



IFRS AND AUDIT QUALITY: A DISCRETIONARY MODEL APPROACH

Eniola Ayisat Sulaiman¹, Wasiu Ajani Musa² and Abubakar Sadiq Kasum³

^{1,2&3}University of Ilorin, Ilorin, Nigeria

¹0816507 6898; sulaimanenny24@yahoo.com

abdulwasiu.musa@yahoo.com

abusku@unilorin.edu.ng

Abstract

This study examined the relationship between International Financial Reporting Standards (IFRS) and audit quality in Nigeria. With the growing adoption of IFRS, interest has risen about the efficiency of audits regarding accurate financial reporting. To actualize this, we investigated the impact of IFRS adoption on audit quality and identified challenges and opportunities for improvement. This study focused on companies quoted in the financial services sector of the Nigerian Exchange Group market between 2006 and 2022. A sample of twenty (20) financial institutions comprising of ten (10) banks and ten (10) insurance companies were selected, and data from audited annual reports was subjected to a static panel regression technique. Findings from the estimated regression revealed the existence of a positive connection between IFRS adoption and discretionary accruals based on the Modified Jones Model. Conversely, the regression coefficient revealed a significant negative relationship between the variables of this study when the discretionary expenses were considered. Based on the findings, audit quality has not improved after the adoption of IFRS. Equally, the adoption of IFRS has reduced discretionary expenses significantly. This study recommended among others that regulatory authorities should enforce appropriate application of accounting standard in order to reduce discretionary accruals and avoid manipulation of discretionary expense.

Keywords:

International Financial Reporting Standards; Audit Quality; Discretionary Accruals; Discretionary Expenses; The discretionary model; The financial services sector.

JEL Classification: M41, M42, M52

INTRODUCTION

The dawn of globalization as regards financial reporting has been a major concern for a lot of countries, especially developing countries. This is due to the likelihood of global financial reporting having a great influence on the economy of a nation at large. Presently, globalization is fostering increased openness among numerous nations to foreign investment, driven by the pursuit of swift economic advancement. As a result, many foreign countries are emerging as attractive investment destinations, viewed favourably for their perceived lucrative opportunities (Putri & Ekadjaja, 2023).



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Most accounting works of literature recognize that the implementation and application of International Financial Reporting Standards (IFRS) will improve the information quality of financial statements, which will give room for comparability and reliability (Ebrahim, 2014; Hassan & Musa, 2023). According to the literature, the characteristics of business environments and institutional frameworks should define the procedure or method and content of accounting standards (Chen, Tang, Jiang, & Lin, 2010).

From the above, it can be assumed that there are basically two schools of thought as regards the implementation of IFRS and the information quality of financial statements. These are the standard-induced school which opined that audit quality is a matter of correct application of accounting standard, and the institution-induced school that believed quality is an issue of institutional framework. IFRS, being a uniform and global standard, is gaining ground around the world as more countries are adopting the standards (Adeuja, 2015; Hassan & Musa, 2023). IFRS is known as one of the most important sets of regulations. Its main goal is to make it easier for companies in different countries to compare their financial statements, which improves corporate transparency and high-quality financial reporting (Kheda, 2014; Abata, 2015).

While taking into considering the unanticipated side effects of IFRS adoption such as changes in audit quality, this study aims to offer insights into the costs and effects of total adoption. Notably, one of the primary objectives of adopting IFRS has been to improve audit quality. The Public Company Accounting Oversight Board (PCAOB) emphasized the importance of auditors strategizing and conducting audits for sound reassurance regarding financial statements in 2010 (Miah, Jiang, Rahman, & Stent, 2023). The extent to which users rely on audit opinions is influenced by the quality of audits, with the consequence of poor opinions potentially leading to non-beneficial decisions. Given the challenge of directly observing audit quality, researchers often use discretionary accruals and discretionary expenses as proxies (Kheda, 2014; Gellings, 2017; Soedaryono, 2017). The usage of these two measures of audit quality was because of management practice of employing discretionary accruals and discretionary expenses as manipulating tools to present profits as desired, exploiting the indirect nature and difficulty of discovering accruals (Peasnell, Pope, & Young, 2005; Kheda, 2014). This study seeks to explore the impact of such manipulations on audit quality in the context of IFRS adoption in Nigeria.

