review considers three theories for the explanation of the research direction. The theories are; institutionalism, conflict and institutional change theories. The empirical review identified and examined previous studies on related concepts and variables to improve the understanding of the researcher and serve as a guide for gap identification. The chapter includes a summary and gap identification.

2.1 Conceptual Review

All the concepts of interest to this study were reviewed in this section. The review provided the opportunity for understanding the links among the variables as it encapsulates all the variables of interest. It involves the review of reforms as a concept, accounting reform its processes and methods, audit quality and its measurements including various audit quality frameworks as espoused by international accounting organizations of repute such as the United States Center for Audit Quality, Audit Quality Framework of the International Federation of Accountants as well as the Nigeria Audit Quality Framework. The section ended with the review of audit firm size, audit industry specialization and audit fee premium.

2.1.1 Conceptualization of Reform

Reform takes place in different spheres and situations. It could evolve a political, social, regulatory or an economic system. Each strand of the reform spheres has a distinct feature, but they all share a common characteristic of seeking an improvement on the current system usually punctuating the process of established norms and institutions. Institutions are “systems of established and prevalent social rules that structure social interactions” (Hodgson, 2006, p.2). They are mechanisms that evolve through the complex interaction of the state and the society as well as through enduring rules, practices and structures that set the pace for action over a

long-term with the aim of controlling behaviour within the society (Shand, 2015). Institutions could be contrived deliberately or inadvertently. When interactions are institutionalized through legal and policy frameworks, they are considered formal institutions. The crux of institutions is thus the determination of ‘rules of thumb’ that unify the social existence within a given context.

A departure from institutional norms evolves a new institution through a reform process. In other words, a process of deliberate systemic change is commonly referred to as reform. A systemic “change through information flows, voice and public debate” (World Bank, 2008) inquiring about the originator and the communicator of the agenda and policy changes. It is, therefore, a process of interaction at various levels, of different stakeholders. Usually ignited by intentions to ultimately improve the substance of specific regulations, reform is theoretically embarked upon in two forms namely; procedural and substantive reform (Howard & Walker, 1984). While procedural reform focuses on the reform process, the substantive reform focuses on the content of the subject regulation. The reform process as noted by World Bank (2008) consists of agents such as dialogue and decision makers; champions of change, and external influences. The combination of both procedural and substantive reform explains the process of tinkering with the means to achieve a desired change in the end. Essentially, reform is the generation of change motivated by intentional intervention through policy formulation (Fullan, 2009).

Lawrence and Shadnam (2008) observed that departures from institutions receive automatic counteraction by social controls. Such departures are the major forces behind reform. Reform occurs, according to Hall, Sobel and Crowley (2010), when actors in a social context have institutionalized new ‘habits’. Rather than revert to the former arrangement, they become more interested in further reform that enhances the new position (Shand, 2015). Meanwhile, reform is not necessarily triggered by the outcome of the interaction of actors within the system alone. Reform are also ignited externally where departure from institutional norms may be satisfactory to a few at the expense of the others. External pressures lead to reform as pointed out by Burch, Hogwood, Bulmer, Caitriona, Gomez, and Scott (2003) notably through crisis caused by accumulation of gradual pressure for change as a digression from the institutional norm. Hence, reform could generally be ignited through internal habitual changes or external pressure.

2.1.2 Accounting Reform

Accounting reform are knowledge-based perception of what accounting systems are effective, why, and how as it requires grounded, procession and collaborative action research with locals, to better link accounting to local circumstances and beliefs (Lassou & Hopper, 2016). It intertwines the social, cultural and political spheres of a society with financial accounting regulation. As a result, “accounting reform that fail to consider their political and cultural feasibility and realistic means of implementation may prove useless” (Hopper, Lassou & Soobariyen, 2017, p. 143) because local politicians may lack commitment to implement accounting reform that erode their power in determining the flow of public funds from government treasuries and extract economic rents within a façade of rules (Cammack, 2007). Therefore, reconciling accounting reform to increase indigenous involvement, civil society involvement and broader development goals with national sovereignty and neo-patrimonial governance is important for a successful accounting reform.

Accounting reform has varieties in different climes. Interestingly however, they all share a common feature of hinging their reforms on institutions and institutional change. Birth of new institutions and restructuring of existing ones are commonplace events across nations that have embarked on accounting reform. “Since the mid-1980s, researchers have directed significant energies at understanding the role of accounting in the sweeping reform to the traditional public sector – reform that are occurring in almost every country in the world” (Mir & Rahaman, 2006, p.238).

The most prominent pressures of accounting reform are usually to strengthen political economy through accountability, to energize the private sector or to respond to accounting scandals. In situations where accounting reform has been pressured politically, policies implemented by the public sector are directed towards broadening political achievements. Gorz (1968) termed this as ‘revolutionary reform’ because by its nature, it is ‘anti-capitalist’ reform that seeks to “advance towards a radical transformation of society” (p. 6) and requires ‘structural change’ that enhances the possibility of attaining their objectives on the implementation of fundamental political and economic changes. The accounting reform in Australia is an example of this. It was punctuated by the need to ensure political gains in establishing better accountability of local government funds. The accounting reform started with the issuance of Australian Accounting Standard (AAS 27) on Financial Reporting by Local Governments, it was a process that required a systemic change in both the private and the public sectors (Potter, 2005). Specifically, the issuance of AAS 27 gave rise to considerable controversies as it required the disclosure of key

government projects, such as monuments, bridges, and underground pipes, that were hitherto not required for disclosure in the local government accounts (Potter, 2005). To Hoque and Moll (2001), the political nature of Australian accounting reform is captured by its requirement to “promote culture of performance and to make public sector more responsive to the needs of government” (p. 304).

Accounting reform, which are private sector driven, usually target to wrest government monopoly of accounting regulation. Such a reform is usually revolutionary in nature. Revolutionary reform proposes to exclude the dominant interests of capital by producing a social account outside the influence of market mechanisms, linked to the struggle of social movements (Cooper, Taylor, Smith, & Catchpole, 2005; Lee & Cassell, 2017). The China accounting reform has a semblance of this. China’s accounting reform informed a dramatic change from the government monopoly of being the primary user of financial reports to the issuance of accounting standards usable by all forms of private enterprises. The Ministry of Finance was the main institution saddled with the reform exercise, it was however assisted by the establishment of China Securities Regulatory Commission and the Chinese Institute of Certified Public Accountants to oversee financial disclosure requirements of listed company, regulate Certified Public Accountants and issue Auditing Standards (Tang, 2000). The accounting standards tagged Accounting Systems for Business Enterprises (ASBE) effective January 2001 became the new standard for preparers of account in the public and private businesses (Chalmers, Navissi & Qu, 2010). Principally, the main feature of China’s accounting reform is a contrivance of a synergy between government and private regulators for the issuance a single set of accounting standards usable by all users of accounting be it public enterprise or privately-owned business concerns.

Other forms of accounting reform are usually in response to accounting scandals or a reformation of the reform process itself. This aspect of reform usually considers different factors such as external influences, incessant accounting scandals and a host of others in its process. Even though the Chinese accounting reform was apolitical in nature, one of the accounting reform took place in response to the Asian Financial Crisis in 1997 (Chen, Ding, Hou & Johan, 2016). It was initially believed that the financial crisis did not have much impact on China, systemic banking crisis that threatened China’s financial market as an aftermath of the Asian financial crisis (Shih, 2008; Laeven & Valencia, 2012) brought it to the fore that China was affected and needed a swift reform in accounting regulation (Zhan, 2013). As a result, the reform

options available to the government included decentralization of the financial system (Chen et al, 2016). Other economies prominent for reforming accounting in response to situational pressures include the United States and the United Kingdom. The 2007-2008 crisis resulted in a new Basel III accord after which Eron Saga had initially caused the promulgation of Sarbanes-Oxley Act of the United States in 2001 with the aim of increasing both quality and quantity of banks' capital. In the same vein, it led to the reform of the prudential regulation framework (Giustiniani & Thornton, 2011).

2.1.3 Accounting Regulation in Nigeria

Accounting profession in Nigeria has, over the years, been regulated by both private institutions and the government. The private institution that dominated the regulation of accounting is the Institute of Chartered Accountants of Nigeria (ICAN). ICAN was established in 1965 by the Act of Parliament No. 15 to amongst others, determine the standards of knowledge and skills that are necessary for those who want to master a profession of accountant; and from time to time to increase these standards depending on circumstances. ICAN, in 1982, solely constituted the Nigerian Accounting Standard Board (NASB) to give the practice of accounting among companies and practitioners a unified outlook (Nigeria's Financial Hub, 2011). ICAN initiated the idea of an NASB, the erstwhile issuer of the Statement of Accounting Standard (SAS) which was the first organized effort aimed at regulating accounting profession in Nigeria. Four years later, the Institute of Chartered Accountants of Nigeria was brought under government supervision by making it a component of the then Federal Ministry of Trade and Tourism in 1992 (ICAN, 2006).

With the government's recognition, the NASB started to issue accounting standards required to be used by preparers of financial statements in Nigeria and serve effectively in providing a uniform basis for local companies and preparers of financial statements. The NASB act was enacted into Nigerian law in 2003 and as result was elevated to the status of an independent body charged with the responsibility, among others, of regulating the accounting profession in Nigeria (Abdullahi, 2010). The new status mandated all prepares of account in Nigeria to apply the standards issued by the NASB's (NASB Act, 2003). Given this backdrop, ICAN wielded a significant influence in the regulation of accounting profession in Nigeria and its influence as a professional body permeates almost all financial regulatory bodies in the country (World Bank, 2011).

The government regulation of accounting did not have a unified and coordinated outlook. It involves various enactments, dispersed in different Acts and Decrees, enacted to regulate the activities of registered companies and financial institutions in Nigeria. Chief among these laws is the Companies and Allied Matters Act (CAMA) 1990. It contains the most elaborate legal pronouncements with respect to financial reporting and audit practice as detailed in sections 331 to 369 of the act. Meanwhile, the CAMA (1990) arrogates exclusivity to ICAN regarding qualification for appointment as auditors of companies. As contained in section 359 (1), “the provisions of the Institute of Chartered Accountants of Nigeria Act shall have effect in relation to any [financial] investigation or audit for the purpose of this Act”. It thus allows only a professional accountant licensed to practice by ICAN to be appointed as statutory auditors of companies. Similarly, other regulators of financial reporting such as the National Insurance Commission (NAICOM), Central Bank of Nigeria (CBN), Securities and Exchange Commission (SEC) rely absolutely on the outcome of the audited reports and issue sanctions to erring companies with respect to compliance the submission of audited reports within specified periods. (World Bank, 2004). Further, NAICOM specifically stipulates ‘compliance with ICAN auditing standards’ as a legal requirement for Insurance companies. As a result, ICAN had the exclusive mandate of licensing auditors and meting out disciplinary measures against erring auditors (CAMA, 1990). ICAN enjoyed this monopoly of recognition and patronage as it prides itself as the foremost professional accounting body in Nigeria.

The Association of National Accountants of Nigeria (ANAN), established and incorporated in 1979 and 1983 respectively, got enacted by the Act of Parliament in 1993 to also advance the science of accounting in Nigeria. ANAN prides itself as the only professional body empowered by law to teach as well as examine its students (ANAN, 2018). As a result, it established a college of accountancy to facilitate the training of aspiring members who must have studied accountancy at the tertiary education level in approved higher institutions in Nigeria and abroad. ANAN members are also empowered by ANAN Act (1993) to engage in the public practice of accountancy services and as such is also listed by the International Federation of Accountants (IFAC), a renowned world body of professional accountants, as one of the parties saddled with quality assurance review of accounting practices in Nigeria (IFAC, 2018). Despite its recognition, ANAN had very little influence in the regulation of accounting profession in Nigeria until the enactment of the FRCN act (2011), which gave it two seats on the board membership of the Financial Reporting Council of Nigeria.

2.1.4 Accounting Regulatory Loopholes in Nigeria

ICAN is at the center point of accounting regulation in Nigeria. Its dominance is well documented as it is widely accepted by all sectors of the economy as the professional accounting body with integrity and quality. However, its dominance of accounting profession seems burdensome on it as paucity of funds often limit its ability to perform its roles. Its reliance on volunteer members for funding “weakens its capacity for research, audit standardization, as well as monitoring and enforcement of compliance with standards” (World Bank, 2004, p.7). Its code of ethics requires update and its mandate to issue Nigerian Auditing Standard has, as at 2004, been marred with lack of capacity as no single auditing standard was in issue while the International Auditing Practice Statement of the International Federation of Accountants (IFAC) were also not adopted in Nigeria thereby, leaving audit practice with absolutely no professional oversight (World Bank, 2004). As a result, no effective mechanism existed to check the quality of audit in Nigeria. Considering the legal framework, the CAMA empowered the registrar of companies at the Corporate Affairs Commission to regulate compliance with its financial reporting presentation requirements, a task that lack definitive guideline and as well exceeded the expertise of the registrar of companies (World Bank, 2004).

Given the inherent regulatory loopholes, financial scandals sprawled the corporate domain, naming prominent auditors and leading to continual public outcry in the wake of unending financial malpractice in the country. Consequently, the “international community emphasised the major role that Observance of International Standards and Codes of Best Practices can play in strengthening national and international financial systems” (World Bank, 2004, pi). As a result, the process of reports on the observance of standards and codes (World Bank) was initiated and an assessment of the level of observance of internationally recognized codes by countries was conducted. To this end, a joint initiative of the World Bank and the International Monetary Fund (IMF) engaged in the review of the strength and weaknesses of accounting and auditing practices that affected the quality of financial reporting in Nigeria. This observance was conducted by a team of financial experts comprising members of the academic, representatives from the world bank and the International Monetary Fund as well as a participatory process that involved Nigeria Accounting Standards Board, Corporate Affairs Commission, Securities and Exchange Commission, Nigeria Stock Exchange, Central Bank of Nigeria, Nigeria Deposit Insurance Commission, Institute of Chartered Accountants of Nigeria, Association of National

Accountants of Nigeria, as well as a number of auditing firms and leading commercial banks. The World Bank (2004) observed that financial regulation enforcement and monitoring were weak coupled with the poor accounting education and training which had contributed to the institutional weakness in regulation, compliance, and enforcement of standard and rules.

These weaknesses have led to serious financial malpractices in the country. Well known cases of fraudulent financial reporting escaped litigation despite its revelation in the auditor's report. To mention some, the auditors' report noted in a company that the "cost of investment in shares was included in the value of fixed asset" of that company. Another audit report also indicated the deliberate omission of transactions, including substantial loans from the financial statements during a due diligence audit in preparation for the privatization of another company (World Bank, 2004). Several banks exploited these loopholes in the accounting and auditing standards, weak capacity of regulatory bodies and weak enforcement, employed creative accounting to boost their financial positions, a practice that led to financial crisis that cost investors and depositors ₦1.5 to ₦ 2 trillion (World Bank, 2011). The financial malpractice implicated prominent accounting firms and practitioners in Nigeria for "various acts of professional misconduct and in falsification and deliberate financial engineering in Nigeria" (Otusanya & Lauwo, 2010, p. 178).

These implications include the indictment of Akintola Williams Delliotte (AWD), a foremost and one of the big four accounting firms in Nigerian, for feigning ignorance of falsification concurrently in the accounts of the defunct Afribank Plc and Cadbury Plc. "This accounting manipulation occurred with the knowledge of board of directors and on the professional advice of the external auditors, AWD" (Lauwo & Otusanya, 2010, p.179). Although AWD continues to claim 'high integrity and ethical values', it however formally resigned as the auditors of Cadbury Plc before the completion of investigations on the alleged professional misconduct. More so, the swoop of investors' and depositors' funds during the crisis in the Nigerian Banking Sector featured the Big four accounting firms as the auditors of all the affected banks. Despite the long-standing relationship established with those banks, none of the auditors ever qualified their reports nor issued warning signals of impending crisis (Lauwo & Otusanya, 2010). Eventually, about ₦ 2 trillion was lost to the crisis.

2.1.5 The Reform of Accounting Regulation in Nigeria

The World Bank's (2004) Report on the Observance of Standards and Codes, having identified ICAN as the dominating accountancy body in Nigeria and the lack of cooperation between it and ANAN in the strengthening of accounting profession, recommended the establishment of the FRCN. The report noted that "there is no separate statutory regulator of the audit profession as ICAN acts as both an examining body for awarding chartered accountant certification and the licensing authority for members engaged in public auditing practice" (p.4). The proposal for the establishment of the FRCN was premised on the need to ensure the monitoring and enforcement of accounting and auditing requirements with respect to general-purpose financial statement.

The report also noted that the membership of the council's board should not be dominated by just practicing auditors. It should consist of members of professional accounting bodies with equal representatives, non-accountants, members of the academia, appropriate government ministries, departments and agencies (World Bank, 2004). With the establishment of the FRCN, government would take full charge of the regulation and ensure adequate funding of the council as opposed to private regulation and funding of financial reporting and auditing in the country. This recommendation was substantially implemented and as such was the crux of accounting regulatory reform in Nigeria. The establishment of FRCN in 2011 came with requisite powers to oversee the activities of the major accounting professional bodies in the country, supervise developments in accounting education, regulate the financial reporting practices of all registered companies in the country and serve as the institutional link between Nigeria's accounting industry and developments in the world.

2.1.6 Establishment of the Financial Reporting Council of Nigeria

The decision and efforts of the government to establish the FRCN came to fruition in 2011. At all levels and strands of accounting regulations, irregularities, multiplicity of regulation as well as unhealthy competitions among professional bodies were identified as the cause of the regulatory failures of accounting profession in Nigeria. These fallouts were contained in the Reports on the Observance of Standards and Codes (ROSC) on Nigeria accounting and financial reporting practices by the joint effort of the World Bank and the International Monetary Fund (IMF). The observations in the report were benchmarked by the International Accounting Standard (IAS), International Financial Reporting Standard (IFRS) and the International Standards on Auditing (ISA).

The establishment of FRCN was promulgated by FRCN Act (2011) wherein the “council required the management assessment of internal controls, including Information Systems Controls with independent attestation” (Osayande, 2012, p. 25). As part of the FRCN oversight of professionals, “the FRC requires a good code of ethics for financial officers and certification of financial statements by chief executive officers and chief financial officers” (Osayande, 2012 p. 23) of reporting entities. The council was expected to strengthen efforts in restoring public confidence in financial reporting as it “issues code of corporate governance and guidelines, as well as develops a mechanism for periodic assessment of the codes and the guidelines” (Osayande, 2012 p. 23). Anao (2012) considers that development as timely as it was expected to expand the scope of financial regulation beyond traditional spheres of accounting and financial reporting, increase government involvement in the regulation and spans auditing and corporate governance.

2.1.7 Bases of Accounting Regulation Reform in Nigeria

The FRCN Act (2011) was drafted to address the accounting regulatory concerns raised by the World Bank (2004). The concerns include five salient points that was expected to guide steps towards reform in Nigeria. These include; the statutory framework, the accounting profession, professional education and training, setting accounting and auditing standards as well as ensuring compliance with accounting and auditing standards.

2.1.7.1 Reform of Statutory Framework of Accountancy Practice

Prior to the enactment of the FRCN act (2011), the statutory framework of financial reporting was hinged on several accounting regulatory enactments, which existed as guides for accountants in the preparation and audit of financial statements. These include the Banks and other Financial Institutions (Amendment) Act Cap. B3 LFN, 2004; Companies and Allied Matters Act Cap. C20 LFN, 2004; Investments and Securities Act Cap. 124 LFN, 2004; Nigerian Investment Promotion Commission Act Cap. N117, 2004; Insurance Act Cap. 117 LFN, 2004; Pensions Reform Act No 2, 2004 ; and Federal Mortgage Bank of Nigeria Act, Cap. F16 LFN, 2004. Of these promulgations, the only law that serves as the major legal framework for corporate financial reporting and auditing is the CAMA (1990) as it contains sections specifically dedicated to the regulation of matters relating to accounting and auditing of all corporate entities in the country. Nevertheless, the overload of multifarious laws provides

contradictory pronouncements for different industries thereby leading to problems in cross sectional comparison of accounts. More so, the provisions of the enactments also differ greatly in their assessments of the quality of financial statements (World Bank, 2004). Specifically, the CBN approves the appointment and termination of banks' auditors under the BOFIA Act, the National Insurance Commission (NAICOM) have no such powers under its Act (World Bank, 2004). These inconsistencies traverse key accounting issues such as appointment and termination of auditors, provision for joint auditors or rotation of auditors as well as other financial reporting inconsistencies. To address the impasse, The FRCN Act (2011), wielding the influence of the superior act, stipulates in section 59(2) that:

“where there is any conflict between the financial reports or annual returns and other documents required or prepared in fulfillment of the relevant Sections of the Acts listed in subsection (1) of this Section and other Acts which deal with financial reporting, the standards and guidelines adopted for that purpose by the Council shall to the extent of that inconsistency, prevail.” (pg. A 81)

This provision makes it superior to all other contradictory provisions in matters of financial reporting and auditing regulation. It is however not exhaustive of all possible accounting and auditing issues as CAMA still remains the main legal framework for corporate accounting and auditing practices in Nigeria. Although its amendments have been considered and passed by the National Assembly, it still awaits the executive assent to become a law. Principally, CAMA was flawed on three specific provisions namely; empowering the registrar of companies at the Corporate Affairs Commission (CAC) to regulate compliance with its financial reporting presentation requirements, a task considered too technical for the expertise and qualifications legally required of the registrar of companies; strictly identifying accountants with ICAN certifications as the only accountants who can be appointed external auditors of companies in Nigeria and; relying on outdated provisions to regulate the practice of accounting in Nigeria. This arrogates powers to ICAN as it enables it to colonize the audit market, self-regulate itself and not bound by any law other than the ICAN Act to register a new member or punish any of its erring members. Also, none of the laws provides for the regulation of joint audit and rotation of auditors. This led to the identification of loopholes in the profession as discussed in the next subsection.

2.1.7.2 Regulatory Reform of Professional Accounting Bodies

The practice of accounting profession in Nigeria rests primarily on two major professional institutions. The Institute of Chartered Accountants of Nigeria (ICAN) and the Association of National Accountants of Nigeria (ANAN). ICAN was established in 1965 by members of the Institute of Chartered Accountants in England and Wales, the Association of Chartered Certified Accountants and the Chartered Institute of Management Accountants. Its membership comprised of accountants, auditors, and accounting technicians. It currently has a membership strength of above 40,000 members (ICAN, 2018). ICAN is independent of government's influence as it self-regulates itself and its members in the practice of accounting profession in Nigeria. It enjoys the recognition of credible international accounting bodies as the foremost professional accounting body in Nigeria as well as recognition as the sole body whose member qualify for appointment as external auditors as enshrined in the CAMA (1990) as amended.

As a sister professional accounting body in Nigeria, ANAN was established to consolidate the efforts of ICAN and further the practice of professional accounting in Nigeria. It prides itself with over 10,000 members mostly in the public sector as civil servants since its establishment and incorporation in 1979 and 1983 respectively. It was enacted by the act of parliament in 1993 to also advance the science of accounting in Nigeria. ANAN prides itself as the only professional body empowered by law to teach as well as examine its students (ANAN, 2018). ANAN, like ICAN enjoys international recognition of IFAC but have limited presence in the field as registered auditors in the country. This has further exacerbated the shortage of accountants in the country in relation to the existence of over 500,000 registered companies in the country (World Bank, 2004). ANAN was also empowered to self-regulate itself and its members.

Given this backdrop, both ICAN and ANAN lack the requisite funding and manpower to execute the regulation of accounting in Nigeria. This is obvious from their reliance on obsolete codes of professional conduct, inability to develop auditing standards, impaired audit independence as most auditors serve as preparers of accounts for their clients through provision on non-audit services due to paucity of qualified accountants and a host of other anomalies. Primarily however, both accounting bodies have no external oversight over their (mis)deeds as they are empowered by their respective acts to discipline their members and mete out deserving punishment to erring ones. Consequently, shareholders are always at the mercies of accountants and auditors who are products of the same professional body with 'absolute' powers to oversee the practice of accountancy profession in the country. To this end, Nigeria has never experienced

any litigations against auditors (World Bank, 2011), they seem to enjoy self-regulatory cover and are ordinarily difficult to sue since they are either sole proprietorship or partnership concerns.

The enactment of FRCN is itself a step towards addressing the shortcomings of the accounting professional bodies as regulators of accounting profession in Nigeria. It was enacted to, amongst others, strip both ICAN and ANAN of their statuses as regulators of accounting profession in Nigeria. It “was an act to repeal the Nigerian Accounting Standard Board Act, No. 22 of 2003” (FRCN, 2011) thereby transferring the regulation of accounting profession from the superfluous influence of ICAN to a government regulator. The enactment of the FRCN act (2011) equates both ICAN and ANAN on the membership of its board with two representatives each and incorporates members from the entire financial sectors of the economy. The Act empowers the council to “enforce and approve enforcement of compliance with accounting, auditing, corporate governance and financial reporting standards in Nigeria” (p. A61) thereby subjecting both accounting bodies to its oversight function.

Furthermore, it is saddled with the exclusive responsibility of developing and publishing accounting standards forthwith, enforce compliance with such standards, receive copies of annual audited reports of public companies, maintain register of professional accountants across professional bodies and conduct practice reviews on them, issue guidelines for the purpose of implementing accounting and auditing standards and a host of other functions FRC Act (2011). The enactment of the Act, therefore, places all professional accounting bodies under the oversight function of the FRCN thereby exposing auditors to litigation risk and sanctions. In exercise of such powers, the FRCN suspended four auditors of KPMG professional services for alleged “negligence in the concealment, accounting irregularities and poor disclosures in the financial statements of Stanbic IBTC holding Plc in accordance with Section 62 of the *Financial Reporting Council of Nigeria Act No. 6, 2011*. Accordingly, such suspended auditors shall not be able to vouch the integrity of financial statements issued in Nigeria (FRCN, 2015) unless and until absolved of the allegation in a court of competent jurisdiction.

2.1.7.3 Reform of Professional and Academic Education and Training

Professional Accounting Education is a part of the whole system of the education sector of Nigeria. It follows the progressive system of education to the tertiary education level as

fervently instituted by the government. For any branch of knowledge (Accounting inclusive) to get academic certification of government in Nigeria, the university education is compulsory (Federal Ministry of Education, 2015) through which a Bachelor's, Master's and Ph.D. degrees are awarded. Other tertiary educational institutions in government recognition for the academic training of accountants are the Polytechnics and Monotechnics. Meanwhile, a master's degree in the university requires, by regulation, the possession of a good bachelor's degree. Hence, holders of polytechnic diplomas often pass through the bachelor's degree before proceeding for their postgraduate degree courses.

The regulatory authority for Nigerian universities is the National Universities Commission (NUC). The NUC was established in 1962, initially as an advisory agency to the federal government. It attained full autonomy in 1974 when it became a statutory body after its enactment into Nigerian Law. Thus, it became a parastatal of the Federal Government of Nigeria (NUC, 2015). The NUC has as its key objectives, granting approval for all academic programmes run in Nigerian Universities as well as ensuring quality assurance of all academic programmes offered in Nigerian universities (NUC, 2015).

Accounting education is regulated by both National Universities Commission and the two major professional accounting bodies enacted into Nigerian laws namely the Institute of Chartered Accountants of Nigeria (ICAN) and the Association of National Accountants of Nigeria (ANAN). More prominent among these bodies is the Institute of Chartered Accountants of Nigeria (ICAN) whose Act was enacted into Nigerian Law in 1965 as the foremost accounting professional body recognized by law (ICAN, 2014). The ICAN, which prides itself with about two hundred thousand (200,000) registered students is also empowered to regulate the standard of accounting education in Nigeria. It's aim in this regard is in:

“determining what standards of knowledge and skill are to be attained by persons seeking to become members of the accountancy profession and raising those standards from time to time as circumstances may permit” (ICAN, 2014, p.4).

ICAN requires bachelor's degree or Higher National Diploma of a recognized Nigerian polytechnic to register as a professional student. Otherwise an Accounting Technician Scheme certificate, whose entry requirement is a good Senior Secondary School certificate, is needed (ICAN, 2014). The Institute also regulates the quality of academic standards in Nigerian tertiary institutions with regards to its professional metrics. A fully accredited university by ICAN

enjoys academic stead over and above its un-accredited peers (ICAN, 2014) and students from such university enjoy significant exemption from some subjects depending on whether they possess a bachelor's, master's or a Ph.D. degree as determined by the institute.

More so, ICAN accredits training centers but does not provide training for prospective members. As a result, it encourages cross-fertilization of profession as the flexibility of its education system allows holders of certificates in other discipline blend seamlessly to the process of becoming professional accountants (ICAN, 2014).

It also oversees tertiary education through a committee of Mutual Cooperation Agreement with Tertiary Institutions (MCATI) to further

“deepen mutual cooperation with tertiary institutions, in order to improve the quality of accounting education in these institutions in Nigeria, as their products feed into the Institute’s professional examination” (MCATI report, 2015, p.1)

The committee’s mandate was to benchmark international best practices in accounting regulation and make recommendations for ICAN on how to best collaborate with Nigerian Tertiary Institutions. The outcome of the exercise suggested the enhancement of staff of accounting departments in tertiary institutions that may wish to partner with ICAN on special academic grounds. ICAN conducts annual academic conference, publishes academic journals and offer grants to education grants and support to selected accounting departments in Nigerian tertiary institutions (ICAN, 2015). A registered auditor in Nigeria must therefore acquire requisite tertiary education training, obtained practice experience and complete ICAN examinations with a pass grade. To obtain practicing license, additional training in audit environment is required with annual renewal of such licenses after issue (ICAN, 2018). As a form of educating its professional members, Mandatory Continuing Professional Education (MCPE) programs are put in place with appropriate credit hours attached. Members of ICAN are expected to accumulate 60 credit hours of continuing professional education in two years, with at least 50 percent through structured programs (ICAN, 2018).

The Association of National Accountants of Nigeria (ANAN) also complements as a professional accounting body enacted into law in Nigeria in 1993 (ANAN, 2015). Its activities are quite dissimilar from ICAN’s because it is enabled by law to train and assess students independently. Although ANAN does not subject universities to another round of regulation

after NUC, it nonetheless requires graduates of accounting (B.Sc and HND Accounting) to undertake a three-year professional course in education and practical after the completion of their degree programmes. This has a great impact on the training of professional accountants as the ANAN currently maintains a membership level of more than ten thousand members. ANAN invested greatly in accounting education as it established a separate arm for the education and training of professional accountants. This arm houses the college of accountancy located in the Headquarters of ANAN in Nigeria where all prospective accounting professionals must attend for professional accounting training after their respective tertiary education qualifications (ANAN, 2018). ANAN also contributes greatly to the development of accounting education but does not provide ground for the dynamism of absorbing experts from other fields to have direct access to its accounting professional education and training.

The reform of accounting profession had very little impact on the professional education and training as little has changed since the implementation of the reform. Although, part of the FRCN's functions is "to monitor and promote education, research and training in the fields of accounting, auditing, financial reporting and corporate governance" (FRC Act, 2011, p. A62), it has only been reflected in the examination syllabi of professional accounting bodies while accounting syllabi at the tertiary education level have not been updated by the NUC to reflect the developments. More so, benchmarking the development in accounting education and training with International Education Standard (IES), practical experience requirements of accounting education in Nigeria falls below standard (NUC, 2007). Student Industrial Works Experience Scheme (SIWES) precludes accounting as a mandatory course for the scheme. The 36-month accounting experience requirement of ICAN is easily flouted as there are no written guidelines for mentors, employers, trainers and trainees regarding program of practical experience that clarifies their roles and responsibilities (World Bank, 2011).

Accounting education for professionals basically involves mandatory continuing professional development has not changed in form since the reform. It is most times conducted with little or no regulation by professional bodies particularly as it lacks clear focus on the practical implementation aspects of applicable accounting and auditing standards (World Bank, 2004). Up-to-date financial status of professional members seem the only important pre-condition for participation as a discussant in any of the MCPE program (ICAN, 2018). Besides, ICAN and ANAN have not made any efforts to identify common grounds for the educational development

of members, engage in twinning arrangements to encourage cross-fertilization of accounting acumen across bodies and work in the interest of the development of the profession.

2.1.7.4 Reform of the Standard Setting Process

The erstwhile regulator of accounting profession and issuer of the issuer Statement of Accounting Standard (SAS), upon which the Generally Accepted Accounting Principles (GAAP) in Nigeria are based, the Nigerian Accounting Standard Board (NASB), made the first and singular effort to unify the practice of accounting in Nigeria and gave a professional outlook to its regulation in 1982. Then, it was constituted as a board under the auspices of ICAN and was set up with ICAN's technical guidance. Later, it was made a component of the defunct Federal Ministry of Trade and Tourism in 1992 (ICAN, 2006) as a parastatal and therefore came under government supervision. The NASB issued some standards which though, were not fully adopted by all company accountants, was able to serve the effective need of providing a uniform basis for local companies and accountants alike. The major challenge of the NASB was the non-compliance of multinational companies with the provisions SASs because they considered them mere codifications of the extant International Accounting Standards (Nigeria's Financial Hub, 2011).

The NASB act was enacted into law in May 2003. This simultaneously led to the establishment of the NASB an independent body charged with the responsibility of regulating the accounting profession in Nigeria and issuer of accounting standards which must be adhered to, by all preparers of account in Nigeria and regarding which any contradiction to its contents and provisions with any foreign accounting standards will be considered superior to such standards to the extent of such contradiction (NASB Act, 2003; Abdullahi, 2010). The act therefore, was the constitution that governs the operation of the NASB. The standards issued cut across various industries and were applauded by users as elaborate and extensive. Until the NASB act was repealed in 2011, it had effectively issued 31 SASs (FRCN, 2014). Notwithstanding the oversight role of the NASB, variety of sharp practices among accountants brought about disdain to the revered profession of accounting in Nigeria (Sanusi, 2010; Otusanya & Lauwo, 2012). Continual public outcry due to financial losses induced by accounting malpractices, calls for the urgent need to adopt IFRS and a host of other reasons necessitated the restoration of confidence in the profession hence, the need to reform through the enactment of the Financial Reporting Council of Nigeria (FRCN).

In response to the call to reform the profession of accounting, the “FRCN Act” was enacted on 2011. The FRCN “requires the management assessment of internal controls, including Information Systems Controls with independent attestation” (Osayande, 2012, p. 25). As part of the FRC oversight of professionals, “the FRCN requires a good code of ethics for financial officers and certification of financial statements by chief executive officers and chief financial officers” (Osayande, 2012 p. 23) of reporting entities. The reform was required to reinvigorate efforts in restoring public confidence in financial reporting as it “issues code of corporate governance and guidelines, and develop a mechanism for periodic assessment of the codes and the guidelines” (Osayande, 2012 p. 23). Arguing further for the enactment of the FRCN act, Anao (2012) “considers that the development is timely as “it expands the scope of financial regulation beyond traditional spheres of accounting and financial reporting and also spans auditing and corporate governance” (p. 5). The increased involvement of government in financial reporting presents a picture that is ardently passionate about the public interest. The Financial Reporting Council of Nigeria operates to enable the strict adoption of International Financial Reporting Standards (IFRSs), majority of which is embedded with fair value accounting (Ball, 2006).

By virtues of the respective Acts of ICAN and ANAN, they issue auditing standards for their members. As such, two sets of auditing standards are issued in Nigeria while audit firms with international links conduct their audits in line with the International Standards of Auditing (ISA). Both bodies lack the mechanism to enforce compliance as most of their auditing standards are either outdated or mere codification of the ISA (World Bank, 2011). Meanwhile, the enactment of the FRC Act (2011) transfers the right of issuance of accounting standards to the FRCN, the issuance of auditing standards still rests solely with the professional bodies with a passive oversight to “adopt and keep up-to-date auditing standards issues by relevant professional bodies and ensure consistency between the standards issued and the auditing standards and pronouncement if the International Auditing and Assurance Standards Board” (FRCN Act, 2011, p.A63).

Incidentally, the first major assignment carried out by the council was adoption of the International Financial Reporting Standard (IFRS), issued by the International Accounting Standard Board. The Financial Reporting Council of Nigeria Act (2011) requires that the FRCN to “promote compliance with the adopted standards issued by the International

Federation of Accountants and International Accounting Standards Board”. This was also in consonance with the directive of the federal executive council to the defunct Nigeria Accounting Standards Board to take necessary actions towards the achievement of the objective of adopting IFRS (IASB, 2017). The directive was an import of the recommendations set out in the report of the Committee on Road Map to the Adoption of International Financial Reporting Standards in Nigeria, a working group of government and private sector experts established by the defunct Nigerian Accounting Standard Board (NASB, 2010). Specifically, the adoption was to be executed in phases with ‘significant public interest’ and quoted companies’ taking effect in January 2012, other ‘pubic interest entities’ to start in January 2013, and Small and Medium Enterprises’ adoption to take effect January 2014 (IASB, 2017). The schedule has been adhered to in the adoption of IFRSs in Nigeria as is now serves as the basis on which financial statements of companies are prepared with mandatory attestation by external auditors of Nigerian companies.

2.1.7.5 Reform on Compliance with Accounting and Auditing Standards

The power to ensure compliance with accounting and auditing standards is possessed only by the government through its acts and enactments. The various acts that exist to ensure compliance include the Companies and Allied Matters Act (CAMA) 2004 as amended for registered companies, and the regulators of other sectors of the economy such as the Central Bank of Nigeria, Securities and Exchange Commission and the National Insurance Commission. Specifically, the CAMA empowers the registrar of companies at the Corporate Affairs Commission to regulate compliance with its financial reporting presentation requirements (CAMA, 1990). The framework for invoking powers to execute the act is weak seemingly because the legal requirements to file audited financial reports within stipulated time and make same public are not rigorously enforced as sanctions are usually not applied on erring companies (World Bank, 2011). The CBN’s oversight of banking has been very Aeffective despite incessant distresses being witnessed by the sector. Several acts exist only for the regulation of banks such as the Failed Banks Decree, Banks and Other Financial Institutions Decree and a host of others. The CBN also issues regular guidelines to ensure compliance with financial reporting requirements. Penalties available under the Banks and Other Financial Institutions Act include imprisonment, fines and suspension or revocation of operational license. The CBN, in

exercise of its powers has sacked banks' CEOs and withdrawn operational licenses (CBN, 2007).

The banking sector has attracted improved oversight as a result of its sensitivity and the financial scandals that revolves it. The Central Bank monitors compliance with financial reporting requirements mainly with regards to loan loss provisioning and other issues that affect capital adequacy of the regulated entities. Similar oversight is also conducted by the National Deposit Insurance Commission (NDIC). The Central Bank and the NDIC conduct both off-site and on-site examinations and give priority to checking compliance with prudential requirements. However, there are no specific directive to improve compliance in the financial industry as a direct effect of the financial reporting reform process in Nigeria.

2.7.1.6 Regulatory Reform on Audit Quality: FRCN Rules and Pronouncement

Table 2.1: FRCN Pronouncements on Audit Quality

s/n	Audit Quality Issues	FRCN Pronouncement	Source
i	Certification of Auditors & CFOs	<p>Holders of the positions of CEO and CFO of public interest entities are required to certify the annual report, financial statements, accounts, financial report, returns and other documents of a financial nature indicating their Financial Reporting Council (FRC) registration numbers.</p> <p>The CFO of public interest entities who provides certification for financial report is expected to indicate individual his FRC registration number and be a professional member of an accounting body established by the Nigerian Act of National Assembly.</p>	FRCN Rules: Rule 1
ii	Audit Report and Opinion	<p>Professional accountants providing services on any part of an annual report shall certify by indicating his name and FRC registration number;</p> <p>Where the opinion expressed by the professional accountant impacts on the financial report or other document of a financial nature, the professional firm/entity, name of the professional and his FRC registration number shall be disclosed in the note</p> <p>Audit Committee Chairman, to annual report, and other documents of a financial nature, shall be a professional accountant in a body established by the Nigeria's National Assembly Act.</p>	FRCN Rules: Rule 2 FRCN Rules: Rule 2 FRCN Rules: Rule 2

s/n	Audit Quality Issues	FRCN Pronouncement	Source
iii	Report of Material Irregularity	If material irregularity has taken or is taking place, the professional auditor shall notify the Chief Executive Officer of the client entity and all the members of the Board of the entity of the irregularity in writing, giving particulars of the irregularity; request the CEO and the board members to take actions as he may have deemed necessary; and Issue, within 30 days, notice to notify the Council of the material irregularity together with other relevant information.	FRCN Act Section 45
iv	Independence (Non-audit service disclosure)	A professional accountant shall be independent in carrying out his audit function and shall not: act contrary to the provisions of the Code of Conduct and Ethics of the council or any other law, or engage in any activity that has the likelihood of impairing his independence as a professional. Resulting from the enactment, Rule 3 requires audit clients (that is the entity) to disclose details of non-audit services (if any) and the fees paid thereon in the notes to financial statements. The council also requires audit firm to document that non-audit services carried out were done with the consent of the audit engagement partner and that such service(s) pose no threat to the independence and objectivity of the audit firm and are not prohibited.	FRCN Act Section 46 FRCN Rules: Rule 3
v	Conflict of Interest	In the event of a possible conflict of interest in relation to audit engagement, a professional shall disclose to the council and the entity the nature of the conflict of interest to enable the client determine its extent and to decide on the appointment of the professional accountant.	FRCN Act Section 47
vi	Oversight on audit	The Council is empowered to review the practice of an auditor through: Inspection of relevant documents available with the auditor OR seek information from any partner or employee of the auditor.	FRCN ACT: Section 60
vii	Frequency of practice reviews	Where a qualified audit report is issued, the auditor shall furnish the council with copies of the report and together with detailed explanations for such qualifications within 30 days from the date of such qualification and settle all issues relating to the report before announcing to the public. The power of the council to conduct Annual quality reviews for professional accountants who audit more than 20 public interest entities 3-yearly reviews for all other categories of professionals.	FRCN Rules: Rule 5 FRCN Act: Section 61
viii	FRCN's power of Investigation	The Council is also empowered to investigate: complaint on professional misconduct regarding any professional by its client; perceived breach of the Code of Conduct and Ethics by professional or any reported material irregularity. Following the investigation, the council shall notify the professional under investigation of the nature of his misconduct; summon and hear the professional, witnesses, call for relevant documents, review any reports filed with any government authority. Following the investigation, the council shall notify the professional under investigation of the nature of his misconduct; summon and hear the professional, witnesses, call for relevant documents, review any reports filed with any government authority. Clients or professional are required to produce any relevant record relating to investigation to the whenever required.	FRCN Act Section 62

Source: Compilation of FRCN rules and pronouncements (2021).

2.7.1.7 Regulatory Reform on Audit Quality: International Financial Reporting Standards Adoption in Nigeria

Amid financial crisis in the banking sector few years prior to the reforms, the Federal Government issued a directive to the defunct NASB to begin the process of IFRS implementation in Nigeria following which it published the implementation roadmap in 2010 (IASB, 2017). The roadmap stratified Nigerian companies in the trio of listed and significant public entities, other public listed entities as well as Small and Medium Enterprises (SMEs) for reporting their financial activities in the years 2012, 2013 and 2014 respectively (NASB, 2010). The adoption of IFRS was considered to have several implications to the quality of accounting numbers produced in Nigeria as well as the services rendered by the external auditors and providers of other financial professional services. Recommending a proactive effort towards mitigating the audit issues that may succeed the adoption, NASB (2010) suggested an establishment of a technical partners' forum of accounting firms. A survey conducted by PWC (2012) indicated that financial executives of Nigeria's listed companies decried the cost of IFRS implementation amid skepticism of its perceived benefits. Although, Anao (2012) considers the IFRS adoption as timely since it expanded the scope of financial regulation beyond traditional spheres as it spans auditing and corporate governance, NASB (2010) highlights its implications for quality indices of accounting figures such as loan loss provisioning, securities investments, regulation of public accounting services among other issues.

