

## **Audit Input and Accounting Conservatism Among Listed Firms in Nigeria**

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**ABSTRACT:** *This study investigated the effects of audit quality characteristics in areas of audit independence, audit firm size and audit tenure on accounting conservatism among listed firms in Nigeria. The study used longitudinal and correlation research designs. The population of the study consists 151 firms listed on the Nigerian Exchange Group as at 31st December, 2022. Statistics was analyzed using descriptive in addition to inferential statistics and panel data regression analysis. The results revealed that audit independence had significant positive effect {0.138(0.004)} on accounting conservatism, audit firm size had significant negative effect {-0.0623(0.050)}, while audit tenure had a positive but insignificant effect {0.110(0.494)}. The study recommended that firms in Nigeria should be conscious of the quality of the mechanism imputed into audit engagement in order to ensure audit quality as it has implication on quality of output. Firms should also not compromise audit independence in order to present globally accepted financial reports.*

**KEYWORDS:** audit input, audit independence, audit firm size, audit tenure and accounting conservatism.

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### **INTRODUCTION**

Conservatism remains an accounting exercise that does not look after increases nevertheless forestalls completely losses (Alkurdi et al., 2017; Hamdan et al., 2012). Conservatism could be defined as the aptness of remunerations irregularity that demand for greater authentication to identify noble news bulletin as gain, more than to identify none noble news as loss (Givoly & Hayn, 2000). Krismiaji (2021) pointed out that conservatism is a choice benchmark among accounting ideologies that control on curtailing stated incomes by slackening down income acknowledgement, fast-tracking acknowledgement of expenditures, pull down asset assessment and increasing obligation appraisal. Prior studies established that accounting conservatism have improved intensely (Krismiaji, 2021; Yuxiang & Wanli, 2021). A specific element of accounting fact quality is accounting conservatism (IASB, 2018).

Audit inputs are what empower auditors to demonstrate suitable values, principles and approaches to efficient audit and audit related services. In addition, audit inputs are factors that make the auditor being sufficiently experienced, skilled, proficient, and having enough time apportioned to them to execute the audit work (AL-Qatamin & Salleh, 2020). This research employs audit independence (audinp), audit tenure (audten), and audit firm size (audfsiz) as the audit inputs. Audit input tends to exhibit the personality traits of the auditor and the audit firm. Audit input may include certified expertise, specialized experience, and proficient skepticism. It is believed that the greater the class of professional skepticism, the more enhanced the audit excellence will be (AL-Qatamin & Salleh, 2020). Thus, in order to bring reliability to financial statements there is the need for impeccable audit inputs.

IAASB described audit quality input characteristics as being adequately skilled, experienced, and knowledgeable and having adequate time apportioned to them to execute audit task. The Board added that audit input entails auditors demonstrating proper attitude, ethics and values. These qualities spread over the nationwide level, the audit company level, and audit engagement level (IAASB, 2020). In order to curb these business, auditors are relied on to prevent fraud and vet financial statements to be sure that they are free from distortions. Hence, whatever the auditor inputted into the audit engagement matters. The accounting and business scandals experienced by corporate organisations virtually all over the world have called for greater attention in the quality of firms' financial reports. Accounting scandals and business catastrophes had spurred researchers to ponder on whether the management of these companies worked for the paramount concern of stakeholders or not.

These corporate failures have resulted to the desire aimed at an amplification of the excellence and efficiency of audit quality and conservatism in accounting (prudence). As a result, many studies had been conducted on the link amongst audit excellence characteristics and conservatism in accounting (Al-Matari, 2022; Geimechi & Khodabakhshi, 2015; Knechel, 2002; Talab et al., 2018). In spite of the increase and improvement in accounting conservatism, companies' desire to meet the needs of different interested party in respect of audit quality facts is little (Thabang & George, 2017). This is because executives of corporate organizations continually think through their individual welfares in the discharge of their responsibilities (Mrabure & Abhulimhen-Iyoha, 2020). Hence, an increase in prudence gaps. The overall argument by researchers is that the primary causes of poor and weak accounting conservatism among firms have to do with audit quality attributes in terms of audit inputs (like auditor's integrity, auditor's consistency, and auditor's competency).