In Nigeria, IFRS adoption in September 2010 mandated public listed companies to apply the standards in financial reports by January 2012, with public interest entities and small and medium-scale enterprises (SMEs) following suit in 2013 and 2014, respectively (Adeuja, 2015). The decision to align with global standards aimed to ensure high-quality financial reporting, a crucial need for user trust in investments and decision-making (Okpala, 2012). Proponents asserted that IFRS, with its high-quality standards, would reduce earnings management rates, contributing to elevated audit quality (Armstrong, Barth, Jagolinzer, & Riedl, 2010).

The major concern is the way firm manager's channelled accrual to satisfy their selfish interest in the pre-IFRS period. This is by leveraging the loopholes in the accounting standard to smooth



earnings. Income smoothing has caused a great havoc to stakeholders who rely on the published financial statement to take a financial decision. It is believed that the introduction of a global standard will bring a downward pressure on accrual management and that audit quality will be improved. Unfortunately, reports from regulatory authorities reveal that perpetrators of accrual manipulation have devised several other ways to actualize their objectives. This study aims to investigate the actual impact of IFRS adoption on audit quality, considering the complexities of discretionary accruals and expenses manipulation in the Nigerian context. Additionally, this study fills the vacuum in literature as it establishes the similarities and differences in the behaviour of audit quality based on earnings management approach that provide better result when compared to other proxies. The study also examines controls for other moderating variables which make the outcome more robust and informative. In line with the general objective of this study, it was hypothesized that there is no significant impact of IFRS on audit quality in the quoted financial services firms in Nigerian Exchange Group.

LITERATURE REVIEW

Audit Quality

Audit quality is an important part of how the economy works because it makes sure that the financial and capital markets are reliable and trustworthy (Xhensila, 2016). It is “the market-assessed probability that a given auditor will discover a breach in the client’s accounting system and report the breach.” It can be perceived from this definition that an auditor’s proficiency and independence play a major role in audit quality determination. Sellami and Borgi (2020) defined high audit quality as an audit carried out based on the generally accepted standards of auditing to give rational reassurance that the audited financial statements and attached disclosures are prepared as required by the general principles of accounting without being misstated materially because of fraud or errors. Hosseinniakani, Inacio, and Mota (2014) claimed that both actual audit quality and perceived audit quality are essential issues as they can bring about a high rate of investment in audited clients. Earnings management is usually used to substitute for the quality of an audit but is commonly immeasurable (Kheda, 2014). Companies thoroughly influence their earnings to ensure that they reach their exact target, thereby giving users of financial information an unclear picture of their financial condition (Lee & Swenson, 2011). In 1999, Healy and Wahlen said that earnings management happens when managers of companies use their own judgment when putting together financial reports. As a result, transactions are changed, and users of the financial reports get the wrong idea about how the company is doing.

Discretionary accruals and expenses are commonly used to measure earnings management (Lee & Swenson, 2011; Kheda, 2014). Accrual accounting involves considering a company’s performance by taking cognizance of economic events irrespective of the period in which cash transactions eventually take place (Gellings, 2017). Discretionary accruals are described as aggregate accruals minus non-discretionary accruals. This indicates that non-discretionary accruals are difficult to influence, unlike discretionary accruals (Xu, 2014). On the other hand, management decides whether to spend more money on things like research and development, selling, advertising, and



general administrative costs during a certain period. This decision is based on the marginal return to such spending (Lee & Swenson, 2011).