However, the aftermath of the IFRS adoption witnessed three major reaction from the financial reporting stakeholders. First, the cost of auditing was increased by a major professional body in Nigeria - ICAN, citing the need to improve the quality of audit and ancillary services provided by its members (ICAN, 2011). This new development may have paved way for abnormal fees accruing to auditors thereby affecting their independence and ultimately audit quality. Prior to IFRS adoption, audit fees has been a recurring accounting research issue because it has always been re-echoed by accounting experts that "fee dependency and conflicts of interest arising therefrom have always been alluring to auditors to constantly undermine their independence and quality of audits (Sikka et al, 2018). In the wake of IFRS when more time is required in the preparation and audit of accounts, complexities is increased in the financial reporting environment and more fees would be necessary (Lin & Yen 2016), hence, requiring renewed effort on the verification of the quality of audits amid claims that IFRS improves the quality of

accounting numbers upon regarding which information and economic decisions are made (Abu Rishah & As-Saeed, 2014). As a proactive measure perhaps, the FRC (2011) made a rule, tagged: 'rule 3' on the separate disclosure of audit from non-audit services in the financial statements specifying the amounts paid to an external auditor in respect of both in the notes to financial statements. The FRC's (2011) claim for the rule to prevent threats to auditors' independence under any guise. A follow up of this rule formed the basis of the regulatory decisions against the auditors of Stanbic IBTC holding and a withdrawal of their previously published financial statement (FRCN, 2015).

The second main reaction to the adoption of IFRS dominance of the 'big 4' audit firms of the audit market. In the periods subsequent to the adoption of IFRS, the dominance became more obvious as the big audit firms received remunerations in excess of ₦6.8 billion, fees higher the previous accounting periods (John, 2019). The consideration of auditors' size as a driver of audit quality is replete in the accounting literature. More importantly, it deserves more consideration in the IFRS adoption era as the World Bank (2011) report lament the dominance of the audit market as a practice that could decimate audit quality since smaller firms would not be opportune to grow, thus promoting monopoly of audit services and a tendency of eroding quality. To Sikka et al (2018), "auditing industry is dominated by the big four firms who are routinely implicated in scandals and seem incapable of delivering high quality audits" (p.3). Notable among such scandals in Nigeria are the taking over of banks by the Nigerian government due to financial crisis affecting Afri Bank, Bank PHB and Spring Bank (Taiwo 2011) as well as Skye bank in 2017. All the banks were audited prior to their takeover with no publicly reported qualified audit opinions. The peculiarity of these scandals to banks forms the third reaction to IFRS adoption in Nigeria. While these cases continued unabated, non-bank listed and government-owned entities (such as Skye bank, NNPC Scandal, Stanbic IBTC holding reporting issues) were also not free from scandals.

The banking industry in Nigeria was noted for colossal loss of customers' savings, pension funds and investment funds of over N2 trillion (World Bank, 2011) while the audits of the affected banks were conducted within the circle of few audit firms. The accounting literature has documented that conduct of audit over several years by auditors in an industry or sector of the economy affords them the experience and vantage knowledge of such sectors. According to Nagy (2014) "industry expertise cultivates from individual personal beliefs and experience"

(p.513) as portrayed by the movement of Anderson’s personnel after its demise to various Anderson’s client companies (Nagy, 2014). Audit specializations are usually tailored towards ensuring audit quality as auditors differentiate themselves to become industry specialists, offer better services, and increase effectiveness and quality of their audits (AICPA, 1998; Habib, 2011; Scott & Gist, 2013). The adoption of IFRS by Nigerian entities may have moderated the relationship inherent between industry specialization of audit and audit quality.

2.1.8 Conceptualising Audit Quality

The ownership-management gap inherent in modern day business has precipitated the notion of ‘self-serving bias on the part of the management, thereby requiring an oversight on the activities of the management in discharging the stewardship bestowed on them. The attestation of external auditors after a compulsory periodic audit is the means through which shareholders get assurances with regards to the fidelity of figures in the annual financial reports. Traditionally, it is considered as the examination of financial statements to ensure conformity with underlying rules and the expression of unbiased opinion on the truth and fairness of such statements Millichamp and Taylor (2008). The objective of the auditor is primarily to report on the financial statements as he must “obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error” (ICAN, 2013). As a result, professional auditors are usually required to exercise care and due diligence in the conduct of their engagement to ensure users of their reports of the credibility of their attestation of financial statements. The quality of outcome from such process is simply the basis around which audit quality revolves.

“Audit quality is a complex subject and there is no definition or analysis of it that has achieved universal recognition” (IAASB 2018, p.36). To a periodic and serial auditor, a statement of truth and fair view on accounts devoid of caveats for modification, qualifications or exemptions is enough to garner reliance on financial statement and uphold the quality of the audit therewith. It is adjudged to be quality, an audit on which an ‘appropriate’ report on the clients’ compliance with required accounting GAAP is issued (Francis, 2011). Audit profession considers the competence and experience in the application of objectivity, integrity and skepticism necessary ingredients for public reliance on the output of the audit in such a manner that reporting the detection of material misstatement in financial statement is achievable (DeAnglo, 1981; Alhababsah, 2019). By extension, DeAnglo (1981) argues audit quality to be the joint

probability of discovering and reporting breaches in the accounting system of a firm thereby enhancing the assurance of quality financial reporting. Defond and Zhang (2014), Christensen, Glover, Omer and Shelley (2016) and Rajgopal, Srinivasan and Zheng (2018) believe that audit quality is improved with the assurance of high-quality financial reporting by the auditor so as to enable individual investor value the competence of the auditor.

Meanwhile, the presence of accounting and audit scandals and malpractices in the business world involving audit firms of 'global repute and renown integrity' would indicate that all may not be well with reports that may have, anyways, received a clean bill of health from the auditors. Expensive scandals in complicity with auditors in recent times proves the existence of such. They include the collapse of a 20-year old Carillion construction giant in 2018 in a deal of £1.5 billion pounds with the complicity of KPMG which, despite its £1.5 million annual audit fee, misrepresented the reality of the business for several years; a 92-year old Patisserie Valerie café chain also collapsed in 2018 shortly after the auditor, Grant Thornton, signed off the account with a 'fictitious' net cash reported to be £21.5 million. In this case, the auditor claimed it was not his role to look for fraud (O'Dwyer, 2019). Prior to these accounting scandals, the fall of Arthur Anderson in 2001 following complicity in Enron Collapse, the fall of HIH insurance as well as other fraudulent audit practices have attracted public outcry. The take-over of banks by the Nigerian government and a host of Banks CEOs' sack by the CBN are examples in the Nigerian context. These scandals and several others have taken a toll on the public perception on the fidelity of the audit process thereby putting audit quality in the spotlight. Although, proactive measures have either been taken on some scandals or reactions have been made by global accounting regulatory bodies to strengthen the quality of audit, much may still be desired in restoring public confidence in the audit profession.

To reshape the public perception on audit, quality audit is benchmarked differently by professional regulatory bodies across the globe. It has taken various forms such as, enactment of government legislations, establishment of institutions as well as issuance of professional standards. Prominent among these 'regulators' on the global scene are the Centre for Audit Quality (CAQ), an affiliate of the American Institute of Certified Public Accountants and the International Federation of Accountants (IFAC). IFAC regulates audit primarily through the International Auditing and Assurance Standard Board (IAASB) with various pronouncements such as the Code of Ethics for Professional Accountants, International Standards on Quality

Control, International Framework of Assurance Engagements, International Standard on Auditing, International Standard on Assurance Engagement, International Standard on Review engagement and the International Standard on Related Services. (IAASB, 2018). These two bodies, although their pronouncements are not compulsory for adoption globally, are acclaimed global best standards on audit quality. In Nigeria, ICAN issues Nigerian Standards on Auditing and several publication and pronouncements on audit quality.

2.1.8.1 International Auditing and Assurance Standard Board's Audit Quality Framework

The IAASB is an audit quality assurance board, operating through the financial and other logistical support of IFAC. IFAC is a public interest organization, established in 1977 to advocate for transparency, accountability, and comparability of financial reporting across the globe (IAASB, 2018). IFAC has a global recognition as it comprises of more than 175 members and associate accounting bodies in over 130 countries and jurisdictions, representing almost 3 million accountants in different spheres of accountancy practice (IFAC, 2018). IFAC provides required support for the IAASB in the issuance and production of high-quality auditing standards and at the same time ensures the independence of the IAASB as it has no ability to influence its agendas or publications which are normally premised on set and approved due process (IFAC, 2018). The issuance of International Standard of Auditing (ISA), a universally well-adjudged auditing standard, is one of the key functions of the IAASB. With specific interest in the improvement of audit quality in the globe, ISA 220 was initially drafted for issuance consideration in 2007.

ISA 220, eventually issued in 2009, explains the quality control audit firms are expected to perform in the review of financial statements and other assurance and related services engagements. The standard expressly rested the responsibility for audit quality on the engagement partner, apparently given his position as the most senior member of the audit firm. It required the engagement partner to evaluate the level of compliance of the audit team with ethical requirements, communicate the need to decline future engagements with the client promptly if such needs exist as well as ensure that engagement teams are assigned with cognizance to their capabilities, competence and time to perform the audit engagement in accordance with extant audit regulations. The engagement partner is required to ensure the appropriate direction, supervision and performance of audit, review works done by audit teams,

review the appropriateness of their consultations, appoint a quality control reviewer and review the quality control of audit before the issuance of auditor's report and follow laid down procedures for addressing differences of opinion arising within the engagement team. Furthermore, the audit engagement partner is required to monitor the conduct of audit through establishment of policies and procedures designed to provide it with reasonable assurance that such policies are practically complied with. He is also required to ensure adequate documentation of issues related to quality control of audits. With the provisions of ISA 220 as earlier drafted in 2007, the engagement partner takes full responsibility of audit quality.

As a follow up to critiques on ISA 220, IAASB issued a framework for audit quality in 2014. The intent of the framework was to raise awareness of the key elements of audit quality as defined by the IAASB, encourage key stakeholders to explore ways to improve audit quality and facilitating greater dialogue between the key stakeholders on audit quality (IAASB, 2014). Beyond the requirements of ISA 220, audit teams are expected to comply with the framework which are not substitutes to extant standards but frameworks for the enhancement of their job performance. It describes the input, process and output factors that contribute to audit quality and different levels of the audit process starting with the engagement level, audit firm and national levels, for financial statements audit (IAASB, 2014). The content of the framework articulates the need for an audit to embed key elements that create an environment which maximizes the probability that quality audits are performed consistently. It emphasises that; while the expression of opinion on financial statement is the key objective of financial statement audit, exhibition of certain values by the engagement team will likely enhance the quality of audit. Such values encompass exhibition of values, ethics, enough knowledge, attitude, skill experience, sufficient time, audit rigour and appropriate interaction. It emphasises support for the auditor from the environment in terms of interactions with participants among the preparers of financial reports. It calls for challenge among auditors on the need to improve the audit and provides a level playing ground for auditors and clients irrespective of nature, size as well as complexities of the engagement. Networking capabilities is therefore, expected to breed quality if appropriately exploited. More importantly, compliance with audit standards of quality control as quality of audit output will usually vary across firms with reference to their adherence to specification of their inputs, process of audit as well as interactions with relevant stakeholders.

2.1.8.2 Center for Audit Quality: Audit Quality Disclosure Framework

The Center for Audit Quality (CAQ) is an affiliate of the American Institute of Certified Public Accountants (AICPA). It was established in 2007 with the objective of enhancing investors' confidence in global capital markets through, amongst others, fostering audit quality by public company auditors (CAQ, 2019). Although the CAQ is US-based, it does its work worldwide as an autonomous, nonprofit and nonpartisan public advocacy organization through committees and audit quality publications. The latest in the series of its regulatory publications is the CAQ (2019). Other publications include the CAQ Approach to Audit Quality Indicators (Tysiac , 2014); Audit Quality Indicators: The Journey and Path ahead (CAQ, 2016). As with the pronouncements of the IAASB, the audit quality disclosure framework is “voluntary and provides examples of quantitative and qualitative information that individual firms may find useful” (CAQ, 2019, p.4) in determining the disclosures that would enhance audit quality. It contains six elements bordering around key factors that affect the quality of audit globally.

2.1.8.3 Audit Quality: The Nigerian Context

The monopoly of audit standard setting for the regulation of the practice of accountancy in Nigeria rests with ICAN. Being a member of IFAC, ICAN adopts the IAASB standard substantially to ensure audit quality is performed by practicing auditors in the country. Issued by ICAN, the “Nigerian Standard on Auditing (NSAs) are to be applied and adopted, as necessary, in audit of financial statement and other relevant services” (ICAN, 2013, p. ii). With the quality of audit being the key responsibilities of the firm's leadership, the NSA identified and adaptation of the framework of audit quality disclosure of the CAQ. More so, it issues Nigerian Standard on Quality Control (NSQC) to regulate the quality of output of firms the conduct audit and review financial statements and perform other assurance and related engagements (ICAN, 2013). For practicing accountants in Nigeria, particularly ICAN members, compliance with the SNQC is mandatory as failure to comply with the provisions therein may result to investigation into the conduct of the member-firm and perhaps tried by the Accountants' Disciplinary Panel (ICAN, 2013). The NSQC specifies elements that would enhance audit quality to include; quality based on leadership responsibilities within the firm, relevant ethical requirements, continuance and acceptance of client relationship, human resources, engagement performance and monitoring.

Succinctly, the firm is expected to put in place policies and procedures intended to promote an internal culture that preaches quality as a behavioral pattern rather the ‘enterprise culture’ that

promotes profits at the expense of quality. In the same vein, the management takes responsibility for ensuring quality by establishing such policies that allow for merit, experience and appropriate authority in the determination of engagement team. Relevant ethical requirements are tailored towards ensuring compliance with the Code of Ethics of ICAN, established as fundamental principles of professional ethics. They include; integrity, objectivity, due care and professional competence, confidentiality and professional behaviour. Next in rank of quality control measures is the ability of a firm to put policies in place that determines the acceptance or otherwise of client relationship as well as the continuance of same. With this, the firm can be assured of capabilities and competence in accepted engagements, compliance with relevant requirements and consideration of the client's integrity.

As a rider to such policies of acceptance of engagement and continuance, the firm ensures sufficiency of trained and experienced personnel with commitment to drive quality. Such personnel are expected to be well informed of the local and global profession audit standards, applicable legal requirements and can issue reports as circumstances demand. The establishment of the earlier elements of quality assures the firm of the engagement performance. It is enhanced by ensuring consistency in the engagement performance quality, supervision and review responsibilities, particularly ensuring that experienced staff review the works of less experienced personnel among the engagement team members. ICAN's NSQC considers consultation as the last quality control driver because it provides ground that appropriate consultation had taken place as required, resources were available to ensure appropriate consultation, documentation of contentious issues and the implementation of conclusions that resulted from consultations.

2.1.8.4 Measurement of Audit Quality

Prior research outputs have documented diverse measures of audit quality (Abbott, Parker, Peters & Raghunandan, 2003; Zaman, Hudaib, & Haniffa, 2011; Al-Khaddash, Al-Nawas & Ramadan 2013; Ghafran & O'Sullivan, 2017; He, Pittman, Rui, & Wu, 2017). Such measures have been based on practical implications of some factors on the aftermath of a continuous audit. Audit quality measures are documented under two main categories of audit outputs namely; the audit report – which is entirely under the auditor's control – and; the audited financial statement of the clients – which is a function of both the clients' and the auditors' efforts (Antle & Nalebuff, 1991; Francis, 2011). Extending the frontier of this argument, Alhababsah (2019)

categorize the aspect that deals with audit report as the ‘demand side’ of audit quality. The demand side considers the input-based factors as posited by Rajgopal, Srinivasan and Zheng (2018) and extends beyond audit report as noted in the work of Francis (2011). It usually encompasses audit fees and audit firms as research outputs of reput (Abbott, Parker, Peters & Raghunandan, 2003; Zaman, Hudaib, & Haniffa, 2011; Al-Khaddash, Al-Nawas & Ramadan 2013; Ghafran & O’Sullivan, 2017; He, Pittman, Rui, & Wu, 2017) have notably adopted these two proxies while considering the demand side of audit quality.

Alluding to the argument of Francis (2011), research focus on audit reports as a measure of audit quality predicate the proxies of audit quality on the legal view of the audit outcome, regulatory enforcement action against an auditor and issuance of going-concern report prior to clients’ business failure. Francis (2011) noted that audit quality proxied by legal opinions are binary audit quality as such audits are quality when no audit failure occurs and considered not quality otherwise. Academic outputs consider this measure as misleading as most incidence of litigation against auditors are usually less than 1% of all audit and are either lost by the plaintiff or settled out of court (Palmrose, 1988, Carcello & Palmrose, 1994). Considering measuring audit quality with the binary of enforcing regulatory sanctions against auditors. A classic example of this, later reviewed in the next sub-section, is the action of FRCN against the auditor of Stanbic IBTC holding in Nigeria. currently, the case is still undergoing legal battles between the auditors of Stanbic IBTC Holding and the government of Nigeria. Francis (1991) argue that such “enforcement action does not actually ‘prove’ there is an audit failure” (p. 127). It merely indicates that the offending auditor has been made to agree to restrain from certain activities that have the likelihood of affecting audit quality. As identified by Feroz, Park and Pastena (1991) and Dechow, Ge, Larson and Sloan (2011), the number of yearly regulatory sanctions against the auditors are usually less than 1 percent of registrant auditors. More so, both measures – legal and regulatory sanctions – are probably too costly to be pursued against auditors. Besides, they are both perceived to measure audit quality at the extremes of a binary.

These extremes are having in-between them, varying degrees of audit quality that should be measurable given audit quality as a continuum that takes on varying values. Issuance of going-concern report is perhaps, the third measure of audit quality noted in literature as being under the entire control of the auditor. Going-concern audit opinions which do not precede clients’ business failure are deemed audit failure in audit quality literature. Lennox (1999) as well as

Defond and Lennox (2011) studied audit quality, measuring it with audit reporting accuracy if clients' business failure were preceded by going concern audit reports that signaled or warned against an impending failure. This measure, though points to the usefulness of the proxy, also identifies a less than 1% incidence of audit failure conjectured in the research therefore, indicating another low binary audit quality proxy. Moreover, auditors hardly issue going concern report in practice for fear of losing clients that may change auditors after having received a going-concern report (Krishnan, 1994).

Research outputs are replete with the measure of audit quality following the second audit output, that is, audited financial statements. Audited financial statements are produced out of the joint efforts of both the management and its auditors. Here, audit quality can be measured across the continuum, thus, considered more appropriate than subjecting audit quality measurement to binary extremes. Audited financial statements provide opportunity for the linkage of audit characteristic with statistical properties of client financial statements. Becker, DeFond, Jiambalvo and Subramanyam, 1998; Francis, Maydew and Sparks, 1999; Lawrence, Minutti-Meza and Zhang, 2011; Lennox, Wu and Zhang, 2014; Lennox, 2016; Wang, Yuan and Wu, 2017; Singh, Singh, Sultana and Evans 2019 all noted the responsiveness of certain audit characteristics to the widely adopted expected accrual model developed by Jones (1991). Basically, they all consider audit quality a function of audit characteristics amidst other control variables. Lawrence, Minutti-Meza and Zhang (2011) used the modified Jones (1991) model as recommended by Kothari, Leone and Wasley (2005) to examine the audit quality difference between the big 4 and the non-big 4 audit firms.

Similarly, Wang, Yuan and Wu (2017) modelled audit quality with Jones discretionary accrual as modified by Dechow, Sloan and Sweeny (1995) to examine the joint effects of institutional pressure and social identity on audit quality in the Chinese audit firm. A replica of this modification of Jones Model was equally adopted by Singh et al (2019) to determine how audit fee as well as independent and joint effects of audit partner tenure affect audit quality.

Other audit attributes noted in previous studies include presence of audit firm alumni in executive positions of clients' companies (Menon & Williams, 2004; Lennox, 2005), office size and geographic proximity (Beck, Gunn & Hallman, 2019), expertise presence on audit committee and internal audit quality (Lisic, Myers, Seidel & Zhou, 2019). Although the results of these studies are laden with mixed outcomes, they all share a common feature of establishing

an association between the qualities of clients' earnings and audit quality. However, Francis (2011) argued that all may not be entirely well with the use of earnings quality as mere metrics for audit quality because the statistical properties of earnings by itself may not necessarily imply that the underlying financial statement have been misstated. He premised his opinion on the argument that, such metrics remain redundant if no public outcry, litigation or regulatory sanctions succeed the conduct of audit. Nevertheless, Cameran, Ditillo & Pettinichio (2017) document a direct link between audit quality and earnings quality. They discovered that audit team attributes affect audit quality. They prove that audit quality is enhance by focusing audit work on the sub-team structures within the audit team. The measure confirms the outcome achieved in the works of Gunny and Zhang (2013) that explained how the magnitude of abnormal accruals is affected by prior regulatory supervision to audit firms.

Prior studied (Caramanis & Lennox, 2008; Gunny & Zhang, 2009) have provided evidence to establish a causal link between earnings quality and audit quality, hence, providing a basis for adopting earnings quality is measuring audit quality. Meanwhile, adopting such measures for audit quality must specify set of variables that control for "innate firm fundamentals and other factors that potentially affect the earnings quality metrics" (Francis, 2011, p.132) so as to ensure that audit tests variable are not just reflecting omitted correlated variables. More so, as indicated in audit quality literature, studies that focus on the supply side of audit quality consider its measures to be based on audited financial statements since it's a deliberate making of both the auditors and the preparers of accounts. Thus, accrual models are widely adopted for audit quality measurements. According to McNicholas (2000), accrual models are basically categorized into three (3) namely; aggregate accrual models, specific accrual models and Frequency Distribution Approach. The aggregate accrual models were popularized by Healy (1985), DeAnglo (1986), Jones (1991), Dichow, Larson and Sloan, (1995), Kang and Sivaramakrishnan (1995), Dichow and Dichev (2002), McNichols (2002), Francis, LaFond and Olsson (2005) as well as Kothari, Leone and Wasley (2005). The specific accrual models were credited to the works of McNicholas and Wilson (1988), Petroni (1992), Beaver and Engel (1996), Bneish (1997) as well as Beaver and McNicholas (1998) while Burgstahler and Dichev (1997), Degeorge, Patel and Zeckhauser (1999) as well Myers, Myers and Skinner (2007) are the scholars known for the development and modification of the frequency distribution approach.

2.1.9 Auditor Industry Specialization

The pace of improvement and dynamism in methods of achieving task could best be described as moving at geometric rate. The evolution of automation as occasioned by information and communication technology, globalization through shrinking of terrestrial and international boundaries as well as seamless transfer of professional acumen across geographic boundaries are all events of fact and reality that have reshaped the touch of expertise in job performance. Traditional jobs, accounting inclusive, have benefited immensely from this new normal as our age of global consumerism usually indicates and practicalises the culture of remote working which ensures the culture of “working with anyone, anytime, anywhere” (Ericsson et al, 2006).

Nevertheless, psychologists (Muis, Bendixen, & Haerle 2006) would rather argue that specialization in a field is usually driven by domain-specificity. That is, the ability to do creative things by applying some set skills, aptitude in a specific domain. In the words of Carey and Spelke (1994), “genuine domains are characterized by distinct set of core principles” (p.170), leading to conceptual change that “involves the change in core principles that define the entities in a domain and govern the reasoning about those entities” (p. 179). Gracia-Blandon and Argiles-Bosch (2017) applied this reasoning to audit industry specialization by pointing out the argument of Craswell et al (1995) that audit quality can only be ensured, auditors need some specific knowledge to complement generic accounting and audit knowledge. This buttresses the requirement of the Audit Quality Framework of the International Auditing and Assurance Standard Board (IAASB) (2018). As such, an audit firm with industry expertise possesses specialization in that industry and exploit it to develop and market its audit and allied services which are specific to clients in the industry. (U.S. Government Accountability Office 2008).

In the accounting literature, audit specialization is perceived to be a product of training and practical experience gained from auditing in a particular industry as knowledge gained through experiences increases the likelihood of being able to perform between quality audits (Gramling & Stone, 2001; Hammersley, 2006; Ashton, 1991). From this backdrop, Neal and Riley (2004) operationalized audit industry specialization by what they termed ‘market share’ and ‘portfolio share’. They argued, on the market share approach, that largest knowledge of a particular industry would have been developed by firm with the largest share within the particular industry. They believe that such auditor will have made significant investments in developing industry-specific technologies while setting a target of expected benefits from such investment through audit quality and improved economies of scale. Counteractively, the approach of the portfolio

share considers the most revenue-generating firms amongst their entire audit clients as the drivers of specialization. Notably, Minutti-Meza (2013) found evidence to conclude that within audit industry market share has inherent problems as proxies for audit specialization. He faulted the model of audit market share as he found out that differences exist in client characteristics between auditor types thereby leading to the argument that large market share does not drive expertise. Rather, specialist drives expertise. To overcome this, a product of the two measures was suggested by Fleming, Hee and Romanu, (2014) as proxy for audit specialization in order to capture both the firm specific and auditor-specific factors of audit specialization.

2.1.10. Audit Firm Size

Economic interests in the provision of accounting and auditing services are not insulated from the ills of commercial interests. Financial dealings are carried out with the use of accounting acumen which are usually at the behest of professional accounting firms due to their possession of requisite accounting acumen. As a result, auditors have state-guaranteed markets and use it to sell other services such as corporate governance, pension services and the likes (Sikka, et al, 2018). Auditors, just like other businesses, operate at different levels in terms of size and sophistication of processes. In the audit market, four audit firms – KPMG, Deloitte, Ernst & Young and PWC – stand out as the four topmost accounting services firms across the globe. They are proudly referred to as Big 4. As a result of their growing influence and network across the globe, the Big 4 has created a district gap between itself and other categories of auditors.

Discourse on the competition among auditors in the basis of size is not new. Simunic (1980) related how the “Big Eight firms as a group have been accused of monopolizing the market for audits” (p.161). Gow and Kells (2018) noted that “accountancy is notably less competitive than other professions, such as law and engineering. Competition is especially weak in the market for audit services”. (p. 4) as the “regulators and commentators have raised concerns about the monopoly power of the Big 4” (p.4). They continue to penetrate the market and legitimize their stand, even to the extent of earning combined global revenues at a growing rate that dwarfed the GDP of economies like Hungary, Kuwait and Ukraine as at 2017. According to Sikka et al (2018), their combination makes the 56th largest economy in the world. They have state-guaranteed services to offer and unhindered access to senior management of largest entities in the world.

In Nigeria, the big four and their affiliated firms have almost taken over the entire audit market. World Bank (2011) noted the monopolization of the audit market by the big four thereby under-developing small audit firms. Big firms with international network perform audit for most listed companies (World Bank, 2011) and as a result, employ their monopoly in colonizing the audit market for financial gains at the expense of audit quality (Otusanya & Lauwo, 2012). To buttress this, all the banks named for scandalous practices that led to the loss of N2 tr in the Nigerian Banking Sector were audited by the ‘big four’ audit firms (Otusanya & Lauwo, 2012). Their combined revenue in Nigeria from the 25 of biggest companies listed on the Nigerian stock exchange and representing over 80% of the market capitalization stood at N7.53 billion for 2019 audits (Nairametrics, 2019). In Ghana, the big four earned GHS 17.4 million from the audit of 23 largest company with combined market capitalization of 95% as at 2019 (Gnanawebnews, 2020). There is also an ongoing debate on the regulation of the activities of the big four in South Africa. These are evidence to understand the level of dominance of the big four in the African audit market. Within the context of the discourse of market dominance however, audit quality, audit development and standardization as well as the economies of auditing in Africa are pertinent issues.

This dominance have been applauded by some and assailed by others. It may be applauded for the possibility of enhancing easy inflow of accounting acumen into developing nations, ensuring standardization of audit practice as well as providing an enabling environment for foreign direct investment into Africa. However, it has been assailed for decimating the growth potential of local audit firms and eroding their quality (World Bank, 2011). To Sikka et al (2018), “auditing industry is dominated by the big four firms who are routinely implicated in scandals and seem incapable of delivering high quality audits” (p.3). Such scandals are notable in Nigeria and almost took over major Nigerian banks. In the accounting literature, audit firm size is usually benchmarked on Big 4 (Boone, Khurana & Raman, 2010; Lawewnce, Minutti-Meza & Zhang, 2011; Shan, Troshani & Tarca, 2019; EL Guindy & Trabelsi, 2020), Big 6 (Bauwhede, Willekens & Gaeremynck, 2003)) or Big 8 (Palmrose, 1986) firms depending on the time with the use of binary variable. To the limit of our search and knowledge, audit firm size hardly takes other metrics empirically.

2.1.11 Audit Fee

The notion of entrepreneurship and enterprise culture lays foundation for the need to charge fees for services rendered. It is the basic tenet of services rendering. Audit services are rendered in exchange for fees or remunerations. It is a service that attracts accounting expertise, acumen and experience in vetting financial reports and ensuring their compliance with underlying regulations. Audit fee is the remuneration agreed by shareholder to be paid to auditors. It comprises of sums paid to by the company in respect of auditors' expenses as determined at the annual general meeting of the company concerned (CAMA, 2019). Auditors remuneration are subject to the negotiation by the parties involved and are expected to be attractive enough to motivate and retain auditors. Specifically, ICAN (2009) stated that such fees must be agreed with the client; calculated in accordance with an agreement or calculated with reference to a custom of the profession. It is also expected to be transparent as the requirement for its disclosure in the financial statement is almost globally-accepted.

Meanwhile, audit fees are expected to be balanced between excessive fees that could dampen independence or too low to the level of frustrating the quality of audit rendered. According to the ICAN (2009), audit fee must be ensured to be quoted at a fee not below fees charged by an existing auditor or fees considered to be significantly lower than those quoted by other tendering firms. The FRCN rule also requires audit firms to document that non-audit services carried out were done with the consent of the audit engagement partner and that such service(s) pose no threat to the independence and objectivity of the audit firm and are not prohibited. Nevertheless, fees paid to auditors are traditionally paid on audit services and non-audit services.

Discourses on fees payable to auditor by client is a subject of empirical discourse. It has attracted numerous studies regarding its effect on the quality of audit and many other variables. However, researchers have measured audit quality with varying degrees of measurement. Popular among the measurements of audit quality is the log of audit fee premium (Basioudis & Francis, 2007; Carson & Fargher, 2007; Choi, Kim, Liu & Simunnic, 2009; Ebrahim, 2010). Other studies adopt different variants of audit fee models (Van, 2010; Pendehama, Padia & Callaghan, 2016; Pratoomsuwan, 2017; Kharuddin & Basioudis, 2017).

2.2 Theoretical Review

This section reviews three theories for the explanation of the research direction. The theories are; institutionalism, conflict and institutional change theories. The review proved a guidance

for the adoption of institutional change theory to predict the relationship among the variables of interest in this study.

2.2.1 Institutionalism Theory

With roots traced to the periods towards the end of the 19th century and gaining a formal direction in the 1920s, institutionalism was birthed as a revolt against formalism – a theory that believes in the formation of a society under conditions resulting from free agreements of free individuals (Nureev, 2017). Institutionalism emerged in America by consolidating the thoughts of English Fabians, French Sociological tradition and the influence of Marxism. It covers several fields including economics, political science, sociology, ecology and history (Mohammed, 2017). It first appeared in the works of Hamilton (1919) where it was defined as a “widespread way of thinking or acting embodied in habits of groups and customs of the people” (Nureev, 2017, p. 18). To Hamilton, institutions are built on customary procedures by agreeing to general arrangement and consent. The developmental stages of institutionalism segregated it through its thoughts into old and neo institutionalism (Hirsch & Lounsbury, 1997; Meyer, 2008).

2.2.1.1 The Old Institutionalism Theory

The old institutionalism holds that societies evolve around culture since individuals, who are considered creatures of habit, are groups controlled by customs (Camic, 1986). This thought went through periods of inattention as they were considered vague in understanding and non-consensual due to its dogma emphasizing the control of culture in institutional creations (Jepperson, 1991). The theory holds that behaviours that have been developed and adopted as culture by a set of actors to solve a recurring problem is the crux of institutionalization (Tolbert, 1996). That is, the development of a problem-solving habit by actors and the association of the habit with stimuli is a component of institutionalization and it is a strand of institutionalism termed ‘habitualization’.

The habituality of such cultures will reach a peak at which they are established with minimal decision-making effort by actors in response to specific events. When implications of such habits become generalized, they are referred to as ‘objectification’ (Zucker, 1977). Objectification thus, forms a key component in the process of institutionalization. However, habits have typifications even though they may be closely related. A major process of

institutionalization is for the typifications of habits to be “experienced as possessing a reality of their own, a reality that confronts the individual as an external and coercive fact” (Berger & Luckmann, 1991, p58.). Berger and Luckmann, (1976) termed this experience ‘exteriority’ and refer to its process as ‘sedimentation’, another main component of the institutionalization process.

The thoughts of the old institutionalism explain the development of accounting regulation from historical perspective. The assertion that “accounting principles are essentially pragmatic, describing the structure of accounting practice, having evolved from observations of existing practice” (Inanga & Schneider, 2005, p.233) seems to have been explained by the thoughts of the institutionalism philosophers. The principles upon which accounting practice is regulated are themselves, derived from numerous alternative practices. According to Riahi-Belkaoui (2005), such practices could be traced to the stewardship of merchants in civilizations dating back to the 3000 BC such as the Chaldean-Babylonian, the Assyrian and the Sumerian civilizations. More so, the practices which roots are traced to the Chinese civilization as government accounting was prominently the orchestrated accounting architecture during the Chao Dynasty. Other practices to which accounting principles could be traced were Greek and Roman civilizations.

Yamey (1980), the great accounting thinker and theorist, posits that, to trace accounting back to its original would naturally lead to the ascription of the first invention to the Arabia merchants. The practices of this merchant inadvertently represent the institutionalism dogma of habitualization. It is basically the development of a problem-solving habit by actors (merchants) and the association of the habit with the stimuli of having to keep appropriate records of their financial transactions. This was communicated to all the cities of the Mediterranean (Riahi-Belkaoui, 2004). However, the implications of such recording led to the identification of the ‘Italian book-keeping’ when Barbarian over-run the western empire and Italy became the seat of trade with all the ruins of the captive eastern empire ceded to it (Yamey, 1980). The prosperity of the ‘Italian bookkeeping’ developed to the use of double-entry bookkeeping method in the fourteenth century with the first double entry books that existed were those of the Massari of Genoa in 1340 (Peragallo, 1938).

This explains the ‘objectification’ component of the institutionalism theory. The double entry principles became popular and generalized particularly, with the publication of Luca Pacioli in

1494 (Green, 2014). His book dedicated a good portion to the description of the purpose of double entry-book keeping as to give the trader without delay, information regarding his assets and liabilities and all entries have to be double entries specifying the making of a creditor which automatically makes a debtor (Geijsbeek, 1914).

The application of institutional theory to explain the dynamics of profession is replete in the literature. Within the context of professions, institutionalism theory explains the mechanisms for enforcing institutional configurations as the key to the maintenance of strong correspondence between institutionalized values and beliefs and organizational methods (Leicht & Fennell, 2008). Leicht and Fennell, (2008) consider forces to achieving this are usually classified as normative, coercive and mimetic pressures. Normative pressures situate all actors within an outcome of socialization process to a set of beliefs that define organizational arrangements as being the customary way of organizing specific activities while coercive pressures stem from the efforts of regulatory oversight bodies and resource providers. It thus holds that interest groups could enforce their will through their abilities to confer or withdraw resources. Meanwhile, mimetic pressure identifies the loopholes created from establishing institutions based on norms that are usually taken for granted. Such is considered as merely borrowing from others rather than been painstaking in organizing a social order.

The often taken-for-granted practices of merchants and bookkeepers eventually culminated into the terminology of Generally Accepted Accounting Principles (GAAP) – the “experience, reason, custom, usage, and ... practical necessity that encompass the convention, rules, procedures necessary to define accepted accounting practice at a particular time” (AICPA, 1970, p.9084). Therefore, GAAP exemplifies the insistence of accounting on self- regulation through institutionalized norms (Gaffikin, 2005).

Theoretically, GAAP has endured a long history in accounting research but has consistently become a source of confusion in the practice of accounting across geographical divides. Unveiling an apparently practical disagreement with the notion of GAAP, Skinner and Milburn (1987) observed that; there is no basis for judging which is generally accepted if different entities freely adopt different policies. A recommendation of a standard setting body, however unpopular therefore, automatically deems GAAP to the exclusion of other accounting practices. To this end, practices and policies of accounting began to be experienced as possessing a distinct reality of their own to exemplify the ‘exteriority’ of institutionalism by forming the

‘sedimentation’ stage. Following this, we began to have different GAAPs serving differing purposes such as government organizations’ GAAP, regulated businesses’ GAAP, non-profit organization GAAP and a host of others. The divide of GAAPs also extended to geographic sovereignty where each county has GAAP peculiar to its primary economic environment. The three stages of institutionalism explain the development of accounting to the level its regulation through the issuance of accounting policies derived from practices and norms of accountants, acceptance of such policies and variation of the policies to create a regulatory divide among nations. The regulatory order was not only punctured by geographical difference, it indeed emanated from the need for an establishment to deliberately select accounting techniques and solutions that lend credence to pre-established objective “to be conveyed as representative constructions of reality” (Riahi-Belkaoui, 2004, p.54). This phenomenon is labelled ‘designed accounting’ and it led to a need for harmonization of accounting practices across various needs and environment. The old institutionalism lacks the paradigm to explain this development.

2.2.1.2 Neo-Institutionalism Theory

The neo-institutionalism appeared in the mid-twentieth century as a development of institutionalism theory but eventually outdated the dogmas of the former, thereby rendering it old institutionalism theory. Specifically, it appeared in publication of John Meyer in 1977 which set out various components of the neo-institutional theory (DiMaggio & Powell, 1991). New-institutionalism disparages behavioural revolution which considers institutions – collective political and economic behaviour – as merely an aggregate of individual behaviours (DiMaggio & Powell, 1991). Though a strand of institutionalism, it holds that social institutions are costly to establish bearing in mind, the complexity of larger social, economic and political which are, prima facia, more important to the collective life (March & Olsen, 1984). New Institutional arrangements are based on empirical discoveries that; observation of social realities reveals that individual preferences, rather than cumulating for institutions, are shaped by institutional forces (DiMaggio & Powell, 1991). An instance is given of the basic economic assumption that individuals usually want to maximize their behaviour above consistent preference orderings but institutional realities of cognitive limits, incomplete information and difficulties in monitoring and enforcing agreement deter them from achieving such height (Grossman & Hart, 1987). In contrast to the old, general principles were relied upon to explain the phenomenon of social life in neo-institutionalism. It, rather than focus on the behaviour of the action individuals and

groups, subdue the individual interest to the dictates of the institutions or at least, allows individuals to align with institutions that is more expedient to him (Nureev, 2017).

Its dogma, according to Nureev (2017) is intertwined in three concepts namely: methodological individualism, economic man and activity of exchange. Methodological individualism idealizes the choice of a man within the context of limited resources who naturally, pursues his personal interest wherever he finds himself. To this end, the economic man identifies his preference rather than reshaping the institution or preference of others. However, he makes decision that maximize his utility function as a rational individual. That is, he analyses based on costs and benefits. In such circumstance therefore, a man exists in a state that is considered an arena that creates opportunity for competition among people for influence over access to resources allocation and decision making. As such, association of individuals with variety of interest in an arena does not accede to the dogma of creating institution for the aggregate behaviours of individuals. But, a consideration for process and phenomenon from the point of view of interaction of a group united across property, partisan, religious and social sign (Latov, 2000) makes a neo-institutionalist view of a realistic institution.

Conjoining the two strands of institutionalism theory consolidates the discourse and development of GAAP within the context of accounting regulation. That is, accounting policies was formulated from the practice of stewards and merchant but when faced with the consequences of such inductive method, revert to institutions which, not necessarily relying of the outcome of such practices, can issue authoritative statements for preparers of accounts in their respect primary economic environment to adopt. At some point in the development of accounting regulation across the globe, notably, when the birth of public companies led to information asymmetry between business owners and managers, it became necessary for accounting regulators to limit management's ability to use accounting changes to portray a pre-conceived accounting figure thus, preempting the financial performance of reporting entities. It is not surprising as the development of GAAP, having rested on inductive reasoning as believed by old institutionalists, was faced with the consequences of having to submit to the 'documentation practices of merchants' in developing a supposed accounting GAAP. A further consequence of that was the "emergence of fragmentary accounting theories that tend to preclude the development of conceptual standards by which existing and proposed practices can be evaluated" (Inanga, 2005). According to Caplan (1972), the existence of numerous

alternative practices of accounting can produce substantially different results, all of which are considered acceptable thereby, leading practicing accountants to become incapable of evaluating their actions effectively and providing innovation in response to new demands as they arise. It follows thence, that fragmented accounting GAAPs called for regulation.

Primarily, regulation is designed for its benefits of either being supplied in response to the demand by the public for the correction of inefficiency or in respect to the demands of special-interest group. Its main theoretical versions are the political-elite theory of regulation and the economic theory of regulation (Riahi-Belkaoui, 2005). The crux of accounting regulation is the standard setting process which, through the theoretical versions of regulation, distinguishes the private-sector regulation of accounting standards from that of the public sector. For the regulation of accounting to assume the dogma of neo-institutionalism, it must be capable of suppressing the self-interest tendencies of actors in the sector. Although proponents of private sector regulation of accounting believe in carrying along all interested groups which may be affected by the process as it is the only way the aim of accountability is best achieved.

They believe that private sector accounting standard-setter will be able to attract staff with technical knowhow across the globe and will acquire the requisite versatility to carry out the standard-setting job. However, private-sector standard setting lacks the authority to control the interest of every constituents as it does not possess the needed authority to manage conflicting interests of established governments of sovereign nations (Riahi-Belkaoui, 2005). This thus leaves a loophole in the explanation of accounting regulatory process by the neo-institutional theory. Accounting regulation is largely private sector-driven and could not have achieved the dogma posited by neo-institutionalism of situating the interests of various groups within the limits of an established institution. The reality of this proposition is expressed in the barrage of accounting scandals (e.g. Enron, MCI-Worldcom and Royal Ahold) that rocked corporate world in the last decade. According to Leicht and Fennell, (2008), these cases point to many of the institutional problems with deregulated systems of finance and financial markets. It unveils the conflict brought about by the intercourse of management consulting with accounting and law. If each strand of the trio had the requisite authorities to exercise their professional prerogatives in independently monitoring the legal and financial behaviour of the firms involved, the scandals may have been averted. Their apparent undoing is their inability to manage conflict of interest issues thereby questioning the fundamentals of GAAP and the ability of accountants to remain

independent from their clients within the realities of a deregulated financial market (Leicht & Fennell, 2008).

2.2.2 Conflict Theory

The proposition of conflict theory signals the punctuation of an institutional order due to the reality of change process inherent in every society. It derives its basis first, from the thoughts of Karl Marx in the early to mid-1800s (Allan, 2007) and with further development with the works of Ralf Dahrendorf in the 1950 with the tenet that “every society at every point is subject to process of change” (Ritzer, 2012, p.265). Dahrendorf (1958) discovered that change processes are usually triggered by dissention, conflict and resistance to the directions of power that is maintaining societal order. He believes that the societies’ two faces are conflict and consensus. While consensus examines value integration, conflict examines conflict of interest. The theory stems from the belief that conflicts can only occur if there was a prior consensus but regards such consensus as a product of coercion or enforced constrain intended to hold the society together (Dahrendorf, 1959).

Conflicts are by no means necessarily dysfunctional but “a certain degree of conflict is an essential element in a group formation and the persistence of group life” (Coser, 1956, p.31) which closely relate to the logic of Dahrendorf (1957) in explaining the production of elements of supersession and change. Such elements derives for social, economic or political interest stemming from the polarization of the society and segregating them to distinct positions with dissimilar interest. An instance is cited of Marx’s notion of political interest wherein he considered that capitalism contains owners and workers as the two classes that really matter and a process of ‘dialectical change’ will naturally occur because the two classes are inherently antagonistic due to dissimilar and conflicting political interests (Allan, 2007).

Conflict theory works within Weber’s three stratification systems namely; class, status and power. Power, to conflict theorists is a central feature of society as the differential values held by those who use power and those who do not form the fundamental of conflict theory (Allan, 2007). Allan (2007) explains further that with the dogma of power being the central feature of a society, social conflicts usually stem from unequal distribution of scarce resources or the perception of a group that its sense of deprivation is caused by class. Power has authorities

attached to it and authorities imply both super-ordination and subordination and as a result, has its central feature in domination (Ritzer, 2012).

Moreover, the dynamics of conflicts is usually ignited through interaction (Hofreiter, 2008) among the two classes at the early stage of the conflict because it follows a hierarchy of phases which, though not necessary, follows one after the other (Kazansky 2015). The hierarchy according to Kazansky (2015) begins with the pre-conflict phase, confrontation phase as well as crisis, consequences and post-conflict phases. To him, conflicts may stagnate at a certain stage for several years or even interrupted during the conflict. The pre-conflict phase is perceived as a latent phase where parties involved have identical objectives with satisfaction and achievement depending on limited resources. At this phase, the dispute is not openly shown but has features of growing tension among constituents of a specific class. The tension may continue for decades waiting for a trigger-event or incidence that can lead to confrontation.