Furthermore, reduced and feeble accounting conservatism among firms are connected to audit input that manifested in audit independence, audit firm size and audit tenure. Audit input had contributed to meagre and pathetic accounting conservatism among firms. This is in line with Am-ugsorna et al. (2020), Ikpantan and DafErighe (2019), Krismiaji (2021), Pradika and Jan (2019), and Usifoh et al. (2019). However, the extent to which these attributes influence accounting conservatism lies in the provision of qualitative financial information. Hence, there is a dearth of evidence of a significant relationship in Nigeria to explain the interaction between audit input characteristics and accounting

conservatism behaviour. Most of the previous are limited in period and sectorial coverage. As a result, a gap exists due to previous studies that have not painstakingly addressed audit quality characteristics and accounting conservatism. There is therefore the need to fill the identified gap. Hence, this study covers the whole Nigeria sectors on a ten-year coverage, looking at the effects of audit inputs on accounting conservatism.

Having stated the background of the study and the statement of the problem specified, it is appropriate at this junction to bring out the research questions as: To what extent does audit independence influence accounting conservatism among the registered firms in Nigeria? To what extent does audit firm size influence accounting conservatism among the registered firms in Nigeria? To what extent does audit tenure influence accounting conservatism among the registered firms in Nigeria? The objective of this study is therefore to explore audit inputs features in areas of audit independence, audit firm size and audit tenure and accounting conservatism among the listed firms in Nigeria between 2012 and 2021. This study is of great usefulness to policy makers, government and academics who are obligatory to conduct longitudinal study among firms. Not only that, this study provides a data-base for forthcoming investigators on audit quality and accounting conservatism among listed firms in Nigeria, since no study, to the best of the researcher's knowledge, has extensively covered this area of study by considering audit input holistically covering all the sectors of Nigeria economy.

Finally, the study provides the lee ways of improving accounting conservatism in relation to audit quality characteristics. After the above introduction, the rest of this paper is structured as follows: **Section 2** presents the review of literature and the development of hypotheses. **Section 3** discusses the methodology and **Section 4** presents the results of the study and discussion of findings. Lastly, **Section 5** centers on summary, conclusion and the suggestions for upcoming studies.

## LITERATURE/THEORETICAL UNDERPINNING

This section covers the conceptual and empirical review for the study. Extant literature were reviewed to bring out what other researchers have found on the connection concerning audit input and accounting conservatism. The Audit input was proxy by auditor's independence, audit tenure and audit firm size (IAASB, 2020).

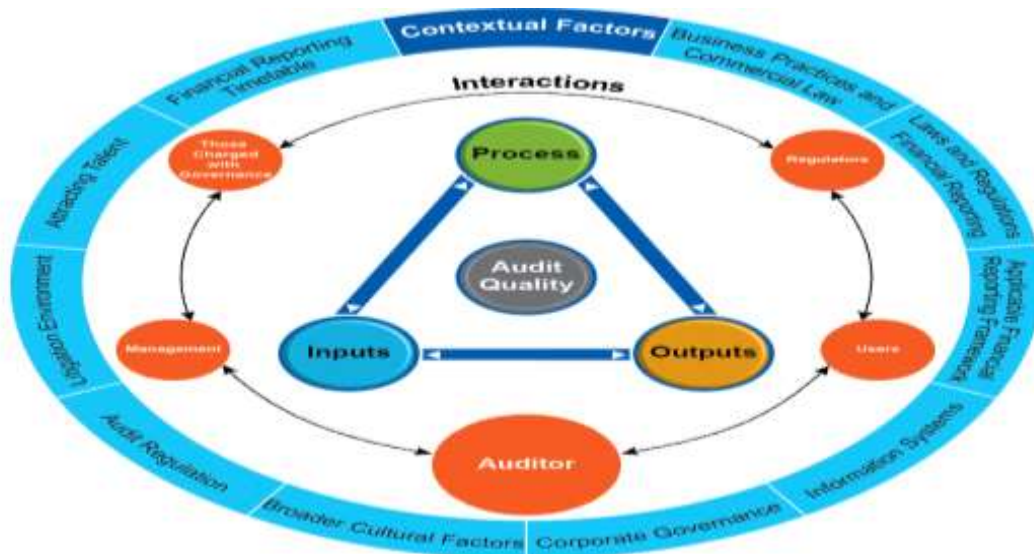
### Accounting Conservatism (AC)