Factors Affecting Audit Quality

Quality of audit remains the major concerns of the auditee and the assurance provider. This is because stakeholders' goal is to make an informed decision based on the audited financial statement that is free of errors and misstatements. This makes it necessary to scan through the likely factors impacting audit quality. In line with past empirical findings, the assurance provider and his client are the only ones that can access the actual audit work; this makes it difficult to measure audit quality. The common determining factors identified in the literature are audit charges as higher fee will bring about higher quality (Musa, Salman, Amoo & Subair, 2020; Dawoud & Sun, 2022) or otherwise (Kheda, 2014; Gellings 2017), audit firm size as multinational firms always protect their reputation which guarantee independent audit opinion (Ndubuisi & Ezechukwu, 2017), audit timeline since prolonged or extended tenure weakens objectivity due to familiarity (Hosseinniakani et al., 2014), industry expertise as specialization encourages perfection (Hardy, 2013), and reputation that is increased by stating true and fair audit reports (Musa et al., 2020)

IFRS Adoption in Nigeria

Rouvolis (2022) emphasized the idea that embracing and putting into practice the IFRS serves to remove obstacles impeding the alignment of accounting practices. This alignment would, in turn, diminish information disparities for investment decisions, enhance opportunities in financial realms, diminish uncertainty in capital markets, and ultimately lead to increased stock returns. Yahaya, Fagbemi, Oyeniyi and Sulaiman (2015) define IFRS as accounting rules (standards) issued by the International Accounting Standards Board (IASB), an independent organization based in London, UK. Going by the view of Hassan and Musa (2023), if a firm fails to make its financial statements based on the requirements of IFRS, this could lead to discrepancies, absence of transparency and accountability, and misrepresentation in the financial report, which will then result in lowly financial reporting practices and the spread of accounting information that will be of low value to several categories of accounting information consumers.

In recent times, the adoption of IFRS has been on the increase (Owolabi, Onwere& Dada, 2013). Odia and Ogiedu (2013) are of the perception that the need for harmonization of standards of accounting and the later convergence in the 1990s with IFRS is a result of globalization in the capital markets. Nigeria's adoption of IFRS in September 2010 was propelled by the Minister of Commerce and Industry at the time, Senator Jubril Martins-Kuye (Madawaki, 2012). He explained that the implementation was scheduled to begin with publicly listed companies in 2012, with the anticipation of a full changeover by the end of 2014. The Financial Reporting Council of Nigeria (FRCN) was saddled with the responsibility of overseeing, adopting, and putting IFRS into place in Nigeria.



Zaiyol, Andrew, and Memgaugende (2017) said that Nigeria adopted IFRS because it was hard to compare financial statements and hard to combine financial statements, that it was expensive to present group financial statements and expensive to get access to capital, and that low local standards for reporting financial statements made the capital market less competitive.

Theoretical Framework

Agency Theory

Agency theory is a prevailing theory in auditing and accounting that can be traced to Stephen Ross and Barry Mitnick in the year 1973. The Institute of Chartered Accountants of England and Wales (ICAEW) defined an agency relationship as a condition that arises when one or more principals engages another person as their steward to carry out a service on their behalf (ICAEW, 2007). ICAEW (2007) added that the performance of this service leads to the entrustment of some decision-making to the agents. Ndubuisi and Ezechukwu (2017) opined that agency theory puts forward predetermined mechanisms such that corporate governance is established to control management to deal with the issue of split-up in ownership and control. Jensen and Meckling (1976) viewed management as self-interested actors who act in an unscrupulous manner by giving preference to their own wishes over those whom they represent, regardless of how harmful their actions could be to the owners.

The relevance of agency theory is evident in the mechanisms established to mitigate opportunistic behaviour by management. Two key mechanisms, specifically the contractual and information systems, play crucial roles in aligning management goals with those of the principal and reducing information asymmetry between owners and management. The contractual mechanism seeks to align the interests of management with those of the principal, addressing potential agency conflicts. Concurrently, the information system serves to minimize information asymmetry, fostering awareness among management that attempts to misguide monitors will be detected. According to the tenets of agency theory, objectivity and expertise are identified as pivotal qualities for effective monitoring.