Confrontation phase is characterized by accumulation of resources and identification of allies while crisis is the peak of a conflict wherein violence and tension are very intense. It features cessation of communication after which each party begin to face the consequences of the outcome of the conflict. But, the level of defeat suffered by a party from the other will eventually determine whether the situation will return to pre-conflict stage or amicable settlement will be allowed. Observing through the lens of conflict theory, the explanation of accounting regulation is twofold namely; authority of the standard setting process and the colonization of the audit market with the dominance of the 'big' audit firms.

With respect to the authority of the standard setting process, the dominance of national sovereignty by accounting standards was resisted as they were ordinarily not required to violate constitutional rights or statutes, be in public interest and be designed to prevent probable social change (Elliot & Schuetze, 1980). The mere fact that environmental factors affect the financial reporting practices of a country of jurisdiction generate reservations for the harmonization of accounting standards. However, as predicted by the thesis of conflict theory, institutions majorly consist of the authority and the subordinate. Prior to harmonization efforts, International Accounting Standards (IAS) issued by the International Accounting Standard Committee (IASC) have voluntarily been partially or wholly adopted by countries across the globe, particularly developing nations (Boolaky, 2004). The stratification of the standard setting

process has always informed a grouping of accounting standard setters into the authority (IASB) and the subordinates (local standard setting bodies in various countries).

The conflict of interest came in when the IAS was perceived as a superior standard, thereby enabling local standard setters in their respective jurisdictions to enforce a caveat that: in case of contradiction between the local and international accounting standards being adopted, the local standard supersedes (FRCN, 2012). Thus, for the purpose of accounting practice, IAS gained prominence where multinational companies existed and prepares financial report to capture the global outlook. Further, companies seeking business expansion beyond the shores of their countries began to consider the need to voluntarily adopt IAS in order to meet the needs of the investors as well as the regulatory requirements for cross-border listing (Gyasi, 2010).

The pre-conflict phase of the conflict theory where tensions usually gather was, for the global accounting regulation, marred by necessary need for countries to adopt IAS. As the acceptance of IAS grew, efforts began to 'repackage' the standards as the IASB transformed to International Accounting Standard Board (IASB) in 2001 to issue International Financial Reporting Standard (IFRS) to be adopted by all countries of the world. The harmonization efforts, even though was intended to achieve global comparability of financial reports and help small countries without accounting standards of their own to develop one, attracted critics. It was assailed for being too simple approach to be applied to a complex problem and questioned whether comparability was the right goal of financial reporting. Others have argued that international accounting firms are using international accounting standards to expand their customer base since they have the expertise than any other accounting firm in the world (Choi & Meek, 2011). Despite the criticism however, more than one hundred and sixty companies have adopted IFRS in the world with countries cutting across all continents (IASB, 2019). This situation has laid to rest, arguments regarding the adoption of IFRS standards and has apparently traversed all the hierarchy of the conflict stages, perhaps, inadvertently. The stage of defeat has apparently been experienced with the accounting regulation now largely in the hand of the global standard setter. This did not only achieve the harmonization objectives; it also came with problems regarding the financial reporting quality. The financial reporting of companies across the globe were discovered to have reduced in quality in post IFRS adoption era (see Belkaoui, 2005; Holthausen, 2009; Filip & Raffournier, 2014; Zuhrohtun & Baridwan, 2015; Mongrut & Winkerlried, 2019).

This has culminated in various accounting scandals in complicities with auditors notably the KPMG complicity in the collapse of Old Carillion construction giant in 2018; the role of Grant Thornton in the collapse of a 92-year old Patisserie Valerie café chain in 2018 as well as involvement of KPMG's inability to identify accounting manipulation in the books of Stanbic IBTC holding Plc in 2015. These developments identified the conflict and its post-conflict settlements as postulated by the conflict theory but further spurred a new problem not predicted by the conflict theory. In other words, the accounting market was dominated by the adoption of the IFRS which was in favour of the dominant group, that is, the global standard-setting bodies, nonetheless the post-conflict stage did not return the accounting regulation to status quo neither did it improve its quality. This development requires the identification of an appropriate theory that explains the outcome of a social change process.

In accounting research, conflict theory has been adopted to explain the basis of standard setting process (Fogarty, 1994). He posits that; a greater potential for social order is inherent in the dominance of a standard setting process by the US's Financial Accounting Standard Board (FASB). With such, it is bestowed with authorities to "act as a political actor with an interest of amplifying its power over the standard setting process and its interested parties" (p, 219). Given the spontaneous outplay of conflict in the social order, Stanga and Williams (1979) suggest that credibility, professional control, leadership, trust and moral tone are consistent with the interpretation of conflict. In reaction to the claims of Stanga and Williams (1979), Hines (1989) suggests that conceptual frameworks of accounting as designed by the dominant standard setting body serve as a protection for the standard setting process from governmental intrusion. Apparently, roles played by the standard setting body provided as statutory mandate for the decision making of the dominant accounting standard setter (Kirk, 1978).

Further, the colonization of the audit market by the 'big' firms which a source of another conflict along the financial reporting regulation trend has proved the contention of Hines (1989) and Kirk (1978) wrong. Aptly put, "the domination of the audit market by the 'big' firms can increase instability" (Sikka et al, 2018, p. 51). In the United Kingdom's audit market, the 'big 4' – PWC, KPMG, Deloitte and EY – firms are engaged in the audit of the FTSE 350, that is, the 350 companies with the highest market capitalization. With these engagements, they generate 99% of the audit fees and 98% of non-audit fees at the expense of smaller audit firms (FRC, 2018). Similarly, the Nigeria's audit market is dominated by the same 'big 4' with

international network to conduct statutory audit of most of the listed companies in Nigeria while professional accountants in the small and medium-sized audit firms face the challenge of keeping in touch with the developments in accounting practice globally (World Bank, 2011).

Although this development has stratified players in the audit market into the dominant and subordinate groups as posited by the conflict theory, the inability of the theory to further explain the relationship is inherent in the excessive political wits of the big audit firm to a level that, despite the barrage of bank closures and accounting anomalies, “Nigeria has not experienced any litigation against auditors” (World Bank, 2011, p.10). In the words of Sikka et al (2018, p.9), the ‘big 4’ firms “audit almost all of the UK and the world’s major banks and leading corporations. They are paid millions to hold companies and their directors to account but have delivered little.” They can achieve this feat because they have, over the years grown in influence and have colonized almost the audit regulatory bodies of the worlds’ most influential countries.

This is evident in the domination of the board membership of the FRC, UK by 5 from the ‘big 4’ audit firm out of the 15 members of the board. Their influence extends to holding government to ransom as evident in the emergence of the Limited Liability Partnership (LLPs) law in the UK through the Island of Jersey. To achieve this, “PWC and Ernst & Young jointly spent more than 1trillion poundsto privately draft a bill and asked the tax haven of Jersey to enact it” (Sikka et al, 2018). As it is the case for the dominance of accounting standard setting by the global standard setter, global-linked audit firms’ dominance has not led to improvement in financial reporting quality. On the contrary, they have only succeeded in deploying accounting acumen to amass huge profits through illicit means such as trading on tax avoidance schemes, abusing borrowers, corruption, money laundering, bribery and sanctions busting (Sikka et al, 2018). Situating it in the dogma of conflict theory suggests the need for a more robust theoretical underpinning to capture external reactions to the dominance of audit market turned monster for the smaller audit firms to challenge.

2.2.3 Institutional Change Theory

The foundations of institutional change theory were laid by John R. Commons, Thorstein B. Veblen, John Dewey and Clarence E. Ayres (Bush, 1987). Its philosophy is premised on the dynamism of institutions wherein institutional actors compare costs and benefits of established norms with other ones and consider switching to an institution that maximizes their collective

welfare (Busetti, 2015). The thrust of the theory is explained by a change in the value structure of an institution (Bush, 1977). The value structure will remain unchanged insofar as the collective welfare of actors is maximized in any institution. That is, stability will be maintained by the institution over time till a better welfare is desired. Meanwhile, Shepsle (2001) delineated the drivers of stability to involve two main actors namely; the politicians and other institutional actors. He believes that politicians want institutions as signatories to their personal interest through reduction of uncertainties, cutting risks and minimizing transaction costs. The other institutional actors on the other hand would subscribe to institutional stability in a dynamic manner. Their interest in stability is usually driven by their progressive investment in the institution due to its existence. As a result, they contrive strategies to uphold institutional stability even if it entails extra costs. However, if the status quo is no longer achievable, a change dynamic, understood by explanations based on equilibria will be experienced or ignited by factoring power into the analysis of efficiency and pareto-superior dynamism of institution (Busetti, 2015).

It hence, reemphasizes the strand of institutional change drivers into the politicians and other actors. These typologies are determined by the behavioural terminologies of ‘ceremonial’ values and ‘instrumental’ values. According to Bush (1987), ceremonial values explain institutions through their interplay at the differential level of status, privileges and relationships. That is, the need to exercise power by one social class over another while instrumental values are the correlates between the behaviour and the employment of other factors of knowledge such as skills and tools.

If the ceremonial and instrumental values of institutions are anything to go by, it implies that the possibility of change is embedded in any institution because ceremonial values typifies a situation that could culminate in desire for change in institutions when the interest of the differential levels conflict. When such interests are widely dispersed and get to an intolerable level, when institutional investment of actors produce benefits to all interest but at a level considered not optimal enough. The process that enforces the effect of ceremonial values on a change is termed ceremonial encapsulation. Ceremonial encapsulation explains the dominance of beliefs that are difficult to change even in the wake of new knowledge. A belief that poses an obstacle to the absorption and diffusion of the new knowledge in the form of technological innovation (Bush, 1977) and as such could be absorbed only to the extent that it does not pose

a threat to the existing value structure of the institution. This process prevents new knowledge and produce 'regressive' institutional change. In the views of Ayres (1961), such process is termed 'past binding' character while Ogburn (1964) tagged it 'cultural lag' due to its insistence on the preservation of existing value structure in the face of new innovations. Covertly, ceremonial values will increase to dominate instrumental values in correlation to behaviour to signify a regressive institutional change.

The instrumental values produce change in the wake of advancement of tools, knowledge and skills. Here, technology is brought to bear. To the institutionalists, technology is either a process or a toll. It is considered a process when it arises "out of human proclivity for workmanship and the exercise of intellectual curiosity" (Bush, 1987, p. 1087). Essentially thence, a change in technology is exercised by a change in habits of thought in connection with a given situation. With a certain level of knowledge, ceremonial values – on which dogmatism of belief thrives – are displaced by instrumental values. Such process is sustained by increase in reliance on knowledge and skills in the correlation of community behaviour and thus dampen the index of ceremonial values. Although, it is illogical for instrumental values to thrive and displace ceremonial values since they are entrenched and strongly guarded by actors, the dominance of instrumental values initially moves the institution into what institutionalists refer to as sector II as they will be naturally be isolated within the institutional space. More so, the ceremonial barriers are broken down to provide a space for the technological innovations and pave way for progressive institutional change. Veblen (1965) conceive the process that births progressive institutional change as cumulative causation since it enables changes in technological innovation to redefine the objective circumstances of the community and alter the thoughts, behaviour and beliefs. To him, "the machine throws anthropomorphic habits of thought" (p. 310).

Classically, institutions' transformative capacities are caused by selected institutional actors to gain recognition and legitimacy or ignited by the structures of the institutions itself to learn and act upon the learning (Buitelaar, Jacobs & Legendijk, 2005). Institutional change will occur at a critical moment when there is enough pressure driving the change. The pressure leads to critical juncture which is a break from previous pattern and an overhaul of what Burch et al (2003) referred to as discursive hegemonies. The notable explanation this theory offers accounting regulation in Nigeria is situated in its potential to identify the need for change

punctured by events in twofold: the World Bank report on Observation and Codes conducted on the architecture of accounting in Nigeria in 2004 and 2011 in response to widespread corporate collapse as well as the need for Nigeria's accounting regulation to be updated in line with current development and also encompass other legal accounting bodies in the country.

More so, its dogma of regressive values may have dominated the accounting institutional phase as the monopoly of ICAN in the accounting institutional space led to reactions and moves to establish new accounting bodies on one hand and the long endurance of audit clients in the hands of fiendish auditors who would rather promote their 'enterprise culture' and maximize revenues at the expense of quality audits. Concurrently, the explosion of accounting scandals in Nigeria led to a reported loss of about two trillion naira in the banking sector. At this juncture, the institutional norms became punctured and the ceremonial values were outwitted by the need to employ instrumental values through the invitation of experts from the World Bank to study and report on the observance of standards and codes in Nigeria's accounting institution (World Bank, 2011). The outcome of the study led to the enactment of the Financial Reporting Council of Nigeria (FRCN) act in 2011, among other moves, to usher in the critical moment of institutional reform. The reform is expected to birth progressive change radical enough to redirect the woes of audit malpractice and corporate financial mishaps the country had just witnessed. Hence, expectation of accounting reform to enhance audit quality.

2.3 Empirical Review

2.3.1 Studies on Developed Countries

Prior empirical studies have provided replete, but mixed evidence around audit quality and accounting regulatory reform. In the United States (US), regulatory reform of financial reporting is more about the Public Company Accounting Reform and Investment Protection Act popularly known as Sarbanes-Oxley (SOX) Act than anything else. Most of the studies on financial reporting regulation in the US therefore, center on how SOX has led to improved quality of financial reporting in the country. Such studies have been multi-dimensional with mixed outcomes. Research outputs on SOX also produced equivocal findings on risk corporate risk-taking. In his study, the chilling effect of Sarbanes–Oxley: A discussion of Sarbanes–Oxley and corporate risk-taking, Dey (2010) examined how the shock caused by the pre-SOX accounting scandals can be isolated in determining the effect of SOX on the risk, corporate organizations are willing to take in the US. With the use of a non-US firms as control group, the author

documented a decline in the risk-taking measures after the enactment of SOX. He further cautioned that, the body of research on SOX have found that the questions around the regulatory implications of SOX are difficult to answer.

Nonetheless, in an earlier study, Zhou (2008) examined how conservative earnings management has been since the enactment of SOX. They studied 15,852 firm-year observations to isolate differences, if any, between pro-SOX and post-SOX conservation of earnings management. The result, presented using both univariate and multivariate tests, identified less earnings management in the pro-SOX period with the regards to both measures of earnings management proxied in the studied. More striking in the result is its connection to audit size which identifies less earnings management and more conservatism with the big audit firms after SOX. The measures of reporting quality are based on discretionary accruals and absolute discretionary accruals. It thus submits that financial reporting quality improved due to financial reporting reform in the US. This result has similar outcome with the study of Aono and Guan (2008) who proxied financial reporting quality with the distribution of second digits in reported annual net income in publicly listed US companies using 20,222 firm-year observations. Observation of the changes that occurred within two years pre-SOX and post-SOX respectively indicated a non-apparent earnings management in the post-SOX financial reports.

The nature of earnings management observed in the study of Aono and Guan (2008) is cosmetic as it only examined earnings management on the surface, measuring it with the distribution of figures which are usually unlikely to be spontaneous using Benford's law. A seeming diametric finding observed how SOX may have complicated the relationship between auditors and corporate entities. Jelinek are Jelinek (2010) observed that SOX have changed the narratives from a buying-centre model to a selling-centre model which is believed to complicate the initially simple relationship. Its implications are likely be that the audit firm will be able to positions itself and help the client company navigate its changing environment. Striking as the result appears, it lacks empirical basis as the research was not based on quantitative evidence.

Locating the unintended effects of SOX, Vakkur, McAfee and Kipperman (2010) evaluated the perception of 500 CEOs in the US on the consequences of having to apply the proclamation of SOX. Their study suggested that CEOs believe SOX significantly harmed and devalued firms as they perceived the law to have induced centralization of core processes thereby leading to greater rigidity. They also discovered that managerial decision bias has been linked to the need

of the management to reduce exposure to civil and criminal liabilities under the law. Although the study was indifferent as regards the impact of SOX on firm innovation, it noted that SOX conferred managerial influence on the auditors at the detriment of the auditee firm and investors by reducing financial information quality and hence, transparency. While lowered financial information quality may have been unintended by the regulatory reform, it came at a cost as the study of Miller and Bowen (2011) noted that audit fees statistically increased in the SOX's post-compliance period. The study involved both univariate and multivariate analysis with 600 firm-year observations for both pre- and post-compliance periods. However, it did not examine if such cost rise had any implication for financial information quality despite its segregation of small firms from large firms in its observation.

With a mind set on improved disclosure and accountability, Nejadmalayeri, Nishikawa and Pao (2013) also observed how expensive audit got due to SOX. They noted that in all bond transactions that of the United States firm captured by the Fixed Income Securities Database for a period of 10 years spanning 1997 through 2006, the benefits brought about by SOX may not have exceeded the cost as it had negative impacts on shareholders through drop in their values as well as a glaring drop in credit spreads. Such drops explain a possible decline in investors' confidence which is usually a consequence of perceived defects in information quality. This result was confirmed in a later study by Li (2014), which extended the cost-effectiveness of SOX to cross-listed foreign firms. In the study where a sample of 658 foreign private issuers between 1999 and 2003 covering 49 countries in relation to cross-border investments in the US were obtained, it was concluded that SOX imposes net costs on shareholders to the extent that it offset net benefits from cross-listing for the observed foreign private issues during the period covered by the study.

Subsequently, research studies examined improvement in the relevance and sustenance of the regulatory reform propelled by SOX. Away from the effects of SOX being observed and managed by the private sector, Reinstein, Abdolmohammadi, Tate and Miller (2014) studied the need to extend SOX provisions to the public sector. As a sample, more than two hundred financial officers and auditors were observed for their views regarding how the public sector would fare with the introduction of SOX. The study produced equivocal results, expectedly, as it observed samples from two cohorts of diametrical objectives and intentions. However, both cohorts came to terms with respect to the need to extend SOX to the public sector for improved

audit independence, management assessment and reporting of internal control as well as more severe penalties. In other words, the sample subjects believe that it is imperative to introduce SOX to enhance financial information quality in the public sector. The study was entirely survey in nature with the adoption of both quantitative and qualitative methods of analysis.

On the monitoring role boards structures of firms regulated by SOX, Dah, Frye and Hurst (2014), conducted a research on the relationship between SOX and deliberate streamline of board structures in order to obviate the ‘excessive powers’ of boards. It covers a sample period spanning 1998 to 2006, using data available on the databases of COMPUSTAT, CRSP, ExecuComp as well as Risk Metrics with difference in difference methodology. A logistic regression run indicated that most firms, including the compliant ones, made board structure changes post-SOX. More interestingly, the study noted that compliant firms largely removed independent directors post-SOX to be able to benchmark with the 50% SOX-prescribed level and inadvertently bowing to pressure of increased monitoring. Ironically however, an increase in independent directors and a decrease in inside directors exposes the firm to sensitivity of performance to CEO turnover with a consequence of ceding relatively more power to the outside directors and hence, negatively affecting monitoring post-SOX. Succinctly, the study submits that “large board changes seem to be more detrimental to the monitoring function of the board” (p. 106).

Following the work of Dah, et al (2014), a study of independent directors and dividend payouts in the post SOX era was conducted in the US by Coville and Kleinman (2015). With specific interest in how the dividend pay-out policy was affected by board structure, the study isolated the companies that had already introduced the use of independent directors prior to SOX enactment and observed how they differ with the companies that adopted it after SOX in respect of dividend payout policy. It spanned 8 years between 1999 and 2006, while 1,979 firms were sampled from the IRRC database and later pruned to 333 firms due to intersection with some other reliable databases thereby making the firm-year observation to equal 2,664. It concluded, in tandem with the output of Dah et al (2014), that several companies increased the independent directors in their board membership post-SOX. Additionally, the study observed that companies compelled to adopt independent directors by SOX significantly increased their average changes in dividend payout and percentage changes in dividend paid when compared to pre-adopters’ compliant firms. Dividend payout is usually a function of how the directors intend to manage

the free cash flow of their entities. Similarly, such decisions border around top executive compensations in firms, vis a vis the financial performance of firms.

Whether these intertwined relationships were affected by the enactment of SOX was the crux of the study of Shim and Kim (2015). The Ordinary Least Square Regression was run to test the research hypotheses based on the 232 firms 8-year observation leading to 1856 firm-year observation spanning 1997 through 2001 for pre-SOX period. The results presented by the study were three-fold namely; SOX's effect on the relationship between CEO's compensation and accounting-based performance; CEO's compensations and market-based performance and CEO's compensation and firm size. In the post SOX period, the study discovered that CEO compensation is a function of firm size while in the same period, CEO compensation was found to be positively associated with accounting-based firm's performance and negatively correlated with the market-based firm's performance. An extension of this work conducted by Hansen and Trego (2015) isolated the pay of Chief Financial Officer (CFO) of public companies previously charged with fraud. Although the study did not examine the impact of SOX, it was conducted after the enactment of SOX and relied significantly on the enforcement of SOX in projecting the quality of data available for analysis pos-SOX. While highlighting the inconsistent use of the appropriate authority in checking the CFOs of public companies as its main result, the study lack empirical basis as its findings were based on ungeneralizable opinions.

With specific quest on how financial information is affected accounting regulatory reform in the US, Abdioglu, Bamiatzi, Cavusgil, Khurshed and Stathopoulos (2015) conducted a research on the interaction among information asymmetry, disclosure and institutional investment in the wake of SOX. Data were gathered on the holdings of institutional investors of 28 different foreign countries with the aid of Thomson Reuters 13F database. The study covered 1999 through 2012 and isolated 15,887 firm-years observation for 2,752 unique firms. Empirically, the outcome of the research indicated SOX has improved foreign institutional investments in the US through the reduction of information asymmetry and more disclosure provisions. Similarly, with respect to risk premium and return volatility, Vega, Smolarski and Zhou (2015) adopted a "Component Generalized Autoregressive Conditional Heteroskedasticity approach to estimate the permanent and transitory component of share price volatility" (p. 86) and used predicted volatility that changes in the unit price of risk as a result of the enactment of SOX act.

The sample of 3,119 observation and analysis of result therefrom led to the submission of the study 's proposition that implementation of SOX positively affected the market through a steady decrease in required excess rates of returns. Just prior to the implementation of SOX, uncertainty was the order of the day due to financial imbalance caused by the various accounting manipulations and hence, scams. As a direct consequence of SOX enactment, information asymmetry reduced and trimmed the information risk inherent the US capital market. In turn, excess returns demanded by investors as well as the cost of capital paid by the public firms were reduced. A direct impact of SOX on the threat to auditor independence was the crux of Shaub's (2015) work. The study adapted a model of trust, independence and professional skepticism developed by Shuab (2005) to address how SOX may have improved auditor independence. While the study lacks in empiricism, it submits that SOX has substantially address self-review threats. To consolidate Shuab's (2015) study, Lampe, Gracia and Tassin (2016) examined the historical reactions of accounting and auditing profession to regulatory changes. The study took specific interest in the post-SOX history of US accountancy profession. Data were gathered on accounting firms from the repository of American Institute of Certified Public Accountants (AICPA) between 2001 and 2011. The result of the study also noted a significant increase in audit and non-audit fees immediately after SOX enactment for all categories of auditors. Meanwhile, a drop in overall membership of certified public accountants was also noted in the SOX period. This development was explained by the establishment of Centre for Audit Quality in the US to monitor and regulate the activities of auditors. The study also noted that public opinion had little relative change to improve the perception of public on the auditor' ethics and honesty in the post-SOX period.

In determining how SOX may have affected firm behaviour by examining their compliance with the Code of Ethics for Senior Financial Officers, Ahluwalia, Ferrell, Ferrell and Rittenburg (2016) collected the details of companies' Code of Ethics for Financial Officers of 500 companies stratified into 43 industries of five firms each, using ordinal logistic regression. Their study unveiled how SOX led to the discovery of errors in financial statements hitherto published and filed. Beyond just senior financial officers of firms, innovativeness of board members and the intra-networks was a subject of research scrutiny in the post-SOX era. To Withers, Kim and Howard (2017), research efforts in the evolution of board interlock networks in reaction to SOX was worthwhile. The study covered 300 fortune firm between 1998 and 2006 comparing the pre- and post-SOX periods. Modelling stochastics actor-oriented model, the study noted that

SOX created significant disparity in the supply and demand in the labour market for corporate directors. It submits that a company's tendency to reciprocate board interlock ties was reinforced by the passage of SOX. Hence, crossbreeding of directors was encouraged due to SOX passage and that a firm is more likely to partner with a firm with which it has indirect connection.

Prior to Wihters et al (2017), the effects of the nexus between firm reputation and regulation on directorship turnover was of research quest for Hang and Sun (2016) wherein the data of US firms that face class-action of lawsuit were collected between 1997 and 2006. 408 class-action cases were found to have varying degree of violations, notably among which are fraudulent financial reporting, internal control, product recalls and others. The stratification of the sample data provided two cohorts of fraud and non-fraud firms. The study submits that director turnover was significantly higher for fraud firms. More so, the study identified a relationship between CEO turnover and director turnover, a discovery that has the likelihood to reshape the board and thus results in director turnover. It is implied therefrom that it has been challenging for fraud firms to replace directors since new and prospective directors may be averse to relating with fraud firms. An observation of the data of all utility patents granted by the US between 1996 and 2010 was used to examine the nexus between board innovation and SOX by Gu and Zhang (2017). Adopting a counterfactual analysis, a difference-in-difference, model was run to compare the changes in innovation between SOX-compliant and non-complaint companies in the US with about 15,000 firm-year observations.

The study submits that "SOX has a positive and significant impact on corporate innovation outputs as measured by the number of patents and the number of citations per patent" (p. 28). It further highlighted that, with companies that has entrenched CEOs and low institutional ownership, the effect was found to be more profound because SOX has consolidated the abilities of these firms in the areas of improved corporate governance and effective monitoring by independent directors. As for their examination of innovative industries against their non-innovative peers, the study observed that SOX was more beneficial to companies in innovative industries.

How internal control material weakness and real earnings management are affected by SOX is the thrust of the work of Amoah, Aderson, Bonaparte and Tang (2017). Measuring real earnings management with are abnormal cash flow from operations, abnormal discretionary expenses, and abnormal production cost, the study observed 1,824 firms over 8-year period

between 2004 – 2011 to examine effects on the outcome variables. The study noted that, to achieve earnings targets, firms with internal control material weakness managed revenues through excessive price discount and overproduction. However, SOX's section 404, designed to reduce the instances of internal control material weakness succeeded in reducing it. Consequently, real earnings management could also be reduced with the implementation of Section 404 of SOX. More specifically, Alsharairi, Dixon and Al-Hamadeen (2017) examined the effects of mergers and acquisition on earnings management comparing the pre- and post-SOX periods. The study's primary motive was to examine mergers and acquisition precipitated earnings management as a result of SOX enactment. For the periods between 1998 and 2008 which the period covered, 700 mergers and acquisitions were completed in the US and the data related to all of them were used for the purpose of the study. Using a longitudinal design, the study stratified the direction of its findings along acquirers' and targets' sides of mergers and acquisition transactions. It identified that, for the acquirers' side, earnings management, which had earlier increased to its peak prior to SOX, decreased considerably post-SOX.

Comparing for the periods between the mergers and acquisition scheme, the study identified an aggressive inflation of normal accruals due to mergers and acquisition before the SOX enactment. The result of the target side behave diametrically as earnings management were observed to decline in the last four quarters of pre-merger. Isolating the effect of SOX, the study noted a possible effort of management towards aggressive earnings management in the post-SOX era. Although, Bhabra and Hossain (2017) also examined how SOX may have affected corporate acquisitions, their study precludes the possible effect of earnings management. The study includes 9,463 publicly undertaken mergers and tender offers by the US firms between 1996 and 2009. It used the standard event study method for short term performance analysis and ran an ordinary least square regression to determine the effects and directions of the variables and concluded that SOX mitigated against shareholder value destruction in the market. It noted significantly larger announcement of abnormal returns in the post SOX period than the pre-SOX.

Nonetheless, the improved management quality in the post-SOX had a moderating effect on the self-serving opportunistic behaviour of the management. While Kohlbeck, Sankara and Stewart (2017) also examined the behaviour of earnings strings within the shadows of SOX, their study was more particular about earnings smoothing, which is more specific and usually targeted at favoring firm attributes (Titman, 1988). They studied 22,735 observations using a logit

regression analysis and concluded that extreme audit tenure as a factor is associated with increased earnings string. More so, analyst pressure on management were identified to be associated with greater earnings string in the pre-SOX period.

Specific studies on how quality audits are affected by accounting reform in the US are less direct as well as relatively sparse around accounting literatures and research outputs. The thrust of the study inquiring whether SOX has standardized audit quality (Hoag, Myring & Schroeder, 2017) was to isolate the role of quality audit in the financial reporting process and the possible effects of SOX on it. With 14,453 firm-year observation, Hoag, Myring and Schroeder, (2017) ran a regression analysis and concluded that audit quality was enhanced by audit size in the pre-SOX period but to the contrary in the post-SOX period. Meanwhile, specialization of audit enhanced audit quality throughout the periods of reform. It, therefore, could not identify the specific effect of SOX on audit quality. Similarly, SOX may have affected the effects of non-audit services on audit quality as the examination of Chu and Hsu (2017) on 7,833 firm-year observation led to the discovery of the presence of accounting conservatism in the sampled firm during the pre-SOX period thereby signaling poorer audit quality while the result of the post-SOX period yields equivocal outcome with no specific direction. Nevertheless, Graham and Moore (2018) assessed how high-growth-related distortions in accounting was mitigated by SOX. The result identified a strong reduction in accounting distortions proxied by book-tax differences and total accruals from pre-SOX to post-SOX for high growth firms relative to lower-growth companies.

Although, this study excluded audit quality as an outcome variable, it provides a speculative direction for a possible improvement of audit quality in the post-SOX period, particularly, for high-growth firm. No specific indication of audit quality direction was identified in the finding. Kim, Dandu and Iren (2019) though, it centrally focused on the effect of SOX on audit quality. Having identified that more firms delisted due to the cost of handling SOX requirements, the study settled for 80,215 observations prior to SOX implementation and 61,610 subsequent to its implementation. The discovery of the study is quite dissimilar from previous equivocal results as it found that “over the long run (10years) after SOX adoption, there is a significant positive change in conservatism as compared to during the previous similar period” (p. 897). It noted that, if a factor was responsible for the improvement of audit quality noted from positive change in conservatism, it would be the severe price paid through the closure of Arthur Anderson’s business after Enon’s saga, albeit, the study restricted itself to the comparison of quality among

the audits conducted in Arthur Anderson's city and others which delaminated the generalizability of the study.

Reacting to corporate scandals involving Seibu Railway, Kanebo, and Livedoor, the Financial Instrument and Exchange Act (FIEA) (2006) was passed in Japan. The act was passed to reform the financial reporting process as it reinforces the roles of managers in ensuring strict compliance with corporate and accounting regulations (Enomoto & Yamaguchi, 2017). Since the passage, plethora of research works have been conducted on its potency in preventing corporate collapses in Japan. The study of Enomoto and Yamaguchi, (2017) examined the behaviour of earnings change distribution after FIEA implementation. It obtained data of 28,804 firm-year distribution covering a period between 2000 to 2013 for both FIEA and pre-FIEA respectively. The study ran panel analysis for both strands of the period and discovered that earnings management targeted at preventing reduction in earnings decreased. Unlike the effect of the US-SOX, earnings management did not disappear in Japan as a direct consequence of the reform.

The difference, as identified by the researchers, could be attached to higher rate of effectiveness of US-SOX than the FIEA. More so, FIEA requires that the managerial assessment of the internal control be audited by the auditors and as such, lessen the pressure on the auditor with regards to internal control process. Contrarily, the US-SOX establishes a direct link between the auditors and the evaluation of internal control. Additionally, differences in the effects of reform on audit quality between Japan and US may have also been caused by the incentive to avoid losses, known to be relatively strong in Japan than US as noted by Suda and Shuto (2007). In an earlier study, Nakashima and Ziebart (2015) had examined the degree of impact the Japanese-SOX have on earnings management and quality. It compared earnings quality and earnings management of companies that disclosed at least a material weakness with companies without material weakness matched on size and industry. In a sample of 66 companies' data from 2001 through 2009, the analysis revealed that real earnings management and accrual management did not change for the controlled firms. Meanwhile, the study submitted that, for companies that reported material weakness, accrual management increased.

Concerning the period of the enactment of FIEA, accrual management for the two categories of companies sampled are significant for both pre- and post-FIEA periods noting that real earnings management for both groups of firms are not significant in the post FIEA period. Another study

on FIEA conducted by Shimizu and Ly (2017) determined whether FIEA led to the lowering of systematic risk post-financial crisis in Japan. Having isolated the series of bailouts and interventions by the government, it noted that systematic risk got reduced due to the intervention. The study, however, did not consider the possible effects on the quality of earnings in Japan. Notwithstanding, it ran a longitudinal analysis on the data collected. The study of Eddie and Yamaguchi (2018) of 7,752 firm-year observation in examining the behaviour of income smoothing and accounting conservatism post-FIEA also identified less income smoothing after the Japanese financial reform. It, nonetheless, isolated companies with large current tax liability for furthering their engagement in earnings smoothing despite the implementation of FIEA.

Ezzamell, et al (2014) studied the introduction of Resource Accounting Budgeting as a central government accounting reform in the UK. The study, which is qualitative in nature excludes audit quality in its findings and submits that the implementation of the reform was problematic and may have disturbing implications for democratic accountability. A seeming extension of this study appeared in the work of Hyndman, et al (2014) who compared accounting reform in the UK, Austria and Italy. The study examined the extent of alignment and linkages of the reform among the three countries of interest to the researcher. It also relied primarily of archival documents for its analysis and concluded that the three countries' accounting reform consolidated on their respective extant systems rather than replace them. It, however, does not signal possible impacts of the reform on information quality.

More direct to the discourse of financial reporting reform, however, is the 8th European Union Company Law Directive and its effect on financial reporting quality. Examining the impact of the directive, Bajra and Cadez (2018) took a ten-year sample of companies on the Stock Exchange of the United Nations spanning 2004 through 2013 from a sample frame of 2300 firms. Adopting discretionary accrual to proxy financial reporting, the quantitative study submits that negative relationship exists between the 8th EU directive and financial reporting quality. Although, it also identifies similar relationship between the directive and corporate governance quality and audit committee effectiveness, the result lacks verifiability as it was not specifically relatable to any previous work. Besides, the 8th EU directive was not issued in response to any specific financial reporting problem neither does it address the audit quality concerns. More specific to audit quality response in the United Kingdom (UK) are the reform that greeted the

collapse of the British Home Store (BHS) in 2015 and the attendant monumental job and pension benefit losses. Particularly, the enactment of the Company Regulation (2018) to drag large private companies into the corporate governance net by requiring more stringent disclosures of their corporate governance policies. Hitherto the reform, and with specific reference to the history of UK Corporate Governance Code of the Cadbury Committee (1992) as well as successive reform thereto, corporate governance efforts have usually focused on publicly listed companies (Financial Reporting Council, 2016) apparently to address the distance between shareholders and business executives `saddled with the responsibility of running the company. These reforms have hardly attracted research interest since the enactment of the reform in 2018.

2.3.2 Studies on Developing Countries

Several studies on audit quality observed audit characteristics and related variables rather than being specific on the reform effects. Zahmatkesh and Rezazadeh (2017) examined how audit quality is affected by auditor features. Auditor features are explained by audit work experience, professional competence, auditor motivation, audit norm, ethical norm, auditor accountability and auditor objectivity. With primary data collection through questionnaire in Iran, the study modelled a relationship between each of the independent variables and audit quality and ran a regression test. It submits that none of the saved variables affect audit quality except work experience of auditor, professional competence, audit accountability and audit objectivity respectively.

This result corroborates the findings of Abbott, Daugherty, Parker and Peters (2015) which submits to the proposition of professional competence and independence being jointly necessary to achieve audit quality. Although, it considers the presence of the duo simultaneously, the result was based on data gathered through primary sources with the use of questionnaire. Over 900 respondents were sampled over the period of the study but the study was specific about internal audit quality. Prior to these, a similar study of individual auditor's effect on audit quality conducted by Gul, Wu and Yang (2013), 800 individual auditors' records in China were sampled to examine how auditors' characteristics affect audit quality. The result of the primary longitudinal data indicated that audit quality varies across varying characteristics of auditors. The study did not identify any specific auditors' characteristics that lead to improved audit quality.

Meanwhile, a study of audit quality, firm rotation and audit independence on Egypt Big 4 auditors conducted by Mohamed and Habib (2013) which also adopted a survey design to isolate the key driver of audit quality between auditor's independence and mandatory firm rotation revealed that, in the country of the study, auditor independence is poor and has a direct consequence for audit quality. It suggests the application of audit firm rotation to the country to enhance auditors' independence and by extension, improve audit quality. Subsequently, Rahmina and Agoes (2014), studied senior auditors through a survey design concluded that audit quality exists in direct proportion with audit independence. It also adopted a survey design to examine 150 auditors in Indonesia. With a regression run, the research submits that audit quality is significantly affected by auditor independence. Another study on audit features and audit quality (Andreas, Zarefar & Rasuli 2016) conducted on 119 auditors in Indonesia equally submits that audit quality is affected by auditors' experience. Diametrically however, the study of Furiady and Kurnia (2015) revealed that experience do not affect audit quality in Indonesia with a sample of 194 auditors.

Hardies, Breesch and Branson (2014), examined whether gender impair audit quality through the lens of going-concern audit opinions. The Studied 7,105 observations of distressed companies in Belgium with the use of longitudinal analysis. The result of the study suggested high audit quality for audit exercise conducted by female audit engagement partners. Later, a study on audit quality and auditors' features (Garcia-Blandona, Argilés-Bosch & Ravenda, 2019) which obtained data from secondary sources in Spain isolated the gender effect on audit quality. With a longitudinal data spanning 728 observations, the study concluded using a univariate analysis of mean and median differences that, firms with female auditors shows significantly better audit quality. It provides similar outcome with all the measures of audit quality adopted in the study for both parametric and non-parametric analyses. With the outcome of the multivariate analysis, similar results were observed.

2.3.3 Studies on Nigeria

Accounting reform in Nigeria has taken different modes thereby paving ways for the diversity of researchers in addressing it across differing variables. The reform takes two major forms namely: the public sector financial management reform and the reform of accounting regulation. On the public sector financial reform, Okoroafor (2016) studied the implications of the reform on the accounting and budgeting system of the government. Sampling the data of budgeted and

actual spending of the federal government over 15 years, the study noted that not much has benefited the accounting and budgetary system of government since the reform. However, Zubairu (2018) noted that the reform process in the public sector is beyond budgetary procedures. His study highlighted the public sector reform initiative to revolve around e-payment, treasury single account, internal audit modernization among other novelties introduced to improve the accounting system of the public sector in Nigeria. The study noted that the reform system has been practically beneficial as it has unveiled the existence of ghost workers in the public sector, enhanced transparency and accountability as well as eliminate the existence of fragmented bank balances across parastatals.

Similarly, a study (Salihu, 2019) on whistleblowing reform policy, notwithstanding its qualitative design orientation, identified it as a catalyst to the fight against corruption by the federal government. Isolating the effect of each of some of the public sector reform in Nigeria, Enofe, Afiangbe and Agha (2017) adopted a survey design to study 90 respondents cutting across staff of ministries, departments and agencies of government from a case state. Using ordinary least square regression, the study isolated the integrated personnel and payroll information system as the only reform effort that has yielded desired results for government while recommending that its potential be maximized to decimate financial impropriety in the country. Despite the empirical nature of the study, it lacks direct implication for audit quality in Nigeria. the study is also biased to the public sector accounting reform.

Bakre, Lauwo and McCartney (2017) tailored their study towards examining the effect of western accounting reform on the accountability of Nigeria's wealth distribution noting the possible dangers of such reform to the socio-political as well as economic and cultural situation of Nigeria. Most of such reform efforts, particularly, the International Public Sector Accounting Standard (IPSAS) of the IFAC, portend danger for the accountability of funds as it operates at variance with our socio-political background. The study relied on documentary analysis of relevant events to study the issues and provide a policy direction of ensuring improvements in the indigenous accounting capacity as well as the development of accounting education to enable the self-governing nature of the profession.

Still on the effect of regulatory reform, another study conducted by Ozili, and Outa (2018) examined how banks' earnings smoothing reacted to the IFRS adoption in Nigeria. IFRS Adoption was one of the major reform moves made by the Nigerian government in the wake of

the accounting regulatory reform. With loan loss provisioning as a proxy for earnings management, the study observed Nigerian banks during the reform period between 2012 and 2014 involving more than 80% of all Nigerian banks at the time. It was discovered that the quality of accounting figures was enhanced during the mandatory adoption of IFRS even though, the study does not suggest that Nigerian banks smooth earnings during the period under study. Prior to this study, Miko and Kamardin (2014) have noted how audit quality has interacted with earnings management in wake of corporate governance reform in Nigeria. Although, the study lacks generalization, it submits that there is a notable use of discretionary accrual in manipulating accounts and misleading investor. In another study on the quality of earnings, Egbunike and Odum (2018) examined how earnings quality is affected by board leadership structure in Nigeria. the study sampled 45 non-financial listed firms over a period covering 2011 to 2016. It was discovered from the study that, although board size and composition significantly affect earnings quality positively, nonetheless, the proportion of non-executive directors on the board impacted negatively on earnings quality. Despite its discourse on earnings quality, the study also precludes the effect of regulatory reform.

Of direct relevance to audit quality in Nigeria is the study of Adeniyi and Mieseigha (2013) which examines how auditor's tenure affect the quality of audit through a cross sectional analysis of 2010 financial data of companies listed on the Nigerian Stock Exchange. The study finds that audit tenure does not improve quality audit in Nigeria. Relatedly, Mgbame, Eragbhe and Osawuwa (2012) studied the effect of audit partner tenure on the quality of audit. As with the study of Adeniyi and Mieseigha (2013), audit quality was proxied by the likelihood of a company, engaging the services of any of the big 4 audit firms in Nigeria. The study's output also confirms an inverse relationship between the two variables. Related to the tenure of audit is audit firm rotation. The studies of Ebimobwei and Keretu (2011) as well as Onwuchekwa, Erah and Izedonmi (2012) examined how mandatory audit rotation requirement affect audit quality.

The study of Onwuchekwa, Erah and Izedonmi (2012) was a survey study premised on the Central Bank of Nigeria's requirement of audit rotation of banks after 10 years despite the quality of their audit. The study sampled 500 audit stakeholders and ran a binary logistic regression to examine the relationship among the variables of interest to the researcher. The conclusion of the study points a negative relationship between Mandatory Audit Rotation and

audit quality in Nigeria. Similarly, Ebimobowei and Keretu (2011) conducted a survey of 250 auditors and users of financial statement to study if mandatory audit rotation affects audit quality in Nigeria. Data analysis of the study was done using the spearman rank correlation and alluded to the submission that audit quality is not significantly affected by mandatory audit rotation in Nigeria. Studies that link audit quality with accounting reform is close to non-existent in Nigeria while studies of such nature are either not directly observed or examine a variant of reform that is not of interest to this study on audit quality.

2.4 Summary of Literature and Identification of Research Gap

2.4.1 Summary of literature

The literature was reviewed across three strands namely, the conceptual, theoretical and empirical reviews. The conceptual review isolated concepts related to both variables of interest to the researchers. That is, accounting regulatory reform and audit quality. The general conceptualization of reform and regulation were reviewed across different fields of study to understand their meanings as basically used in discipline. It was derived therefrom that reform is departure from institutional norms and could be deliberate or inadvertent depending on the situations that warrant it. Scholars on reform consider it with respect to its process and content. Its process is usually termed procedural reform while the content is termed substantive reform. Emanating from the discourse of reform, accounting reform pervades both process and content.

That is, procedural and substantive reform. In all the climes where accounting regulation has been reformed, the process is mostly punctuated by social or economic problems relating to accounting and financial propriety except perhaps, in China, reform of accounting regulation is usually a planned programme of the government that is reviewed at specific period cycles. However, accounting reform are either private sector based – dominated by accounting bodies – or public sector-based, that is embarked upon by relevant government or their ministries. One feature common to both forms of reform is the quest for improved financial accountability which may be in form of improved in the quality of accounting numbers through stiffer legislation on accountants or enacting specific laws for the auditors to assume additional responsibilities should financial mishaps happen.