Researchers accept as true that conservatism in accounting as a skill of witnessing continuous deterioration in the carrying value of assets when compared to its market value beginning from one accounting period to a new accounting period. Others view accounting conservatism as an assemblage of conditions among accounting doctrines that central on the minimization of aggregate stated incomes by relaxed income recognition and quicker expenditure acknowledgement. Conservatism in accounting is described as the irregularity in the authentication desires for gains and losses; subsequently a severe degree of validation is obligatory for gains than for losses. Study also describe conservatism in accounting as the typical underestimation of the book worth of net assets of a company in comparative

to their market value (Hamdan et al., 2012; Thijeel et al., 2018). The underestimation of net asset and undermining gains tends to decrease facts asymmetry amongst managers and external stakeholders. On the whole, accounting conservatism leans towards checking managers' unprincipled behaviors that inclines to increase agency cost (Jia, 2018; Kootanaee et al., 2013). Thus, one common link in the above definition is the fact that conservatism in accounting mandates strict verification of the degree of gains higher than the degree of losses established on the conservatism in accounting policies. Thus, all the definitions are similar in one area, earnings recognition under conservatism in accounting are tone down as opposed to being overstated.

### Audit Quality Characteristics

Ikpantan and Daferighe (2019) points out that audit quality could be swayed directly or indirectly depending on the direct side by side involvement of the stakeholder and the direction through which the audit quality is been assessed. The researcher perceives audit quality from three fundamental viewpoints: inputs, outputs, and context features. In contrast, IAASB (2020) pronounced five distinguished audit qualities characteristics as: audit inputs, audit process, audit outputs, audit interactions variables and audit contextual factors. This is shown in figure 1. This study investigated audit input and accounting conservatism.



Source: IAASB, (2020)

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

### Audit Inputs

In the bid to think through the features of audit quality characteristics, Syam et al. (2021) studied the qualifications of audit quality. The study evaluated the special influence of audit input on audit quality

as pronounced by IAASB (2020). Audit input measures are: knowledge, values, attitude, ethics, skill, and expertise at both the engagement and public accounting firm levels. The study concluded that knowledge, values, attitude, ethics, skill, and expertise all contributed positively to audit quality characteristics at both the engagement side by side and firm level (Erasmus & Micah, 2021; Ugwunta et al., 2018; Zayol et al., 2019). Thus, this study proxy audit inputs by means of audit independence, audit tenure and audit firm size.

### **Audit Independence and Accounting Conservatism (AC)**

Jayeola et al. (2017) defines independence as another expression which may manifest itself in integrity, freedom, and all that is moral. The study added that independence of an auditor can be described as a psychological approach and bodily appearance which describes the auditor as being not influenced by others in decisions and resolutions during and after auditing activities. Jayeola et al. (2017) posited that auditor independence could only be sustained by evading and shunning monetary connection that creates the impression that the prosperity of the auditor comes from the audit performed and/or management influences in favour of the auditor. Audit independence can also defined as the auditor's impartial rational approach in creating judgements all over and done with the audit inputs, audit process and reporting in audit output. An auditor's deficiency of impartiality escalates the leeway of being observed as not being impartial. This indicates that the auditor would not probably reveal fissures in financial statement (Zayol et al., 2019).

The major threats to independence as pointed out by Zayol et al. (2019) includes the perceived fees for assessment and non-assessment services and the era of the auditor-client connection. The study believed that the compromised independence of an auditor end result is reduced audit quality as this agree to inordinate earnings management and eventually poorer earnings quality. Alternatively, Ugwunta et al. (2018) opined that high audit fees charged by external auditors could develop a financial bonds between the company management and the external auditor. This could compromise the independent of the auditor. The study defined audit as a non-bias of auditor's action in firm and frank judgements for the period of an audit and that independence symbolizes actual fact freedom starting from encouragement, muse, inducement or control of which in the lack of independence, the significance of the audit purpose will be greatly negotiated. Relying on previous studies, this study would use audit fees to measure auditors' independence (Ugwunta et al., 2018; Zayol et al., 2019). Thus, audit independence tells how bias the auditor in his opinion is, about an audit conducted.