Within this framework, auditors, acting as agents of shareholders, play a critical role in ensuring compliance with IFRS. Their responsibilities encompass investigating the alignment of financial statements with IFRS, identifying material misstatements and fraud, and reporting such instances. The agency theory perspective underscores the importance of auditors as monitors, emphasizing the need for objectivity and expertise in fulfilling their roles. In the capital markets, accounting standards, particularly IFRS, assume a vital role in addressing the agency problem. As noted by Gellings (2017), these standards are instrumental in explaining and mitigating the familiar agency conflicts that may arise. Furthermore, Musa, Salman, and Amoo (2021) assert that audit quality, a key component of effective monitoring, serves to align the perspectives of assurance clients and providers in the IFRS era.

In summary, the application of agency theory principles in the mechanisms to curb opportunistic behaviour and the role of auditors in ensuring IFRS compliance highlight the significance of this



theoretical perspective in understanding the impact of IFRS compliance on audit quality in the Nigerian context.

Empirical Evidence

A study was carried out by Soyemi and Olawale (2019) which involved investigating the connection between IFRS and audit quality, with the focus of the study being Access Bank Plc. The ordinary least square regression revealed a substantial positive correlation between IFRS adoption and audit quality. Similarly in 2018, Coffie and Bedi investigated the impact of IFRS adoption and firm size on auditors' quality measured with fees in Ghana's financial sector. Analysing data from 52 listed and non-listed firms (2003-2014), the study found a positive association between IFRS adoption and audit quality, indicating increased costs for banks and insurance firms. The influence of firm size on audit quality was also significant

Sellami and Borgi (2020), investigated the impact of country-level corruption culture and government quality on compliance with International Accounting Standard 24 "Related Party Disclosures" (CRPD) in eight African countries. Analysing a sample of 537 listed African firms from 2012 to 2014, the study utilizes panel regressions. Findings revealed a negative association between corruption and CRPD, while government quality does not significantly explain CRPD when considered simultaneously with corruption.

Jatiningrum, Fauzi, Irviani, Mujiyati, and Hasan in 2020, similarly Led a study investigating the impact of the audit committee on Financial Reporting Quality (FRQ) in Malaysia, particularly pre- and post-mandatory IFRS adoption. Earnings management serves as the FRQ proxy. Analysing 81 listed companies on Bursa Malaysia from 2009 to 2015, the study utilized statistical multiple regression linear methods and paired sample t-tests. Findings indicated a more significant relationship between the audit committee and financial reporting quality after IFRS adoption. However, there is no significant post-IFRS adoption difference in earnings management practices, suggesting IFRS adoption may not reduce managerial discretion.

Conducted by Fallatah, Saat, Shah, and Chong in 2021, they investigated the moderating impact of IFRS adoption on the relationship between ownership structures and audit quality for non-financial firms in Saudi Arabia. Analysing data from 165 listed firms spanning the pre-IFRS adoption period (2013-2015) and post-IFRS adoption period (2016-2018), the research revealed that ownership structures weaken audit quality before IFRS adoption. However, the interaction of IFRS with ownership enhances audit quality post-adoption. The findings advocated for regulatory considerations in Saudi Arabia and other emerging markets to ensure reasonable audit quality.

A study similarly authored by Fallatah, Saat, Shah, and Chong in 2021, addressed the global concern of accounting and auditing regulatory bodies in enhancing financial reporting and auditing professions. It marked a pioneering effort by conducting a quantitative overview of the academic and professional literature on IFRS adoption and audit quality. Utilizing the Scopus database with 1019 documents between 2005-2019, the study employed bibliometric analysis tools like



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Vosviewer and Microsoft Excel. The findings revealed the evolving nature of IFRS adoption and audit quality as a young discipline, particularly in recent years. Despite this development, challenges persist in gaining wider attention in the field of accounting and auditing research.

In another study by Kabwe, Mwanaumo, and Chalu (2021), they explored the antecedents of compliance with IFRS, with a particular focus on the moderating role of audit quality. The research challenged the commonality of unqualified audit opinions despite significant non-compliance with IFRS. Analysing data from 20 Zambian listed companies and the Zambia Institute of Chartered Accountants (2012-2018), the study adopted a random effect model. Results indicated that audit quality moderates the association between firm characteristics and IFRS compliance. A positive association exists between firm size and compliance, while profitability shows a negative association.