In Nigeria, it was noted in the literature that prior to the reform, the regulation of accounting was largely in the hand of a professional accounting body – ICAN as government depended

majorly on its expertise to make technical pronouncement as well as appointment in the defunct NASB. Other forms of accounting regulations are dispersed in different legislations such as the CAMA, NAICOM, BOFIA and related Acts. It was also gathered that, the multiplicity of acts regulating accounting practice did not improve the system but created loopholes for accounting scandals. The financial reporting crisis that pervaded the banking industry and gulped about ₦2 trillion in bank deposits prior the reform explains that. Hence, reform effort began through the invitation of the World Bank Observance of Standards and Codes by the Federal Government of Nigeria which led to the eventual enactment of the Financial Reporting Council of Nigeria Act in 2011. Embedded in the reform was the directive to adopt IFRS in line with global best practices. Seemingly however, the reform may not have achieved its intended purpose as reported accounting manipulations that greeted it were massive and well reported. Cases involving accounting manipulation such as the NNPC subsidy and remittance scam and Stanbic IBTC Holding accounting manipulation were reviewed to support this claim. In other words, the quality of financial reporting may not have improved despite the reform and this may have been caused either by poor reporting quality or audit quality.

Moreover, the study conceptualizes audit quality from different authoritative perspectives namely; the framework of audit quality by the International Audit and Assurance Standards Board (IAASB), the Centre for Audit Quality by the American Institute of Certified Public Accountants (AICPA) as well as the Nigerian Standard on Auditing issued by the institute of chartered Accountants of Nigeria. The IAASB's frameworks identifies audit quality with the specifications of input, process, output as well as interaction with relevant stakeholders. To the CAQ, six elements must be embedded in audit disclosure to make it quality. The elements are captioned as themes including, leadership, culture and firm governance; ethics and independence; decision to accept and continue clients' engagement; performance of audit engagement as well as monitoring activities. Audit quality requirement in Nigeria aligns largely with the dictates of the CAQ while it shares values from the IAASB's framework. Academic measurement of audit quality was also reviewed to set a stage for the analysis of data for this study and the main measures identified in previous works stratified it into input-based and output-based measures.

Theoretical review forms the second strand of the literature review. The explanation of the relationships among the variables is hinged on the triangulation of three related theories. These

include; institutionalism, conflict and institutional change theories. Institutionalism is further sub-divided into old institutionalism and neo-institutionalism theories. With roots from the works of Hamilton (1919) where it was defined as a “widespread way of thinking or acting embodied in habits of groups and customs of the people” (Nureev, 2017, p. 18), old institutionalism holds that societies evolve around culture since individuals, who are considered creatures of habit, are groups controlled by customs (Camic, 1986). A further development of the theory birthed the neo-institutionalism. The new institutionalism does not succumb to the dogma that societies are products of habitualised human culture and behaviour. Rather, it holds that individual preferences, rather than cumulating to form institutions, are shaped by institutional forces (DiMaggio & Powell, 1991). An instance is given of the basic economic assumption that individuals usually want to maximize their behaviour above consistent preference orderings but institutional realities of cognitive limits, incomplete information and difficulties in monitoring and enforcing agreement deter them from achieving such height (Grossman & Hart, 1987).

These theories are useful in explaining how the practice of accounting and auditing evolved. First, as the habitualised customs of merchants who had to contrive a means of documenting their financial transactions as explained by the old institutionalism and; second, as the determination of the developmental direction of accounting and auditing profession through the establishment of private accounting regulatory institutions in forms of professional accounting and auditing bodies as well as GAAP across geographical boundaries. Nonetheless, the theories hold no potential for the explanation of how accounting reform affect audit quality.

Conflict theory situates the punctuation of an institutional order required to initiate a change process. The theory derives its base for the works of Karl Marx in the early to mid-1800s, followed by its development in the works of Dahrendorf (1958). To this theory, a change process is usually initiated by dissention, conflict and resistance to the directions of power that is maintaining societal order. While institutionalism beliefs in consensus and order, conflict theory believes such consensus merely exists to prepare grounds for chaos and dissention and as such, meaningful progress in every society requires a certain degree of conflict. Although conflict sets precedence for dissention, it does not predict the outcome of such dissention and therefore lacks the ingredient required in predicting the relationship among the variables of interest.

Thence, institutional change theory, traced initially to the works of John R. Commons, Thorstein B. Veblen, John Dewey and Clarence E. Ayres was reviewed. This theory explains that the value structure of an institution will always be maintained only if the welfare of the collective elements of the institutions is maximized. Otherwise, agitation would be made for better welfare and improved process. The change agitation could be in forms of ceremonial and instrumental values of institutions. The ceremonial values typify a situation that could culminate in desire for change in institutions when the interest of the differential levels conflict while instrumental values produce change in the wake of advancement of tools, knowledge and skills. This, thus provides explanation for how the agitation for change in financial auditing architecture, caused by expensive accounting scandal, is expected to produce a scandal-free financial reporting that may result from a reform process.

The third aspect of the literature review examines various academic works across different countries to identify with previous researchers in the field, understand the loopholes in previous work and perhaps, consolidate the efforts of early researchers. Preponderance of academic studies on accounting reform and audit quality were as a result of the US- SOX. These works were reviewed alongside other works in the UK, Japan, Australia, India, Indonesia South Africa and Nigeria. Of all the works reviewed, studies that specifically examined the nexus between accounting reform and audit quality is close to non-existence.

2.4.2. Gap Identification

In practical terms, the reform effort of the Nigerian government on the accounting profession is unprecedented as it brings all accounting bodies, irrespective of their standing integrity and foreign links, under a singular regulation. This was done through the enactment of the FRC Act, establishing the Financial Reporting Council of Nigeria. The enactment was necessitated by incessant corporate failures occasioned by audit malpractices and accounting manipulations in the country. Hence, normalcy was expected in accounting profession after the enactment. However, much is left to be desired as financial malpractices (eg. Stanbic IBTC Holding, KPMG, NNPC) sprawl the accounting profession after the reform. Few of the cases of such malpractices have been reviewed in the previous sections. As a result, research opportunity exists to examine how audit quality has fared during the post reform periods. The research quandary here is; whether the poor-quality audits observed after the accounting regulatory reform is not limited to just the reported cases.

A review of researchers' efforts indicates a research loophole with respect to the variables of interest in several climes. In the developed world, accounting reform have taken different forms. The United States' Sarbanes-Oxley Act (SOX) (2001) was a reaction to the 1998 financial meltdown amid major accounting manipulations. Surprisingly, the plethora of works done on SOX in the United States exclude a direct implication for audit quality. Most of the studies (e.g. Zhou, 2008; Aono & Guan, 2008; Jelinek & Jelinek, 2010; Vakkur, McAfee & Kipperman, 2010; Miller & Bowen 2011) conducted on the American financial reporting reform consider how such reform may have reduced earnings management which, does not necessarily translate to audit quality in the county. Further, the accounting saga in the United Kingdom only led to the reform of the corporate governance. Much as the reform borders on audit quality, its nascence limits research output on its essence in the UK. Other countries that have had to reform the accounting regulation across the globe include Japan, china and Australia. As pointed out in the previous sections, the Nigerian accounting reform was equally in response to corporate collapses occasioned by accounting manipulations. Despite the long-standing reform Act enactment, research efforts on the nexus between accounting reform audit quality hardly exist in Nigeria except perhaps, Okoroafor (2016); Zubairu, (2016); Enofe, Afiangbe and Agha, (2017); Gbolami and Salihu, (2019), which are all public sector-centric. Thus, this study locates a research opportunity in understudying the effect of the reform on the quality of audit in the listed companies, which are private sector dominated.

The triangulation of theoretical works linked to political science, sociology and economics to provide explanation to the reform of accounting regulation is rare in academic discourse. With this lacuna in theory, this study identifies the possibility of enriching the accounting literature through the crossbreeding of thoughts across disciplines to situate the explanation of the research variables. Notably, this study identifies a niche for academic research effort in the aspects of practical events, that is, the proliferation of accounting manipulations despite reform; direct nexus between accounting reform and audit quality; triangulation of theories (institutionalism, conflict and institutional change) across different disciplines and; methodological loophole in the need to model different measures for examining the impact of reform on audit quality as well as adoption of mixed-methods approach is answering the research questions.

Conceptual Framework

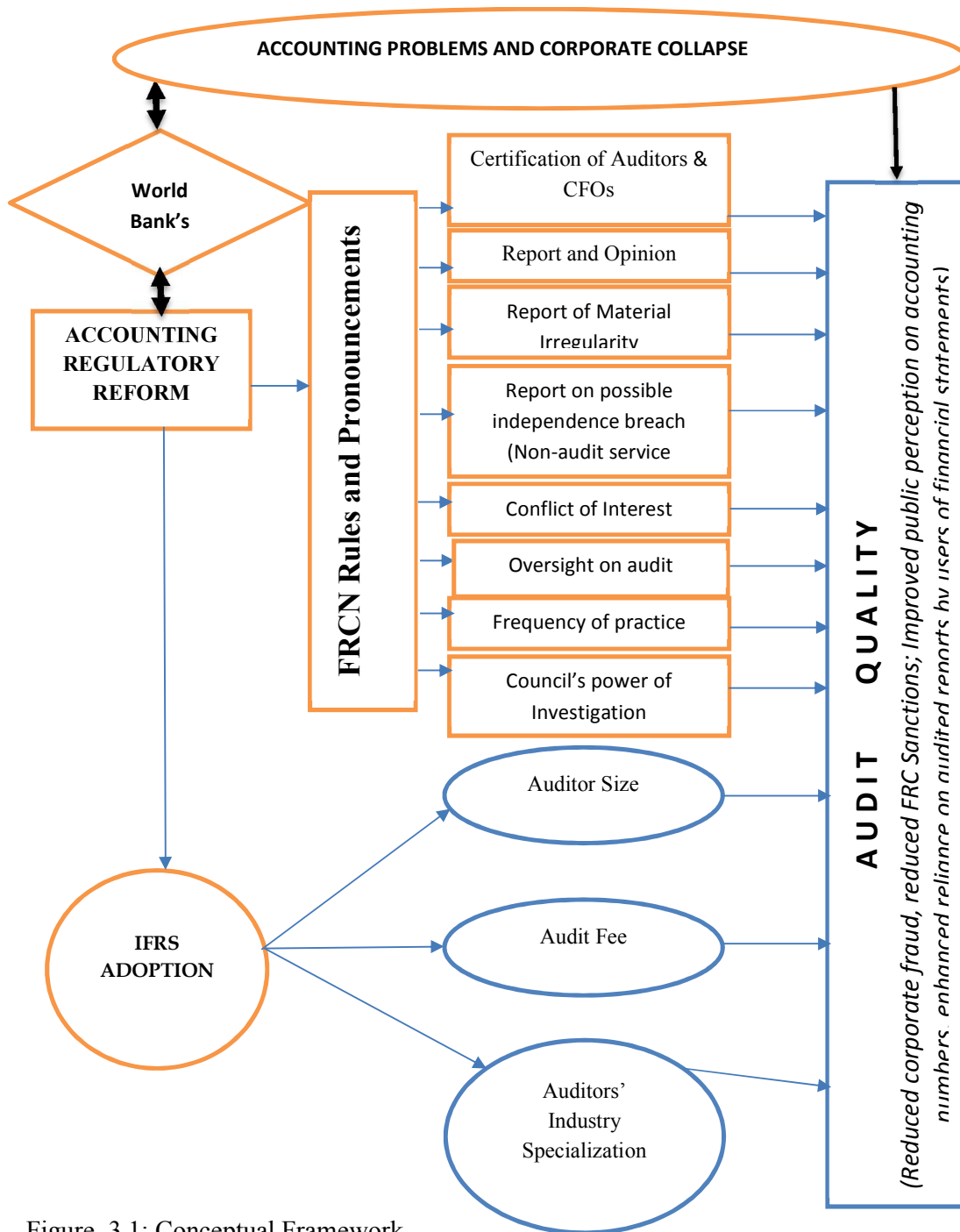


Figure. 3.1: Conceptual Framework

Source: Author's Conceptualisation, 2021

2.5 Conceptual Framework

The framework in figure one organises of the reviewed concepts and explain the interplay among them to them to situate the research propositions. The framework displays how accounting problems and corporate collapses unveiled the realities beneath the audited financial reports and exposed indications of faulty audit to the public glare. In reaction to the whooping loss of over ₦ 2.3 trillion to the banking financial crises, the World Bank conducted a study on the level of observance and codes by professional accountants in Nigeria and suggested a reform of the accounting and financial reporting system. Hence, a link between the corporate scandals and the World Bank's ROSC in the framework.

The research focus is the aftermath of the reforms, that is, whether the reform has achieved its desired objective of improving audit quality. The reform took two major forms as indicated in the framework namely, IFRS adoption and FRCN establishment. The rules made by the FRCN, targeted at improving audit quality are linked to accounting regulatory reform on one end and connects with audit quality, justifying our proposition that FRCN rules are expected to improve audit quality. To examine this, a combination of thematic and document analyses research design was employed as discussed in section 3.

The other linkage to the accounting regulatory reform is the IFRS adoption, which is the further connected to three other variables namely, audit fee premium, auditors' specialization and auditors' size. These three variables are isolated from the determinants of audit quality since they are identified in practice, to have either precipitated the reform from the side of the auditors or reacted to the reform. Thus, this study proposes that, each of the three variables' effect on audit quality may have been moderated by IFRS adoption hence; the need for the research questions 1 -4 and their corresponding objectives and hypotheses. These objectives are achieved through longitudinal analyses as discussed in chapter 3.

CHAPTER THREE METHODOLOGY

3.0 Introduction

This chapter spells out the blueprints and procedures adopted for collecting and analysing data for this study. It contains the theoretical framework, research design, data collection methods and sources, modelling of operational relationship among variables, econometric estimation methods of variables parameters, econometric modelling of relationship among variables, population and sample design as well as hypothesis testing and econometric software version used in data analysis.

3.1. Theoretical Framework

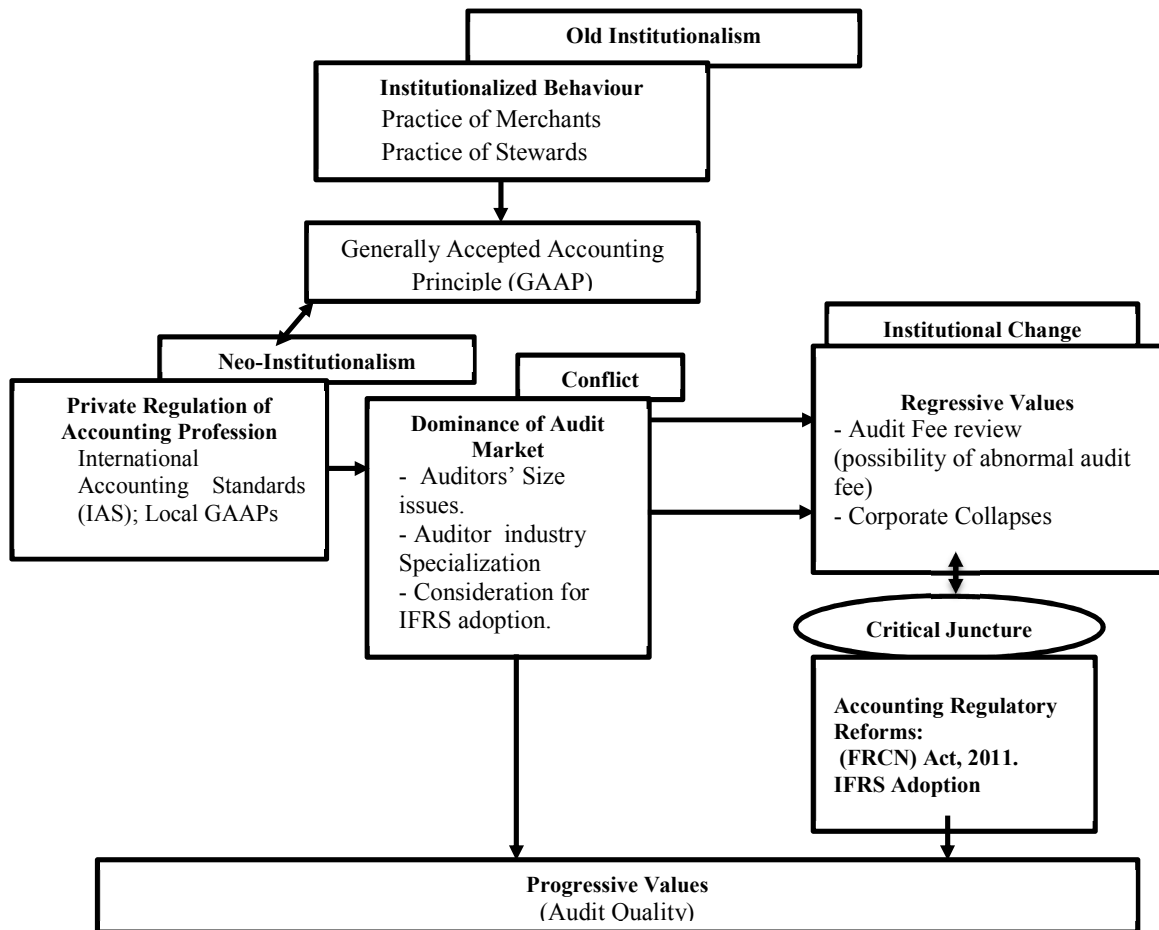


Figure 3.1: Theoretical Framework

Source: An adaptation from Buitelaar, Kacobs & Legendijk (2005)

Triangulation of theories is employed to explain the interrelation of theories in the conceptual links of a research thought. The review of institutionalism theory provides a historical basis for situating the regulation of accounting profession within the acceptance of basic practices of merchants and stewards as generally accepted accounting practice. The dogma of institutionalism theory is represented in the two phases of its development namely; old institutionalism and neo-institutionalism. The old institutionalism is premised of the formation of institution through the interplay of an aggregate of behaviours and norms as an accepted way of life within a specific social space. It explains the development of accounting as a practice that culminated from the practice of accountants in different parts of the world, popularized by notable orthodox accounting scholars and accepted generally because it served the information need of business owners.

An extension of this theory seems to outdate its initial logic. It is termed neo-institutionalism with discoveries from empirical observations of samples in social space. Its beliefs that institutions, rather than being a product of acceptance of cumulative human behaviour, is a deliberate attempt to subdue the selfish interest of individuals to the dictates of the institutions. It allows individuals to align with institutions that suits its personal interest anyways. An examination of the neo-institutional orientation explains the development of accounting regulation beyond mere habitualization of accounting practice of accountants but situates its regulation in the formulation of accounting standards by different geographic regulators of accounting practice as local GAAPs of different nations. Accountants therefore align themselves to their local GAAPs or switch to a global GAAP if they report for multinational companies. This is explained by fig. 2 as the interconnection between old institutionalism that houses institutionalized behaviour and neo-institutionalism that houses private-sector regulation of accounting profession with the GAAP being the intermediary explaining how institutions are initially built from the aggregate of accounting practice but moderated by the introduction of private-sector issuance of accounting standards that must be followed in the preparation of accounts.

The development of these institutions brought about rivalry of institutions and accounting practitioners. International accounting standard-setters issue authoritative statements under the guise of unifying accounting practices across the globe while local accounting regulators object to such codifications as they were considered interference over geographic sovereignty.

Similarly, the rivalry also signaled a dominance of the global audit market by big and internationally networked audit firms at the expense of smaller and local audit firms. This stage was characterized by institutional feud and unhealthy effects sprung from it. The situation symbolizes the dogma of conflict theory which identifies statuses within the social space based on power accumulation and resource allocation.

Two main groups are identified by conflict theory to include the dominant group and the subordinate groups. To the degree of dominance achieved through power accumulation, the dominant group would always want to legitimize their domination and further their self-interest at the expense of the subordinate group. Reaction from the subordinate group would usually lead to further conflict, return the social space to *status quo ante* or entrench the corporation of the subordinate group to outwit the dominant group. The unhealthy relations fester to breed either social order or further conflict with consequences and repercussion for either. Within the context exemplified by fig. 1, the conflict led to a need for institutional change as the hostile relationships brewed accounting anomalies that led to corporate collapse and loss of huge sums by government to 'legalized' corporate tax avoidance.

The institutional change operates at three levels. It identifies regressive values as values based on a belief system that is usually crude and prevent the influence of knowledge and skill. The stability of such values over time will breed unpleasant outcomes. This conjoins the outcome of conflict theory with the institutional change theory, thus, breeding accounting scandals both locally and globally.

However, the ability to identify recurring problems enforces knowledge and skills and leads to a critical juncture where reform of the *status quo ante* is permitted to pave way for progressive values. For progressive values to be attained, and overhaul of the existing structure is experienced at a cost. The situation of reform in Nigeria was punctured by widespread accounting anomaly that caused the loss of over two trillion naira in the banking sector, followed by the observation of standards and codes by the World Bank and an eventual promulgation of the FRCN act in 2011. A major factor identified for causing mayhem in the audit market was the dominance of audit market by the internationally networked firm. That is, audit size requires attention in the face of the regulatory reform. More so, accounting bodies reacted to the reform by increasing audit fee thereby explaining its importance in the research domain. The importance of auditee industry was brought about by the reform as the finance industry was

identified with anomalies while perhaps, unreported accounting anomalies might be affecting the audit quality of other industries. The situation also identified the working of institutional regulation on the quality of audit as the regulatory façade appears to have diverted from the normal practice. To this end, the theory of institutional change is adopted to explain the effect of accounting regulatory reform on audit quality in Nigeria.

The framework in figure 2 shows how the theories explain the objectives of the study hence, supporting the hypotheses stated. Hypothesis 1 tests the nexus between IFRS adoption and audit quality. Discourse on the dominance of the audit market by global accounting standard setters and audit firms with foreign linkages and the revolts of the other audit market participants against them are captured by the conflict theory as discussed earlier and accentuated by the institutional change theory when IFRS was eventually adopted in Nigeria. by the dogma of institution change theory, such change (IFRS adoption) is expected to breed progressive values (improved audit quality). This study seeks to examine if this improved quality has been attained by the adoption that has now almost spanned a decade.

Hypothesis two examines the nexus between Audit Fee Premium and audit quality as moderated by IFRS adoption. This is explained also by the reaction of professional bodies (particularly ICAN) to the IFRS adoption through an upward review of audit fee shortly after the reforms. The essence of this interaction is to predict, from the doctrine of conflict theory, the possibility that the fee hike might create Audit Fee Premium, impair auditors' independence and hence reduce audit quality. Hypothesis three and four examine the interaction between audit quality and each of auditors' size and auditors' specialization, with each of the relationships being moderated by IFRS adoption. This explanation is offered by the prediction of the both conflict and institutional change theory that, reforms are precipitated by chaos and problem requiring urgent attention. Given the reform effort in Nigeria, this study deems it necessary to test the prediction of the theory as Nigeria's reform was ignited by monumental financial loss to the banking industry thereby necessitating a check on industry specialization of auditor. Further, all the affected banks were audited by the big 4 firms also necessitating the inclusion of auditors' size. Both are therefore moderated by the reform (IFRS adoption Nigeria).

3.2 Research Design

The study adopted a mixed method design. It evaluated evidence using qualitative and quantitative methods. The qualitative data analysis involved document analysis and schematic analysis of interview responses while the quantitative technique adopted longitudinal design.

3.2.1 Population of the study Qualitative Data

The population of the study comprises all financial reporting stakeholders in relation to listed companies in Nigeria. These include, accountants and internal auditors of listed companies, external auditors in public practice as well as financial reporting regulators, that is, the FRCN. That is, ICAN members of over 49,850 accountants (ICAN, 2020) and ANAN members of over 35,050 accountants (ANAN, 2019). The FRCN currently has 10 management staff but the full complement of its technical staff strength is not made public (FRCN, 2019). However, the technical staff of the FRCN, being professional accountants and auditor would have been captured in the estimated population of ICAN and ANAN members.

3.2.1.1 Sampling Technique and Sample Size

Theoretical-construct sampling technique was adopted in selecting respondents for the data required for qualitative analysis. It is a systematic and credible sampling method that is appropriate for participant observation as well as interview conducts. It is mostly adopted when researcher intend to collect samples based on the constructs of conceptual or theoretical frameworks (Tracy, 2013). Therefore, following the constructs of this study, samples were drawn from three cohorts of financial reporting stakeholders namely, management staff of the FRCN, accounting staff of selected publicly listed companies and auditors in public practice across various sizes of audit firm. The sample size for the interview is (11) respondents distributed into 3 senior accounting staff of listed companies in Nigeria, 6 auditors in public practice across audit firm size cohorts as well as two technical staff of the FRCN. The sample size is determined with reference to the goals of this study and qualitative nature. Qualitative researchers have usually suggested a minimum of five and a maximum of 9 to 11 interviews as the research output is more about quality than quantity (Kvale, 1996; Dawson, 2002; Tracy, 2013). To them, “not enough interviews will result in shallow and stale contributions while too many interviews will result in a paralyzing amount of data, which discourage transcription and penetrating interpretations” (Tracy, 2013, p. 138).

3.2.1.2 Data Collection Instrument

The collection of data for qualitative analysis adopts interview technique. Specifically, we made use of telephone interview. The interview schedule items were developed from the rules and pronouncements of the FRCN that border on audit quality as well as accounting and auditing guidelines issued at different times to regulate the quality of audit of financial statement of listed companies in Nigeria as well as the other variables of interest in this study. Voice recording and note taking were used to retain respondents' opinions and views about the enquiry.

3.2.1.3 Qualitative Data Analysis Method

The qualitative technique involves triangulating data collected for the purpose of this study by "examining information collected through different methods" (Bowen, 2009, p. 28). Specifically, it draws upon document analysis and schematic analysis of interview responses. The documents analyzed include, regulatory decision reports of FRCN on the audit of Stanbic IBTC holdings. The analysis followed through a process of coding, transcription, schematic separation, triangulation and comparative analysis.

3.2.2 Quantitative Analysis Technique

The quantitative method adopts a longitudinal design. Longitudinal design entails that data are collected across sample units over discrete interval of time thus allowing measurement of change and possibly, explanation of change across the data set (Menard, 2008). According to Menard (2002), longitudinal designs have four different variants namely: total population designs, repeated cross-sectional design, revolving panel designs and longitudinal panel designs. Of these, the longitudinal panel design is adopted. It is a research design that measures consistently, the same set of sample units in each of the periods considered under the study. At the same time, it provides adequately for panel attrition which may result as a result of missing or unavailable data during the periods or among the sample units of interest (Menard, 2008). This study considers longitudinal panel design appropriate because it intends to study listed companies on the Nigerian Stock Exchange (NSE) over a period of 14 years divided in 7 years pre-regulatory reform (2005-2011) and 7 years post-regulatory reform (2012-2018). The choice of 7 years is determined by the availability of complete data up-to 2018 for the companies currently listed on the Nigerian Stock Exchange. To achieve a balanced panel, it becomes imperative to select 7 years prior to the reform regime for data collection. More so, the ability of this design to cater for panel attrition is particularly important to this study as the panel is

expected to experience loss of sample units over a period during the study periods that may arise as a result of mergers, acquisition, delisting of companies or some other regulatory reasons.

3.2.2.1 Population of the Study for Quantitative Data

For quantitative data collection, the population of the study comprises of all listed firms in Nigeria. Numerically, population of the listed companies on the Nigerian Stock Exchange is 166 at the end of 2018. These are distributed into 11 sub sectors (Nigerian Stock Exchange, 2019). Samples were drawn from the population strictly based on data availability as at the time of data gathering and extraction. Data were collected from the financial statement of all listed companies to the exclusion of firms with certainty of missing data due to various issues such as delisted firms, nationalized or absorbed firms as well as firms that have ceased operation during the period covered under this study. Samples were drawn from the sample frame based on available of financial statements as well as the availability of financial reporting metrics needed to proxy the research variables. Detailed presentation of samples drawn is provided in chapter 4 while the sample frame is presented in Table 3.1.

Table 3.1: Sample Frame for Quantitative Data Collection

Sector	Total Population	Sample Included	Sample Excluded/ Reason for exclusion
Agriculture	5	5	Nil
Conglomerate	6	6	Nil
Construction/Real Estate	9	6	3 Companies were listed to the exclusion of up-to 5 years data from the panel.
Consumer Goods	20	18	2 Companies were listed to the exclusion of up-to 3 years data from the panel.
Financial Services	53	49	4 Companies were listed to the exclusion of up-to 8 years data from the panel.
Health Care Services	10	10	Nil
ICT	9	2	7 Companies were listed to the exclusion of up-to 10 years data from the panel.
Sector	Total Population	Sample Included	Sample Excluded/ Reason for exclusion
Industrial Goods	13	10	3 Companies were listed to the exclusion of up-to 3 years data from the panel.

Natural Resources	4	3	1 Company was listed to the exclusion of up-to 5 years data from the panel.
Oil and Gas	12	11	1 Company was listed to the exclusion of up-to 10 years data from the panel.
Services	<u>25</u>	<u>20</u>	5 Companies were listed to the exclusion of up-to 3 years data from the panel.
Total	<u>166</u>	<u>140</u>	

Source: Author's Synthesis (2021).

3.3 Model of Operational Relationship among Variables

Audit quality = $f(\text{Accounting regulatory reform, Audit Fees, Audit Size, Auditee Industry})$.

3.4 Model Specification and Definition

The study adapt a model specified by Jung, Kim and Chung (2016). The model is specified as:

$$\begin{aligned} /DA/ = & \beta_0 + \beta_1 ABAFEE + \beta_2 IFRS + \beta_3 IFRS * ABAFEE + \beta_4 ABAFEE + \beta_5 LNTA \\ & + \beta_6 BIG4 + \beta_7 CHGSALE + \beta_8 LOSS + \beta_9 LEV + \beta_{10} ISSUE + \beta_{11} FIRST \\ & + \beta_{12} CFO + \beta_{13} ADJ_TACC + \text{industries / year dummies} + \varepsilon \end{aligned} \quad (3.1)$$

Where /DA/ = Audit Quality; ABAFEE = Audit Fee Premium; IFRS = IFRS Adoption; BIG4 = Audit size; CHGSALE = Changes in sale; LOSS = Loss reporting; LEV = debts deflated by assets; ISSUE = Share issue; FIRST = auditor change; CFO = cash flow deflated by lagged total asset; ADJ = total accruals deflated by lagged total assets.

3.5 Econometric Models for Testing Hypotheses

The model stipulated in section 3.6 was used to study the association between Audit Fee Premiums and audit quality after IFRS adoption. To align with the objectives of this study, the model was adapted to suit our hypotheses.

3.5.1 Model for Testing Hypothesis 1 – IFRS Adoption does not significantly affect audit quality of listed companies in Nigeria.

$$\begin{aligned} AQ = & \alpha_0 + \alpha_1 IFRS_{it} + \alpha_2 Mcpt_{it} + \alpha_3 Lev_{it} + \alpha_4 Roa_{it} + \alpha_5 Loss_{it} + \alpha_6 Fsz_{it} + \alpha_7 Pe_{it} + \alpha_8 Ato_{it} \\ & + \alpha_9 Sgr_{it} + \alpha_{10} Tactl_{it} + \alpha_{11} Lloss_{it} + \varepsilon \end{aligned} \quad (3.2)$$

3.5.2 Model for Testing Hypothesis 2 – The effect of IFRS adoption on the audit quality of listed firms in Nigeria is not significantly moderated by audit fee premium

$$\begin{aligned} AQ = & \alpha_0 + \alpha_1 IFRS_{it} + \alpha_2 Afee_{it} + \alpha_3 IFRS * Afee_{it} + \alpha_4 Mcpt_{it} + \alpha_5 Lev_{it} + \alpha_6 Roa_{it} + \alpha_7 Loss_{it} \\ & + \alpha_8 Fsz_{it} + \alpha_9 Pe_{it} + \alpha_{10} Ato_{it} + \alpha_{11} Sgr_{it} + \alpha_{12} Tactl_{it} + \alpha_{13} Lloss_{it} + \varepsilon \end{aligned} \quad (3.3)$$

3.5.3 Model for Testing Hypothesis 3 – The relationship between IFRS adoption and the audit quality of listed companies in Nigeria is not significantly moderated by audit firm size.

$$AQ = \alpha_0 + \alpha_1 IFRS_{it} + \alpha_2 Assize_{it} + \alpha_3 IFRS * Assize_{it} + \alpha_4 Mcpt_{it} + \alpha_5 Lev_{it} + \alpha_6 Roa_{it} + \alpha_7 Loss_{it} + \alpha_8 Fsz_{it} + \alpha_9 Pe_{it} + \alpha_{10} Ato_{it} + \alpha_{11} Sgr_{it} + \alpha_{12} Tact1_{it} + \alpha_{13} Lloss_{it} + \epsilon \quad (3.4)$$

3.5.4 Model for Testing Hypothesis 4 – Auditor industry specialization does not significantly moderate the relationship between IFRS adoption and audit quality of listed companies in Nigeria.

$$AQ = \alpha_0 + \alpha_1 IFRS_{it} + \alpha_2 Aispec_{it} + \alpha_3 IFRS * Aispec_{it} + \alpha_4 Mcpt_{it} + \alpha_5 Lev_{it} + \alpha_6 Roa_{it} + \alpha_7 Loss_{it} + \alpha_8 Fsz_{it} + \alpha_9 Pe_{it} + \alpha_{10} Ato_{it} + \alpha_{11} Sgr_{it} + \alpha_{12} Tact1_{it} + \alpha_{13} Lloss_{it} + \epsilon \quad (3.5)$$

Table 3.2: Definition of Variables

s/n	Variable	Proxy	Type of Variable	Definition/ Measurement	Source
i	Audit Quality	AQ1	Outcome Variable	Equations 3.6 – 3.10	Cited the in equations. Jung, 2016
ii	IFRS Adoption	IFRS	Explanatory Variable 1	A dummy variable that takes the value of 1 in the IFRS adoption periods and 0 otherwise.	
iii	Audit Fee Premium	Afee	Explanatory Variable 2	See equation 3.11	Cited in the equation
iv	Audit firm Size	Assize	Explanatory Variable 3	A dummy variable that takes the value of 1 if the audit firm is in the Big Four, and 0 otherwise	Zhu and Sun (2012)
v	Auditee Industry	Aispec.	Explanatory Variable 4	Product of auditor's market share and auditors' portfolio share	Neal and Riley, 2004; Fleming, Hee and Romanu, 2014
vi	Market Capitalization of the firm	Mcpt	Control Variable	The market capitalization of the firm in 2006, scaled by average total assets.	Ball, Tyler and Wells (2015)
vii	Leverage of the firm	Lev	Control Variable	Leverage, measured as the ratio of the firm's total long-term debt to market value of equity	Ball, Tyler and Wells (2015)
viii	Return on Asset	Roa	Control Variable	Return on assets, measured as the ratio of the firm's earnings divided by total assets.	Ball, Tyler and Wells (2015)

s/n	Variable	Proxy	Type of Variable	Definition/ Measurement	Source
ix	Loss	Loss	Control Variable	An indicator variable that takes the value of 1 if earnings after tax (EAT) scaled by lagged total assets ($t - 1$) for firm i in year t is negative and the absolute value of change in EAT scaled by lagged total assets during year t is greater than 10%, otherwise zero.	Jiang, Habib and Zhou (2015) Ball, Tyler and Wells (2015)
x	Firm Size	Fsz	Control Variable	Natural log of total assets	Alhababsah, (2019) Jiang, Habib and Zhou (2015)
xi	Price/Earnings ratio	Pe	Control Variable	Price to earnings ratio for firm i in year t .	Jiang, Habib and Zhou (2015)
xii	Asset turnover	Ato	Control Variable	Asset turnover for firm i in year t , calculated as total sales divided by total assets.	Jiang, Habib and Zhou (2015)
xiii	Lagged Accrual	Total Tact1	Control	Total accrual in year $t-1$ scaled by $t-2$ total assets	Singh, Singh, Sultana and Evans (2019)
xiv	Lagged loss	Lloss	Control	Lagged loss	Singh, Singh, Sultana and Evans (2019)
xv	Sales growth	Sgr	Control	Sales growth of client firm i at the end of time period t	Singh, Singh, Sultana and Evans (2019)

Source: Author's Synthesis (2021).

3.5.5 Audit Quality Measures

This study adopted two most recently modified variants of each of discretionary accrual models to measure audit quality for the non-financial firms and two other models for financial services firms in order to ensure robustness in our measurement. For firms in non-finance industry, Modified Jones (1991) Model by Kothari et al (2005) and Performance Adjusted Jones (1991) Model as modified by Kothari et al (2005) were adopted. This model estimates accruals with allowances for loan losses. Beaver and Engel (1996) Model is particularly adopted for studies on financial firms due to the specificity of its components to the components of the financial statements of financial firms. It estimates discretionary portion of loan losses as a set of variables including written off loans, outstanding loans and non-performing loans. More so, Kanagaretnam (2004) Model was also adopted to generate proxy for discretionary loan loss

provision for financial firms and hence audit quality. The author of this model, with insight from the works of Wahlen, (1994); Beatty, Chamberlain and Magliolo, (1995) and Kim and Kross, (1998), estimated discretionary components of loan loss provision with the residual derivable for regressing beginning loans deflation of loan loss provisioning against the beginning balance of non-performing loan, change in non-performing loan and change in total loan. Therefore, four models estimated to derive proxies for audit quality are specified as follows:

3.5.5.1 Jones (1991) Model as modified by Kothari et al (2005)

$$TA_{it} = \alpha_0 + \alpha_1(1/ASSETS_{it-1}) + \alpha_2 \Delta SALES_{it} - \Delta AR_{it} + \alpha_3 PPE_{it} + \varepsilon_{it} \quad (3.6)$$

Where:

TA = change in non-cash current assets minus the change in current liabilities excluding the current portion of long-term debt, minus depreciation and amortization, scaled by lagged total assets.

$\Delta SALES$ = Change in sales scaled by lagged total assets

ΔAR = Change in account receivable

ASSETS = Total Assets

PPE = net Property, Plant and Equipment scaled by lagged total assets.

The residuals from the regression model in (6) will thus be used as discretionary accruals using the pooled approach (McNichols & Stubben, 2018) to prove a metric for assessing the degree of biasness embedded in the within the financial statement by the management and afforded by the auditors and hence audit quality measure.

3.5.5.2 Performance Adjusted Jones (1991) Model as modified by Kothari et al (2005)

$$TA_{it} = \alpha_0 + \alpha_1(1/ASSETS_{it-1}) + \alpha_2 \Delta SALES_{it} - \Delta AR_{it} + \alpha_3 PPE_{it} + \alpha_4 ROA_{it} + \varepsilon_{it} \quad (3.7)$$

Where:

TA = change in non-cash current assets minus the change in current liabilities excluding the current portion of long-term debt, minus depreciation and amortization, scaled by lagged total assets.

$\Delta SALES$ = Change in sales scaled by lagged total assets

ΔAR = Change in account receivable

ASSETS = Total Assets

PPE = net property, plant and equipment scaled by lagged total assets.

The residuals from the regression model in (6) will thus be used as discretionary accruals

3.5.5.3 Beaver and Engel (1996) Model

$$ALL_{it} = NALL_{it} + DALL_{it} \quad (3.8)$$

$$ALL_{it} = \alpha_0 + \alpha_1 CO_{it} + \alpha_2 LOAN_{it} + \alpha_3 NPA_{it} + \alpha_4 \Delta NPA_{it+1} + \epsilon_{it} \quad (3.9)$$

Where $\epsilon_{it} = DALL_{it} + z_{it}$

NALL is therefore, estimated by regressing the ALL on the explanatory variables in Eq. (3.10) with the residual eventually taken to be an estimate of DALL with error and hence audit quality of financial firms.

NALL = Allowance for loan losses

ALL = Allowance for loan losses

DALL = discretionary portion of the allowance account

CO = Charge-Offs

LOAN = Loan Outstanding

NPA = Non-Performing Assets

3.5.5.4 Kanagaretnam (2004) Model

$$LLP_{it} = \alpha_0 + \alpha_1 NPL_{it-1} + \alpha_2 CHNPL_{it} + \alpha_3 CHLOAN_{it} + \epsilon_{it} \quad (3.10)$$

where,

LLP_{it} = loan losses provision deflated by beginning loans;

NPL_{it-1} = nonperforming loans at the beginning of the period deflated by loans at the beginning of the period;

CHNPL_{it} = change in the value of nonperforming loans deflated by loans at the beginning of the _____ period;

CHLOAN_{it} = change in value of loans deflated by beginning loans.

In equation (11), the independent variables account for the non-discretionary component of LLP, and therefore, the discretionary component (DLLP) is given by the residual term which in turn is used as proxy for audit quality.

3.5.5.5 Audit Fee Premium Model

Following the works of Hope, Tony, Thomas and Young (2009) and Corbella, Florio, Gotti and Mastrolia (2015) on Audit Fee Premiums, audit fee premium was calculated as the difference between actual audit fees and predicted audit fee. It is done by regressing total audit related fees (TOTFEE—scaled by total sales for the year) over a set of variables expected to account for the audit fees. The residuals from the regression represents the portion off the total audit fees not explained by the set of independent variables in the model therefore, adopted as the proxy of audit fee premium.

$$\text{totfee}_{it} = \alpha_0 + \alpha_1 \text{BIG}_{it} + \alpha_2 \text{SIZE}_{it} + \alpha_3 \text{LOSS}_{it} + \alpha_4 \text{LEV}_{it} + \alpha_5 \text{ROA}_{it} + \text{Year Fixed Effects} + \varepsilon \quad (3.11)$$

where totfee = total audit fee scaled by total sales.

BIG = variable equal to 1 if the audit firm is one of the Big 4 audit firms or 0 otherwise.

SIZE = natural log of net sales

LOSS = binary variable equal to 1 if the company experienced a loss in the period, and 0 otherwise.

LEV = the difference between total liabilities and stockholders' equity scaled by total assets

ROA = return on assets

3.6 Model Estimation Technique

Basically, the models specified were estimated with Panel Corrected Standard Errors (PCSE) and Pooled Ordinary Least Square Methods depending the on the outcome of diagnostics tests which include Hausman, Serial Correlation, Heteroscedasticity as well as Breusch and Pagan Lagrangian Multiplier tests. All models specified were run using the appropriate estimation technique using stataMP 14 statistical package.

CHAPTER FOUR

RESULT AND DISCUSSION OF FINDINGS

4.0 Introduction

This chapter presents the result of the data analysis divided into quantitative and qualitative analyses. The quantitative analysis is divided in descriptive and inferential analyses while the qualitative analysis uses schematic analysis of interview responses and document analysis. The chapter ends with a discussion of findings.

4.1. Analysis of Sample Selection Procedure

Table 4.1 Sample Selection

Panel A: Sample Selection					
Number of firms listed on the Nigerian Stock Exchange as of 31 st December 2018					166
Exclusions:					
Non-bank financial firms		41			
Firms with no up-to 5-year data during pre-reform period		<u>73</u>			(114)
Final Sample					<u>52</u>
Final Usable sample (firm-year observation over 14 years)					<u>696</u>
Financial services					179
Non-Financial Services					<u>517</u>
Total					<u>696</u>
Panel B: Sample Selection Breakdown by Industry					
Sectors	Population of firms	Sample	% of Pop	Freq. of obs	Percent Firm
Agriculture	5	2	0.40	26	4
Conglomerate	6	3	0.50	41	6
Construction/Real Estate	9	3	0.33	39	6
Consumer Goods	20	12	0.60	154	22
Healthcare	10	4	0.40	52	7
ICT	9	1	0.11	12	2
Industrial Goods	13	1	0.08	14	2
Natural Resources	4	2	0.50	25	4
Oil and Gas	12	6	0.50	75	11
Services	25	6	0.24	79	11
Financial Services	53	12	0.23	179	26
Total	166	52	0.31	696	100

Source: Authors' Computation, (2021)

Listed companies on the Nigerian Stock Exchange was 166 as of December 31, 2018 (Nigerian Stock Exchange, 2019) when the sample selection ends for this study. The study considered

listed companies because they are only companies required by law to publish their annual financial data, hence, guaranteeing the public availability of their financial statements. We downloaded financial reports from both companies' websites and African financials database. All the data used for the purpose of analysis were hand-extracted from financial reports because there is no official database for extracted financial report data in Nigeria. More so, the metrics used to proxy the variables in this work are quite diverse and not completely available on the few existing unofficial databases with bespoke extracted data.