In the study on quality of audit in Nigeria, Ikpantan and Daferighe (2019) investigated the influence of audit quality characteristics on financial reports of deposit money banks (DMB) in Nigeria. The motivation for the study stemmed from the company collapses and catastrophes experienced in the Nigerian banking sector in the midst of the clean audit reports. The research engaged the use of *ex post facto* research design. It made used the fourteen (14) deposit money banks (DMB) listed on the Nigerian Exchange Group Plc. as at December, 2015. Using purposive sampling method, ten banks were sampled from the population of twenty banks, resulting into one hundred and forty (140) data point observations. The study period covered 2002 to 2015 (fourteen years). Data were sourced secondarily as the annual



business statements of the sampled companies were made use of. The study found that there exist a positive effects between audit independence and financial reports quality (Discretionary accrual). The lacuna observed was that the coverage of only banking sector may not give a robust study. Consideration should be given to a wider sectors.

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

**H<sub>0</sub>:** *There is no significant relationship between audit independence and accounting conservatism among the listed firms in Nigeria.*

#### **Audit Firm Size and Accounting Conservatism (AC)**

Mohammed et al. (2019) argued that large accounting firms have higher brand equity, technical and handling skills to deliver on the job due to enhanced competency Erasmus and Micah (2021) pointed out that due to the difficulty in measuring audit excellence had resulted into the use of size of audit firm (Afsiz) as a replacement for audit quality. The study stressed that big audit firms are presumed to implement supplementary potent examinations than small audit firms. Hence, bigger audit firms are further anticipated to be associated with more clear-cut information than are minor audit firms. Erasmus and Micah (2021) opined that audit firm size positively linked with audit quality through higher-quality audits as larger audit firms do not compromise their standards to retain their customers in comparison with minor audit firms. Big audit firms enjoy large client portfolios which enable them to counterattack administration force, while because of narrow client portfolios minor firms usually deliver modified services and are expected to give way to management pressures (Erasmus & Micah, 2021). Thus, many researchers favour the big audit firms in the delivery of perfect audit services.

Krismiaji (2021) researched into the effects of audit input (audit tenure and audit firm size) on accounting conservatism. The study employed use of one hundred and two (102) firms listed on Indonesia Stock Exchange (IDX). Using ordinary least square to examine the gathered information from the yearly reports of the sampled firms, the study found that the audit firm size was negatively affecting accounting conservatism, and that the relationship was significant. The study equally revealed auditor tenure have positive effect on accounting conservatism. Thus, auditor's inputs in area of audit firm size negatively affected accounting conservatism while auditor tenure positively affected accounting conservatism in Krismiaji (2021). The gap observed in this study was that using only one

method to measure the dependent variable may not give a wide acceptability of the findings as a mono dependent variable would be limited in its findings. Hence, general application of the findings may be controversial.

Usifoh et al. (2019) conducted a research on quality of audit and accrual quality in Nigerian listed manufacturing firms. It employed statistical method of mean, percentages, random effect, pooled OLS, and the use of generalized least square method to investigate the data gathered. It was established that audit firm size significantly influenced accrual quality. It was detected that using only one dependent variable did not allow the study to have the required robustness and that using only one sector of the Nigeria economy limited the latitude of the study. In the investigation conducted by Mohammed et al. (2019), the study investigated the influence of audit quality on accounting conservatism in Turkey. The study sampled firms from corporations registered on the Borsa Istanbul (BIST) as from 2011 to 2015 period. Panel data was used for the study as it offers a good sensitive measurement in changes between points in time.