Rouvolis (2022) conducted a study examining the impact of IFRS on falsified financial statements and the quality of auditors, utilizing data from Germany, Greece, and the UK sourced from their respective stock markets. The study covered a period from 2004 to 2009 and included a comprehensive analysis of 1,366 listed companies. Various statistical tests, including univariate and multivariate analyses such as Pearson's correlation coefficient, binary and multinomial logistic regression, ordinary least squares (OLS) regression, and multilevel models, were employed in this investigation. Utilizing Pooled Regression on Shanghai Stock Exchange and Shenzhen Stock Exchange in China, Dawoud and Sun (2022) asserted that companies incurred higher audit expenses following the adoption of IFRS. A positive and significant association was also noticed by Putri and Ekadjaja (2023) on the Indonesia Stock Exchange between 2017 and 2020.

METHODOLOGY

The ex-post facto research design was used because it examines prevailing facts and utilizes prevailing (secondary) data. From the forty-eight (48) listed firms in the Nigeria's financial services sector as of June 2023, ten (10) banks and ten (10) insurance companies were chosen as a sample to cover the period from 2006 to 2022 because of data availability. Since the objective of this study is to examine if IFRS has improve audit quality, using the year 2006 for commencement though it falls in the pre-adoption era helps to evaluate the effectiveness of the adoption in improving audit quality of Nigerian quoted firms. This study used a purposive sampling method by selecting only firms listed in the financial services sector on the NSE. This was used because of the significant impact the sector has on the economy. The data was pulled out from audited annual reports of listed firms in the financial services sector and different editions of the Nigerian stock exchange fact book.

Pooled data analysis was conducted with the static panel regression technique. However, the predictive power of pooled OLS cannot be relied upon since the cross-sections (banks and insurance companies) may possess heterogeneous features which may affect the overall result of the regression analysis. To resolve this possibility, Breusch and Pagan's Lagrangian Multiplier (BP-LM) test was exploited to decide the best suitable estimations between the pooled ordinary

least square (OLS) and fixed or random effects. The Hausman test was used to decide which of the fixed and random appraisals was the best model.

Model Specification

The models used were the Modified Jones Model and Roychowdhury's Real Earnings Management Model after controlling for the effect of size and litigation, in line with Hosseinniakani *et al.*, (2014), Kheda (2014) and Xhensila (2016). The adoption of these models was premised on the fact that audit quality measures were improved as compared to other measures employed by previous studies. Additionally, the model link agent performance target to earnings manipulation which make it more robust to several forms of income smoothing perpetrated in the agency contract.

Modified Jones Model

$$\text{DACCit} = \beta_0 + \beta_1 \text{IFRSit} + \beta_2 \text{ROAit} + \beta_3 (\text{ROA} \times \text{IFRS})_{it} + \beta_4 \text{CRISISit} + \beta_5 \text{SIZEit} + \beta_6 \text{LITit} + \text{Uit} \quad \text{eqn(1)}$$

Where;

DACCit = Discretionary accruals of company i at time t from the modified Jones model that proxies for audit quality. It is calculated with the formula below:

$$\text{Tait/Ait-1} = \beta_0 + \beta_1 \text{it}(1/\text{Ait} - 1) + \beta_2 \text{t}(\Delta \text{REVit} - \Delta \text{RECit}) / \text{Ait-1} + \beta_3 \text{t} (\text{PPEit} / \text{Ait-1}) + \beta_4 \text{t} (\text{ROAit-1}) + \mu \text{it}$$

3.1.2 Roychowdhury's Real Earnings Management Model

$$\text{DEXPit} = \beta_0 + \beta_1 \text{IFRSit} + \beta_2 \text{ROAit} + \beta_3 (\text{ROA} \times \text{IFRS})_{it} + \beta_4 \text{CRISISit} + \beta_5 \text{SIZEit} + \beta_6 \text{LITit} + \text{Uit} \quad \text{eq. (2)}$$