Exclusions were made from the entire population following certain criteria that enabled us to arrive at the eventual sample size. Exclusions made are categorized into two namely, non-bank financial firms and firms with not up-to 5-year financial data during the sample period. Non-bank financial firms were excluded due to unavailability of data metrics in their financial reports for the estimation of extant models (Beaver & McNicholas, 1998; Beaver, McNicholas & Nelson, 2003; Gaver & Paterson, 2004) widely adopted in previous studies. Specifically, loan loss reserve development data are not disclosed by insurance companies in Nigeria, which makes it difficult to model required metrics for audit quality measures of insurance companies following the output approach of audit quality measurement adopted in this study. Companies with missing financial data for up to five financial years in the pre-reform period were excluded to avoid sample bias since the study controls for the period of reform.

The sample period 2005 – 2018 is adopted to reflect similar period coverage for both pre and post accounting reform in Nigeria. The reform took effect in 2012 after the enactment of the FRCN Act (2011) with the simultaneous adoption of IFRS in Nigeria. As a result, the accounting periods between 2005 and 2011 form 7 years for pre-reform period while the periods between 2012 and 2018 form another 7 years for the post reform period. The total sample selection jointly represents 31% of the total population. The sample selection criteria were chosen to ensure that all sectors are, at least represented in the sample selection. Various sectorial representation as shown in table 4.1 reveals that both ICT and Industrial Goods sectors account for the least representation in sample selection while financial services account for the highest sample selection in all, as consumer goods sector account for the highest sample representation among the non-financial firms sub-sector. The final sample consists of 52 listed companies over a 14-year period, resulting in 696 observations.

4.2 Descriptive Analysis

Table 4.2 Descriptive Analysis

Panel A: Non- Financial Firms									
Overall			Pre-reform Period			Post-reform Period			
Variable	Obs	Mean	Std. Dev	Obs	Mean	Std. Dev	Obs	Mean	Std. Dev
Aq	517	0.860059	8.737503	238	0.740011	4.058442	279	0.962466	11.29772
Ifrs	517	0.539652	0.498908	238	0	0	279	1	0
Afee	517	-9.7E-05	0.020615	238	-0.00021	0.022697	279	-8.08E-20	0.018699
Assize	517	0.682785	0.465843	238	0.773109	0.419704	279	0.605735	0.48957
Aispec	517	0.062128	0.068419	238	0.055042	0.064243	279	0.068172	0.071348
Mcpt	517	1.820928	6.70281	238	1.313109	2.123973	279	2.254122	8.895834
Lev	517	0.670019	2.050107	238	0.378698	0.913579	279	0.918531	2.637227
Roa	517	0.071663	0.962372	238	0.04937	0.176513	279	0.090681	1.300657
Loss	517	0.183752	0.387657	238	0.138656	0.346315	279	0.222222	0.416487
Fsz	517	9.942244	1.736434	238	9.862101	1.576025	279	10.01061	1.862483
Pe	517	-90.7576	2420.796	238	-216.048	3566.017	279	16.12122	106.6665
Ato	517	3.154275	10.72303	238	2.758403	12.10547	279	3.491971	9.393815

Panel B: Financial Firms									
Overall			Pre-reform Period			Post-reform Period			
Variable	Obs	Mean	Std. Dev	Obs	Mean	Std. Dev	Obs	Mean	Std. Dev
Aq	178	0.083941	0.12395	87	0.105619	0.138703	91	0.063215	0.104608
Ifrs	178	0.511236	0.501284	87	0	0	91	1	0
Afee	178	5.62E-10	0.000737	87	3.45E-09	0.000911	91	-2.20E-09	0.000524
Assize	178	0.938202	0.241467	87	0.954023	0.210649	91	0.923077	0.267946
Aispec	178	0.145093	0.099203	87	0.147384	0.099005	91	0.142903	0.099891
Mcpt	178	0.152459	0.125142	87	0.191586	0.142466	91	0.115052	0.092247
Lev	178	0.75601	0.365614	87	0.704264	0.223474	91	0.805481	0.458375
Roa	178	0.011771	0.033476	87	0.007361	0.04258	91	0.015987	0.02085
Loss	178	0.904494	0.294741	87	0.839081	0.369587	91	0.967033	0.17954
Fsz	178	11.90587	0.473102	87	11.64687	0.440532	91	12.15348	0.357648
Pe	178	9.275269	22.29667	87	11.02579	30.66624	91	7.60169	8.561251
Ato	178	0.116852	0.04742	87	0.113561	0.034166	91	0.119997	0.057327

Source: Authors' Computation, (2021)

The descriptive analyses of the observations are divided into two cohorts. That is, non-financial firms and financial firms. The division is necessitated by the different regulatory requirements for the financial services firms, particularly deposit money banks. Each of the cohorts reveals the means and standard deviations for the entire observations as well as for both the pre-reform and post reform periods. As shown in panel A of table 4.2, the audit quality proxy of absolute

discretionary accrual derived as residuals of the Jones model for the non-financial firms, depicts a mean of 0.86 for the entire observation. This indicates an absolute value of discretionary accrual of an average magnitude of 86% of the total assets of the sampled firms, and a standard deviation of 8.73. Disaggregating this into pre and post reform periods, the mean value for absolute value of discretionary accrual shows 74% of total asset for pre-reform period compared with 96% shown for the post-reform period which suggests a possible increase in discretionary accrual practice and a decrease in audit quality.

Panel B of table 4.2 reveals an overall mean of 0.083 and a standard deviation of 0.12, suggesting that only 8.3% value of the total assets in the financial firms is accounted for by discretionary accruals. It portrays the likelihood of conduct of high-quality audit given the low magnitude of discretionary accrual. The comparison of the pre- and post-reform periods is indicative of an improved audit quality as the means values for the duo respectively are 0.11 and 0.06, suggesting a possible improvement from 11% magnitude of discretionary accrual in total asset to only 6% after accounting reform. The mean values of the explanatory variables, that is, audit reform, audit fees premium, audit size and auditors' industrial specialization indicate that audit reform and audit size have higher means values for both financial and non-financial firms. Audit size account for relatively reduced mean values in the post-reform period. Nevertheless, the mean value of 46.5% for audit size is indicative of its inclusion as an important variable in both models.

On the average, the overall market capitalization (mcpt) ₦1.8billion and N0.15billion for non-financial firms and the financial firms respectively. Unlike the financial firms, there was an upward variation in the value of market capitalization for firms in the non-financial services after the reform period. Similarly, mean values for leverage (lev), return on asset (roa), loss, firm size (fsz), price/earnings ratio (pr) as well asset turnover (ato) indicate an increase for firms in the non-financial services. For financial services firms however, the mean values for price/earnings ratio and asset turnover indicate a decline in both metrics after accounting reforms. Other control variables for financial services firms, that is, leverage, return on asset, loss and firms size all indicate increase in mean values after the reform exercise. Importantly, for both categories of firms included in this study, no metric indicate a mean vale below 7% and this is affirms the relative importance of including the variables in the specified model.

4.2.1 Descriptive Analysis based on Audit Fee Premium

Table 4.2.1 Descriptive Analysis based on Audit Fee Premium

Panel A: Non- Financial Firms						
Positive Audit Fee Premium				Negative Audit Fee Premium		
Variable	Obs	Mean	Std. Dev	Obs	Mean	Std. Dev.
Aq	400	0.886588	9.697368	117	0.769363	4.015803
Ifrs	400	0.545	0.498595	117	0.521368	0.501692
Afee	400	0.003225	0.022228	117	-0.01145	0.004782
Assize	400	0.725	0.447074	117	0.538462	0.500663
Aispec	400	0.06705	0.068932	117	0.045299	0.064106
Mcpt	400	1.793675	6.571906	117	1.914103	7.161058
Lev	400	0.651725	2.139699	117	0.732564	1.715491
Roa	400	0.096875	1.072754	117	-0.01453	0.389577
Loss	400	0.09	0.28654	117	0.504274	0.502132
Fsz	400	10.15783	1.468262	117	9.205214	2.299806
Pe	400	21.5928	86.25641	117	-474.862	5084.3
Ato	400	3.1984	11.64519	117	3.003419	6.707839
Sgr	400	17.39855	296.5824	117	0.047243	0.903411
tactl	400	-1.31E+21	9.60E+21	117	6.05E+20	5.10E+21
Lloss	400	0.1625	0.369371	117	0.25641	0.438529

Panel B: Financial Firms						
Positive Audit Fee Premium				Positive Audit Fee Premium		
Variable	Obs	Mean	Std. Dev	Obs	Mean	Std. Dev.
Aq	78	0.091764	0.120155	100	0.077838	0.127096
Ifrs	78	0.602564	0.492535	100	0.44	0.498888
Afee	78	0.00061	0.000638	100	-0.00048	0.000363
Assize	78	0.923077	0.268194	100	0.95	0.219043
Aispec	78	0.175243	0.102312	100	0.121577	0.090436
Mcpt	78	0.131182	0.096833	100	0.169056	0.141672
Lev	78	0.77378	0.320657	100	0.74215	0.398218
Roa	78	0.01298	0.031684	100	0.010827	0.034939
Loss	78	0.897436	0.305352	100	0.91	0.287624
Fsz	78	11.96508	0.541181	100	11.85968	0.409221
Pe	78	8.033687	26.62076	100	10.2437	18.31619
Ato	78	0.100782	0.029982	100	0.129386	0.054397
Sgr	78	0.153068	0.756102	100	0.32819	0.630488
Variable	Obs	Mean	Std. Dev	Obs	Mean	Std. Dev.
tactl	78	0.072564	0.137628	100	0.028848	0.513122
Lloss	78	0.871795	0.336482	100	0.92	0.27266

Source: Authors' Computation, (2021)

Table 4.2.1 reports the descriptive analysis of sample firms on the basis of Audit Fee Premium. Both financial and Non-financial firms with negative Audit Fee Premiums recorded less mean values for discretionary accruals than their counterparts with positive Audit Fee Premiums. Similarly audit industry specialization means for both categories of firms are lower for firms with negative Audit Fee Premium. While these parameters are indicative of better audit quality and industry specialization for firms with negative Audit Fee Premium (real Audit Fee Premium), the reaction of audit size goes contradictory between both categories of firms. The mean values reported for audit size were smaller for firms with negative audit fee in the non-financial services industry but higher for the same categories of firms in the financial services industry.

Market capitalization produced higher mean values for both categories of firms with abnormal negative audit fee suggesting that firms that paid Audit Fee Premiums have their market capitalization improved and were able to access credit facilities, hence improving their leverage values. The mean values for ROA, loss, firm size, price/earnings ratio, asset turnover, sales growth, lagged total accruals and lagged loss are lesser for firms with positive Audit Fee Premium (no Audit Fee Premium) for firms in the non-financial services firms. A higher average values was also noted for firms in the financial services sector for market capitalization, loss, price/earnings, asset turnover, sales growth and lagged loss for firms with no Audit Fee Premiums. This is at variance with the mean values produced by leverage, return on assets, firm size and lagged total accruals. The import of this parameters for financial services firm is that firms that did not paid Audit Fee Premium to auditors had better market capitalization, sales growth, asset turnover and price/earnings despite the marginal increase in loss also reported.

However, the firms with negative Audit Fee Premium (paid Audit Fee Premium) had better access to credits through improved leverage values, higher values for returns on net assets and better firm sizes. The ability to access better credit as indicated by improved leverage is common to both categories of firms, that is, firms in the non-financial services industry as well as those in the financial services industry when they paid Audit Fee Premiums to their auditors. The inferential analysis will provide a more scientific and veritable evidence to indicate the actual relationship that exist among the variables.

4.2.2 Descriptive Analysis based on Audit Size

Table 4.2.2 Descriptive Analysis based on Audit Size

Panel A: Non- Financial Firms									
Overall				Big 4 firms			Non-Big 4 firms		
Variable	Obs	Mean	Std. Dev.	Obs	Mean	Std. Dev.	Obs	Mean	Std. Dev.
Aq	517	0.8600591	8.737503	353	0.2890147	0.264307	164	2.089197	15.46935
Ifrs	517	0.5396518	0.498908	353	0.4787535	0.5002575	164	0.6707317	0.4713869
Afee	517	-0.0000967	0.0206153	353	-0.0003966	0.006428	164	0.0005488	0.0354334
Assize	517	0.6827853	0.4658425	353	1	0	164	0	0
Aispec	517	0.0621277	0.0684187	353	0.0607082	0.0675026	164	0.0651829	0.0704627
Mcpt	517	1.820928	6.70281	353	1.279292	1.802504	164	2.986768	11.54148
Lev	517	0.6700193	2.050107	353	0.4835411	0.9806003	164	1.071402	3.315277
Loss	517	0.1837524	0.3876572	353	0.1388102	0.3462391	164	0.2804878	0.4506135
Fsz	517	9.942244	1.736434	353	10.46725	0.7579357	164	8.812195	2.534309
Pe	517	-90.75764	2420.796	353	-136.0078	2929.61	164	6.64061	57.16384
Ato	517	3.154275	10.72303	353	1.725666	2.382743	164	6.229268	18.3794
Sgr	517	13.47185	260.9012	353	19.63875	315.6939	164	0.1979607	1.299759
tactl	517	-8.73E+20	8.82E+21	353	-1.30E+21	1.06E+22	164	4.82E+19	1.93E+21
lloss	517	0.1837524	0.3876572	353	0.1416431	0.3491786	164	0.2743902	0.4475731

Panel B: Financial Firms									
Overall				Big 4 firms			Non-Big 4 firms		
Variable	Obs	Mean	Std. Dev.	Obs	Mean	Std. Dev.	Obs	Mean	Std. Dev.
Aq	178	0.0839405	0.12395	167	0.0748732	0.109891	11	0.221599	0.221938
Ifrs	178	0.511236	0.501284	167	0.502994	0.501495	11	0.6363636	0.504525
Afee	178	5.62E-10	0.000737	167	1.08E-21	0.000742	11	9.09E-09	0.000685
asize	178	0.9382022	0.241467	167	1	0	11	0	0
aispec	178	0.1450933	0.099203	167	0.1534378	0.096721	11	0.018408	0.008998
mcpt	178	0.1524594	0.125142	167	0.1586393	0.126349	11	0.0586376	0.043182
Lev	178	0.7560102	0.365614	167	0.7220134	0.203532	11	1.272143	1.168773
Loss	178	0.9044944	0.294741	167	0.9221557	0.268732	11	0.6363636	0.504525
Fsz	178	11.90587	0.473102	167	11.93104	0.476504	11	11.52375	0.146225
Pe	178	9.275269	22.29667	167	9.896974	22.88614	11	-0.1633476	0.525091
Ato	178	0.1168516	0.04742	167	0.1119067	0.03284	11	0.1919236	0.123656
Sgr	178	0.2514506	0.691833	167	0.2618797	0.707288	11	0.0931183	0.371679
tactl	177	0.0482756	0.396046	166	0.0371737	0.403847	11	0.2158141	0.191454
Lloss	178	0.8988764	0.302343	167	0.9161677	0.27797	11	0.6363636	0.504525

Source: Authors' Computation, (2021)

The statistics shown in table 4.2.2 shows both disaggregated and overall averages scores for metrics in both financial services as well as non-financial services firms. The mean values of discretionary accrual (aq) suggest that audit quality is higher for firms audited by big4 than their non-big4 counterparts in both the financial and non-financial services firms. This is

corroborated by higher audit fees paid to the big4 firms as well as better audit industry specialization. Mean values in the non-financial services firms are higher for market cap, leverage, firm size, price/earnings, asset turnover as well as sales growth for firms audited by the non-big4 auditors. These indicate that audit firm size does not really affect firms' values for the saved metrics. In the financial services firms, audit specialization is well pronounced for big4 firms than smaller audit firms as indicated by their respective mean values. More so, for the firms audited by the big4, asset turnover and sales growth are higher while other control variables, that is, market capitalization, leverage, loss, firm size, price/earnings and sales growth produces lower mean values for financial services firms audited by the non-big4 firms. This is further discussed in the hypothesis testing section with appropriate significance testing.

4.2.3 Descriptive Analysis based on Audit Industry Specialization

According to Neal and Riley (2004), auditor industry specialization is estimated using auditor market share and auditor portfolio share respectively. While the former is estimated by the division of the total sales of each auditor's clients in a particular industry by the total industry sales, the latter uses auditor's client sales in each industry divided by the auditor' firm-wide client sales. Table 4.2.3.1 displays the auditor portfolio share as a proxy for auditor industry specialization. It captures the portfolio of auditors across industry and isolate individual auditors share in that industry. The table shows that Deloitte, which is a big4 firm, has presence in all the industries with the highest portfolio share of 39.3% in the consumer goods industry, followed by its share of 24.2% in the financial services industry, then 13.63 % in the oil and gas industry. Its least portfolio shares are recorded in the ICT and the agricultural sector.

4.2.3 Descriptive Analysis based on Audit Industry Specialization

Table 4.2.3.1 Auditor Portfolio Share

	Big4	Agricu- lture	Conglo- merates	Construction/ Real Estate	Consumer Goods	Health care	Ict	Industrial Goods	Natural Resources	Oil and Gas	Services	Financial Services
Deloitte	Yes	0.0051	0.0077	0.0779	0.3934	0.0047	0.0005	0.0660	0.0559	0.1363	0.0104	0.2421
EY	Yes	0.0012	0.2300	0.0045	-	0.0102	-	-	-	0.4297	0.0068	0.3177
KPMG	Yes	-	0.0030	-	0.3161	-	-	0.0500	-	0.1252	0.0045	0.5012
PWC	Yes	-	0.0463	0.0050	0.1148	-	-	-	-	0.1976	-	0.6363
BDO	No	0.5683	-	-	-	-	0.2062	-	-	-	0.2256	-
SIAO	No	-	-	-	-	0.9290	-	-	-	-	0.0710	-
Horwath Dafinone	No	-	-	-	-	-	-	-	-	-	1.0000	-
PFK Professionals	No	-	-	-	-	0.0392	-	-	-	0.8233	0.0782	0.0592
HLB Z.O	No	-	-	-	-	-	-	-	-	-	1.0000	-
Olusanya& Co	No	-	-	-	-	-	-	-	-	-	-	-
Ugboaja Martins & Co	No	-	-	-	-	-	-	-	-	1.0000	-	-
BalogunBadejo&Co	No	-	-	-	-	-	-	-	1.0000	-	-	-
piropoulos,Adiele, Okpara & Co.	No	1.0000	-	-	-	-	-	-	-	-	-	-
Grant Thornton Nig C A	No	1.0000	-	-	-	-	-	-	-	-	-	-
Nexia Agbo Abel & Co	No	-	-	0.6015	-	-	-	-	0.3985	-	-	-
Dele Olufon & Co Chartered Accountants	No	-	-	1.0000	-	-	-	-	-	-	-	-
OOP and Partners Marison Odede & Co.	No	-	-	-	1.0000	-	-	-	-	-	-	-
AhmedZakari & Co	No	-	-	-	-	-	-	-	-	-	-	1.0000

Source: Authors' Computation, (2021)

4.2.3 Descriptive Analysis based on Audit Industry Specialization

Table 4.2.3.2 Auditor Market Share

	<u>Agricu- Lture</u>	<u>Conglo Merates</u>	<u>Construction/ Real Estate</u>	<u>Consumer Goods</u>	<u>Health care</u>	<u>Ict</u>	<u>Industrial Goods</u>	<u>Natural Resources</u>	<u>Oil and Gas</u>	<u>Services</u>	<u>Fina ncial Serv</u>
Deloitte	0.4044	0.0491	0.5652	0.4574	0.3509	0.2657	0.5509	0.6162	0.1822	0.3168	0.1464
EY	0.0408	0.6048	0.0133	-	0.3104	-	-	-	0.2358	0.0853	0.0789
KPMG	-	0.0205	-	0.3954	-	-	0.4491	-	0.1800	0.1469	0.326
PWC	-	0.3256	0.0400	0.1465	-	-	-	-	0.2898	-	0.422
BDO	0.3114	-	-	-	-	0.7343	-	-	-	0.0471	-
SIAO	-	-	-	-	0.0514	-	-	-	-	0.0016	-
Horwath Dafinone	-	-	-	-	-	-	-	-	-	0.1311	-
PFK Professionals	-	-	-	-	0.2873	-	-	-	0.1082	0.2345	0.003
HLB Z.O	-	-	-	-	-	-	-	-	-	0.0366	-
Olusanya & Co	-	-	-	-	-	-	-	-	-	-	-
Ugboaja Martins & Co	-	-	-	-	-	-	-	-	0.0041	-	-
Balogun Badejo & Co	-	-	-	-	-	-	-	0.0008	-	-	-
Spiropoulos, Adiele, Okpara & Co.	0.1518	-	-	-	-	-	-	-	-	-	-
Grant Thornton Nig Chartered Accountants	0.0917	-	-	-	-	-	-	-	-	-	-
Nexia Agbo Abel & Co	-	-	0.3805	-	-	-	-	0.3829	-	-	-
Dele Olufon & Co Chartered Accountants	-	-	0.0011	-	-	-	-	-	-	-	-
OOP and Partners	-	-	-	0.0007	-	-	-	-	-	-	-
Marison Odede & Co.	-	-	-	0.000001	-	-	-	-	-	-	-
Ahmed Zakari & Co	-	-	-	-	-	-	-	-	-	-	0.022

Source: Authors' Computation, (2021)

Ernst & Young (EY) follows closely with presence in 7 out of the 10 industries. EY's audit market portfolio does not capture the consumer goods, ICT, industrial goods and natural resources sectors. Its highest portfolios of 43% and 32% are in the oil and gas and financial services sectors, followed by a 23% portfolio in the conglomerates. KPMG has not audit interest in the Agriculture, Construction/Real estate, healthcare, ICT and Natural resources sectors of the sampled firms. It is left with portfolio share in 6 sectors, with its highest portfolio of 50% in the financial services after which its audit portfolio commands 31.6% and 12.5% in the consumer goods and Oil and Gas respectively.

The portfolio share of PWC covers on 5 industries namely, conglomerates, construction/real estate, consumer goods, oil and gas and the financial services. In all, it has 63% of its portfolio in the financial services, 19% in the oil and gas and 11.5% in the consumer goods. All the big4 firms have portfolio share in three specific industries, that is, the conglomerates, oil and gas and financial services. At least three of the big4 firms audit the construction/real estate, consumer goods and services industry while at least two of the big 4 have interest Agriculture, Healthcare and the Industrial goods industries. This suggest that the big4 have had experience in almost all the industry and would be able to command expertise and specialization in all. It specifically identifies that, other than the big4, no other categories of auditors may be able to possess matched expertise and specialization in the audit of conglomerates and industrial goods as no other categories of auditors have audit portfolio share in these industries.

More so, non-big4 auditors may also lack the requisite specialization in the audit of most of the industries as 8 out of their the total population of 14 non-big4 auditors saved for the purpose of this analysis, audit only one industry each while the remainder audit at most 4 out of the 11 subsectors. This explains the possibility of non-big4 firm to be specialized in specific sectors against others while offering opportunities for mergers among non-big4 to enable them possess the requisite specialization and expertise to conduct period audit in a manner that will improve audit quality. Audit market share captures the differentiation across all across competing audit firms within the available industries using the proportion to a particular auditors share in the market to the entire market in a particular industry.

As shown in table 4.2.3.2, big4 firms' shares in the audit market of the agricultural and Healthcare services industries were captured to the tune of 44.5% and 66% by only 2 of the big4 firms in each while 71%, 52% and 55% respectively were captured in the construction/real

estate, consumer goods and services by only 3 out of the big4 firms. 100%, 89% and 91% in the conglomerates, oil and gas and financial services industries for all the big4 firms. In the ICT sector however, only one firm among the big4 captures 27% of the entire audit market with the 70% remainder being audited by one of the non-big4 firms. In all, the big4 has the least 27% market share in at least one of the industries and generally commands the market with the largest market share in all except the ICT.

Next to the big4 in the capture of audit market are BDO and PFK professionals. BDO has market shares in 3 industries with 73% in the ICT, 31% in the agriculture and 4.7% in the services industry while PFK professionals have market share spread across 4 industries of Healthcare services (29%), Oil and Gas (11%), services (23%) and financial services (0.4%). The audit market share corroborates the results shown by the portfolio share that the big4 controls the audit market with their dominating presence while at the same time providing an insight into the emerging audit firms to include BDO and PFK international firms respectively. The other benefit provided by the audit market share approach is the possibility of having good expertise instead in some non-big4 audit firms than some big4 firms as depicted by the share of BDO in the ICT industry.

Table 4.3.1 Panel A: Correlation Matrix of Non-Financial Firms															
Pwcorr	Ifrs	Afee	asize	Aispec	mept	lev	roa	Loss	fsz	Pe	ato	sg	tact1	cir	lloss
Ifrs	1														
Afee	0.005	1.000													
Assize	-0.179*	-0.021	1.000												
Aispec	0.096*	-0.005	-0.031	1.000											
Mept	0.070	-0.022	-0.119*	0.035	1.000										
Lev	0.131*	0.008	-0.134*	0.042	0.011	1.000									
Roa	0.021	-0.004	-0.027	0.138*	0.540*	0.086	1.000								
Loss	0.108*	0.002	-0.170*	-0.160*	0.064	0.191*	-0.148*	1.000							
Fsz	0.043	-0.018	0.4440*	0.290*	-0.439*	0.001	0.121*	-0.356*	1.000						
Pe	0.048	0.022	-0.028	0.001	-0.006	0.013	0.006	-0.098*	-0.002	1.000					
Ato	0.034	0.800*	-0.196*	-0.156*	0.252*	0.080	-0.081	0.261*	-0.391*	0.010	1.000				
Sgr	-0.055	0.000	0.035	0.072	0.000	-0.016	0.005	-0.024	0.003	0.002	-0.011	1.000			
tact1	0.026	0.014	0.073	0.031	-0.005	0.010	0.004	0.015	0.046	-0.008	-0.034	-0.001	1.000		
Cir	0.046	0.001	-0.068	0.109*	0.600*	0.134*	0.965*	-0.017	0.027	0.004	-0.011	-0.004	0.006	1.000	
Lloss	0.068	0.014	-0.160*	-0.154*	0.063	0.188*	-0.080	0.420*	-0.320*	0.019	0.144*	0.090*	0.019	-0.016	1.000
	Ifrs	Afee	asize	aispec	mept	lev	roa	Loss	fsz	Pe	ato	sg	tact1	cir	Lloss
VIF	1.13	5.48	1.53	1.26	3.4	1.15	21.04	1.78	2.83	1.02	6.92	1.03	1.02	21.41	1.34
Tolerance	0.887	0.182	0.653	0.794	0.294	0.866	0.048	0.563	0.354	0.978	0.144	0.973	0.983	0.047	0.749

Source:

Authors' Computation, (2021)

Table 4.3.2 Panel B: Correlation Matrix of Financial Firms

Pwcorr	Ifrs	Afee	Assize	Aispec	mcpt	lev	roa	loss	Fsz	Pe	ato	sgr	tactl	Lloss
Ifrs	1.000													
Afee	0.000	1.000												
Assize	-0.064	0.000	1.000											
Aispec	-0.023	0.334*	0.3287*	1.000										
Mcpt	-0.307*	-0.144	0.193*	0.103	1.000									
Lev	0.139	0.000	-0.363*	-0.203*	-0.257*	1.000								
Roa	0.129	0.000	0.188*	0.244*	0.311*	-0.323*	1.000							
Loss	0.218*	0.000	0.234*	0.142	0.172*	-0.316*	0.716*	1.000						
Fsz	0.537*	0.000	0.208*	0.242*	-0.224*	-0.049	0.169*	0.22*	1.000					
Pe	-0.077	-0.075	0.109	0.008	0.163*	-0.100	0.046	0.21*	0.035	1.000				
Ato	0.068	-0.355*	-0.408*	-0.207*	0.044	0.567*	-0.119	-0.23*	-0.203*	-0.062	1.000			
Sgr	-0.078	-0.078	0.059	0.066	-0.003	-0.070	0.057	0.036	0.078	-0.041	-0.008	1.000		
tactl	-0.305*	0.083	-0.389*	-0.240*	-0.134	0.1725*	-0.285*	-0.45*	-0.362*	-0.081	0.147	0.052	1.00	
Lloss	0.082	-0.077	0.2235*	0.131	0.139	-0.209*	0.131	0.145	0.2196*	0.020	-0.045	0.102	-0.48*	1.000
VIF	1.85	1.57	1.59	1.53	1.51	2.01	2.58	2.86	1.87	1.14	2.41	1.08	2.05	1.41
Tolerance	0.541624	0.63808	0.630741	0.65365	0.66433	0.49789	0.387135	0.3499	0.533435	0.878978	0.414567	0.928501	0.4883	0.7092

Source: Authors' Computation, (2021)

4.3. Multi-Collinearity Test

The correlation matrix using the Pearson correlation coefficients as well as the variance inflation factors and tolerance for the predictor variables are presented (see Table 4.3) to check for possible existence of multi-collinearity. The largest coefficient ($r=0.965$, $p<0.10$) is between Capital Intensity Ratio (CIR) and Return on Asset (ROA) with VIF of 21.04 and 21.41 respectively and tolerance of 0.048 and 0.047. These variables pose multi-collinearity threat to the model as Field (2009), considers a strong linear relationship among the predictors say, above 0.8 or 0.9 as an indication of multi-collinearity and according to Myers (1990), a value of VIF of above 10 calls for worry of multi-collinearity while the tolerance ($1/VIF$) below 0.2 may be a source of serious collinearity concern as noted by Menard (1995). Consequently, capital intensity ratio was dropped as a control variable. The choice of CIR was informed by similar problem encountered with it in the financial services firms. A further review of the correlation matrix provides evidence to support the proposition of the hypotheses of this study as indicated by a significant association between audit size and IFRS adoption as well as audit industry specialization and IFRS adoption. The next highest coefficient is between the asset turnover and IFRS adoption (0.800) and its still below the multi-collinearity threshold of above 0.80.

The correlation matrix presented in Panel B of Table 4.3 reports the Pearson correlation coefficients, VIF and tolerance coefficients of the financial firms' predictor variables. The Pearson correlation coefficients ($r=0.57$, $p<0.10$) is the highest of all the coefficients between any two variables in the matrix. This is lower than the 0.80 threshold and also produces acceptable VIF (2.01 & 2.41) and tolerance values (0.49 & 0.41). Furthermore, a significant relationship exists among variables such as audit industry specialization and audit fee and size. This presupposes an association among the variables as audit size could present possibility in specialization of auditors in specific industries while at the same time leading to an increase in audit fees. As noted in the description of audit industry specialization table, it was observed that the spread of specialization of auditors across industry was driven majorly by audit size as big4 firms individually and collectively account for the largest market presence across all industries except the ICT where BDO appears to be the dominating audit firm.

4.4 Test of Hypotheses

4.4.1 Hypothesis 1 – H₀: IFRS Adoption does not significantly affect audit quality of Nigeria listed companies

Table 4.4.1 Hypothesis 1 – H₀: IFRS Adoption does not significantly affect audit quality of Nigeria listed companies

<u>Sector – Model –</u> Predictors	<u>Non-Financial Services</u>		<u>Financial Services</u>	
	<u>Jones</u> Aq	<u>Kothari et al</u> aq	<u>Kanagaratnam</u> Aq	<u>Beaver & Engel</u> Aq
ifrs	-0.536* (-1.66)	-0.534* (-1.66)	-0.00570 (-0.78)	-0.00306 (-0.16)
Mcpt	0.173 (1.48)	0.173 (1.48)	0.0271 (1.04)	-0.0187 (-0.31)
roa	7.752*** (15.63)	7.752*** (15.63)	-0.548*** (-4.38)	-1.023* (-1.68)
lev	0.164*** (2.76)	0.164*** (2.76)	-0.00474 (-0.47)	-0.00480 (-0.18)
loss	2.760*** (9.28)	2.762*** (9.28)	-0.0198 (-1.37)	-0.171** (-2.58)
fsz	-0.369 (-0.91)	-0.369 (-0.92)	-0.00141 (-0.19)	0.000147 (0.01)
pe	0.0000253** (2.09)	0.0000255** (2.12)	0.0000218 (0.17)	0.000124 (0.55)
ato	-0.0498*** (-3.11)	-0.0497*** (-3.10)	-0.00341 (-0.04)	-0.0988 (-0.61)
sgr	0.0000644 (0.84)	0.0000678 (0.89)	0.00831** (2.10)	0.00768 (1.26)
tact1	8.87e-24* (1.76)	8.89e-24* (1.76)	0.111** (2.06)	-0.0827*** (-4.74)
lloss	-0.598* (-1.66)	-0.599* (-1.66)	-0.00551 (-0.47)	-0.0510** (-2.06)
_cons	3.630 (0.87)	3.631 (0.87)	0.0716 (0.81)	0.315 (1.19)
N	517	516	177	178
R ²	0.868	0.868	0.376	0.449
adj. R ²			0.334	0.413
Hausman(X ²)	27.978***	28.39***	7.04	8.92
Year (F)	1.68*	1.65*	-	-
Het (x ²)	27484.1***	27498.47***	159***	85.19***
Serial corr (F)	9.993***	9.959***	0.202	2.556
Model F/Wald(X ²)	5816.09***	5824.30***	9.02***	8.77***
BPLM Random	-	-	0.00	0.00
Est Method	PCSE	PCSE	OLS	OLS

t statistics in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Authors' Computation, (2021)

Table 4.4.1 presents the results for test of hypothesis 1. It consists of four panels. Panels A and B summarize the results for non-financial firms using absolute residuals from Jones model and

Kothari's performance adjusted Jones model to proxy discretionary accruals, hence audit quality. Panels C and D explain the financial firms' results. It adopts the absolute residuals from Kanagaratnem model and Beaver & Engel models to proxy audit quality for firms in financial services industry. Two models each were adopted for both categories of industries in order to enhance the validity and reliability of results and mitigate misspecification issues that may be obscured in a mono-model analysis. Hence, two different variations of absolute discretionary accruals are used to proxy audit quality for both financial and non-financial services firms. Some diagnostic tests were conducted on the data to enable appropriate choice of model estimation technique for each of the specified models.

The Hausman tests conducted on the data reveal $\chi^2=27.98$, $p<0.01$ and $\chi^2=28.39$, $p<0.01$ for models A and B while $\chi^2=7.04$, $p>0.10$ and $\chi^2=8.92$, $p>0.10$ were revealed for Panels C and D. This suggests the adoption of fixed effect method for the estimation of panels A and B with exclusion of year effect as indicated by ($f=1.68$, $p>.05$ & $f=1.65$, $P>0.05$) and random effect method for panels C and D. However, the presence of heteroscedasticity ($\chi^2=27484.1$, $p<0.01$ and $\chi^2=27498.47$, $p<0.01$) and serial correlation ($f=9.993$, $P<0.01$ & $f=9.959$, $P<0.01$) suggests the use of panel corrected standard error for the estimation of panels A and B while the Breusch and Pagan Lagrangian Multiplier (BPLM) test for random effects ($\text{Chibar}^2 = 0.00$, $p>0.10$ & $\text{Chibar}^2 = 0.00$, $p>0.10$) suggests the choice of Ordinary Least Square method for the estimation of panels C and D. Nevertheless, the OLS method adopted for panels C and D were eventually run with robust option to correct the presence of heteroscedasticity ($\chi^2=159$, $p<0.01$ and $\chi^2=85.19$, $p<0.01$) in both models. They both do not have problems of autocorrelation ($f=0.202$, $p>0.10$ and $f=2.556$, $p>0.10$).

The results of panels A and B are consistent with respect to all the variables of interest. They support the rejection of the null hypothesis ($t=-1.66$, $p<0.10$ & $t=-1.66$, $p<0.10$) thereby supporting the proposition that adoption of IFRS significantly affect audit quality. The signed coefficient suggests an improvement in audit quality due to IFRS adoption and both models show that IFRS adoption account for at least 53% improvement in audit quality. The model parameters signal good result with model statistics ($f=5816.09$, $P<0.01$ & $f=5824.30$, $P<0.01$) for both models and R^2 of 86.8% for the respective models. Similarly, both the models present unsigned significant effects of ROA, leverage, loss, PE, sales growth and lagged total accruals on discretionary accrual which thus suggests that audit quality is impaired by their presence in

the model whilst the coefficients and significance of asset turnover and lagged loss are suggestive of improved audit quality for firms in non-financial services.

The results of panels C and D are also largely consistent with one another in respect of most of the variables saved for the financial services firms. It supports retaining of the null hypothesis ($t=-0.78$, $p>0.10$ & $t=-0.16$, $p>0.10$) thereby supporting the proposition that adoption of IFRS does not significantly affect audit quality. Although the signed coefficient also suggests an improvement in audit quality due to IFRS adoption both models but results are not statistically significant at 10% confidence interval. The model parameters signals good result with model statistics ($Wald=9.02$, $P<0.01$ & $Wald=8.77$, $P<0.01$) for both models and adjusted R^2 of 33.4% and 41.3% for both models respectively. Model D presents signed significant effects of ROA, loss, lagged loss and lagged total accruals on discretionary accrual which thus suggests that audit quality is improved by their presence in the model and this is qualitatively similar to the results in Modes C thereby affirming the consistence of the results across different measures of audit quality for both financial and non-financial firms.

The results of hypothesis 1 presupposes that IFRS adoption improves audit quality across all firms even though the results presented for the financial services firms are not statistically significant. Similarly, lagged loss significant improved audit quality across all firms while ROA significantly improved audit quality for financial services firms but reduces quality for non-financial services firms.

4.4.2 Hypothesis 2 – H₀: The effect of IFRS adoption on the audit quality of listed firms in Nigeria is not significantly moderated by audit fee premium.

Table 4.4.2 Hypothesis 2 – H₀: The effect of IFRS adoption on audit quality of listed firms in Nigeria is not significantly moderated by audit fee premium.

<u>Sector –</u> <u>Model –</u> Predictors	<u>Non-Financial Services</u>		<u>Financial Services</u>	
	<u>Jones</u>	<u>Kothari et al</u>	<u>Kanagaratnam</u>	<u>Beaver & Engel</u>
	Aq	Aq	Aq	Aq
Ifrs	-2.688*** (-6.62)	-2.504*** (-7.70)	-0.00790 (-1.10)	-0.00253 (-0.13)
Afee	-112.9** (-2.33)	-113.3** (-2.33)	3.407 (0.73)	2.920 (0.29)
ifrsafee	80.01*** (4.88)	79.95*** (4.87)	4.312 (0.46)	12.16 (0.71)
mcpt	0.0963 (0.88)	0.0951 (0.87)	0.0255 (0.96)	-0.0215 (-0.34)
roa	8.156*** (17.37)	8.162*** (17.34)	-0.599*** (-4.68)	-1.071* (-1.70)

<u>Sector –</u> <u>Model –</u> Predictors	<u>Non-Financial Services</u>		<u>Financial Services</u>	
	<u>Jones</u> Aq	<u>Kothari et al</u> Aq	<u>Kanagaratnam</u> Aq	<u>Beaver & Engel</u> Aq
lev	0.0691 (1.10)	0.0684 (1.08)	-0.00605 (-0.58)	-0.00917 (-0.33)
loss	2.236*** (6.03)	2.238*** (6.03)	-0.0129 (-0.83)	-0.167** (-2.45)
fsz	-0.192 (-0.50)	-0.196 (-0.51)	0.00150 (0.19)	-0.00121 (-0.05)
pe	0.0000243** (2.03)	0.0000246** (2.03)	0.0000535 (0.41)	0.000146 (0.65)
ato	0.117 (1.22)	0.118 (1.23)	0.0561 (0.65)	-0.0222 (-0.12)
Sgr	-0.0000239 (-0.21)	-0.0000213 (-0.19)	0.00772* (1.91)	0.00836 (1.35)
tact1	1.10e-23* (1.89)	1.11e-23* (1.91)	0.138 (1.58)	-0.0849*** (-4.71)
Lloss	-0.294 (-0.99)	-0.297 (-1.00)	-0.0108 (-0.98)	-0.0492** (-1.99)
_cons	3.920 (1.02)	4.012 (1.04)	0.0300 (0.31)	0.321 (1.17)
N	517	516	177	178
R ²	0.883	0.883	0.375	0.451
adj. R ²	-	-	0.325	0.407
Hausman(X ²)	72.63***	74.39***	13.56	19.91
Year (F)	2.08**	2.05**	-	-
Het (x ²)	190000***	190000***	151.86***	86.87***
Serial corr (F)	22.285***	22.144***	0.24	2.438
Model F/Wald(X ²)	11376.45***	11419.56***	7.51***	8.46***
BPLM Random	-	-	0.00	0.00
Est Method	PCSE	PCSE	OLS	OLS

t statistics in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Authors' Computation, (2021)

The results of hypotheses 2 are presented in Table 4.4.2. It also consists of four panels with the same characteristics as explained in hypothesis 1. The Hausman tests conducted on the data reveal $x^2=72.63$, $p<0.01$ and $x^2=74.39$, $p<0.01$ for models A and B while $x^2=13.56$, $p>0.10$ and $x^2=19.91$, $p>0.05$ were revealed for Panels C and D. This suggests the adoption of fixed effect method for the estimation of panels A and B with exclusion of year effect as indicated by ($f=2.08$, $p>.01$ & $f=1.65$, $P>0.01$) and random effect method for panels C and D. However, the presence of heteroscedasticity ($x^2=19000$, $p<0.01$ and $x^2=19000$, $p<0.01$) and serial correlation ($f=22.285$, $P<0.01$ & $f=22.144$, $P<0.01$) suggests the use of panel corrected standard error for the estimation of panels A and B while the Breusch and Pagan Lagrangian Multiplier (BPLM) test for random effects ($Chibar^2 = 0.00$, $p>0.10$ & $Chibar^2 = 0.00$, $p>0.10$) suggests the choice of

Ordinary Least Square method for the estimation of panels C and D. Nevertheless, the OLS method adopted for panels C and D were eventually run with robust option to correct the presence of heteroscedasticity ($x^2=151.86$, $p<0.01$ and $x^2=86.87$, $p<0.01$) in both models. They both do not have problems of autocorrelation ($f=0.24$, $p>0.10$ and $f=2.438$, $p>0.10$).

The results ($t=-2.23$, $p<0.05$ & $t=-2.33$, $p<0.05$) of panels A and B are consistent with respect to all the variables of interest. They both support the proposition that audit fee premium significantly improved audit quality. The signed coefficient suggests an improvement in audit quality due to audit fee premiums paid to auditors. However, the significant interaction between IFRS and audit fee premium ($t=4.88$, $p<0.01$ & $t=4.87$, $p<0.01$) indicate an unsigned significant coefficient with audit quality thereby, indicating that the improvement in audit quality applied to the entire periods prior to IFRS adoption while simultaneously suggesting that audit fee premium after the IFRS adoption led to the reduction in audit quality for the non-financial firms. The model parameters signal good result with model statistics ($f=11376.45$, $P<0.01$ & $f=11419.56$, $P<0.01$) for both models and R^2 of 88.3% for the respective models. Similarly, both the models present unsigned significant effects of ROA, loss, PE, and lagged total accruals on discretionary accrual which thus suggests that audit quality is impaired by their presence in the model whilst the coefficients and significance of sales growth are suggestive of improved audit quality for firms in non-financial services at 90% confidence interval.

The results ($t=-0.73$, $p>0.10$ & $t=-0.29$, $p>0.10$) of panels C and D are also largely consistent with one another in respect of most of the variables saved for the financial services firms. It provides evidence to support the proposition that audit quality is not significantly improved by audit fee premium in the financial services industry. This submission is consistent across pre and post IFRS-adoption periods as indicated by the coefficient of the interaction of audit fee premium and IFRS ($t=4.312$, $p>0.10$ & $t=12.16$, $p>0.10$) The model parameters signals good result with model statistics ($Wald=7.51$, $P<0.01$ & $Wald=8.46$, $P<0.01$) for both models and adjusted R^2 of 32.5% and 40.7% for both models respectively. Model D presents signed significant effects of ROA, loss, lagged loss and lagged total accruals on discretionary accrual which thus suggests that audit quality is improved by their presence in the model and this is qualitatively similar to the results in Modes C thereby affirming the consistence of the results across different measures of audit quality for both financial and non-financial firms.

The results of hypothesis 2 presupposes that audit fee premium moderated the relationship between IFRS adoption and audit quality for only non-financial firms while financial services

firms' results show no significant effect on the relationship when moderated with audit fee premium. Qualitatively, the results have similar interpretation as indicated by their unsigned coefficient.