The dependent variable for the study was accounting conservatism based on accrual. Among the independent variables used were the big 4 auditors and industry specialist auditor. It was found that BIG 4 auditors affect accounting conservatism positively. The study concluded that Big4 auditors and industry specialist auditors make available greater quality audit services. The study resolved that Big4 auditors and industry specialist auditors provides greater quality audit services, this affects the level of conservatism positively. The preceding discussion leads to our second hypothesis which states that:

**H<sub>02</sub>:** *There is no significant relationship between audit firm size and accounting conservatism among the listed firms in Nigeria.*

### **Audit Tenure and Accounting Conservatism (AC)**

Auditor's tenure had been described as the aggregate duration which an auditor stay with or embrace their customer. Auditor tenure can be chosen as the quantity of uninterrupted periods that an external auditor has examined the customer. Zayol et al. (2019) classified audit tenure into the period the engagement partner spent with the audit firm and the period/time which the audit firm spent with a client. The effects of audit tenure had not been conclusive. Researches have empirically found affirmative relationship among audit tenancy and audit quality (Jayeola et al. (2017). Other studies established negative link between tenure of audit and quality of audit (Blandon & Bosch, 2013). Jayeola et al. (2017) opined that the influences of audit tenancy on quality of audit are still unsettled matter. Uwhejevwe-Togbolo (2016) in a Thesis on elements touching auditor's high-quality in Nigeria, posited that an audit firm tenure is the span of time the auditor has been satisfying the audit essentials of any specified client. The study added that, preceding studies have shown that audit tenancy has a significant consequence on audit quality characteristics, either positively or negatively.

In order to reinstate self-confidence to business reporting, it was specified in the United States of America by Sarbanes-Oxley (SOX) Act of (2002) that a lead audit and the review partner must interchange the audit every single five years. Studies accompanied on this subject matter are

inconclusive on the achievement of the SOX Act (Uwhejevwe-Togbolo, 2016). There are contradictory outcomes on whether companies have involved in a reduced amount of or additional earnings management after Sarbanes-Oxley (SOX) Act. Thus, there have not be there the concluding total number of years an auditor would be engaged in audit work. In the research conducted by Usifoh et al. (2019), the researcher studied the link among audit quality characteristics and accrual quality in Nigeria. Thirty firms were sampled out of the population of fifty-three manufacturing businesses in Nigeria. The focus was on those listed on the Nigerian Exchange Group Plc. Pooled ordinary least square was employed for the study using generalized least square method for the analysis. The research found that audit tenure had insignificant negative effect on accrual quality.

Ikpantan and Daferighe (2019) investigated the influence of audit quality characteristics on financial reports of deposit money banks (DMB) in Nigeria. Using purposive sampling method, ten banks were sampled from the population of the study. The study period covered 2002 to 2015 (fourteen years). The study found that there exists a positive effect between audit tenure and Discretionary accrual. The lacuna observed was that the coverage of only banking sector may not give a robust study. Contemplation should be specified to a broader areas of the economy. The central gap observed was the use of mono sector for the study and too small sampling size. The preceding discussion leads to our third hypothesis which states that:

**H<sub>03</sub>:** *There is no significant relationship between audit tenure and accounting conservatism among the listed firms in Nigeria.*

### **Theoretical Framework: Agency Theory**

This study is anchored on Agency Theory. Ola (2018) posited that the greatest conspicuous and commonly used or stated theory in auditing is the Agency theory. Ola (2018) specified that the earliest scholars to propound theory on agency were Barry Mitnick and Stephen Ross in 1973. Agency theory explains the self-interested actions of the agents who logically wants to take full advantage of their personal gains over the welfares of the principals. This usually results into the problem of agency between the agents and the principal. The theory pointed out that there are two principal actors in corporations, the principal and the agent. The agent is working for the principal, while the principal remunerates the agent for the services rendered. Clash of interest usually happens owing to the separation of ownership from management (Ogiriki & SuwarI, 2022).

The assumptions of the theory hinges on the fact that at the commencement of a business, its owners usually manage it on their own. As the business expands, there would be the necessity to appoint employees that would oversee the business in order to have effective monitoring of the business. The employees are called agents who are charged with the responsibility to oversee the day-to-date activities of the entity. The agents are to run the business in the best interest of the owners. The parting of the proprietorship from management led to the problem of agency (Ola, 2018). Thus, agency theory explores the association among two parties, specifically, the stockholders and the agents. The executive accepts to accomplish certain responsibilities for the stockholders and the investors undertake to reward the executives. This theory is adopted on the foundation that agents have extra and enhanced