Where;

DEXPit = Discretionary expenses of a company at a given time from the Roychowdhury's Real Earnings Management Model that proxies for audit quality. It is calculated with the formula below:

$$[\text{DEXP}]_{t/A_{(t-1)}} = \alpha_0 + \alpha_1 (1/A_{(t-1)}) + \beta (S_{(t-1)} / A_{(t-1)}) + \mu_t$$

The independent variables are measured as follows:

IFRS = A dummy variable that equals 0(1) if t falls in the period before (after) IFRS adoption.

ROA denotes a company's return on assets at a given time, proxied by profit after tax (PAT) divided by total assets.

CRISIS = A dummy variable that equals 0(1) if t falls in the period before (after) the financial crisis in 2008.

SIZE shows the total assets of company i at time t, which is how big the client is.

LIT is a dummy variable that has the value 0 if the auditor has never been involved in a legal case and 1 if they have.

β_0 denotes the intercept parameter.

$\beta_1 - \beta_6$ = Slope parameters

$\text{Uit} = \mu_i + \lambda_{it}$

μ_i stands for cross-sectional differences.

λ_{it} stands for stochastic error terms.

RESULTS AND DISCUSSION

The data used was from the audited financial reports of the selected financial services firms. Discretionary accruals (DAC) and discretionary expenses (DEXP) were residuals extracted from total accruals and total expenses.

Descriptive Statistics

The descriptive statistics of all the explained and explanatory variables in the model are stated in table 1. The table shows the mean of observations, standard deviation, and minimum as well as maximum values of the explained variables (discretionary accrual and discretionary expenses) and each of the explanatory variables. Standard deviation values, which are shown in the table, measure how far apart the model variables are.

Table 1 Summary of Descriptive Statistics

Variable	OBS	MEAN	S.DEV	MIN	MAX
DACC	340	0.11	0.12	-0.27	1.50
DEXP	340	0.13	0.06	-0.11	0.26
IFRS	340	0.50	0.50	0	1
ROA (%)	340	0.16	0.42	-0.05	0.30
ROA x IFRS	340	0.13	0.05	-0.25	0.36
CRISIS	340	0.23	0.42	0	1
SIZE (B'N)	340	8.49	1.53	3.09	9.39
LIT	340	0.06	0.24	0	1

Source: Author's Computation, 2023

Multicollinearity Testing

Multicollinearity among the explanatory variables was investigated with the Variance Inflation Factor (VIF). This is important because the OLS regression method is based on the idea that there can't be a perfect linear relationship between the explanatory variables if the estimator is to be very accurate.

Table 2 Variance Inflation factor

VARIABLE	VIF	A/VIF
IFRS	1.10	0.91
ROA	2.10	0.49
ROAxIFRS	2.11	0.47
CRISIS	1.04	0.96
SIZE	1.05	0.95
LIT	1.01	0.99
MEAN VIF	1.39	

Source: Author's Computation, 2023

Table 2 shows the Variance Inflation Factor as well as its inverse for all the explanatory variables. The rule of thumb states that any independent variable with a VIF of more than 10% is highly collinear and vice-versa (Baltagi, 1995). Table 4.2 shows that all the variables possess a Variance Inflation Factor of less than 10, which means there is an absence of collinearity. Similarly, Gujarati

(2009) proves that the nearer the value of I/VIF to 0, the higher the extent of multicollinearity and vice versa. The table shows that all the variables are beyond 50%, which implies that they are nearer to 1 than 0. These imply that the model lacks multicollinearity.

A Breusch and Pagan test was conducted to identify units of analysis homogeneity. The Hausman test was also used to determine which of the fixed-effect and random-effect models makes the most sense.