4.4.3. Hypothesis 3: The relationship between IFRS adoption and the audit quality of listed companies in Nigeria is not significantly moderated by audit firm size.

Table 4.4.3. Hypothesis 3: The relationship between IFRS adoption and the audit quality of listed companies in Nigeria is not significantly moderated by audit firm size.

<u>Sector – Model – Predictors</u>	<u>Non-Financial Services</u>		<u>Financial Services</u>	
	<u>Jones</u>	<u>Kothari et al</u>	<u>Kanagaratnam</u>	<u>Beaver & Engel</u>
	<u>Aq</u>	<u>Aq</u>	<u>Aq</u>	<u>Aq</u>
ifrs	-3.390** (-4.04)	-3.390** (-4.04)	0.0124 (0.52)	-0.00878 (-0.10)
Assize	-3.190** (-4.25)	-3.192** (-4.25)	-0.0159 (-0.82)	-0.118** (-3.69)
ifrsasize	3.571** (4.68)	3.572** (4.68)	-0.0216 (-0.89)	0.00143 (0.02)
mcpt	0.185* (1.65)	0.185* (1.65)	0.0340 (1.31)	0.0245 (0.40)
roa	7.703** (16.16)	7.704** (16.16)	-0.543** (-4.38)	-1.099* (-1.71)
lev	0.171** (2.60)	0.172** (2.60)	-0.00810 (-0.80)	-0.0130 (-0.34)
loss	2.790** (9.18)	2.792** (9.18)	-0.0201 (-1.40)	-0.162** (-2.49)
fsz	-0.235 (-0.57)	-0.235 (-0.57)	0.00270 (0.36)	0.0111 (0.56)
pe	0.0000238*** (2.78)	0.0000239*** (2.80)	0.0000317 (0.25)	0.000155 (0.66)
ato	-0.0518** (-3.24)	-0.0518** (-3.24)	-0.0445 (-0.57)	-0.268 (-1.28)
sgr	0.000119 (1.21)	0.000122 (1.25)	0.00844** (2.15)	0.00831 (1.34)
tact1	9.65e-24** (2.19)	9.66e-24** (2.19)	0.100* (1.85)	-0.0924*** (-5.43)
Lloss	-0.620* (-1.75)	-0.621* (-1.75)	-0.00468 (-0.40)	-0.0378 (-1.54)
_cons	4.930 (1.18)	4.932 (1.18)	0.0447 (0.49)	0.298 (1.27)
N	517	516	177	178
R ²	0.872	0.872	0.397	0.486
adj. R ²	-	-	0.348	0.446
Hausman(X ²)	42.53***	42.58	4.97	3.03
Year (F)	1.66*	1.64*	-	-
Het (x ²)	37175***	36934***	191.39***	83.88***
Serial corr (F)	9.574***	9.541***	2.161	2.315
Model F/Wald(X ²)	6588.68***	6589.52***	8.24***	14.03***
BPLM Random	-	-	0.00	0.00
Est Method	PCSE	PCSE	OLS	OLS

t statistics in parentheses * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Authors' Computation, (2021)

The models outputs shown in table 4.4.3 depict the results of hypotheses 3. The table comprises of four panels with similar explanations provided under hypothesis 1. The Hausman tests reveal $\chi^2=42.53$, $p<0.01$ and $\chi^2=42.58$, $p<0.01$ for models A and B while $\chi^2=4.97$, $p>0.10$ and $\chi^2=3.03$, $p>0.05$ were revealed for Panels C and D. This suggests the adoption of fixed effect method for the estimation of panels A and B with exclusion of year effect as indicated by ($f=1.66$, $p>.01$ & $f=1.64$, $P>0.01$) and random effect method for panels C and D. However, the presence of heteroscedasticity ($\chi^2=37175$, $p<0.01$ and $\chi^2=36934$, $p<0.01$) and serial correlation ($f=93574$, $P<0.01$ & $f=9.541$, $P<0.01$) suggests the use of panel corrected standard error for the estimation of panels A and B while the Breusch and Pagan Lagrangian Multiplier (BPLM) test for random effects ($\text{Chibar}^2 = 0.00$, $p>0.10$ & $\text{Chibar}^2 = 0.00$, $p>0.10$) suggests the choice of Ordinary Least Square method for the estimation of panels C and D. Nevertheless, the OLS method adopted for panels C and D were eventually run with robust option to correct the presence of heteroscedasticity ($\chi^2=191.39$, $p<0.01$ & $\chi^2=83.88$, $p<0.01$) in both models. They both do not have problems of autocorrelation ($f=2.161$, $p>0.10$ and $f=2.315$, $p>0.10$).

The results ($t=-4.25$, $p<0.01$ & $t=-4.25$, $p<0.01$) of panels A and B are consistent with respect to all the variables of interest. They both support the proposition that that the relationship audit firm size significantly led to increase in audit quality of listed companies in Nigerian non-financial service industry. By implication, bigger audit firms are more likely to produce better quality audit that the smaller counterparts. Meanwhile, the significant interaction between IFRS and auditor size ($t=4.68$, $p<0.01$ & $t=4.68$, $p<0.01$) indicate an unsigned significant coefficient with audit quality thereby, indicating that the improvement in audit quality caused by audit size applied to the entire periods prior to IFRS adoption while simultaneously suggesting that auditor size after the IFRS adoption led to the reduction in audit quality for the non-financial firms. In other words, since the adoption of IFRS, Big4 firms have become less proficient in constraining earnings management thus, impairing audit quality. The model parameters signal good result with model statistics ($f=6588.68$, $P<0.01$ & $f=6589.92$, $P<0.01$) for both models and R^2 of 87.2% for the respective models. More so, both the models present unsigned significant effects of ROA, lev, loss, PE, lagged total accruals and lagged loss on discretionary accrual which thus suggests that audit quality is impaired by their presence in the model whilst the coefficients and significance of asset turnover are suggestive of improved audit quality for firms in non-financial services at 99% confidence interval.

The results of panels C and D are also largely consistent with one another in respect of most of the variables saved for the financial services firms. It provides evidence ($t=-0.82$, $p<0.01$ & $t=-3.69$, $p<0.01$) that audit quality is significantly affected by auditor size. This submission is however not consistent across pre and post IFRS-adoption periods as indicated by the coefficient of the interaction of auditor size and IFRS ($t=-0.89$, $p>0.10$ & $t=0.02$, $p>0.10$). In the post IFRS period, audit quality is significantly reduced by IFRS adoption when moderated with auditor firm size across all sampled firms in the financial services industry. The model parameters also signal good result with model statistics ($Wald=8.24$, $P<0.01$ & $Wald=14.03$, $P<0.01$) for both models and adjusted R^2 of 34.8% and 44.6% for both models respectively. Model D presents signed significant effects of ROA, loss, and lagged total accruals on discretionary accrual which thus suggests that audit quality is improved by their presence in the model and this is qualitatively similar to the results in Model C thereby affirming the consistence of the results across different measures of audit quality for both financial and non-financial firms.

The results of hypothesis 3 conforms to the supposition that that there is statistically negative significant relationship between IFRS adoption and audit quality moderated by audit firm size in the non-financial services industry. The result of the financial services firm is though not significant, it qualitatively have similar interpretation as indicated by their unsigned coefficient.

4.4.4. Hypothesis 4 – H₀ Auditor industry specialization does not significantly moderate the relationship between IFRS adoption and audit quality of listed companies in Nigeria.

4.4.4. Hypothesis 4 – H₀: Auditor industry specialization does not significantly moderate the relationship between IFRS adoption and audit quality of listed companies in Nigeria.

<u>Sector –</u> <u>Model –</u> <u>Predictors</u>	<u>Non-Financial Services</u>		<u>Financial Services</u>	
	<u>Jones</u> <u>Aq</u>	<u>Kothari et al</u> <u>Aq</u>	<u>Kanagaratnam</u> <u>Aq</u>	<u>Beaver & Engel</u> <u>Aq</u>
ifrs	-0.827* (-1.71)	-0.825* (-1.71)	-0.0189* (-1.77)	-0.0486* (-1.69)
aispec	-3.283* (-1.72)	-3.300* (-1.74)	-0.0805** (-2.00)	-0.343*** (-3.75)
ifrsaispec	5.245* (1.69)	5.251* (1.69)	0.0942 (1.53)	0.316** (2.50)
mcpt	0.171 (1.47)	0.171 (1.47)	0.0181 (0.68)	-0.0434 (-0.70)
roa	7.762*** (15.80)	7.762*** (15.81)	-0.518*** (-4.10)	-0.870 (-1.40)
<u>Sector –</u> <u>Model –</u> <u>Predictors</u>	<u>Non-Financial Services</u>		<u>Financial Services</u>	
	<u>Jones</u> <u>Aq</u>	<u>Kothari et al</u> <u>Aq</u>	<u>Kanagaratnam</u> <u>Aq</u>	<u>Beaver & Engel</u> <u>Aq</u>
lev	0.162***	0.162***	-0.00550	-0.00834

	(2.74)	(2.74)	(-0.55)	(-0.33)
loss	2.771***	2.773***	-0.0203	-0.175***
	(9.29)	(9.30)	(-1.40)	(-2.77)
fsz	-0.364	-0.364	-0.00455	-0.00630
	(-0.91)	(-0.91)	(-0.54)	(-0.27)
pe	0.0000229*	0.0000230*	0.0000407	0.000174
	(1.92)	(1.94)	(0.32)	(1.00)
ato	-0.0496***	-0.0495***	-0.00442	-0.125
	(-3.08)	(-3.08)	(-0.06)	(-0.84)
sgr	0.0000929	0.0000965	0.00923**	0.0110*
	(1.01)	(1.05)	(2.32)	(1.70)
tact1	9.04e-24*	9.06e-24*	0.103*	-0.0831***
	(1.85)	(1.86)	(1.91)	(-4.95)
lloss	-0.519	-0.520	-0.00403	-0.0418*
	(-1.46)	(-1.46)	(-0.35)	(-1.72)
_cons	3.719	3.719	0.121	0.444
	(0.90)	(0.90)	(1.21)	(1.61)
<hr/>				
N	517	516	177	178
R ²	0.868	0.868	0.391	0.483
adj. R ²			0.342	0.442
Hausman(X ²)	37.14***	37.06***	7.55	19.65
Year (F)	1.71*	1.70*	-	-
Het (x ²)	42000***	41000***	180.87***	66.87***
Serial corr (F)	10.190***	10.159***	0.452	2.226
Model F/Wald(X ²)	6220.57***	6225.71***	8.04***	9.16***
BPLM Random	-	-	0.00	0.00
Est Method	PCSE	PCSE	OLS	OLS

t statistics in parentheses * p < 0.10, ** p < 0.05, *** p < 0.01

Authors' Computation, (2021)

The models outputs shown in table 4.4.4 show the results of hypotheses 4. The table comprises of four panels with similar explanations provided under hypothesis 1. The Hausman tests reveal $x^2=37.14$, $p<0.01$ and $x^2=37.06$, $p<0.01$ for models A and B while $x^2=7.55$, $p>0.10$ and $x^2=19.65$, $p>0.05$ were revealed for Panels C and D. This suggests the adoption of fixed effect method for the estimation of panels A and B with exclusion of year effect as indicated by ($f=1.71$, $p>.01$ & $f=1.70$, $P>0.01$) and random effect method for panels C and D. However, the presence of heteroscedasticity ($x^2=42000$, $p<0.01$ and $x^2=41000$, $p<0.01$) and serial correlation ($f=10.190$, $P<0.01$ & $f=10.159$, $P<0.01$) suggests the use of panel corrected standard error for the estimation of panels A and B while the Breusch and Pagan Lagrangian Multiplier (BPLM) test for random effects ($Chibar^2 = 0.00$, $p>0.10$ & $Chibar^2 = 0.00$, $p>0.10$) suggests the choice of Ordinary Least Square method for the estimation of panels C and D. Nevertheless, the OLS method adopted for panels C and D were eventually run with robust option to correct the presence of

heteroscedasticity ($x^2=180.87$, $p<0.01$ & $x^2=66.87$, $p<0.01$) in both models. They both do not have problems of autocorrelation ($f=0.452$, $p>0.10$ and $f=2.226$, $p>0.10$).

The results of panels A and B are consistent with respect to all the variables of interest. The result ($t=-1.72$, $p<0.10$ & $t=-1.74$, $p<0.10$) shows that audit quality is significantly improved by auditor industry specialization. However, the relationship of discretionary accrual with the interaction between IFRS and industry specialization ($t=1.69$, $p<0.10$ & $t=1.69$, $p<0.10$) indicate an unsigned significant coefficient with audit quality thereby, indicating that the improvement in audit quality caused by audit industry specialization applied to the entire periods prior to IFRS adoption while also suggesting that auditor industry specialization after the IFRS adoption led to the reduction in audit quality for the non-financial firms. This may imply that IFRS adoption provided opportunity for auditors that have specialization and experience in the specific industry to tolerate more accounting manipulation by the accountant, perhaps, due to the argument that IFRS is principle based and offers opportunity for justifiable manipulations on accounting figures. The model parameters signals good result with model statistics ($f=6220.57$, $P<0.01$ & $f=6225.71$, $P<0.01$) for both models and R^2 of 86.8% for the respective models. More so, both the models present unsigned significant effects of ROA, lev, loss, PE and lagged total accruals on discretionary accrual which thus suggests that audit quality is impaired by their presence in the model whilst the coefficients and significance of asset turnover are suggestive of improved audit quality for firms in non-financial services at 99% confidence interval.

The results of panels C and D are also largely consistent with one another in respect of most of the variables saved for the financial services firms. It supports ($t=-2.00$, $p<0.05$ & $t=-3.75$, $p<0.01$) proposition that audit quality is significantly improved by auditor industry specialization. This submission is however not consistent across pre and post IFRS-adoption periods as indicated by the coefficient of the interaction of auditor industry specialization and IFRS ($t=1.53$, $p>0.10$ & $t=2.50$, $p<0.05$). In the post IFRS period, audit quality is significantly reduced by auditor size across all sampled firms in the financial services industry. The model parameters also signal good result with model statistics ($Wald=8.04$, $P<0.01$ & $Wald=9.16$, $P<0.01$) for both models and adjusted R^2 of 34.2% and 44.2% for both models respectively. Model D presents signed significant effects of loss, lagged loss and lagged total accruals on discretionary accrual which thus suggests that audit quality is improved by their presence in the model and this is qualitatively similar to the results in Model C thereby affirming the consistence of the results across different measures of audit quality for both financial and non-financial firms.

The results of hypothesis 4 conforms with the supposition that that due to auditor industry specialization after the IFRS adoption, audit quality reduced significantly across all firms as the results presented are statistically significant except for Model C which nonetheless, has unsigned coefficient.

4.5 Additional Analyses

Table 4.5 Industry Effects: Firms in Non-Financial Services Industry

	Agric Aq	Cong Aq	Constru Aq	Conumer aq	Health aq	ICT aq	Indust Aq	Natural Aq	Oil&gas aq	Services Aq
Ifrs	-1.343 (-1.15)	-0.00946 (-0.05)	0.450* (1.90)	-18.00*** (-8.94)	-0.394 (-1.16)	-0.826 (.)	-4.682 (.)	-0.278 (-0.38)	-0.291*** (-2.73)	1.281 (0.46)
Afee	-44.43** (-2.57)	-13.86 (-1.00)	-41.48 (-1.67)	-21.94 (-0.64)	-11.38* (-1.72)	0 (.)	-1089.8 (.)	39.67 (0.93)	2.009 (0.39)	-122.4 (-0.65)
Assize	-1.516 (-1.22)	0 (.)	2.152*** (3.19)	-23.04*** (-9.62)	-0.171 (-0.57)	-1.650 (.)	0 (.)	0.723 (1.45)	-0.227** (-2.64)	1.966 (0.79)
Aispec	-11.20 (-1.44)	8.685 (0.81)	38.37*** (3.92)	-7.498 (-1.32)	0 (.)	0 (.)	0 (.)	8.151 (1.38)	-2.413* (-1.81)	38.60* (1.94)
Ifrsafee	40.28 (1.57)	15.27 (0.61)	33.46 (1.14)	8.854 (0.14)	4.159 (0.31)	0 (.)	558.9 (.)	-34.56 (-0.56)	-12.80** (-2.15)	193.7 (0.92)
Ifrsasize	1.054 (0.84)	0 (.)	-0.113 (-0.37)	17.03*** (7.64)	0.218 (0.63)	0 (.)	0 (.)	0.343 (0.51)	0.215** (2.23)	-1.099 (-0.32)
Ifrsaispec	9.428 (1.25)	-8.196 (-0.82)	-26.71*** (-3.43)	10.13 (1.36)	1.055 (0.23)	0 (.)	0 (.)	0 (.)	1.978 (1.37)	-38.76 (-1.48)
Mcpt	0.193** (2.62)	-0.149 (-0.98)	1.651*** (4.61)	0.228*** (4.11)	0.0377 (0.32)	4.233 (.)	-6.290 (.)	0.506 (0.93)	-0.00158 (-0.13)	-1.564 (-1.36)
Roa	0.963 (0.88)	-0.745 (-0.90)	1.730 (1.10)	2.267** (2.49)	0.310 (0.46)	-5.103 (.)	142.6 (.)	2.782 (0.45)	-0.156 (-0.78)	-1.590 (-0.53)
Lev	-0.351 (-0.60)	-0.0353 (-0.26)	0.119 (0.86)	1.520*** (5.01)	0.00594 (0.10)	0 (.)	23.01 (.)	0.00850 (0.04)	0.0113* (1.72)	-0.0253 (-0.03)
Loss	0.393 (1.77)	-0.0635 (-0.24)	-0.416 (-0.77)	2.403** (2.21)	0.00642 (0.04)	-3.165 (.)	15.69 (.)	0.398 (0.49)	-0.0587 (-0.67)	-0.953 (-0.38)
Fsz	0.283 (0.83)	-0.216 (-0.78)	-0.200 (-0.39)	1.307*** (5.72)	0.147 (0.68)	-1.055 (.)	10.47 (.)	-0.234 (-0.93)	0.144*** (2.68)	-1.633 (-0.97)
Pe	0.000180 (0.77)	0.00793 (0.93)	-0.0148 (-1.57)	0.00756 (1.56)	0.000699 (0.42)	-0.0573 (.)	1.317 (.)	0.000579 (0.21)	-0.0000136*** (-4.42)	-0.00453 (-0.18)
Ato	0.00703 (0.07)	-0.0191 (-0.73)	0.0737 (1.69)	-0.0440 (-0.71)	-0.0426 (-0.45)	0.160 (.)	0.330 (.)	-0.0132 (-0.11)	-0.00547 (-0.70)	-0.541 (-0.84)
Sgr	0.163 (1.59)	-0.00783 (-0.21)	0.0180 (0.96)	0.000487 (1.04)	-0.289** (-2.68)	0.0964 (.)	-0.328 (.)	-0.000279 (-0.49)	-0.000754 (-0.27)	-3.271** (-2.22)
tact1	-5.08e-23 (-0.23)	-1.96e-23 (-1.35)	4.56e-24 (0.26)	1.15e-22* (1.70)	-1.45e-21 (-0.50)	-2.68e-21 (.)	1.01e-21 (.)	-1.02e-23 (-0.57)	3.50e-25 (0.33)	1.53e-20* (1.84)
Lloss	0.344 (1.33)	0.201 (1.04)	-0.155 (-0.62)	-0.423 (-0.52)	0.225* (1.87)	0.0117 (.)	35.95 (.)	0.489 (1.18)	0.0789 (1.40)	-1.160 (-0.49)
_cons	-1.187 (-0.33)	2.595 (0.93)	-1.122 (-0.23)	8.702*** (5.15)	-0.894 (-0.43)	10.27 (.)	-140.2 (.)	1.652 (0.70)	-1.024* (-1.91)	17.22 (1.07)

Authors' Computation, (2021)

	Agric	Cong	Constru	Conumer	Health	ICT	Indust	Natural	Oil&gas	Service s
	Aq	aq	Aq	aq	aq	aq	Aq	Aq	aq	Aq
<i>N</i>	26	41	39	154	52	12	14	25	75	79
<i>R</i> ²	0.959	0.306	1.000	0.566	0.324	1.000	1.000	0.505	0.335	0.256
adj. <i>R</i> ²	0.871	-0.111	1.000	0.512	0.015	.	.	-0.486	0.137	0.049
Model <i>F</i>	10.96***	0.73	23748.***	10.43***	1.05	-	-	0.51	1.69	1.23
Est Mtd	OLS	OLS	OLS	OLS	OLS	OLS	OLS	OLS	OLS	OLS

t statistics in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

4.5.1 Industry Effects: Industries in Non-Financial Services Sector

Ten industries are domiciled in the non-financial services sector with the variables of interest having varying degrees of effects and significance. However, due to collinearity issues and paucity of data, the models for ICT sector and industrial goods produced spurious results while the Models *f* statistics produced for the conglomerate, healthcare, natural resources, oil & gas and services are not significant. Nevertheless the outcome of the OLS estimated models are discussed as follows.

Consistent with the results presented in the individual models, the outcome of the estimated models ($t = -2.57$, $p < 0.05$; $t = -1.22$, $p > 0.10$ & $t = 1.44$, $p > 0.10$) in the agricultural sector support the rejection of the null hypothesis for Audit Fee Premium thereby supporting the proposition that Audit Fee Premium significantly improve audit quality. Auditor size and auditor industry specialization also indicate possible improvement in audit quality but the results are not statistically significant and as such suggest the retention of the null hypotheses in both instances. The variables in the model accounts for 95.9% of the effects on audit quality with a significant *f* statistics of 10.96 at 99% confidence interval. The interaction of IFRS with each of the three (3) predictors, Audit Fee Premium, auditor size and audit industry specialization did not indicate significant effect on audit quality thereby suggesting that Audit Fee Premium, audit size and audit industry specialization have not significant effect on audit quality. In the conglomerates, none of the predictor variables indicate significant effects on audit quality but IFRS adoption and Audit Fee Premium indicate possibility of eventual improvement in audit quality across the periods of study while the interaction of IFRS adoption and auditor industry specialization also indicate possible improvement in audit quality.

In the construction and real estate industry, IFRS adoption, auditor size and auditor industry specialization have positive significant effect on discretionary accrual ($t = 1.90$, $p < 0.01$; $t = 3.19$, $p < 0.01$ & $t = 3.92$, $p < 0.01$), thereby indicating that audit quality was significantly reduced by

IFRS adoption, auditor size and auditor industry specialization in the conglomerate industry. Meanwhile, the interaction IFRS adoption and audit industry specialization have significant and negative ($t = -3.43$, $p < 0.01$) impact on discretionary accrual. It thus suggests that the negative impact of audit industry specialization earlier reported on audit quality applied to the periods prior to IFRS adoption while after the adoption, audit industry specialization improved audit quality for the construction/real estate industry. A counteractive result was reported with respect to auditor size in the consumer good industry. The result in the industry indicate that IFRS adoption and auditor size significantly ($t = -9.62$, $p < 0.01$) improved audit quality. Meanwhile, the interaction of IFRS with auditor size shows that the significant improvement accounted for by auditor size relates on to the periods prior to IFRS adoption. In the post-IFRS adoption period, auditor size significantly led to reduced audit quality as indicated by the statistics ($t = 7.64$, $p < 0.01$).

The healthcare sector shows that Audit Fee Premium significantly improves audit quality as indicated by the statistical ($t = -1.72$, $p < 0.10$) significance of Audit Fee Premium on the absolute value of discretionary accrual. After the IFRS adoption however, the result indicated no statistically significant effect of Audit Fee Premium on audit quality. Similar outcome were noted for auditor size and audit industry specialization in the oil & gas industry wherein there is statistically significant negative effect ($t = 2.64$, $p < 0.05$; $t = 1.81$, $p < 0.05$) of auditor size and audit industry specialization on discretionary accruals in the periods prior to IFRS adoption. It means the auditor size and audit industry specialization both improved audit quality in the pre-IFRS adoption period. In the post IFRS adoption period, Audit Fee Premium which hitherto was not statistically significant ($t = 0.93$, $p > 0.10$) now indicates that it significantly ($t = -2.15$, $p < 0.01$) improves audit quality in the post IFRS adoption period while auditor size which hitherto indicated statistically significant ($t = -2.64$, $p < 0.05$) improvement on audit quality in the pre-IFRS period now indicates the opposite. That is in the oil & gas industry, IFRS adoption statistically led to significant ($t = 2.23$, $p < 0.05$) reduction in audit quality due to auditor size. The services, ICT and industrial services industries present no statistically significant effect all of the predictor variables on the outcome variables.

Table 4.6.1: Interview Details

S/N	Name/Pseudonym	Respondent Category	Previous & Current Work Place	Qualification(s)	Experience (Years)	Rank	Interview Mode	Duration (Minutes)	Retention medium
1	Respondent A	External Auditor	BDO Int'l	B.Sc ACA	12	Audit Manager	Telephone	49	Voice recording
2	Respondent B	External Auditor	PWC	B.Sc ACA	10	Audit Manager	Whatsapp chat	-	Whatsapp chat
3	Respondent C	External Auditor	Ernst& Young	B.Sc, MSc, ACA, ACCA	10	Senior Manager	Telephone	35	Voice recording
4	Respondent D	External Auditor	KPMG	B.Sc, FCA	16	Audit Partner	Telephone	48	Note taking
5	Respondent E	External Auditor	Haruna Yahaya & co Chartered Accountants and Tax Practitioners	B.Sc FCA	20	Managing Partner	Telephone	16	Voice recording
6	Respondent F	External Auditor	PWC	B.Sc ACA	8	Audit Manager	Telephone	35	Voice recording
7	Respondent G	Accountant	NBC, Sigma Coatings	B.Sc MSC FCA ACTI ACCADip	12	Chief Accounting	Telephone	42	Voice recording
8	Respondent H	Accountant	Healthplus, VIDA Total Nig	B.Sc ACA	13	Accountant	Telephone	31	Voice recording
9	Respondent I	Accountant	NBC, First Bank, DHL Fin-Acc Associate, Lacasera Plc	B.Sc, MBA, ACIT, FCA	17	Head of Procurement, Lacasera Plc	Telephone	24	Voice recording
10	Respondent J	Regulator	Financial Reporting Council of Nigeria	B.Sc. FCA, CFE	16	Assistant Director, Directorate of Auditing Practices Standard	Telephone	26	Voice recording
11	Respondent K	Regulator	Financial Reporting Council of Nigeria	ACA, CFA, CFI	10	Senior Manager	Whatsapp Chat	-	Whatsapp chat

Source: Summary of Respondents' Profiles (2021)

4.6. Qualitative Data analysis of Research Question 5: How have FRCN's regulatory rules and pronouncements affected the audit quality of the Nigerian listed companies?

Data were generated from two sources for the purpose of answering research question five namely, interview and investigative reports on auditors. The interview involves three groups with eleven interviews conducted in all. The groups include accountants, auditors and regulators. The accountant group consists of three (3) respondents, the auditor group, six (6) respondents and the regulators group contains two (2) respondents. The details of the interview is presented in table 4.6.1. The investigative reports analyzed qualitatively regulatory report on Stanbic IBTC holding, KPMG VS Financial Reporting Council of Nigeria.

Data from both sources were analyzed separately. A thematic analysis was conducted for the 11 interviews. Eight (8) recorded interview was transcribed verbatim in text format while three (3) others were retained through extensive note taking. Thereafter, each interview response was studied several times by the researcher so as to ensure internal validity and overcome bias in the research before analyzing transcripts.

In the course of the analysis, the data structures were identified and classified based on the identified themes on the issues discussed in the interview. Thus, data were coded on the basis of the structures and themes saved for the purpose of analysis include: FRCN rules and pronouncements for management and accountants to enable them prepare adequate grounds for effective auditing; FRCN rules and pronouncements for auditors to enhance quality; FRCN monitoring and review of auditors' works; FRCN efforts on audit market features; FRCN efforts on environmental factors affecting auditing.

4.6.1. FRCN Rules and Pronouncements for Management and Accountants to enable them prepare Adequate Grounds for Effective Auditing.

The rules of FRCN on Public Interest Entities (PIEs) were basically set to ensure that financial reports reviewed by auditors are prepared by professional accountants who have the requisite training to following extant accounting standards and appropriate legal requirements. The rule made for management (Rule 1) specifically requires that Chief Finance Officers (CFO) and the Chairman of Audit Committee of PIEs must members of a recognized professional accounting body in Nigeria and register as a professional accountant with FRCN before they could certify a financial report. The rule silently seeks to make a professional accountant CFO review or participate actively in the preparation of financial reports and take responsibility for the report

by appending his signature and affixing his FRC Number. The auditors are equally mindful of the rule and as such may even make an auditor to decline an engagement.

“For my firm, KPMG will not issue report to any PIEs who fails to follow this rule. Although the rule is a subject of controversy among practitioners, I believe that the real issues in the appointment of CFOs now goes beyond voting but rather, technical expertise. The FRCN insists they must be accounting literates”. (Audit Partner 4).

“CAMA recognizes 2 directors.... So FRCN is saying these two directors must be CEO and CFO.... So if you want to do more you can go ahead but minimum.... So that you see for example when the financial report is prepared, it is the responsibility of the apex man there....to do that, so he must sign it by himself so if anything should go wrong then, they should be able to hold him responsible. He must be accountable..... He must be an accountant either er...er...either ANAN of ICAN because that bodies are the bodies the financial reporting council of Nigeria recognizes”. (Regulator 10).

The rule is believed to put the managements of PIEs on their toes by ensuring that they employ professional accountants whose work can be relied upon by the auditors. It further give the CFO a sense of responsibility and a chance to perform a thorough task and ensure adequate reviews are conducted on the reports before they are appended to. That is, it is expected to improve the credibility of the financial report and breeds confidence in the auditor in placing reliance on such reports.

“.....because you know that before you append your signature to financial statements you know what it at stake so before you append your signature you must have review and make sure that everything is in order and you know that if anybody suffer any loss because of you not checking the financial statements very well by appending your signature on it you know action can be taken against you and that alone has increased the credibility of financial statements”. (Accountant 7).

However, due care must still be taken by auditors because certification of professional accounting is, though a proof of literacy in accounting, does not necessarily imply expertise in accountancy. While it is a good step towards enhancing quality, it must be born in mind that certifications are mere benchmarks and we may still find CFOs who may have signed reports but has little or no interest in what has been prepared. To support this, Audit Manager 6 expresses a view as:

“..you see a lot of people not showing a lot of interest in financial reporting even though they hold these positionsI think it’s about what goes into them getting the participation, rather than just being a member of professional body or

them just having the FRCN numbers before they can sign reports..... it is about ... maybe something in the line of monitoring how they have actually contributed to the financial reporting”. (Audit Manager 6)

“...the rule will create an impression about the account because one of the things that auditor does is risk assessment and one if the factor we consider in risk assessment is the competence of the preparer of that financial statements”. (Senior Manager 3)

Furthermore,

“...most of my client that are listed and PIE do comply with this Rule 1...but the rule indirectly will enhance audit quality because of the qualification of the professionals that certifies the FS and not because of the CFO being registered with FRCN” . (Audit Manager 2).

Rule 2 of the council demands that audit committee chairman must also possess professional accounting qualifications and register with the FRCN to hold such positions. The rule provides opportunity for the board members to ask the auditors pertinent questions on the grey areas of the audit deliverables and proffer solutions if there are areas of differences between the auditor and the management, with this rule and requisite experience, an audit committee chairman appointed in adherence to this rule will be able to identify gaps in the audit process and by extension improve audit quality.

“...here in saying the auditing committee must be knowledgeable in accounting, experts in accounting because, they are the intermediaries between the board and the auditor...: So they should know what the auditor is doing... They shouldn't just be rubber stamp.....in EU currently, they are saying that even the audit, the audit committee shouldn't just be knowledgeable it should be expert....., so that when the auditor is coming in telling stories that means he would be able to judge whether what the auditor is saying is right or wrong”. (Regulator 10).

Similarly, an auditor respondent (senior manager 3) opined that: “if the Chairman of the audit committee is competent enough to do the numbers that may improve the quality”. He further explained that the rule “is largely being complied with”. It buttresses the submission of another auditor that:

“The professional certification of the chairman of audit committee is a requirement for them and it's been complied with in most of the public listed companies...it is because if you don't have the knowledge of something you cannot check it. If you are just an ordinary member someone that does not have

experience in that manner you won't be able to have a better understanding of what they are reporting to you. So I think it has put pressure on the management of ensure that they do the right thing because of the person that is going to play an oversight function on your audit report". (Audit Manager 1)

The rules stipulated for managements in ensuring reliable financial reporting are highly adhered to as highlighted in the foregoing analysis. There appear to be a consensus among the three groups of respondents on the adherence to those rules. They also all believe that the rules are good for ensuring reliable financial reporting. However, not all the respondents submit to the notion that the rule 1 could enhance audit quality as some respondents argue that audit quality is strictly a function of the competence, training, education and technology of the auditor. Hence, to most of the respondents, rule 1 may only have an indirect effect on audit quality since credibility has been embedded in it through enforcing professional certifications on CFOs. It is however commonly perceived that rule 2 on audit committee chairman is highly complied with by PIEs and has the tendency of directly impacting audit quality because it intermediates between the auditor and the management. This view seems considerably tested and considered audit committee to be effective in enhancing audit quality in previous research outputs, (Piot & Janin, 2007; Alzoubi, 2016; Sulaiman, 2017) they nevertheless left a gap as those works emphasize the working of the committee as against that of the committee chairman emphasized in this regulatory rule.

4.6.2 Financial Reporting Council of Nigeria Rules for Auditors to Enhance Audit Quality

This theme identifies a variant of rule 2 which specifies that audit reports must be signed in the name of the audit partner that led the audit engagement and not just the name of the firm. It also identifies the section 45 of the FRC act which specifies a laid down procedure for reporting material irregularity by auditors. The theme further identifies the need to comply with rule 3 by auditors through the disclosure of non-audit service carried out for a client and the fees paid thereon. These rules provides strict stipulations for auditors by requiring a specific individual in the person of audit partner who would take responsibility for audit reports. It is thus aimed at sensitizing the partner to the danger inherent in issuing an unqualified audit opinion on an ailing financial report. The rule on the disclosure of audit partner name comes with promising prospects for audit quality and is being strictly complied with by auditors from the annual reports reviewed in the course of this work. Both respondents in the regulator group confirms that in practice, this rule is strictly followed as it is expected to breed audit quality. Regulator 11 expressed that 'this [rule] is well complied with and will improve audit quality

as the engagement partner is taking responsibility for the audit by affixing his/her FRC Number' .

“when we spoke to auditors we got a feelers that they are, they are also getting concerned about their name because there is this rule 3...: Their names must be used to sign audit reports alongside that of their audit...: so that when their handling.....well if anything goes wrong they will know who to pick. In the case of Stanbic IBTC and its auditor, when the auditor was being handled the firm was still functioning well”. (Regulator 10).

An auditor expressed his view on rule 3 stating that:

“...it implies that by signing that audit report with your name then you're taking responsibility for the audit quality you're certifying that you have done what's expected of you as a partner in charge to ensure that the audit has complied with or has been performed in line with the regulatory framework. That's International standards on auditing so being that it is also send a sense of responsibility to the partner that's signing to be sure that my name is at stake here so from that perspective, the partner will sit-up and ensure that he perform his oversight function to sure that things have done appropriately in line with the relevant framework work so that it will improve I can say this one has a direct relationship and that it will improve the quality of the audit”. (Senior Manage 3).

The requirement of Section 45 on the procedure for reporting material irregularity by auditors stipulates that the CEO of the company must be notified and required to take necessary action, then the FRC must be put on notice within 30 days of the detection of the irregularity. This rule brings to fore, the argument on reportable irregularity of South Africa (Maroun, 2014). It was introduced to enable auditors blow whistles of irregularities committed by any person responsible the management of a business concern (APA, 2005). During the interview, it was observed that reporting of irregularity rarely happens in practice. Although a regulator claimed to have been receiving reports of material irregularities and that:

“what most of them even do is, before it happens they will drag the organization to the FRC. The auditors, they've been very cooperative....but not all these issues are reported to the public domain actually because of the name of the companies and the rest of it...”
(Regulator 10)

Meanwhile, all the respondents in the auditor and accountant groups claimed they neither have direct experience of it nor heard about it through their years of practice. (Audit partner 4) explains that it scarcity in practice is not about unwillingness to report by auditors, rather it is usually met by adequate preventive mechanics. In his expressions,

“The rule is good even though I have not experienced it in my 16 years of audit practice, I believe it hardly happens because it not expected to happen in well-run company. Besides, once a background check on clients (Client Acceptance Evaluation) suggests that a firm may have material irregularity, we will reject such relationship. This evaluation is done annually by our firm”.

Meanwhile, Senior Manage 3 believes that

“ ..material irregularity will usually be fraud-related and if auditors does not report it, that means FRC will see it as material irregularities and there will be consequence. Though it may be difficult unless there are no other options other than to do that so, it has to be accessed whether to go ahead or not because there are other factors to consider”.

The rule 3 requires PIEs to disclose non-audit service carried out for them by their auditor and the fees paid thereon is a disclosure issue. Disclosure is required to ensure that independence breach does not occur to an auditor due to self-interest threat. The Institute of Chartered Accountants of Nigeria (2009) “ruled that undue dependence on total fees from a client, and an unduly large proportion will normally be 25% and above which is inclusive of repetitive one-off assignments” (p.18) constitutes self-interest threat. Lim and Tan (2007) perceives that provision of non-audit services have performed by auditors have impaired their independence and had led to actions by regulators. Hence, we studied the response of the respondents across all groups to how disclosure of .non-audit service and the fees thereon may affect audit quality. Most of the respondents in the auditor group view that audit and non-audit fees are subjects of earnings from permitted services and negotiations. They believe such must be commensurate with the efforts and expertise required by the auditor to perform the audit. Specifically, Audit partner 4 states that:

“permissible services and fees earned thereon should be disclosed to ensure transparency and independence. However, it should be noted that low fees is as bad for independence as excessive fees”.

Moreover, Regulator 10 explains that:

“The council makes it mandatory for an entity to list it out under non audit engagement not only services they got from either auditor... and any other service. ...the entity... will list it out, The name, of those that rendered those services, their registration number, the name of the company, the registration number of the company and the fees of those services..., the regulation is trying to do is to even put limits on certain things, If you look at IESBA code it make mandatory non audit engagement and there are some that are prohibited from doing it.... And if you look at what’s happening in the UK currently , they’ve giving them till I think end of the year to bring their proposal on how they are

going to transit their transition program from 2024 that none of those big four (4) will do anything aside from auditing”

The rules that make up the theme, that is signing of audit report in audit partners’ names. Disclosure of audit and non-audit fees by client and reporting material irregularity, are all rules with direct impact on audit quality. As analyzed above, they are highly obeyed rules that have been enhancing the quality of financial reporting. However, it was noted that auditors will rather prevent the eventuality discovery of material irregularity by refusing the engagement or put in measure to mitigate the eventual occurrence rather than allow it to happen and faced with the option of having to follow the procedure stated by FRC act.

4.6.3 Financial Reporting Council of Nigeria Monitoring and Review of Auditors’ Works

Academic discourse on monitoring and review of auditors’ work is replete with debate on the effectiveness of the Public Company Accounting Oversight Board (PCAOB) in the United States and the Financial Reporting Council in the United Kingdom (see Carcello, Holligsworth & Mastrolia, 2011; Holsm & Zaman, 2012; Lamoreaux, 2016). In Nigeria, the review has not begun as evidenced by the interview outcomer. The financial reporting stakeholders are quite hopeful that the review will bring more sanity into the auditing system but most of the respondents are not sure if the FRCN has the requisite capacity in terms of audit experience and expertise to cover the audit firms in Nigeria as stipulated by the FRC act. The FRC act requires the FRCN to conduct annual quality reviews for professional accountants who audit more than 20 public interest entities and 3-yearly review for others. Although it is believed that “they will get capacity to do the review if they deem it important” (Audit Partner 4), it was also noted that “they [currently] do not have the capacity except they will outsource it to consultants to assist them’ (Audit Manager 3). Others consider that they may adopt a model of constituting a team of experienced auditors across audit firm to conduct reviews on their behalf as required by the law. However, the Regulator 10 confirms that the “FRCN has unfortunately, not been doing much review because the framework for doing that was not available and it is just being put in place by the directorate of monitoring and inspection”. More specifically, Regulator 11 noted that “we await the coming into force of Audit Regulations 2020 by 2021” that will provide the required framework for the monitoring and review exercise.

Two specific comments however, are notable on monitoring and review:

“I have seen a review in the UK done by high caliber audit experts. They were well informed and highly experienced. One focuses on IT skills, that is, auditing through the computer. Their review was not primarily to find fault but to improve the practice. Thus, the review was very thorough”. (Audit Partner 4).

“ I have witnessed the FRC UK review and it was thorough and very challenging which I believe will improve audit quality if adopted and implemented by FRCN” (Audit Manager 3).

It thus behoves the FRCN to ensure a replica of or improved review system of the FRC United Kingdom and the PCAOB. This will repose confidence in it as a regulatory body and give auditors a sense of high expectation and thus work towards meeting the benchmark of the FRCN.

4.6.4 Financial Reporting Council of Nigeria efforts on audit market features.

Specific feature of the audit market that may affect audit quality were noted to include audit fee, dominance of audit market by the big4 and auditor industry specialization. Regarding FRCN's efforts on environmental factors affecting auditing, the three features were noted to be practically driven by audit market forces. We expect the FRC to issue guidelines that will moderate the interplay of these features in enhancing audit quality since each of them plays a significant role in affecting audit quality.

With regards to fees charged, there is a unanimous view across all groups of respondents that FRC regulation did not increase the role of auditors and as a result, additional audit fee by any firm may not be attributed to the FRC rules. It indirectly informs the fact that FRC really has no influence on the fees charged by auditor as Audit Manager 1 noted that:

“ I won't say it is because of the financial reporting council, to me the role of auditor has not really changed it is still the same. It expands the scope of our jobs but at the same time you need to consider the financial status of the client as well. You cannot say because you have more roles to perform then you need to increase your fees. So you need to consider if your client is able to afford it before charging. The client should be able to afford it...”

Simply put, ' FRCN does not regulate audit fees at present'. (Regulator 11). To Senior Manager 3,

“FRC has not impacted audit fee from my own perspective because they don't get approval from the FRC before we conclude the audit fee. Audit fee is the portion of the whole the team that is going to deliver the audit and the charge are

the cost rate so the team structure the hours it is going to put in, the cost per hour that determine what will be the audit feethey will come out about a particular project and that forms the negotiations with the client there will be back and forth that I will give you discounts on these and that and then they will come to the conclusion they will agree on what is working for the both party but in this discussion there's no reference or no consideration to FRC act”.

Audit partner 5 clarifies further to state that:

“it is a free competitive work if a client wants big4 he should know that they will charge based on international price so it will be ready to pay, it doesn't affect the quality of the audit it is on capacity base if any company feel that you wants a to engage with BigFour the market is there for them if you know that your company can't afford that you use local firm so be it nobody is fixing the price....”

Svanström (2012) concluded that audit fee do not necessarily affect audit independence but there are indications that audit quality may respond to variation in fees since input of auditors determine the fee they agree for a particular audit engagement. To buttress this further, Accountant 8 submits that “I don't see any direct impact of fee, because ...regulation of fees is more in the purview of the professional body than within the purview of a standard setting board [FRC]”. Rather, what has actually let to actions and agitations by regulators in recent times is the influence non-audit services and the associated fees have had on auditor's independence (Lim & Tang, 2007).

On the dominance of big4, Donelson et al (2020) noted that SEC and the PCAOB are concerned with the growth of the Big 4 consulting practices. They discovered that their expansion have led them to acquiring local audit offices that provides services that may negatively affect audit quality through local office culture. In Nigeria, the growing rate has reached a level of dominance as explained in section 4.2.3. Nevertheless, Regulator 10 believes that “local firms should be enabled to grow but the challenge is this; do not forget that those called Big 4, if you go in there they have smaller compartments” he explained further that “there is nothing stopping our smaller firm to merge [in order] to acquire the necessary things so they can compete favorably”. With respect to audit quality however, Regulator 11 believes that:

“other firms that are not in the category of Big 4 can equally do quality audit. The advantages the Big 4 firms have over other firm are their long established good will and network. The dominance of big4 is not good for assurance business in Nigeria”.

According to Audit Partner 4,

“the perceived dominance of Big 4 is about patronage attraction. Companies demonstrate rigor in their processes by getting Big4 to review their work. The reputation of the Big 4 is about investment in the right skills, acumen and processes. The processes are not perfect though, they are well benchmarked. The pay and remuneration package will make Big 4 better always”.