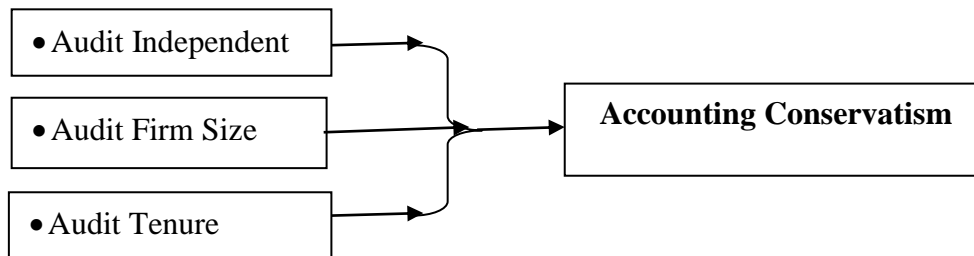


information than the principals. This is referred to as information asymmetry. The information asymmetry makes it challenging for owners (shareholders) to control and monitor the businesses of the corporation; this led to the demand for external auditors (Kipchoge, 2015).

Zadeh (2022) relied on Agency Theory in the study of Accounting conservatism and earnings quality. The study employed Agency Theory to provide answers to the mixed results in the literature of corporate governance mechanisms, as a moderator variable on the link between accounting conservatism and earnings quality. Mshelizah (2020) employed the use of Agency Theory in the study of Audit committee statutory attributes and financial reporting quality in Nigeria. Hence, this study relied on Agency Theory to investigate the effects of audit quality characteristics on accounting conservatism. Thus, this study is anchored on Agency Theory as it is very much relevant to the study.

### Conceptual Framework

Figure 2 shows the conceptual framework showing the interactions between audit inputs and accounting conservatism. The dependent variable for the research is accounting conservatism. The independent variables were Audit Independence, Audit Tenure and Audit Firm Size.



Source: Researcher's Compilation, (2023)

### METHODOLOGY

The research made use of correlational, longitudinal and cross sectional research designs. The population of study comprises of 151 corporations registered on the Nigerian Exchange (NGX) Group as at 31st December, 2021. Sample size of one hundred and fifty one (151) firms was selected using census sampling method. The whole firms were used because previous studies concentrated on mono sectorial study, not any of them used the whole firms. Hence, the usage of the entire firms. In testing the hypotheses, the study makes available specific analysis for each of the independent variables using the random effect for the regression.

**Model Specification**

This research is hinged on Alves (2021) model as stated in the investigation of accounting conservatism and board characteristics: Portuguese evidence. The study employed the use of Book-to-Market method to measure the level of conservatism in accounting. The functional model states that:

$$CONS\_MTB = \beta_0 + \beta_1(Bsize_{it}) + \beta_2(Bsize^2_{it}) + \beta_3(Bcomp_{it}) + \beta_4(Audit_{it}) + \beta_5(Meetings_{it}) + \beta_6(Size_{it}) + \beta_7(Leverage_{it}) + \beta_8(Profit_{it}) + \beta_9(Concentration_{it}) + \epsilon_{it} \dots\dots\dots 1$$

The model from Alves (2021) was modified for this study and adapted. The audit input (audipu) was proxy by audit independent (audind), audit tenure (audten) and audit firm size (audfsiz). The model is stated as:

$$btm = fn(audipu) \dots\dots\dots 2$$

$$btm = audidp + audten + audfsiz + fsize + flev \dots\dots\dots 3$$

**Stated in econometrics form:**

$$btm = \beta_0 + \beta_1 audinp_{it} + \beta_2 audfsiz_{it} + \beta_3 audten_{it} + \beta_4 fsize_{it} + \beta_5 flev_{it} + \ell_{it} \dots\dots\dots 4$$

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

**Where:**

- btm = Accounting Conservatism
- btm = Book to Market value Approach
- audipu = Audit Input
- $\beta_0$  = Perpetual (Constant variable)
- $\beta_1$  to  $\beta_5$  = Slope of the autonomous and conktrols variables
- audind<sub>it</sub> = Audit Independence of establishment “i” in year “t”
- audten<sub>it</sub> = Tenure of Auditor of establishment “i” in year “t”
- audfsiz<sub>it</sub> = Size of Audit establishment “i” in year “t”
- fsize<sub>it</sub> = Size of establishment “i” in year “t”
- flev<sub>it</sub> = Leverage of company “i” in year “t”
- $\ell_{it}$  = Error term of company “i” in year “t”