Model Selection Methodology

In table 4.3, chi-square values of 0.01 and 405.69 with a p-value of 0.46 and 0.000 were produced by the Breusch Pagan LM Test for a random effect, consequently accepting or discarding the hypothesis that says the variance of the random effect is 0, implying that the pooled OLS model is suitable or not suitable for the models. The Hausman test produces a chi-square of 2.56 with a p-value of 0.76, which shows that the null hypothesis is widely accepted. This indicates that the random effect model yields superior and more reliable estimations than the fixed effect model. So, estimates from pooled OLS/random effect models are used to figure out what effect IFRS adoption has on the audit quality of listed companies in Nigeria's financial services sector.

Table 3 Post estimation Test Result

BPLM					
MODEL 1 (DACC)			MODEL 2 (DEXP)		
Chi square	Prob	Decision	Chi square	Prob	Decision
0.01	0.46	Accept	405.69	0.000	Reject
			HAUSMAN		
			Chi square	Prob	Decision
			2.56	0.76	Accept
POOLED OLS			RANDOM EFFECT		

Source: Author's Computation, 2023

Model Result

Table 4.4 shows the linear relationship between audit quality and IFRS adoption of listed financial sector firms in Nigeria with the use of panel regression analysis. The table also shows the outcomes of pooled OLS and random-effects regression analysis.

Table 4: Model Result

VARIABLE	MODEL1(discretionary accruals)	MODEL 2 (discretionary expenses)
	<i>POOLED OLS</i>	<i>RANDOM-EFFECT</i>
CONSTANT	-0.0046 (0.703)	0.0019 (0.866)
IFRS	0.1924 (0.045)**	-0.0945 (0.038)**
ROA	-0.1793 (0.255)	-0.7377 (0.081)***
ROAxIFRS	0.3613	0.0842

	(0.086)***	(0.223)
CRISIS	0.2154 (0.030)**	-0.0431 (0.064)***
SIZE	-3.300 (0.527)	8.880 (0.997)
LIT	-0.0019 (0.954)	0.0092 (0.332)
MODEL STAT		
R² WITHIN	0.2205	0.0134
F STAT/WALD CHI²	0.81 (0.0497)**	81.3 0.0152**

Note *, ** and *** denote statistically significant at 1%, 5% and 10% respectively, also P values are reported in parentheses

The sign of the coefficients revealed that International Financial Reporting Standards, the interaction between Return on Assets and International Financial Reporting Standards, and crisis displayed a positive relationship with audit quality using discretionary accrual, while Return on Assets, firm size, and litigation showed a negative association with audit quality. All these concur with a priori expectations except for ROA, size, and litigation. Surprisingly, the relationship changes when discretionary expenses are proxied for audit quality. The second model showed that international financial reporting standards, return on assets, and crisis exhibit an inverse correlation with audit quality, while the interaction of ROA and IFRS, size, and litigation displays a direct relationship with audit quality. Except for IFRS, ROA, and the crisis, nothing contradicted the apriori expectation.

Going by the coefficient's magnitude, three variables have a significant effect on the audit quality proxy with discretionary accrual of listed financial companies in Nigeria as designated by a coefficient (0.1924, 0.3613, and 0.2154) with probability values (0.045, 0.086, and 0.030) at 5%, 10%, and 5% level of significance correspondingly. Similarly, IFRS, ROA, and Crisis also display a significant association with audit quality when measured by discretionary expenses. This is evidenced in their coefficients (-0.0945, -0.7377, and -0.0431) with their respective probabilities (0.038, 0.081, and 0.064). This means that the adoption of IFRS has a progressive effect on discretionary accrual, implying that audit quality will fall in the period of IFRS adoption. Contrarily, a significant negative influence of IFRS is observed when discretionary expenses are used to proxy IFRS. This implies that audit quality will rise in the period of IFRS adoption. ROA has no significant effect on discretionary accrual but has a significant negative influence on discretionary expenses. This implies that a fall in ROA increases audit quality. Similarly, the interaction of ROA and IFRS showed a positive and significant association with discretionary accrual but no relationship with discretionary expenses. Also, the financial crisis showed a strong link between audit quality and the use of both discretionary accruals and discretionary expenses.