He remarked further, “how many non-Big 4 can audit Dangote Plc which has more than 50 subsidiaries”? His remarks extended to the opinion that, for now, audit specialization can only happen in the Big 4 as they have the capacity to train audit staff for specific assignments and get them to specialize in those areas. Supporting this opinion is a statement also credited to Regulator 10 reads: “do not forget that those called Big 4, if you go in there they have smaller compartments” of auditors specializing in different fields of endeavour. Regulator 11 provides information that “FRCN enactment does not consider audit firms industry specialization. The specialization is based on firm discretion considering their areas of strengths and weaknesses”. More so, Accountant 7 discusses further on audit specialization and quality. He states that:

“they operate like ...they have different sections ...they have some sections that handle oil and gas, downstream, telecom business, FMCG (Fast Moving Consumer Goods) so they have different sections because they have different experts in this different section for them to be able to deliver quality audit work so and for every section we have different audit manager....the capacity ...the strength I mean because they have to service different industry with different audit managers and we have different audit partners”

Previous works (see Bergen, 2013; Minutti-Meza, 2013; Gracia-Blandon & Argiles-Bosch, 2016) on audit specialization have actually noted that it accounts for variation in audit quality. They have not however, intertwine the relationship with Big 4 as claimed in the above assertion. Nevertheless, the interview evidence and audit market data analyzed herein have shown that audit specialization in Nigeria is more pronounced among the Big 4 firms.

“for instance for us, we have three major lines of service... like three divisions. Assurance, advisory and one is in fact within assurance, you have different sub departments. You have some that are into sorting activities, some that are into internal audit, there are some that are into accounting services. Maybe preparation of financial statement or maybe any kind of advice that is into that. You have capital market...” (Audit Manager 2).

Even the non-Big 4 auditors among the respondent affirm to the notion that Big 4 drive quality through specialization. Specialization also gives them adequate leverage to accept audit jobs from any industry, no matter how tedious the job is considered. He expressed that

“honestly specialization is required it is necessary because you can cover every area and that is the different between the Big 4 and small firms. So, the Big 4 have specialization and small unit specialized in different field and that will bring in the efficiency and effectiveness and so on. And if you are not specialized you may not be efficient in what you are doing”

He also noted that:

“if we are not working with any Big 4 today, as frustrating as banking system is, I do not know how many small firms can handle banking audit. The banking system has gone beyond what it used to be in the past. So, small audit firm are still going through the manual auditing system... so if you do not have that resource you won't be able to do it. So can see most of our small firms what they can do as of now is working manufacturing company”

4.6.5. Financial Reporting Council of Nigeria Efforts on Environmental Factors affecting Auditing

The main environmental factors identified to have impact on audit quality are information technology and the lockdown imposed by covid-19 pandemic. It explores the need for auditors to engage in remote auditing in an era of social and physical distancing the efforts of the FRCN to providing guidance and advisories which will prevent erosion of audit quality. A successful remote auditing would have enjoyed prior investment in information technology and expertise in systems audit. “Auditors who haven not invested properly in technology would have the quality of their audit impaired during the covid-19 lockdown because it was remote working all through” (Audit Partner 4). Audit manager 2 believes that the Big 4, one of which his employer belongs had no problem with covid-19 lockdown and also believed all the Big 4 firms would not have problems working remotely because it is already part of their system. He explained that:

“It is a lot of investment in technology that will enable you to work from anywhere. You have your audit software, you have your laptop, you have your internet, you have everything. You have chat groups, you have video calls activities, audio call activities, a lot of things have been invested in prior to covid-19 by my employer right? And in addition to that, we've had a lot of policies that support remote working. We have things to do with flexible working.So, all of those things have ensured that remote working was already part of us before covid-19”.

The respondents seem to also believe that the statements issued by the FRCN are needed, even though they are mere reminders of existing rules of engagement. Although some other measures put in place by them may have given the opportunity to gather more evidence and improve audit quality, the impact of the lockdown on audit quality would not be adequately appreciated until

the lockdown ends. Audit partner 4 noted that “the FRCN had to extend reporting deadline from June to September and also allowed submission of draft financial statements and perfect it later”. Accountant 7 added that:

“FRCN sent guidelines to help the disclosure procedures to follow to all the client before they finalize the audit, meaning we have a special presentation, I mean how we are supposed to present the covid19 impact in our financial statement so the auditor has already sent it to us in advance before they finish the audit assignment”

This debunks the notion that the guidelines are mere reminders and acknowledges genuine efforts made by the FRCN to ensure that audit quality is maintained. Beyond auditing, the guidelines required audit to report on the effect of covid-19 on the going concern of PIEs. In reaction to the advisory on the modification of report by auditors if covid-19 may have affected their ability to gather sufficient evidence during their audit, Audit Partner 4 noted that “as for the advisory on modification of report due to inability to gather sufficient evidence, a good auditor would rather seek alternative procedure”. The advisory, in a way points to the need to exercise due care despite lockdown situations. Arguing from the general perspective on the effect of covid-19 lockdown on audit quality, Albitar, Gerged, Kikhia and Hussainey (2020) submit that covid-19 lockdown would have impact on audit quality irrespective of the nature and type of audit. It will certainly lead to reduction in audit fee and perhaps, a cut in pay of auditors which in turn have the tendency of impairing their commitment to work. In reaction to covid-19 lockdown,

“people and organizations across the globe have demonstrated that they can take collective action to address aspects of the situation, rapidly implement previously inconceivable change (e.g., social distancing and remote work), and, hopefully, learn from the crisis and re-evaluate what is most important”. (Castka, Searcy & Fischer, 2020, p. 17).

Meanwhile, they also submit that firms that already apply work-from-home strategy would report better earnings which appears to be positively associated with audit quality. It thus mean that auditors’ ability to provide quality audit during lockdown periods depends on the policy they are used to prior to the lockdown, not the reactionary moves they make against the situation at hand. Summarily, prior investment in the use information technology, expertise in system audit and policies that support remote working are prime drivers of audit quality during the lockdown period.

4.6.6. Document Analysis

4.6.6.1 Title of Document: Regulatory Decision in the Matter of Financial Statements of Stanbic IBTC Holdings Plc for years ended 31st December 2013 and 2014.

4.6.6.2 Company Profile

Stanbic IBTC Holdings operates in the financial services industry and a holding company in Nigeria with subsidiaries spanning the financial services industry (Stanbic IBTC, 2017). It is domiciled in Nigerian and it's a member of the South Africa's Standard Bank Group, with a majority shareholding of 53.25% (FRCN, 2015). Established in 1989, the bank was initially granted a license to operate as a merchant bank but got the license converted into banking license in 2002 (Logic, 2019). It currently maintains a workforce of 2,958 staff and reported a profit after tax of N17.2 billion as at June 2018 (Stanbic IBTC, 2018). Stanbic IBTC Holdings PLC was formed with the merger of Stanbic Bank Nigeria Limited and IBTC Chartered Bank Plc. In 2007, and thereafter adopted a holding company structure in 2012 with subsidiaries including: Stanbic IBTC Bank PLC, Stanbic IBTC Asset Management Limited, Stanbic IBTC Pension Managers Limited, Stanbic IBTC Insurance Brokers Limited, Stanbic IBTC Trustees Limited, Stanbic IBTC Stockbrokers Limited, Stanbic IBTC Ventures Limited, Stanbic IBTC Investments Limited and Stanbic IBTC Capital Limited (Stanbic IBTC, 2018).

4.6.6.3. Allegations and Regulatory Investigations

Stanbic IBTC holdings was alleged by some of its minority shareholder to have been involved in material irregularities with respect to financial reporting in the years 2013 and 2014 respectively (FRCN, 2015). The irregularity involved notably, illegal transfer of income earning rights, intra-group transfer of costs, concealment of financial transactions and other sharp practices with a seeming motive of under-reporting earnings for tax avoidance purposes and perhaps, undermining the interest of the minority shareholders. The case featured the sale, purchase and assignment agreement of a banking application software developed in Nigeria, compromise of auditor's independence through the payment of outrageous fees for 'other' services, contravention of extant standards in the reporting of current and deferred tax liabilities, concealment of information, misleading disclosure of transactions with holding company as well as deliberate derecognition of intangible assets in its accounts (FRCN, 2015).

In line with the operating policy of Standard Bank Group in all its operations in seventeen African countries, the bank claims they “engage in shared use of banking software wherein the developer gets annual fee from the others in the group as long as the banking application software is in use” (FRCN, 2015, p.2). To benefit from this policy, Stanbic IBTC developed a banking application software in Nigeria and accordingly, deserves a taxable annual fee from the group on the shared use of the banking software if it is shared or alternatively recognizes as an intangible asset in the financial statement. However, Stanbic IBTC holding engaged in a fictitious transaction between it and the Standard Bank Group by submitting a sale, purchase and assignment agreement with its parent company, Standard Bank of South Africa. The submission of the agreement was in prayer to the to the National Office for Technology Acquisition and Promotion (NOTAP) to approve and register the application software as being sold to Standard Bank of South Africa and that the Stanbic IBTC holding had ceded all its right with respect to the application software to the purchase.

Ostensibly, this move was intended to: (i) make the Stanbic IBTC holding appear as one of the license-paying offices for the use of the software and (ii) afford it of the opportunity of not recognizing the newly developed application software as an intangible asset. Despite the denial of the request by NOTAP, Stanbic IBTC plc, in 2013 and 2014 financial reports, neither recognize the ownership nor sale of the software while at the same time did not report the remittance of any fee income relating to the software from the group.

Another transaction that contravened ethical and legal financial reporting practice in the Financial Reports of Stanbic IBTC holding was the concealment of the components of ‘fees for other services’ paid to the auditor apparently to veil possible erosion of auditors’ independence and integrity. Upon investigation, the council discovered that, “the total fees paid to KPMG Professional Services for non-audit services was inconsistent with what was disclosed in the financial statements for the year under review” (FRCN, 2015, p.3). Further review of the accounts revealed that; professional fees was captioned to conceal unrelated expenses of huge sums including franchise fee of N2.3billion and N1.9billion respectively for years 2014 and 2013 respectively as provisions made for franchise fee to be paid to the parent company in South Africa, N711million tax advisory fee and provision for tax liability, litigation provision of N752million as well as provisions for contingent and other known losses captioned under other operating expenses. Litigation provision was also repeated, but at a different sum of

N304million under the caption ‘other operation expenses. The concealment under ‘other operating expenses’ were bogus and superfluous that it featured expenses of alien nature such as donations of N275 million, a figure that far exceeded the actual reported donation (N162 million) in the published financial statement while at the same time did not disclose the entity to which the donation was made. Directors’ fees were also disclosed in duplicate with dissimilar figures and concealment of one (FRCN, 2015).

In furtherance of the concealment and earnings flight from Nigeria to south Africa, a huge annual franchise fees provision was made in respect of non-recognized transaction in the financial statement. It has no basis in the underlying transactions as Stanbic IBTC bank could not prove how it benefits through ‘branding’ from the Standard Bank Group of South Africa since they operate with dissimilar business names.

More so, the NOTAP registration and approval fallout of the newly developed banking software voided the justification of it being the basis of the franchise provision fees. Other issues include CBN regulatory breaches, penchant for poor disclosures notably through non-compliance with the disclosure requirements of the International Financial Reporting Standards (IFRS), flouting the presentation requirement of taxes in the IFRS and a host of other breaches.

4.6.6.4. Regulatory Decisions

Following these discoveries, the directors of Stanbic IBTC Holding were directed to withdraw their Financial Statements for years ended 31st December 2013 and 2014 and “restate them in accordance with the provisions of Section 64 (2) of the Financial Reporting Council of Nigeria Act No. 6, 2011 and Regulation 21 of the Financial Reporting Council of Nigeria – Guidelines/Regulations for Inspection and Monitoring of Entities, 2014” (FRCN, 2015, p.7).

The FRC numbers of four directors of the company who attested to the financial statements were suspended pending conclusive investigations of the extent of their negligence. Similarly, the FRC number of the Engagement Partner of KPMG of the audit of Stanbic IBTC Holdings for the periods under review were also suspended pending investigations to the extent of the negligence of KPMG professional services is ascertained. The document analysis portrayed the effort of the FRCN as it used its power to investigating regulatory infractions perpetrated by the management of Stanbic IBTC holding and KPMG professionals. It suggests that FRCN has the capacity to enforce its rules and laws on the affected members of the public.

Table 4.6.2: Summary of Document Analysis

s/n	Infractions	Detail as provided in the report	Violations	Regulatory Decision
1	Deliberate concealment and misclassification of transactions	<ol style="list-style-type: none"> a. Concealment of management/franchise fees under professional fees and royalty fee under information technology b. Improper disclosure of the transaction between Nigerian subsidiary and South African Parent. c. Concealment of tax advisory fee. d. Concealment of provision for litigation fee. 	<p>NOTAP Act cap 268 LFN (as amended by decree no. 82 of 1992);</p> <p>IFRS 24 (related party disclosure)</p> <p>FRCN Rule 3</p>	<ul style="list-style-type: none"> • Suspension of FRC number of 4 directors; • Withdrawal of the Financial Statements of Stanbic IBTC Holdings Plc for years ended 31st December 2013 and 2014 and restate them in accordance with the provisions <i>FRCN Act</i> • Suspension of KPMG engagement partner for Stanbic IBTC audit for 2013 and 2014. • Put on CBN notice for actions of the directors involved. • Put FIRS on notice to recover evaded taxes due to financial statement manipulations. • Put EFCC on notice to assist in questioning indicted persons. • Payment of N28 Million fine to CBN for flouting its regulation.
2	Statutory audit and audit independence breach	<ol style="list-style-type: none"> a. Concealment of Non-Audit service and fees paid. b. Deliberate misclassification of professional and other fees as well as intangible assets. 		
3	Misrepresentation of financial statement information.	<ol style="list-style-type: none"> a. Concealment of questionable donations. b. Concealment of director fees. c. Misleading disclosure. 	<p>IAS 1; IFRS 1; Section 46 FRC Act (2011)</p>	
4	Poor disclosure of information required CBN.	<ol style="list-style-type: none"> a. Flouting CBN Regulation and poor disclosures. 	<p>CBN Regulation</p>	

Source: Extracted from FRCN (2015) Regulatory Decision

4.7 Discussion of Findings

Audit quality variations in response to IFRS adoption and FRCN regulations, moderated by audit fee, auditor size and auditor industry specialization is the main objective of this study. IFRS adoption was found to significantly improve audit quality without the moderating effect of any other variables. Audit quality is proxied with absolute values discretionary accruals for non-financial services firm while absolute values of loan loss provision were adopted as proxies for audit quality in the financial services industry. The use of discretionary accruals and loan loss provisions provides opportunity to measure the proficiency of auditors in constraining earnings management during the IFRS adoption period and the presence of regulatory pronouncements. The use of discretionary accrual to proxy audit quality is consistent with previous research works (see Becker, DeFond, Jiambbalvo & Subramanyam, 1998; Francis, Maydew & Sparks, 1999; Lawrence, Minutti-Meza & Zhang, 2011; Lennox, Wu & Zhang, 2014; Lennox, 2016; Wang, Yuan & Wu, 2017; Singh, Singh, Sultana & Evans 2019) in the subject matter.

The result of this study provides evidence to support that auditors of firms in non-financial services industry are able to constrain earnings management due to IFRS adoption. It noted, in consistence with the studies of Zeghal, Chtourou and Sellami (2011), Dimitropoulos, Asteriou, Kousenidis and Leventis (2013), Bello, Abubakar and Tesleem (2016); Tache, (2020) that audit quality improved for firms dueirng IFRS adoption. However, the result does to provide evidence to suggest that the behaviour of auditors change with respect to tolerance of earnings management after IFRS adoption. No significance effect was noted for IFRS on the audit quality of firms in the financial services industry as equally discovered by Gebhardt and Novotny-Farkas (2011), Cameran & Perotti, (2014). The study Salem, Usman and Ezeani (2020) reported similar result but found evidence for Islamic financial institutions while Uwuigbe, Emeni, Uwuigbe, and Maryjane (2016) as well as Ozili and Outa (2018) found no evidence to support that IFRS adoption improved audit quality of Nigerian banks. The results noted for this study with in respect of firms in financial and non-financial industries are consistent across different models of discretionary accruals adopted.

When the results were disaggregated for firms within the non-financial services industry, there was evidence to conclude improvement in audit quality due to IFRS does not cut across all the industries within the sector. Specifically, it was noted that IFRS adoption accounted for improvement in audit quality only in the consumer goods and the oil and gas industries while it led to reduction on quality in the construction/real estate sector. We found no evidence to support the proposition that other sectors' audit quality varies as a result of IFRS adoption.

This submission offers explanation for the proposition of the conflict theory that given the spontaneous outplay of conflict in the social order, Stanga and Williams (1979) suggest that credibility, professional control, leadership, trust and moral tone are consistent with the interpretation of conflict. The conceptual frameworks of accounting as designed by the dominant standard setting body serve as a protection for the standard setting process from governmental intrusion. However, regulating the standard process with provide opportunity for the government to better the lots of the standard setters and reduce the possibility of misuse of privileges for personal interest. As a result, the marriage of IFRS adoption and the establishment of FRCN for regulatory purposes would be said to have accounted for the audit quality improvement revealed by IFRS adoption in some industries. Sustained and improved regulatory efforts will only ensure better quality.

Further analysis involved the moderation of audit quality with audit fee premium during the IFRS adoption period. Audit fees premium were noted to improve audit quality in the financial services industry. The proxy of audit fee premium was derived from the residuals of audit fee models adopted in previous studies (Jung, Kim & Chung (2016). The results across both models of used in the non-financial services industry provide evidence to indicate that audit quality responded positively to audit fee premiums payment. Although the result is consistent with studies of Johnson, Reichelt and Soleau (2017), Chen, Krishman and Yu, (2018) and Beardsley, Lassila and Omer (2018), it restricted the effect on to the pre-IFRS adoption period. The evidence suggest that there was change in behavior of auditors in the post-IFRS adoption period due to audit fee premiums. In the post-IFRS period, audit quality reduced in response to audit fees paid to auditors.

Although, we found that audit fees increased after IFRS adoption as it is the case with extant studies and not in existing literature (Risheh & Al-Saeed, 2014, El Guindy & Trabelsi, 2020), the findings of this study is novel as it provides evidence for the fee-conditional impact of IFRS adoption on audit quality. Unlike El Guindy and Trabelsi, (2020) who argued that increase in audit and non-audit fees during the IFRS explains compensation for IFRS premium, our result provide evidence that paying IFRS premium to auditors could lead to reduction in audit quality as it may lead to impairment in audit independence and hence affect audit quality as rightly noted by our findings. To the extent of our knowledge, previous works have ignored this conditional effect of audit fee on the relationship between audit quality and IFRS adoption.

Considering results provided for within-industry conditional effect of audit premium on the relationship between audit quality and IFRS adoption, evidence exist to support the audit fee increased across all industries except natural resources and oil and gas industries. This is the case perhaps, due to the significant government investment in the two industries in Nigeria. More so, except the oil and gas industry which shows reduction in audit quality due to the conditional effect of audit fee, the results of financial services industry and all other non-financial services provide no evidence to show that audit fee moderate the relationship between audit quality and IFRS adoption. The result remain largely the same for post and pre-IFRS adoption periods thereby suggesting that auditors did not behave differently in tolerating discretionary accruals in the post IFRS period due to audit fee premium.

The qualitative analysis of interview responses provides further information on the results of audit fee interaction. It was almost unanimously agreed among the respondents across all groups that audit fee did not increase due to regulatory changes. They provide arguments to support the notion that audit fee is purely a product of negotiation, input from auditors and the risk nature of PIEs. They believe audit fee could impair quality and too much fee is as bad as too small fees for any kind of firm being audited. Nonetheless, the document analysis suggests that auditors may have something to hide with respect to audit fees and non-audit fees because the major regulatory infraction noted in the reviewed case – KPMG, Stanbic IBTC holdings – shows the auditor was complicit in the concealment and misclassification of professional fees paid to the as the audit partner signed the report despite the obvious misclassifications.

A change in institutional values is exercised by a change in habits of thought in connection with a given situation. This is the dogma of institutional change theory. With a certain level of knowledge, ceremonial values – on which dogmatism of belief thrives – are displaced by instrumental values. This notwithstanding, is not at the expense of the appropriate price. The findings of this study at this juncture signals that the successes recorded in the improved quality may be reversed if audit fee is not considered as an object of policy determination and regulatory actions. Veblen (1965), providing support for the institutional change theory, conceive the process that births progressive institutional change as cumulative causation since it enables changes in technological innovation to redefine the objective circumstances of the community and alter the thoughts, behaviour and beliefs. He believes “the machine throws anthropomorphic habits of thought” (p. 310).

Following up with the results of IFRS adoption and audit quality, auditor size was introduced into the model to moderate the relationship between audit quality and IFRS adoption. We have evidence from the result that audit quality of Big 4 firms is higher across all firms and industry prior to IFRS adoption. This confirms popular outcomes of previous works of Asthana, Khurana and Raman (2019) who noted that audit quality is a continuum and improves in response to fee completion among the Big 4. Donelson, Ege, Imdieke and Maksymov (2020) as well as Che, Hope, Langli (2020) concluded that Big 4 auditors perform better quality audits than their non-Big 4 counterparts. Interacting Big 4 with IFRS however produced a different result. For the firms in non-financial industry, it was revealed that the proficiency of Big 4 to constrain discretionary accrual significantly reduced due to IFRS adoption. It offers opportunity for more use of discretionary measures by accountants while also providing difficulty for auditors challenge such manipulations as they are IFRS compliant. The results presented for different industries in the sector provide better explanations. They reveal that reduction of audit quality for Big 4 firms after IFRS adoption occurred only in the consumer goods and the oil and gas sectors. In other sectors, including the financial services sector, there is no evidence to prove that auditor size moderate IFRS adoption the relationship between audit quality and IFRS adoption.

The explanation offered by the qualitative analysis is equally indifferent to whether audit size moderate the relationship between audit quality and IFRS adoption. However, the document analysis, even though lacks generalization values, provide evidence to indicate that audit quality is not the monopoly of Big 4 firms. In fact, there are indications from the thematic analysis that bad audit can emanate from Big 4 as much as quality audit can also emanate from the non-Big 4. The document analysis unveiled the role played by a Big 4 firm in delivering poor quality audit as well been complicit in misleading the public by certifying as clean, a financial report that is replete with fraudulent misrepresentation and material irregularity. The question of audit quality thus hardly responds to the size of auditor in the since the IFRS adoption in Nigeria.

The conflict theory may have sounded enough note of warning regarding the evidence provided by this result on auditor size. In the conflict process, the colonization of the audit market by the 'big' firms which a source of another conflict along the financial reporting regulation trend has proved the contention of Hines (1989) and Kirk (1978) wrong. The analysis of auditor size interaction is a subject of the proposition of conflict theory to stratified players in the audit

market into the dominant and subordinate groups. It has however been proven scientifically that the theory may not be able to further explain the relationship is inherent in the excessive political wits of the big audit firm since the audit they conduct after the conflict phase (IFRS adoption and reforms) is not better than the quality of the non-Big 4 actors in the audit market.

Studies on auditor industry specialization are filled with mixed outcomes. Gracia-Blandon and Argiles-Bosch (2017) found not impact of audit industry specialization on audit quality while Bergen (2013) noted that audit quality is positively associated with audit industry specialization. They argued further that the reason for such positive relationship is the presence of industry expertise for industry specialist auditors. This study also provides evidence to support positive impact of audit industry specialization on audit quality in across firms in both financial and non-financial firms. A further analysis however indicate an opposite reaction to audit quality in the IFRS adoption period. In other words, audit industry specialization accounts for poor quality audit after IFRS adoption for all industries except the construction industry which shows and improvement in audit quality due to audit industry specialization.

The explanation offered by the qualitative analysis suggests that the poor audit is more likely to emanate from the non-Big 4 firms as most of the respondents believe that Big 4 appear to be the only auditors in Nigeria who can be said to conduct audit based on specialization in industries. This claim may be unscientific as the market share analysis of audit specialization provides evidence that non- Big 4 firms have up to 39% in the market share in the construction industry. Existing evidence do not provide a strict direction for the relationship between audit quality and auditor industry specialization while studies on how such relationship is moderated by IFRS adoption is close to non-existent. This study is unique in its ability to provide evidence that audit quality and IFRS adoption could be moderated by a number of factors and the outcome will provide evidence for the reaction of auditors to key audit features of audit market in their deliverables for audit quality.

Since institutions' transformative capacities are caused by selected institutional actors to gain recognition and legitimacy or ignited by the structures of the institutions itself to learn and act upon the learning (Buitelaar, Jacobs & Legendijk, 2005), Institutional change will occur at a critical moment when there is enough pressure driving the change. With the change, the ceremonial barriers are broken down to provide a space for the technological innovations and pave way for progressive institutional change. This line of though in the institutional change

theory is notable for the inclusion of audit industry specialization. However, it appears not to have had adequate regulatory attention and thus still not producing desired results.

The findings unveiled through the quest for the outcome of the regulatory efforts of the FRCN on audit quality provides mixed results with respect to the themes identified. The result noted that the rules and pronouncements of the council at all levels of financial reporting are highly respected. Practitioners are aware of the dangers of violating the FRCN rules and thus doing their best to ensure adherence to rule. Specifically, rules 1, 2 and 3 on the disclosure of accountants and auditors names, professional qualification requirements of CFOs and Audit committee chairmen are considered good and well respectably adhered to. The requirement of Sec 61 of FRCN Act on review and monitoring are necessary in ensuring that respect for rules observed are genuine and not eye services by the market participants. This section is though considered to have prospective positive effect on audit quality, has not been carried out by the FRCN. The evidence of this studies revealed that works are in-going by the council to begin the review soon.

While the monitoring exercise was found not to have begun appropriately by the FRCN, financial reporting players in the market are aware of the development and some of them are even confident that the council does not have the capacity to conduct such periodic reviews in terms of political will and expertise. Proving the dogma of institutional change, ceremonial values – on which dogmatism of belief thrives – are displaced by instrumental values with the appropriate actions and knowledge. The council’s regulatory efforts during the covid-19 lockdown include advisory, time concessions, submission of work at progressive stages are acknowledged in the sector and are hoped to improve audit quality even in the face of remote auditing and reporting enforced by covid-19 lockdown.

The inability of the FRCN to capture and regulate key market features of the auditor was also noted. The council has not specific policy on the percentage of audit fee income a client can contribute to the firms’ takings, it does not regulate the dominance of the Big 4 thereby leaving the local firm unprotected and weakened to participate favourably in the audit market neither does it issue policy statements and advisories on specialization by auditors to ensure that the right expertise are applied to specific industries to drive quality audits therefrom.

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CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENNDATIONS

5.1. Summary

This study primarily examines the effect of accounting regulatory reform on audit quality of listed companies in Nigeria. The objectives are broken into five by isolating specific audit quality drivers namely, audit fee premium, auditor size, auditor industry specialization and IFRS adoption. For each of this drivers, evidence exist for the existence of practical problems that beg for research attention, hence the justification for carrying out this study. We conceptualize every variable of interest so as to gain better understanding of the concepts. Specifically, literature were reviewed across various profession and eventually streamlined in order to situate the intention of the researcher and provide a veritable ground for understanding the intent of the researcher. While conceptualizing, various practical situation were reviewed and the researchers' objectives were clarified.

The study borrowed mainly from sociological theories to predict the relationship among concepts of interest. Specifically, old institutionalism, neo-institutionalism, conflict and institutional change theories were reviewed. Institutional change theory was eventually adopted predict the relationship between the outcome variable and the predictor variables as its dogma is premised on the enculturation of a new normal and a departure from an undesirable state. The theory becomes imperative as it does not only explain the relationship among variables, it also predicts unintended interactions among the concepts of interest. The literature review also examined empirical works of experts in the field of regulatory reform and audit quality at international, continental and national levels. The empirical framework thus transforms the theoretical ideas into researchable endeavour. The connectivity of the literature gives a glimpse of hope for the furtherance of the research.

In order to provide a blueprint for the data gathering, analysis, interpretation and presentation of the data, a research methodology was specified. Mixed-method research was considered most appropriate for two reasons. First, the research's main concepts of interest are variables that have been adopted in various extant research and are measurable in quantitative terms. Such variables include audit quality, audit fee premium, audit industry specialization and IFRS adoption. The second reason for the adoption of mixed method research is the quest for the import of regulatory reforms on audit quality. Quantitative methods may not espouse

adequately, the extraction of relevant meaning expected of regulatory reforms. For instance, the reforms effort was reduced to laws, pronouncements and practice reviews and each aspects deserve attention for a research quest to be fruitful.

The quantitative method took the form of econometric analysis of longitudinal data collected over fourteen years across fifty three companies after adopting various techniques of necessary data attrition due to either non-availability of data, insufficient information for required in models of estimation and data currency. The data were subdivided into the financial and non-financial firms for want of a single model that combines measures of audit quality for both sectors in a single model. Schematic analysis of interview responses and document analysis form the thrust of the qualitative analysis. Adopting a theoretical construct sampling technique, eleven interviews were conducted across three cohorts of respondents namely, accountants, auditors and regulators.

The results from the two methods are simultaneously salient conclusions were drawn. Specifically, the method of analysis adopted enabled the identification of the outstanding achievement of this research. Our results revealed that audit quality improved due to audit fee premium, auditor size and audit specialization which is in tandem with existing studies. However, with the aid of mixed method research, the study was able to disaggregate the results into pre and post IFRS periods, sectorial disparities and above all, offer evidence based explanations for each of the results achieved. With this, our study is unique in its findings and conclusions.

5.2 Conclusion

Regulatory reforms are necessary efforts usually aimed at changing the status quo in order to improve an outcome or reverse unwanted results. This study provided notable conclusions on the issue of regulatory reform in Nigeria particularly, how the reform may have affected the quality of audited numbers in the financial reports. The regulatory reform has two variants namely, IFRS adoption and FRCN enactment with the following conclusions

- i. IFRS adoption was noted to have affected the audit quality of Nigerian PIEs positively. Evidence was found in the result of hypothesis one to support the notion that auditors of firms in non-financial services industry are able to constrain earnings management due to IFRS adoption. However, the outcome of the hypothesis on financial firms does to provide

evidence to suggest that the behaviour of auditors changed with respect to tolerance of earnings management after IFRS adoption. A differential analysis of the model on sectorial basis explains the result better, it revealed improvement in audit quality due to IFRS does not cut across all the industries within the non-financial sector. Specifically, only firms in the consumer goods and the oil and gas industries recorded better audit quality due to IFRS adoption.

- ii. The improved quality of audit was not maintained when audit fee premium was tested in the model. Auditors behaved differently and audit quality was negatively affected as a result of the audit fee premium. In the post-IFRS period, audit quality reduced in response to audit fees paid to auditors. We are able to deduce a reason for this dampened audit quality in response to audit fee premium as suggested by the results of the qualitative. Audit fee increase was only as a result of usual inflation adjust and interplay of competition and price negotiations. Hence, fees charged in the IFRS period were not different from the usual audit fee. However, IFRS has imposed more rigors to the job of the auditor while at the same time providing opportunities for permissible account manipulations by the preparers of account. More so, a within-industry analysis revealed that all other industries except natural resources and oil and gas industries experience increased audit fee. Audit fee therefore becomes insensitive to audit quality in the IFRS period and could impair quality if it is too small as much it would impair it if it is considered too much. The KPMG, Stanbic IBTC holdings case strengthen this conclusion as the auditor, despite huge and hidden fees received on the engagement, was still complicit in the concealment and misclassification of transactions. The audit partner signed the report with a clean bill of health despite the frauds eventually revealed by further investigations of the FRCN.
- iii. The study noted further that auditor size also led to a change in the behaviour of auditor after IFRS adoption. That is auditors, particularly the Big 4 auditors reduced their proficiency in checkmating account manipulation after IFRS adoption and that led to poor audit quality. The audit quality of Big 4 firms that was higher across all firms and industry prior to IFRS adoption reduced after the adoption except in the consumer good industry. Given the nature of the evidence gathered across methodologies, it was concluded that audit quality is not the monopoly of any form or size of auditor. The thematic analysis indicated that bad audit can emanate from Big 4 as much as quality audit can also emanate from the non-Big 4. The role played by a Big 4 firm in delivering poor quality audit in the reviewed

case is sufficient to draw conclusion on why auditor size could not account for better quality after IFRS adoption.

- iv. Auditors who were able to invest in industry specialization in their firms provided quality audits as noted in our study across both financial and non-financial firms. Although an opposite reaction was indicated after IFRS adoption, the construction sector was noted to have maintained the good quality across all times. We are also able to explain further as qualitative evidence support that based on auditor industry specialization, the poor audit is more likely to emanate from either sides of the auditor size. Even though the Big 4 firms have enough resources to invest in specialized industries, some non-Big4 firms to have demonstrated capacity for industry specialization and have equal chance of grooming expertise in specific industries. Nevertheless, our study evidence has demonstrated that poor quality audits resulted from the claim of specialization by auditors. Our submission is therefore that audit industry specialization reveals poor performance of audit after IFRS adoption in Nigeria across almost all industries.
- v. The efforts of FRCN in reforming the audit market in Nigeria is notable in many regards. Evidence from this study identified that the powers vested in the FRCN are adequately utilized as all the respondents across different groups are well aware of the presence of FRCN and the implications of flouting its rules. The rules issued on accountants and auditors are highly respected and adhered to while due care is taken at all levels of financial reporting to ensure successful outcome from annual financial reporting audits. The laws of the council are adequate and are usually strengthened with rules to address loopholes in the act. The activities of the FRCN are notably fruitful as they transcend just audit regulation. They extend their activities to social events that have potential impacts on audit quality. Their response to covid-19 lockdown and guidelines issued to auditor to ensure maintenance of quality is notable in this regard. The study submits that the FRCN activities are very fruitful in providing oversight functions on the financial reporting architecture in Nigeria, Nevertheless, our study also identify the need for them to be strengthened expert-wise as there are indications that the council may not have the capacity to conduct periodic review of auditors as required by law.

5.3 Recommendations

The conclusions drawn from the findings of this study provides opportunities to make recommendations for concerned stakeholders including financial reporting practitioners, regulators and government policy directions. Based on this, the following recommendations were drawn:

- i. Based on conclusions drawn from hypothesis one that IFRS improved audit quality of firms in non-financial industries alone, government should further strengthen the regulatory oversight in the financial services sector to avoid a second wave of corporate implosion that, amongst other factors, necessitated the institutional change and birthed the FRCN for financial reporting regulation in Nigeria. The improvement noted in the non-financial services sector does not cut across all industries in the sector there calling for more oversight in the adoption of IFRS in the preparation of financial reports in the country.
- ii. The results noted for hypothesis two provides insight for the importance of audit fees in the IFRS adoption period. Since auditors' behaviour changed towards the provision of quality audits due to audit fees premium, it is imperative to the FRCN to consider issuing policies on fee benchmark as currently being done by professional bodies. The policy on fee benchmark will also prevent the re-occurrence of the regulatory infraction noted in the KPMG's audit of Stanbic IBTC.
Further on the outcome of hypotheses two, the FRCN should have a specific regulation on the fees accruable to auditors from a single engagement so as to ensure enough protection for auditors' independence. Professional scales of fees periodically issued by professional bodies should also be subjects of regulatory considerations before being adopted in the market. This, if implemented, is hoped to sanitize the audit space and enable better competition among auditors across sizes.
- iii. Local auditors should be strengthened to compete favourably in the audit market since the outcome of hypothesis three has proven that quality audits are not the monopoly of the foreign-liked auditors. Local auditors also produce quality audits. Although this study is not oblivious of the market forces notable in driving competition in the audit market, regulation of the market such that a ceiling will be set for an auditor at a time will enable the growing firms to thrive and prove their skills in providing quality audits.

The findings of the document analysis has further noted the involvement of the Big 4 firms in fraudulent opinions on financial report. The monopoly of bad audit does not rest in auditor size. Policy regulation on auditor size should be entrenched to give recognition to the growth of local auditors while the FRCN should also provide enabling environment, through necessary pronouncements, to activate the potentials of the local firms.

- iv. It is equally recommended that auditors should strive and invest in their areas of strength rather than being jacks of all trades. Specialization breeds quality as noted by a variant of hypothesis four, however, evidence show that it is more pronounced among the big 4 firms while the other categories of firms take on audit of any sector the come across. As a follow up to the result of hypothesis four, educational institutions and regulators should be strengthened to ensure that students are exposed to audit engagements and given the opportunity to specialize in different aspects of financial reporting right from school. Audit jobs requires goods hands as much as it required integrity. Furthermore, the practice of employing non-accountants for audit job by audit firms should be stopped to encourage students taking accounting training to participate in the field. While intellectual aptitude is important, background accounting training is also very important. Crash training of non-accountants for accounting jobs is a source of huge brain drain in the economy as well as poor quality audits.
- v. The findings noted in research question five suggests that much is still desired in the regulatory activities of the FRCN. It is recommended that the monitoring and review activities begin in earnest to consolidate on the gains recorded in the sector so far. For the monitoring to yield fruitful results, experienced and perhaps, retired audit partners should be employed or consulted to oversee the periodic review. As a matter of policy, the FRCN should also expand its enlightenment program to connect accounting teacher and students to developments and happenings in the corporate world. The FRCN should transform to an institution of dream for every accounting and financial reporting actor so as to enculturate the participants in the art of proper accounting and audit practice. Furtherance to strengthening the FRCN is the recommendation for government to expand the revenue base of the council and increase subvention to it while at the same time expanding its capacity to be able to deliver on its core mandates. Improved Staff training and education beyond the shores of Nigeria will expose them to techniques used

in other climes to achieve quality while also providing opportunity for seamless transfer of accounting acumen and thus contributing to accounting knowledge growth globally.

5.4. Contribution to Knowledge

This study is unique in a number of ways and has contributed to knowledge. Specifically, introducing interaction of audit fee, auditor size and auditor industry specialization is rare in contemporary studies on the relationship between audit quality and IFRS adoption. The introduction of these moderating variables has yielded results that have added to the body of knowledge on the discourse of audit quality. It has enable us to discover that audit quality response to IFRS adoption is a function of a number of other factors, particularly audit fees and auditor size. The study is also able to identify that the financial data extracted from financial reports in Nigeria produce largely consistent results across different measure of audit quality.

More so, leaving the audit market to regulate itself has been proven to be bad for business of audit. The activities and successes of the financial reporting council of Nigeria in ensuring audit quality are commendable. This study has brought to limelight, the private activities of the FRCN in ensuring audit quality deliverables. These activities include but no limited to: issuance of pronouncements and rules, investigations of reported cases of financial malpractice, public education and enlightenment on sound audit practices. Issuance of regulatory advisories to accountants and auditors on issues bordering around financial reporting quality is also a noble contribution recorded from the aspect of the effect of regulatory pronouncement on audit quality in Nigeria.

The eventuality of covid-19 lockdown during the study has also expanded the contribution this study the identification of remote auditing and its possible impact on audit quality. It situates the need for investment in information technology and expertise in systems audit while also igniting the need for auditors to invent new ways of auditing supported by work-from-home policies and remote auditing. But for the investment of many audit firms in information technology, the study observed that covid-19 lockdown may have destroyed the financial reporting architecture of Nigeria for 2019 audit as most firms are barely completing their 2019 audit when the lockdown came into force. The accounting literature has been further enriched in this regard.

5.5. Limitations of the Study

This study has limitations in the aspect of data coverage. For reasons of non-availability of official financial reporting data repository, the researchers settled for the collection of data through hand-extraction. This is not without its challenges and errors that may have been avoided if official data base had existed for financial reporting data. The study is also limited by the attitude of Nigerians towards support for research work, while the researchers appreciate the responses from the few interview granted, this study would have been richer in practical evidence in support of conclusion reached had all the contacted respondents offered their invaluable responses.

The limitation encountered by considering only deposit money banks as the financial services providers for the purpose of this study is quite inappropriate. However, the regulatory oversight over insurance and investment banking are weak as displayed the poor financial reporting practice in these financial services sub-sectors. Specifically, it is practically difficult to model a good loan loss provision from the financial report of insurance firms in its current state. The study's finding are therefore not generalizable on all financial firms other than the deposit money banks.

Paucity of legal action against erring auditors in Nigeria is also a source of concern to the findings of this study. Auditors appear to enjoy immunity from prosecution in Nigeria prior to the establishment of FRCN and as such, no single evidence was found to support the document analysis conducted in this work. Nevertheless, the FRCN has provided an investigation-based evidence even though it lacks the generalization values.

5.6. Suggestions for Further Studies

Studies on audit quality is in-exhaustive and continues to leave more to be desired. Testing the effect of the interactions of audit fee, auditor size and auditor industry specialization on the relationship between audit quality and IFRS adoption is an endeavour should be done using different metric from the one adopted in this study. More so, the impact of remote auditing on audit quality is an important aspect that requires academic exercise especially at times when information technology is booming and emergency situations are unpredictable.

Furthermore, conducting a standalone research on the activities of the FRCN and benchmarking its activities against the Financial Reporting Council of the United Kingdom as well as PCAOB of the United States are notable. This will enable the body of knowledge to understand the

capacity of the council and offer suggestions for improved practices. More so, the standard setting effort of the council need to be researched to understand its role better in the aspect of regulating the standard setting and adoption.