**RESULT/ FINDINGS**

The data was investigated by inferential and descriptive statistics. The data were collected across 151 firms for the era of 2012 to 2021 (10 years). The robustness of the research was ensured with the necessary tests conducted. The hypotheses were tested and result discussed. In this study, the result obtained from the joint probability of skewness and kurtosis for all the variables of interest shows that the data collated from the sampled firms during the period of study were all normally distributed at 5% level of significance. In table 1, a look at the probability value of the Hausman test 0.367(0.996), implies that we cannot reject the null hypothesis and accept the alternative hypothesis at 5% level of significance. 0.996 is greater than (>) 0.05. This implies that the study should adopt the random effect panel regression results in drawing our conclusion and recommendations. This also implies that the

random effect results lean towards to be more appealing statistically when matched to the fixed effect in the situation of this study.

In table 1, Audit independent { $\text{auditdp} = 0.138(0.004)$ } as explanatory variable to accounting conservatism which been proxy as Book to Market (btm) has an affirmative and substantial influence on the accounting conservatism at 1% level of significance. In the case of audit tenure, it shows  $\text{audten} = 0.110 (0.494)$  on accounting conservatism (btm). Hence, Audit tenure has a positive but none significant effect on accounting conservatism. There is also a negative and significant association between the audit firm size and explained variable. The audit firm size { $\text{audfize} = -0.0623(0.050)$ } as exogenous variable to accounting conservatism has an adverse and substantial impact on the endogenous variable (accounting conservatism).

The finding of this research is in agreement with Krismiaji (2021) that studied the impact of audit quality characteristics on accounting conservatism in Indonesia; it found that size of audit firm has an adverse association on conservatism. Krismiaji (2021) added that the tenure of audit has an affirmative association with accounting conservatism. Also the result of this study is in consonance with Youssef and Hamid (2016) that investigated the effects of audit quality on accounting conservatism in Egypt. Hamid (2016) found that tenure of auditor has positive link with accounting conservatism among firms in Egypt. The outcome of this research is equally in support of the study of Ikpantan and Dafrighe (2019) that examined the influence of audit quality characteristics on business reporting of banks in Nigeria. Dafrighe (2019) found that audit independence and auditor tenure exert affirmative impact on accounting conservatism.

In contrast, the outcomes of this research is in contrary with the outcomes of Usifoh et al., (2019) that evaluated the influence of audit quality on accounting conservatism in registered industrial businesses in Nigeria. Usifoh et al., (2019) revealed that the size of audit firm has affirmative impact on accounting conservatism. The result of this study was equally on the contrary to the study of Hamdan et al. (2012) that examined the nexus between auditing quality and accounting conservatism among Jordanian firms, it revealed that there exists a positive significant relationship between audit firm size and accounting conservatism. The result of this study is also at variance with Geimechi and Khodabakhshi (2015) that investigated features touching the extent of accounting conservatism in Tehran, it established that there exists a positive link between size of audit firm and the level of conservatism.

## **DISCUSSION ON FINDINGS**

On the discussion on the above result, table 1 shows that three independent variables were examined vis-à-vis dependent variable. It was revealed that audit independent has positive and substantial link with accounting conservatism. Conversely, audit firm size has an adverse and substantial influence or have impacted the accounting conservatism negatively. The outcome result shows that audit tenure has positive but immaterial impact on its dependent variable. This denotes that audit input has influenced

accounting conservatism on two variables out of three variables. This fact was also collaborated by the F statistics 10.826 (0.05) of the model one. This sufficed that the model was best fitted to explain the interactions among the variables of the model, that the audit input have significantly influenced accounting conservatism. Hence, the test of hypothesis outcome displays that the null hypothesis was rejected, and alternative hypothesis was accepted. Thus, there exists a significant effect between audit input and conservatism in accounting among listed firms in Nigeria.