Discussion of Findings

At a 5% level of significance, IFRS has a positive relationship with audit quality for discretionary accruals but a negative association with discretionary expenses in the Nigerian financial services sector. The positive relationship between IFRS adoption and discretionary accruals indicates that the implementation of IFRS in the financial services sector in Nigeria has led to an increase in discretionary accruals, which is a tool of earnings management and, as such, audit quality has been reduced. The result of this study does not support the null hypothesis that states that there is no major connection between IFRS adoption and discretionary accrual but is in line with the studies of Fallatah et al., (2021a), Kabwe et al., (2021), Dawoud and Sun (2022), Rouvolis (2022) and Putri and Ekadjaja (2023), This may be a result of the difference in the models used to estimate the data. It could also be a result of pressure on the part of managers to meet financial expectations, keep the companies' stock prices up, bonuses to be received by the managers, which are influenced by earnings performance, or eligibility for stock options that generate a profit when the stock price increases. This result does not concur with the agency theory, which tries to solve the problem of information asymmetry as well as send adequate and correct signals to users of financial statements. The reason for the disagreement is based on the significant positive relationship that exists between IFRS adoption and discretionary accruals, which implies that the implementation of IFRS could lead to a rise in discretionary accruals. So, the quality of audits will go down, and shareholders will get wrong information about how the companies really look.

On the other hand, discretionary expenses indicate a significant adverse relationship with IFRS adoption. This implies that IFRS adoption has led to low discretionary expenses and, as such, audit quality has improved. This finding similarly does not support the null hypothesis but is in line with the results of Soyemi and Olawale (2019), Sellami and Borgi (2020), Jatiningrum et al., (2020) and Musa *et al.*, (2021), but in little disparity with Coffie and Bedi (2018). The reason for the similarity in findings could be a result of the same model used in estimating the data and the lack of adequate provision by IFRS for discretionary expenses to be influenced. This result supports agency theory, which tries to solve the problem of information asymmetry as well as ensure that adequate information and correct signals are sent to shareholders and other users of financial statements. The reason for the agreement with the theories is based on the results derived from the analysis, which showed a significant adverse relationship between IFRS adoption and discretionary expenses. This implies that audit quality improved after the adoption of IFRS and that stakeholders acted on the report to maximize their welfare.

Finally, there is a significant difference between audit quality measured by discretionary accrual and audit quality measured by discretionary expenses. This is evident from the results derived from both measures. This finding differs to some extent from the findings of Xhensila (2016), which could be a result of bias in sample selection. However, this finding is like that of Fallatah et al., (2021b) and Kheda (2014).

CONCLUSION AND RECOMMENDATIONS

This paper examined the impact of IFRS adoption on the audit quality of listed financial services companies in Nigeria from 2006 to 2022 using the static panel regression technique. Going by the findings, the study concludes that IFRS adoption has an impact on audit quality. The study further concludes that the adoption of IFRS has led to an increase in discretionary accruals and thus a decline in audit quality. However, the adoption of IFRS has steered a decrease in discretionary expenses and has consequently improved audit quality. The study finally concludes that there is significant difference between discretionary accruals and discretionary expenses when utilized as audit quality proxies.

The following recommendations are deemed pertinent based on the study's findings:

- i. There should be policy implementation by the regulatory authorities to curtail the adverse impact of accrual manipulation and improve quality audit. This is because several approaches are invented by manipulators in achieving their goals. This is based on the empirical findings from this study that generated mixed association based on the two approaches utilized in accounting for audit quality.
- ii. The IASB should implement policy to block the loopholes in the applicable standard based on feedback from countries that have adopted IFRS. A new standard or an explanatory note might be released to bring discretionary accruals to the barest minimum. This will go a long way towards improving audit quality.
- iii. Board of directors should implement policy which avoid influences on discretionary expenses. Proper monitoring by the non-executive directors and the composition of effective audit committee will make this actualized. This will similarly ensure high audit quality whereby external users can make informed decisions.

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