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APPENDIX 1

Prais-Winsten regression, correlated panels corrected standard errors (PCSEs)

```

Group variable:   firm           Number of obs   =   517
Time variable:   year           Number of groups =   40
Panels:          correlated (unbalanced)  Obs per group:
Autocorrelation: panel-specific AR(1)    min =   10
Sigma computed by casewise selection      avg =  12.925
                                           max =   14
Estimated covariances =   820           R-squared       =   0.8679
Estimated autocorrelations =   40       Wald chi2(10)  =  5816.09
Estimated coefficients =   12           Prob > chi2    =   0.0000
    
```

aq	Panel-corrected					[95% Conf. Interval]	
	Coef.	Std. Err.	z	P> z			
ifrs	-.5355756	.3218149	-1.66	0.096	-1.166321	.09517	
mcpt	.1727647	.1169643	1.48	0.140	-.0564811	.4020106	
roa	7.752296	.4960971	15.63	0.000	6.779964	8.724629	
lev	.1640981	.0593925	2.76	0.006	.0476909	.2805054	
loss	2.759669	.2975084	9.28	0.000	2.176563	3.342774	
fsz	-.3685995	.4030217	-0.91	0.360	-1.158507	.4213085	
pe	.0000253	.0000121	2.09	0.036	1.60e-06	.000049	
ato	-.049792	.0160246	-3.11	0.002	-.0811996	-.0183844	
sgr	.0000644	.0000765	0.84	0.400	-.0000856	.0002144	
tact1	8.87e-24	5.04e-24	1.76	0.078	-1.00e-24	1.87e-23	
lloss	-.5979776	.3599545	-1.66	0.097	-1.303475	.1075203	
_cons	3.629959	4.176356	0.87	0.385	-4.555549	11.81547	

rhos = .0446703 .1842842 .1705679 .2461579 .3606132..... 5988788

end of do-file

. xtpcse aq ifrs mcpt roa lev loss fsz pe ato sgr tact1 lloss,correlation(pсар1) rhotype(dw)

Number of gaps in sample: **18**
 (note: computations for rho restarted at each gap)
 (note: the number of observations per panel, $e(n, \sigma) = 6$,
 used to compute the disturbance of covariance matrix $e(\Sigma)$
 is less than half of the average number of
 observations per panel, $e(n, \text{avg}) = 12.9$; you may
 want to consider the pairwise option)

Prais-Winsten regression, correlated panels corrected standard errors (PCSEs)

```

Group variable:   firm           Number of obs   =   516
Time variable:   year           Number of groups =   40
Panels:          correlated (unbalanced)  Obs per group:
Autocorrelation: panel-specific AR(1)    min =   10
Sigma computed by casewise selection      avg =  12.9
                                           max =   14
Estimated covariances =   820           R-squared       =   0.8679
Estimated autocorrelations =   40       Wald chi2(10)  =  5824.30
Estimated coefficients =   12           Prob > chi2    =   0.0000
    
```

aq	Panel-corrected					[95% Conf. Interval]	
	Coef.	Std. Err.	z	P> z			
ifrs	-.5344154	.3217037	-1.66	0.097	-1.164943	.0961122	
mcpt	.1727107	.1169442	1.48	0.140	-.0564956	.4019171	
roa	7.752493	.4959868	15.63	0.000	6.780377	8.724609	
lev	.1643083	.0594461	2.76	0.006	.047796	.2808205	
loss	2.761798	.2976532	9.28	0.000	2.178408	3.345187	
fsz	-.3687618	.4026457	-0.92	0.360	-1.157933	.4204093	
pe	.0000255	.000012	2.12	0.034	1.88e-06	.000049	
ato	-.0497435	.0160229	-3.10	0.002	-.0811478	-.0183391	
sgr	.0000678	.0000765	0.89	0.375	-.0000821	.0002178	
tact1	8.89e-24	5.04e-24	1.76	0.078	-9.88e-25	1.88e-23	
lloss	-.599048	.3600685	-1.66	0.096	-1.304769	.1066733	

```

      _cons | 3.630508 4.173542 0.87 0.384 -4.549484 11.8105
-----+-----
rhos = .0449137 .179595 .1695521 .2490298 .3610899 ..... 5990223

```

end of do-file

```
. import excel "C:\Users\Al-Hikmah University\Desktop\Uthman\Recovered docs\Final Analysis\Final results\genera
```

```
. xtset firm year
      panel variable: firm (unbalanced)
```

```
      time variable: year, 2005 to 2018
```

```
      delta: 1 unit
```

```
. do "C:\Users\AL-HIK~1\AppData\Local\Temp\STD01000000.tmp"
```

```
. eststo: reg aq ifrs mcpt roa lev loss fsz pe ato sgr tactl
```

lloss, robust Linear regression

```

Number of obs   =      177
F(11, 165)     =       3.13
Prob > F       =      0.0007
R-squared      =      0.3755
Root MSE      =      0.03561

```

aq	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]
ifrs	-.0056992	.0066228	-0.86	0.391	-.0187755 .0073771
mcpt	.0271179	.0281032	0.96	0.336	-.0283704 .0826062
roa	-.5476519	.260505	-2.10	0.037	-1.062005 -.0332988
lev	-.0047393	.0094865	-0.50	0.618	-.02347 .0139913
loss	-.0197616	.0267513	-0.74	0.461	-.0725806 .0330574
fsz	-.0014142	.0087704	-0.16	0.872	-.0187309 .0159026
pe	.0000218	.0001173	0.19	0.853	-.0002098 .0002535
ato	-.0034115	.0750317	-0.05	0.964	-.1515576 .1447346
sgr	.0083063	.0055634	1.49	0.137	-.0026783 .019291
tactl	.1109807	.0973511	1.14	0.256	-.0812339 .3031952
lloss	-.0055087	.0123833	-0.44	0.657	-.0299588 .0189415
_cons	.0716446	.1068128	0.67	0.503	-.1392515 .2825407

(est1 stored)

```
. xtserial aq ifrs mcpt roa lev loss fsz pe ato sgr tactl
```

lloss Wooldridge test for autocorrelation in panel

data

H0: no first-order autocorrelation

F(1, 12) = 0.202

Prob > F = 0.6613

. reg aq ifrs mcpt roa lev loss fsz pe ato sgr tactl lloss

Source	SS	df	MS	Number of obs	=	178
Model	1.22156307	11	.111051188	F(11, 166)	=	12.31
Residual	1.49778572	166	.009022806	Prob > F	=	0.0000
				R-squared	=	0.4492
				Adj R-squared	=	0.4127
Total	2.71934879	177	.015363552	Root MSE	=	.09499

aq	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
ifrs	-.0030641	.0190258	-0.16	0.872	-.0406278 .0344995
mcpt	-.0186698	.0693135	-0.27	0.788	-.1555196 .1181799
roa	-1.023421	.363108	-2.82	0.005	-1.740326 -.306516
lev	-.0048007	.0270181	-0.18	0.859	-.0581442 .0485428
loss	-.171039	.0388173	-4.41	0.000	-.2476782 -.0943998
fsz	.0001473	.0196165	0.01	0.994	-.0385828 .0388773
pe	.0001236	.0003408	0.36	0.717	-.0005492 .0007964
ato	-.0988326	.2021495	-0.49	0.626	-.497948 .3002829
sgr	.0076798	.0105706	0.73	0.469	-.0131903 .0285499
tactl	-.0827352	.020438	-4.05	0.000	-.123087 -.0423833
lloss	-.0510457	.0254793	-2.00	0.047	-.101351 -.0007404
_cons	.3153061	.2345206	1.34	0.181	-.1477215 .7783337

. eststo: reg aq ifrs mcpt roa lev loss fsz pe ato sgr tactl

lloss, robust Linear regression

Number of obs	=	178
F(11, 166)	=	8.77
Prob > F	=	0.0000
R-squared	=	0.4492
Root MSE	=	.09499

aq	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]
ifrs	-.0030641	.0187837	-0.16	0.871	-.0401499 .0340217
mcpt	-.0186698	.0604834	-0.31	0.758	-.1380858 .1007461
roa	-1.023421	.607876	-1.68	0.094	-2.223586 .1767437
lev	-.0048007	.0274153	-0.18	0.861	-.0589282 .0493268
loss	-.171039	.066319	-2.58	0.011	-.3019765 -.0401015
fsz	.0001473	.0223126	0.01	0.995	-.0439058 .0442003
pe	.0001236	.0002232	0.55	0.580	-.000317 .0005643
ato	-.0988326	.1629683	-0.61	0.545	-.4205902 .2229251
sgr	.0076798	.0061155	1.26	0.211	-.0043944 .019754
tactl	-.0827352	.0174587	-4.74	0.000	-.1172049 -.0482655
lloss	-.0510457	.0247707	-2.06	0.041	-.099952 -.0021394
_cons	.3153061	.2644694	1.19	0.235	-.2068512 .8374634

(est2 stored)

Prais-Winsten regression, correlated panels corrected standard errors (PCSEs)

```

Group variable:   firm
Time variable:   year
Panels:          correlated (unbalanced)
Autocorrelation: panel-specific AR(1)
Sigma computed by casewise selection

Number of obs   =   517
Number of groups =   40
Obs per group:  min =   10
                avg =  12.925
                max =   14

Estimated covariances =   820
Estimated autocorrelations =   40
Estimated coefficients =   26

R-squared =   0.8826
Wald chi2(24) =  11376.45
Prob > chi2 =   0.0000
    
```

aq	Panel-corrected					
	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
ifrs	-2.687969	.4059812	-6.62	0.000	-3.483678	-1.892261
afee	-112.9129	48.526	-2.33	0.020	-208.0222	-17.80371
ifrsafee	80.01448	16.39898	4.88	0.000	47.87307	112.1559
mcpt	.0962963	.1096703	0.88	0.380	-.1186534	.3112461
roa	8.156038	.4695975	17.37	0.000	7.235644	9.076432
lev	.069072	.062987	1.10	0.273	-.0543803	.1925242
loss	2.235717	.3707849	6.03	0.000	1.508992	2.962442
fsz	-.1916114	.3822962	-0.50	0.616	-.9408982	.5576753
pe	.0000243	.000012	2.03	0.042	8.73e-07	.0000478
ato	.1171387	.0958768	1.22	0.222	-.0707763	.3050537
sgr	-.0000239	.0001116	-0.21	0.831	-.0002426	.0001948
tact1	1.10e-23	5.80e-24	1.89	0.059	-3.99e-25	2.23e-23
lloss	-.2943479	.2964997	-0.99	0.321	-.8754766	.2867808
year						
2006	-3.787089	.6336091	-5.98	0.000	-5.02894	-2.545238
2007	-3.067382	.4620245	-6.64	0.000	-3.972934	-2.161831
2008	-2.432275	.3476641	-7.00	0.000	-3.113684	-1.750866
2009	-2.617734	.324063	-8.08	0.000	-3.252886	-1.982582
2010	-2.511327	.3438398	-7.30	0.000	-3.185241	-1.837414
2011	-2.636837	.3524772	-7.48	0.000	-3.32768	-1.945995
2012	.2475145	.2941867	0.84	0.400	-.3290808	.8241098
2013	-.0384287	.245554	-0.16	0.876	-.5197058	.4428484
2014	-.0424665	.2038063	-0.21	0.835	-.4419196	.3569865
2015	-.0938061	.1868955	-0.50	0.616	-.4601146	.2725023
2016	-1.260098	.2573999	-4.90	0.000	-1.764593	-.7556039
2017	-.23781	.1468218	-1.62	0.105	-.5255754	.0499555
2018	0	(omitted)				
_cons	3.920421	3.848113	1.02	0.308	-3.621742	11.46258

rhos = .1005954 .4047109 -.0018719 .0620799 .4739588.....5993088

Prais-Winsten regression, correlated panels corrected standard errors (PCSEs)

```

Group variable:   firm                Number of obs   =   516
Time variable:   year                Number of groups =   40
Panels:          correlated (unbalanced)  Obs per group:
Autocorrelation: panel-specific AR(1)    min           =   10
Sigma computed by casewise selection     avg           =  12.9
                                           max           =   14
Estimated covariances =   820          R-squared       =   0.8827
Estimated autocorrelations =   40        Wald chi2(24)  =  11419.56
Estimated coefficients =   26           Prob > chi2    =   0.0000
    
```

aq	Panel-corrected					
	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
ifrs	-2.504034	.325305	-7.70	0.000	-3.14162	-1.866447
afee	-113.3141	48.63059	-2.33	0.020	-208.6283	-17.99987
ifrsafee	79.94689	16.42551	4.87	0.000	47.75348	112.1403
mcpt	.0950623	.1098499	0.87	0.387	-.1202396	.3103642
roa	8.161849	.4706125	17.34	0.000	7.239466	9.084233
lev	.0683924	.063043	1.08	0.278	-.0551696	.1919545
loss	2.23818	.3709593	6.03	0.000	1.511113	2.965247
fsz	-.1955848	.3824039	-0.51	0.609	-.9450827	.5539131
pe	.0000246	.0000121	2.03	0.042	9.01e-07	.0000483
ato	.1182159	.0960604	1.23	0.218	-.070059	.3064908
sgr	-.0000213	.0001107	-0.19	0.848	-.0002382	.0001957
tact1	1.11e-23	5.82e-24	1.91	0.056	-2.91e-25	2.25e-23
lloss	-.2974699	.2966934	-1.00	0.316	-.8789783	.2840385
year						
2006	-3.884831	.6340201	-6.13	0.000	-5.127488	-2.642174
2007	-3.144686	.4590127	-6.85	0.000	-4.044334	-2.245037
2008	-2.495912	.347556	-7.18	0.000	-3.177109	-1.814715
2009	-2.682313	.3229696	-8.31	0.000	-3.315322	-2.049304
2010	-2.570907	.3434862	-7.48	0.000	-3.244128	-1.897687
2011	-2.700881	.3539905	-7.63	0.000	-3.394689	-2.007072
2012	0	(omitted)				
2013	-.2772894	.1869087	-1.48	0.138	-.6436237	.089045
2014	-.2840817	.225357	-1.26	0.207	-.7257733	.15761
2015	-.3367704	.2406131	-1.40	0.162	-.8083634	.1348226
2016	-1.499936	.2725501	-5.50	0.000	-2.034125	-.9657481
2017	-.4780165	.2497241	-1.91	0.056	-.9674666	.0114337
2018	-.2433526	.2937825	-0.83	0.407	-.8191557	.3324506
_cons	4.011835	3.846982	1.04	0.297	-3.52811	11.55178

rhos = .0988025 .3992151 -.0036121 .062525 .4723701.....5990051

(est4 stored)

. esttab using hypo2.rtf,wide se r2 ar2 star(*
0.10 ** 0.05 *** 0.01) (output

. xtprse aq ifrs afee ifrsafee mcpt roa lev loss fsz pe ato sgr tactl

lloss,correlation(psar1)rho type(dw) Prais-Winsten regression, correlated panels

corrected standard errors (PCSEs)

```

Group variable:   firm                Number of obs   =   177
Time variable:   year                Number of groups =   13
Panels:          correlated (unbalanced)  Obs per group:
Autocorrelation: panel-specific AR(1)    min = 12
Sigma computed by casewise selection      avg = 13.615385
                                           max = 14
Estimated covariances = 91            R-squared       = 0.4978
Estimated autocorrelations = 13       Wald chi2(13)  = 134.31
Estimated coefficients = 14            Prob > chi2    = 0.0000

```

aq	Panel-corrected					
	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
ifrs	-.0071582	.0060326	-1.19	0.235	-.0189818	.0046654
afee	6.211657	4.663685	1.33	0.183	-2.928999	15.35231
ifrsafee	.7919009	7.140769	0.11	0.912	-13.20375	14.78755
mcpt	.0167567	.0187004	0.90	0.370	-.0198955	.0534088
roa	-.5525762	.1187557	-4.65	0.000	-.7853331	-.3198193
lev	-.0088681	.0151091	-0.59	0.557	-.0384815	.0207452
loss	-.0182619	.0158039	-1.16	0.248	-.049237	.0127133
fsz	-.0043372	.0065052	-0.67	0.505	-.0170871	.0084128
pe	.0000479	.0000882	0.54	0.587	-.0001249	.0002207
ato	.0700691	.1115265	0.63	0.530	-.1485189	.288657
sg	.0075138	.0039672	1.89	0.058	-.0002618	.0152893
tactl	.0907489	.079558	1.14	0.254	-.0651819	.2466797
lloss	.0031662	.0131263	0.24	0.809	-.022561	.0288933
_cons	.0938372	.0837313	1.12	0.262	-.0702732	.2579476

rhos = -.0732636 -.0268764 .4803177 -.3072948 -.1976012.....3319626

end of do-file

. do "C:\Users\AL-HIK~1\AppData\Local\Temp\STD01000000.tmp"

. reg aq ifrs afee ifrsafee mcpt roa lev loss fsz pe ato sgr tactl lloss, robust Linear

```

regression                Number of obs   =   177
                          F(13, 163)              =   2.23
                          Prob > F                  =   0.0103
                          R-squared                 =   0.3745
                          Root MSE               =   .03586

```

aq	Robust					
	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
ifrs	-.0079031	.006175	-1.28	0.202	-.0200964	.0042902
afee	3.407407	6.226031	0.55	0.585	-8.886666	15.70148
ifrsafee	4.311994	8.342514	0.52	0.606	-12.16134	20.78533
mcpt	.0255478	.0308949	0.83	0.409	-.0354579	.0865535
roa	-.5991433	.2856589	-2.10	0.038	-1.163212	-.0350741
lev	-.0060518	.0102292	-0.59	0.555	-.0262505	.014147

loss	-.0128589	.027595	-0.47	0.642	-.0673487	.0416309
fsz	.0015039	.0091647	0.16	0.870	-.0165931	.0196008
pe	.0000535	.0001116	0.48	0.633	-.0001669	.0002738
ato	.0560913	.0912932	0.61	0.540	-.1241784	.236361
sg	.0077173	.0059207	1.30	0.194	-.0039737	.0194084
tact1	.1379416	.1529635	0.90	0.368	-.1641039	.439987
lloss	-.0107664	.0146618	-0.73	0.464	-.0397179	.0181851
_cons	.0299724	.1132166	0.26	0.792	-.1935878	.2535326

. eststo: reg aq ifrs afee ifrsafee mcpt roa lev loss fsz pe ato sgr tact1 lloss

Source	SS	df	MS	Number of obs	=	177
				F(13, 163)	=	7.51
Model	.125510248	13	.009654634	Prob > F	=	0.0000
Residual	.209589551	163	.001285825	R-squared	=	0.3745
				Adj R-squared	=	0.3247
Total	.335099798	176	.001903976	Root MSE	=	.03586

aq	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
ifrs	-.0079031	.0071807	-1.10	0.273	-.0220823 .0062761
afee	3.407407	4.636897	0.73	0.463	-5.748724 12.56354
ifrsafee	4.311994	9.377086	0.46	0.646	-14.20423 22.82822
mcpt	.0255478	.0266614	0.96	0.339	-.0270985 .0781941
roa	-.5991433	.127911	-4.68	0.000	-.8517195 -.3465672
lev	-.0060518	.0103702	-0.58	0.560	-.0265291 .0144256
loss	-.0128589	.015424	-0.83	0.406	-.0433155 .0175977
fsz	.0015039	.0077887	0.19	0.847	-.0138759 .0168836
pe	.0000535	.0001293	0.41	0.680	-.0002019 .0003088
ato	.0560913	.0864874	0.65	0.518	-.1146888 .2268714
sg	.0077173	.004037	1.91	0.058	-.0002541 .0156888
tact1	.1379416	.0875171	1.58	0.117	-.0348718 .3107549
lloss	-.0107664	.0110028	-0.98	0.329	-.0324928 .01096
_cons	.0299724	.0960934	0.31	0.756	-.1597759 .2197208

(est5 stored)

. reg aq ifrs afee ifrsafee mcpt roa lev loss fsz pe ato sgr tact1 lloss, robust

Linear regression	Number of obs	=	178
	F(13, 164)	=	8.46
	Prob > F	=	0.0000
	R-squared	=	0.4508
	Root MSE	=	.09543

aq	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]
ifrs	-.002532	.0189997	-0.13	0.894	-.0400475 .0349836
afee	2.919556	10.1954	0.29	0.775	-17.21161 23.05072
ifrsafee	12.15756	17.13352	0.71	0.479	-21.67317 45.9883
mcpt	-.0215318	.0642388	-0.34	0.738	-.1483736 .10531
roa	-1.070532	.6312404	-1.70	0.092	-2.316938 .175874
lev	-.0091678	.0274838	-0.33	0.739	-.0634355 .0450998
loss	-.167222	.0682411	-2.45	0.015	-.3019664 -.0324776
fsz	-.0012112	.0230225	-0.05	0.958	-.04667 .0442476
pe	.0001461	.0002237	0.65	0.515	-.0002956 .0005878
ato	-.022207	.1892238	-0.12	0.907	-.3958359 .351422
sg	.0083582	.0061745	1.35	0.178	-.0038336 .02055
tact1	-.0849006	.0180337	-4.71	0.000	-.1205087 -.0492924
lloss	-.0492065	.0247482	-1.99	0.048	-.0980726 -.0003404
_cons	.3211652	.2741076	1.17	0.243	-.2200698 .8624002

end of do-file

. do "C:\Users\AL-HIK~1\AppData\Local\Temp\STD01000000.tmp"

. eststo: reg aq ifrs afee ifrsafee mcpt roa lev loss fsz pe ato

sg r tactl lloss, robust Linear regression

Number of obs	=	178
F(13, 164)	=	8.46
Prob > F	=	0.0000
R-squared	=	0.4508
Root MSE	=	.09543

aq	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]
ifrs	-.002532	.0189997	-0.13	0.894	-.0400475 .0349836
afee	2.919556	10.1954	0.29	0.775	-17.21161 23.05072
ifrsafee	12.15756	17.13352	0.71	0.479	-21.67317 45.9883
mcpt	-.0215318	.0642388	-0.34	0.738	-.1483736 .10531
roa	-1.070532	.6312404	-1.70	0.092	-2.316938 .175874
lev	-.0091678	.0274838	-0.33	0.739	-.0634355 .0450998
loss	-.167222	.0682411	-2.45	0.015	-.3019664 -.0324776
fsz	-.0012112	.0230225	-0.05	0.958	-.04667 .0442476
pe	.0001461	.0002237	0.65	0.515	-.0002956 .0005878
ato	-.022207	.1892238	-0.12	0.907	-.3958359 .351422
sg r	.0083582	.0061745	1.35	0.178	-.0038336 .02055
tactl	-.0849006	.0180337	-4.71	0.000	-.1205087 -.0492924
lloss	-.0492065	.0247482	-1.99	0.048	-.0980726 -.0003404
_cons	.3211652	.2741076	1.17	0.243	-.2200698 .8624002

(est6 stored)

Prais-Winsten regression, correlated panels corrected standard errors (PCSEs)

Group variable:	firm	Number of obs	=	516	
Time variable:	year	Number of groups	=	40	
Panels:	correlated (unbalanced)	Obs per group:			
Autocorrelation:	panel-specific AR(1)	min	=	10	
Sigma computed by	casewise selection	avg	=	12.9	
		max	=	14	
Estimated covariances	=	820	R-squared	=	0.9097
Estimated autocorrelations	=	40	Wald chi2(12)	=	5463.26
Estimated coefficients	=	14	Prob > chi2	=	0.0000

aq	Coef.	Panel-corrected Std. Err.	z	P> z	[95% Conf. Interval]
ifrs	-3.883903	.8539387	-4.55	0.000	-5.557592 -2.210214
asize	-3.762382	.7000084	-5.37	0.000	-5.134373 -2.390391
ifrsasize	3.946947	.7968102	4.95	0.000	2.385228 5.508666
mcpt	.0518312	.0958675	0.54	0.589	-.1360657 .239728
roa	8.381811	.441853	18.97	0.000	7.515795 9.247827
lev	.0431442	.0499453	0.86	0.388	-.0547467 .1410351
loss	1.96482	.3767052	5.22	0.000	1.226492 2.703149
fsz	-.1437648	.3486543	-0.41	0.680	-.8271147 .539585
pe	4.00e-06	.0000102	0.39	0.696	-.0000161 .0000241
ato	.1294427	.0189959	6.81	0.000	.0922115 .1666739
sg r	-.000264	.0002388	-1.11	0.269	-.000732 .0002039
tactl	8.74e-24	5.86e-24	1.49	0.136	-2.74e-24 2.02e-23
lloss	.1948242	.323345	0.60	0.547	-.4389204 .8285688
_cons	4.400698	3.506773	1.25	0.210	-2.472452 11.27385

rhos = .299303 .6927281 -.1246179 -.0363208 .0427921.....2208922

. eststo: xtprse aq ifrs asize ifrsasize mcpt roa lev loss fsz pe ato sgr tactl lloss,correlation(psar1)rhotype Number of gaps in

sample: 18

Prais-Winsten regression, correlated panels corrected standard errors (PCSEs)

Group variable:	firm	Number of obs	=	516	
Time variable:	year	Number of groups	=	40	
Panels:	correlated (unbalanced)	Obs per group:			
Autocorrelation:	panel-specific AR(1)	min	=	10	
Sigma computed by	casewise selection	avg	=	12.9	
		max	=	14	
Estimated covariances	=	820	R-squared	=	0.8722
Estimated autocorrelations	=	40	Wald chi2(12)	=	6589.52
Estimated coefficients	=	14	Prob > chi2	=	0.0000

aq	Panel-corrected		z	P> z	[95% Conf. Interval]	
	Coef.	Std. Err.				
ifrs	-3.390042	.8382728	-4.04	0.000	-5.033026	-1.747057
asize	-3.191621	.7501106	-4.25	0.000	-4.661811	-1.721431
ifrsasize	3.571899	.7640348	4.68	0.000	2.074418	5.06938
mcpt	.185426	.1122707	1.65	0.099	-.0346205	.4054725
roa	7.703564	.4765788	16.16	0.000	6.769487	8.637641
lev	.1715047	.0659298	2.60	0.009	.0422847	.3007247
loss	2.792392	.3040934	9.18	0.000	2.19638	3.388404
fsz	-.2354768	.4159394	-0.57	0.571	-1.050703	.5797495
pe	.0000239	8.55e-06	2.80	0.005	7.16e-06	.0000407
ato	-.0517806	.015983	-3.24	0.001	-.0831067	-.0204544
sg	.0001223	.0000978	1.25	0.211	-.0000695	.0003141
tactl	9.66e-24	4.42e-24	2.19	0.029	1.01e-24	1.83e-23
lloss	-.6212385	.3542903	-1.75	0.080	-1.315635	.0731578
_cons	4.931701	4.170974	1.18	0.237	-3.243257	13.10666

rhos = .4593369 .6643941 .0024437 -.0096969 .28035766322354

(est2 stored)

end of do-file

. do "C:\Users\AL-HIK~1\AppData\Local\Temp\STD01000000.tmp"

. eststo: reg aq ifrs asize ifrsasize mcpt roa lev loss fsz pe ato sgr

tactl lloss, robust Linear regression

Number of obs	=	177
F(13, 163)	=	3.07
Prob > F	=	0.0004
R-squared	=	0.3965
Root MSE	=	.03522

aq	Robust		t	P> t	[95% Conf. Interval]	
	Coef.	Std. Err.				
ifrs	.0124403	.0522322	0.24	0.812	-.0906987	.1155792
asize	-.0159257	.0484965	-0.33	0.743	-.1116881	.0798368
ifrsasize	-.021551	.0544254	-0.40	0.693	-.1290208	.0859188
mcpt	.0339966	.0294364	1.15	0.250	-.0241292	.0921224
roa	-.5426394	.2752174	-1.97	0.050	-1.086091	.0008117
lev	-.0081033	.0115984	-0.70	0.486	-.0310057	.0147991
loss	-.0201248	.0255018	-0.79	0.431	-.0704813	.0302318
fsz	.0027007	.0080243	0.34	0.737	-.0131443	.0185458
pe	.0000317	.0001259	0.25	0.801	-.0002168	.0002803
ato	-.0444734	.0917428	-0.48	0.628	-.2256309	.1366841
sg	.0084409	.0055241	1.53	0.128	-.0024671	.019349
tactl	.1000661	.0935813	1.07	0.287	-.0847218	.2848541
lloss	-.0046775	.013078	-0.36	0.721	-.0305016	.0211466
_cons	.044688	.1156286	0.39	0.700	-.183635	.2730111

(est3 stored)

end of do-file

. do "C:\Users\AL-HIK~1\AppData\Local\Temp\STD01000000.tmp"

. eststo: reg aq ifrs asize ifrsasize mcpt roa lev loss fsz pe ato sgr tactl lloss

Source	SS	df	MS	Number of obs	=	177
Model	.132883648	13	.010221819	F(13, 163)	=	8.24
Residual	.20221615	163	.00124059	Prob > F	=	0.0000
				R-squared	=	0.3965
				Adj R-squared	=	0.3484
Total	.335099798	176	.001903976	Root MSE	=	.03522

aq	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
ifrs	.0124403	.0237726	0.52	0.601	-.0345016 .0593822
asize	-.0159257	.0194583	-0.82	0.414	-.0543485 .0224972
ifrsasize	-.021551	.0241845	-0.89	0.374	-.0693063 .0262043
mcpt	.0339966	.0259827	1.31	0.193	-.0173095 .0853028
roa	-.5426394	.1239084	-4.38	0.000	-.787312 -.2979668
lev	-.0081033	.0101854	-0.80	0.427	-.0282156 .012009
loss	-.0201248	.0143654	-1.40	0.163	-.0484911 .0082416
fsz	.0027007	.0075306	0.36	0.720	-.0121694 .0175709
pe	.0000317	.0001272	0.25	0.803	-.0002194 .0002829
ato	-.0444734	.0773684	-0.57	0.566	-.1972471 .1083002
sg	.0084409	.0039205	2.15	0.033	.0006994 .0161825
tactl	.1000661	.0541039	1.85	0.066	-.0067687 .206901
lloss	-.0046775	.0115875	-0.40	0.687	-.0275585 .0182035
_cons	.044688	.091126	0.49	0.625	-.1352515 .2246276

(est4 stored)

. eststo: reg aq ifrs asize ifrsasize mcpt roa lev loss fsz pe ato sgr tactl lloss

Source	SS	df	MS	Number of obs	=	178
Model	1.32252861	13	.10173297	F(13, 164)	=	11.94
Residual	1.39682018	164	.008517196	Prob > F	=	0.0000
				R-squared	=	0.4863
				Adj R-squared	=	0.4456
Total	2.71934879	177	.015363552	Root MSE	=	.09229

aq	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
ifrs	-.0087812	.0613176	-0.14	0.886	-.1298549 .1122926
asize	-.1182196	.0508478	-2.32	0.021	-.2186204 -.0178189
ifrsasize	.0014273	.0632856	0.02	0.982	-.1235324 .126387
mcpt	.0245186	.068712	0.36	0.722	-.1111555 .1601928
roa	-1.098706	.3548908	-3.10	0.002	-1.79945 -.3979622
lev	-.0129833	.0269518	-0.48	0.631	-.0662006 .040234
loss	-.1618622	.0380971	-4.25	0.000	-.2370862 -.0866382
fsz	.0111448	.0195981	0.57	0.570	-.0275523 .0498419
pe	.000155	.0003312	0.47	0.640	-.000499 .000809
ato	-.268333	.2024894	-1.33	0.187	-.6681553 .1314893
sg	.0083128	.0102718	0.81	0.420	-.0119693 .0285948
tactl	-.0924162	.0201333	-4.59	0.000	-.13217 -.0526624
lloss	-.037777	.0252693	-1.49	0.137	-.0876721 .012118
_cons	.2976156	.2363082	1.26	0.210	-.1689832 .7642144

(est5 stored)

. xtserial aq ifrs asize ifrsasize mcpt roa lev loss fsz

pe ato sgr tactl lloss Wooldridge test for

autocorrelation in panel data
H0: no first-order autocorrelation

F(1, 12) = 2.315

Prob > F = 0.1541

end of do-file

	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]
aq					
ifrs	-.0087812	.0881007	-0.10	0.921	-.182739 .1651767
asize	-.1182196	.032078	-3.69	0.000	-.1815587 -.0548805
ifrsasize	.0014273	.0867484	0.02	0.987	-.1698604 .172715
mcpt	.0245186	.0619044	0.40	0.693	-.0977138 .1467511
roa	-1.098706	.6421694	-1.71	0.089	-2.366692 .1692795
lev	-.0129833	.0386804	-0.34	0.738	-.089359 .0633924
loss	-.1618622	.0649476	-2.49	0.014	-.2901034 -.033621
fsz	.0111448	.0200504	0.56	0.579	-.0284455 .050735
pe	.000155	.0002348	0.66	0.510	-.0003087 .0006187
ato	-.268333	.2097158	-1.28	0.203	-.6824242 .1457581
sgr	.0083128	.006215	1.34	0.183	-.0039589 .0205844
tact1	-.0924162	.0170065	-5.43	0.000	-.1259962 -.0588362
lloss	-.037777	.0244848	-1.54	0.125	-.0861232 .0105692
_cons	.2976156	.2342127	1.27	0.206	-.1648455 .7600767

. do

"C:\Users\AL-HIK~1\AppData\Local\Temp\STD01000000.tmp"

. eststo: reg aq ifrs asize ifrsasize mcpt roa lev loss fsz pe ato sgr

tact1 lloss, robust Linear regression

Number of obs = 178
 F(13, 164) = 14.03
 Prob > F = 0.0000
 R-squared = 0.4863
 Root MSE = .09229

Prais-Winsten regression, correlated panels corrected standard errors (PCSEs)

Group variable: **firm** Number of obs = 516
 Time variable: **year** Number of groups = 40
 Panels: **correlated (unbalanced)** Obs per group:
 Autocorrelation: **panel-specific AR(1)** min = 10
 Sigma computed by **casewise selection** avg = 12.9
 max = 14
 Estimated covariances = 820 R-squared = 0.8679
 Estimated autocorrelations = 40 Wald chi2(12) = 6225.71
 Estimated coefficients = 14 Prob > chi2 = 0.0000

aq	Panel-corrected		z	P> z	[95% Conf. Interval]	
	Coef.	Std. Err.				
ifrs	-.8253307	.482065	-1.71	0.087	-1.770161	.1194994
aispec	-3.300222	1.901229	-1.74	0.083	-7.026563	.4261189
ifrsaispec	5.251029	3.107851	1.69	0.091	-.8402472	11.3423
mcpt	.1706512	.116328	1.47	0.142	-.0573474	.3986499
roa	7.761989	.4910246	15.81	0.000	6.799599	8.72438
lev	.1623264	.0592835	2.74	0.006	.0461329	.2785198
loss	2.772855	.2982598	9.30	0.000	2.188277	3.357434
fsz	-.3636851	.3991702	-0.91	0.362	-1.146044	.4186742
pe	.000023	.0000119	1.94	0.053	-2.81e-07	.0000463
ato	-.0495411	.0160847	-3.08	0.002	-.0810666	-.0180156
sgr	.0000965	.0000922	1.05	0.295	-.0000842	.0002772
tact1	9.06e-24	4.88e-24	1.86	0.064	-5.10e-25	1.86e-23
lloss	-.5198436	.355785	-1.46	0.144	-1.217169	.1774822
_cons	3.719052	4.126348	0.90	0.367	-4.368442	11.80655

rhos = .0415378 -.0365655 .3078551 .3413862 .2896629.....5432708

(

. eststo: reg aq ifrs aispec ifrsaispec mcpt roa lev loss fsz pe ato sgr tactl lloss

Source	SS	df	MS	Number of obs =	177
Model	.130913827	13	.010070294	F(13, 163)	= 8.04
Residual	.204185971	163	.001252675	Prob > F	= 0.0000
Total	.335099798	176	.001903976	R-squared	= 0.3907
				Adj R-squared	= 0.3421
				Root MSE	= .03539

aq	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
ifrs	-.0189056	.0106675	-1.77	0.078	-.0399699 .0021586
aispec	-.0805053	.0402513	-2.00	0.047	-.1599866 -.0010241
ifrsaispec	.0941563	.0615487	1.53	0.128	-.0273792 .2156918
mcpt	.0181113	.0267296	0.68	0.499	-.0346696 .0708922
roa	-.5181601	.1263671	-4.10	0.000	-.7676878 -.2686325
lev	-.005498	.009948	-0.55	0.581	-.0251416 .0141457
loss	-.0202945	.0144511	-1.40	0.162	-.04883 .0082411
fsz	-.0045504	.0083911	-0.54	0.588	-.0211197 .0120189
pe	.0000407	.0001285	0.32	0.752	-.000213 .0002944
ato	-.0044164	.0759637	-0.06	0.954	-.1544163 .1455834
sgr	.0092303	.0039793	2.32	0.022	.0013726 .017088
tactl	.1025817	.0537895	1.91	0.058	-.0036323 .2087957
lloss	-.0040338	.0116385	-0.35	0.729	-.0270156 .0189479
_cons	.1214102	.1006502	1.21	0.229	-.0773362 .3201567

(est3 stored)

. reg aq ifrs aispec ifrsaispec mcpt roa lev loss fsz pe ato sgr tactl lloss, robust

Linear regression	Number of obs =	178
	F(13, 164)	= 9.16
	Prob > F	= 0.0000
	R-squared	= 0.4832
	Root MSE	= .09257

aq	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]
ifrs	-.0485836	.0287137	-1.69	0.093	-.1052798 .0081126
aispec	-.3428146	.0914802	-3.75	0.000	-.5234454 -.1621839
ifrsaispec	.3160386	.1263183	2.50	0.013	.0666188 .5654584
mcpt	-.0433785	.0622722	-0.70	0.487	-.1663371 .0795802
roa	-.8698588	.6207156	-1.40	0.163	-2.095483 .3557656
lev	-.0083448	.025042	-0.33	0.739	-.0577912 .0411015
loss	-.1750199	.0631972	-2.77	0.006	-.299805 -.0502348
fsz	-.0062978	.0236926	-0.27	0.791	-.0530796 .040484
pe	.0001738	.000174	1.00	0.319	-.0001698 .0005175
ato	-.125044	.1482522	-0.84	0.400	-.4177732 .1676851
sgr	.0109516	.006449	1.70	0.091	-.0017822 .0236854
tactl	-.0831428	.01679	-4.95	0.000	-.1162952 -.0499904
lloss	-.0417903	.0242433	-1.72	0.087	-.0896596 .0060789
_cons	.4436767	.2754747	1.61	0.109	-.1002575 .9876109

. reg aq ifrs aispec ifrsaispec mcpt roa lev loss fsz pe ato sgr tactl lloss

Source	SS	df	MS	Number of obs =	178
Model	1.31409665	13	.101084358	F(13, 164)	= 11.80
Residual	1.40525214	164	.008568611	Prob > F	= 0.0000
Total	2.71934879	177	.015363552	R-squared	= 0.4832
				Adj R-squared	= 0.4423
				Root MSE	= .09257

aq	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
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ifrs	-.0485836	.0272516	-1.78	0.076	-.1023929	.0052257
aispec	-.3428146	.1049548	-3.27	0.001	-.5500515	-.1355778
ifrsaispec	.3160386	.1606498	1.97	0.051	-.00117	.6332471
mcpt	-.0433785	.0696027	-0.62	0.534	-.1808113	.0940544
roa	-.8698588	.3596247	-2.42	0.017	-1.57995	-.1597674
lev	-.0083448	.0263583	-0.32	0.752	-.0603902	.0437006
loss	-.1750199	.0380896	-4.59	0.000	-.2502292	-.0998106
fsz	-.0062978	.0218404	-0.29	0.773	-.0494225	.0368269
pe	.0001738	.0003339	0.52	0.603	-.0004855	.0008331
ato	-.125044	.1985896	-0.63	0.530	-.5171661	.267078
sgr	.0109516	.0104085	1.05	0.294	-.0096004	.0315036
tact1	-.0831428	.0199578	-4.17	0.000	-.1225501	-.0437355
lloss	-.0417903	.0250726	-1.67	0.097	-.0912971	.0077164
_cons	.4436767	.2599069	1.71	0.090	-.0695185	.9568719

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. eststo: reg aq ifrs aispec ifrsaispec mcpt roa lev loss fsz pe ato sgr

tact1 lloss, robust Linear regression

Number of obs = 178
F(13, 164) = 9.16
Prob > F = 0.0000
R-squared = 0.4832
Root MSE = .09257

aq	Coef.	Robust Std. Err.	t	P> t	[95% Conf. Interval]
ifrs	-.0485836	.0287137	-1.69	0.093	-.1052798 .0081126
aispec	-.3428146	.0914802	-3.75	0.000	-.5234454 -.1621839
ifrsaispec	.3160386	.1263183	2.50	0.013	.0666188 .5654584
mcpt	-.0433785	.0622722	-0.70	0.487	-.1663371 .0795802
roa	-.8698588	.6207156	-1.40	0.163	-2.095483 .3557656
lev	-.0083448	.025042	-0.33	0.739	-.0577912 .0411015
loss	-.1750199	.0631972	-2.77	0.006	-.299805 -.0502348
fsz	-.0062978	.0236926	-0.27	0.791	-.0530796 .040484
pe	.0001738	.000174	1.00	0.319	-.0001698 .0005175
ato	-.125044	.1482522	-0.84	0.400	-.4177732 .1676851
sgr	.0109516	.006449	1.70	0.091	-.0017822 .0236854
tact1	-.0831428	.01679	-4.95	0.000	-.1162952 -.0499904
lloss	-.0417903	.0242433	-1.72	0.087	-.0896596 .0060789
_cons	.4436767	.2754747	1.61	0.109	-.1002575 .9876109

(est4 stored)

APPENDIX 2

INTERVIEW SCHEDULE: THE EFFECT OF FINANCIAL REPORTING COUNCIL OF NIGERIA'S REGULATORY ACTIVITIES ON THE AUDIT QUALITY OF LISTED COMPANIES IN NIGERIA.

1.0 INTRODUCTION

My Name is Ahmad Uthman. I am a PhD Accounting Student at the Kwara State University, Malete. As a professional in the field of accounting and financial services, I request you to assist in providing answers to some technical questions.

I have scheduled this interview for 40 minutes. I will be asking questions on audit quality in Nigeria with specific interest on the role played by the Financial Reporting Council of Nigeria's (FRCN) regulatory pronouncements in enhancing audit quality of listed companies in Nigeria since it replaced the defunct Nigeria Accounting Standard Board (NASB). Issues on covid-19 and audit quality are also featured in the interview.

To start, I will need to know the following about you:

- i. Name:
- ii. Gender:
- iii. Qualification:
- iv. Organization:
- v. Years of experience:
- vi. Position held currently:

2.0 CONSENT

Do you permit me to reflect your name and personal profile in the final report?

3.0 RESEARCH ITEMS

- A. Can you describe your understanding of the role of FRCN in regulating accounting profession in Nigeria? What is your take on the need for mandatory FRC Registration Number by professionals that certify assurance and non-assurance reports? How does that affect audit quality in your view?
- B. Certain pronouncements were made by the council aimed at ensuring financial reporting quality in Nigeria, may I take you through those pronouncements so that I can get your view on how they have impacted audit quality?
 - 1) The FRCN Rule 1 stipulates that Chief Financial Officer (CFO), providing certification shall be a professional member of a recognized professional accounting body. Do you consider that this rule is applied by the listed firms you know? How, in your view does the rule affect audit quality in Nigeria?
 - 2) The FRCN Rule 2 stipulates that Audit Committee Chairman, providing attestation to financial reports and related documents shall be a professional member of a recognized professional accounting body. Do you consider that this rule is also applied by all the listed firms? How, in your view does the rule affect audit quality

in Nigeria?

- 3) It has also become a requirement of FRCN in Rule 2 that audit partners' name and FRC Registration Number be disclosed on certified reports rather than just audit firms' name. *Most of the reports of listed firms I studied complied with this in the recent past.* What is your view on the implication of this rule for audit quality?
- 4) According to sec. 45 of the FRCN Act (2011), in situations on material irregularity,
 - i. auditor should notify CEO of client's entity and all board members in writing.
 - ii. request them to take necessary actions.
 - iii. issue notice to such irregularity to the council within 30 days with other relevant information.

Have you ever come across this in your years of experience? If yes, was the issue treated as stipulated by the law? Would you say that the rule is good for audit quality?

- 5) The Disclosure of details of non-audit service carried out for the client and the fees paid thereon is required by Rule 3 of FRCN. *What I observed from annual reports is that not all companies complied with this rule. Besides those that complied, did so vaguely.*

In your opinion,

- i. Do auditors earn what could be tagged 'excess fees' from specific clients?
 - ii. Can audit fee erode the independence of auditor? If yes, at what level?
 - iii. Is there any observed difference in the audit fee charges since the FRCN act was enacted?
 - iv. Has the FRCN regime ensured improved quality of audit?
- 6) Section 61 of the FRCN Act stipulates the inspection and review of the practice of an auditor through:
 - i. Inspection of relevant available documents about the auditor.
 - ii. Annual quality reviews for professional accountants who audit more than 20 public interest entities and 3-yearly review for others.
 - a. Do you believe that the FRCN has the capacity to conduct this review?
 - b. Have you experienced or heard of any such exercise?
 - c. Would you consider the reviews thorough (if you have experienced any)?
- 7) The provisions of Section 61 of FRCN Act is, partly, a follow-up to the debate of the dominance of audit practice by the Big4 audit firms as contained in the World Bank Report on the Observance Standards and Codes on Accounting and Auditing in Nigeria (2011). *I also observed the dominance from the audited reports of listed firms I reviewed during my work.*

- a. Do you believe that quality audits emanate more from Big4 firm than other categories of audit firms? That is, is the dominance good for the business of assurance services in Nigeria?
 - b. Did FRCN enactment affect your answer in (i) above? If yes, how?
 - 8) From observation of audited reports, some auditors are known to have most of their clients in specific industries, thereby suggesting possibilities of audit industry specialization in the Nigerian audit market.
 - a. Does such specialization, in your view, enhance audit quality?
 - b. How has the FRCN enactment affected auditors' industry specialization in relation to the quality of audit in Nigeria?
- C. COVID-19 impact

The abrupt emergence of COVID-19 has adjusted the activities of the entire universe. Accounting and auditing transactions are not insulated from its shocks. While providing measures to mitigate its effect on audit quality, the FRCN issued amendments to some rules. It also issued guidance for external auditors and accountants to consider during covid-19 period and its effect on financial reporting entities. In the guidance to external auditors, ongoing 2019 audits and new 2020 audit should be evaluated for the impact of COVID-19, determine the nature, and impacts of the estimates and the adequacy of their disclosure. However, the FRCN considers the impact of COVID-19 to be material.

- a. Following the resumption of activities, how would evaluate the practicability of the above guidance issued by the FRC?
- b. The FRC also encourage assurance practitioners to demonstrate flexibility (e.g. work from home, on-line activities etc.) What effect will this have on audit quality?
- c. If, due to COVID-19, there is difficulty in obtaining sufficient audit evidence, the FRC advised modifying the opinion on financial statements in line with relevant sections of the International Standards on Auditing (ISA). Do you consider this practicable giving the established client-auditor relationship? How would you describe the impact of this dilemma on audit quality?
- d. The FRCN aligns with the consensus that COVID-19 was a non-adjusting event for most companies, and in line with IAS 10 (Events after reporting date), transactions should be categorized and reported accordingly. Do you see the auditors as being able to determine the magnitude of its effect independently? Could the opportunities for possible adjustment, provided by COVID-19 be manipulated to erode audit quality?
- e. Will auditors be willing to report on the direct impact of COVID-19 on the going concern of their clients as advised by FRCN?

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