| VARIABLES | (Fixed effect)          | (Random effect)         |
|-----------|-------------------------|-------------------------|
|           | Btm                     | Btm                     |
| Audidp    | 0.143***<br>(0.0482)    | 0.138***<br>(0.0482)    |
| Audten    | 0.0115<br>(0.0160)      | 0.0110<br>(0.0161)      |
| Audfsiz   | -0.0651**<br>(0.0317)   | -0.0623**<br>(0.0317)   |
| Flev      | -0.000399<br>(0.000441) | -0.000402<br>(0.000442) |
| Fsize     | 0.000412<br>(0.00662)   | 0.000335<br>(0.00664)   |
| Constant  | 1.159***<br>(0.207)     | 1.158***<br>(0.359)     |

**Table 1: Panel Regression for Model I**

Standard errors in parentheses  
\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

|              | (Fixed effect) | (Random effect) |
|--------------|----------------|-----------------|
| Observations | 1,269          | 1,269           |
| F statistic  | 2.320          | 10.826          |
| P value      | 0.000          | 0.055           |
| Hausman test |                | 0.367           |
| P value      |                | 0.996           |
| R-squared    | 0.010          |                 |
| Number of id | 136            | 136             |

**Table 1: Panel Regression for Model I**

Standard errors in parentheses  
\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Source: Researcher's Computation, (2023)

## IMPLICATION TO RESEARCH AND PRACTICE

The outcomes of the research reveals that audit independence has a positive and significant influence on the accounting conservatism. This implies that the auditors that were given the required freedom during

the audit engagements had ushered in a lot of conservatism among firms in Nigeria. The policy implication of this positive association is that, the more the independence of auditors are guaranteed on audit engagement, the more the firms in Nigeria had been experiencing prudence. This could help firms to avert liquidation. There was also a negative and significant association between the audit firm size and accounting conservatism. The policy implication of this is that firms that engaged the big four in their audit engagement had not enjoyed accounting conservatism when compared to firms that engaged none Big Four audit firms. This implies the Big Four audit firms tends to compromise in their compliance with conservatism in accounting, this may lead to firms' untimely moribund among the listed firms in Nigeria.

## **CONCLUSION/RECOMMENDATIONS**

The study made use of correlational and cross sectional research design. Data were sourced from secondary sources as the data were collected across companies' websites and annual reports for the period from 2012 to 2021. The population of study encompasses of 151 companies listed on the Nigerian Exchange Group as at 31st December, 2021. None probability sampling method was used by employing census sampling method. The entire companies were used since previous studies focused on mono sectorial study. Hence, the use of the whole firms. Four models were specified for the study. Each model capturing each hypothesis. The hypotheses were tested using panel data regression analysis. The data was analyzed by inferential and descriptive statistics.

The regression analysis was done to test the formulated hypotheses. There was increase in company failures while audit engagements reported failure were at its low ebb in recent years (Al-Matari, 2021). This had led to indictment of accounting and reporting processes because of the accounting deficiencies in the quality of audit report issued by firms, which made the accounting conservatism concept questionable among firms listed in Nigeria. There was a shortage of validation of the research results in Nigeria to explain the influence among audit quality characteristics and accounting conservatism. Thus, a gap exists because erstwhile studies have not fully addressed audit quality characteristics and accounting conservatism. Henceforth, a study that increases the understanding of audit quality characteristics and accounting conservatism to bung up these acknowledged lacuna was sacrosanct

This research work investigated and dealt with the prevailing issues that concern the influence of audit quality characteristics on conservatism in accounting amongst companies in Nigeria. Audit input is an important factor that determines the extent of accounting conservatism among firms in Nigeria. Audit independence and audit tenure in audit input had enhanced accounting conservatism, but audit firm size had been detrimental to accounting conservatism.

### **Recommendations**

It is hereby recommended that stakeholders need to make sure that audit independence are not compromised in instruction to continue to enjoy the current positive contributions of auditors'



independence to accounting conservatism in Nigeria. Firms should engage only average big firms as the Big Four auditors had negative influence on conservatism in accounting among the companies in Nigeria. Nigeria firms should practice elongated audit tenure engagement in other to enjoy accounting conservatism.

### Future Research

For further studies on the research, sectorial comparison of accounting conservatism of listed firms in Nigeria could be done. This would help in knowing audit quality characteristics and accounting conservatism sectorial in Nigeria. Further studies may look beyond Nigeria and investigate what is happening within West Africa, East Africa, North Africa and South Africa basis.

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