

REGULATORY INTERVENTIONS AND FINANCIAL REPORTING QUALITY OF BANKS: EVIDENCE FROM NIGERIA

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ABSTRACT

Several interventions including audit and financial regulations have been embarked upon by regulatory agencies all over the world to ensure financial reporting quality of banks. This is sequel to the erosion of confidence in corporate financial reporting because of various scandals which implicated the accounting/auditing profession. This study therefore investigates the effect of audit and financial regulations on financial reporting quality in Deposit Money Banks in Nigeria. Secondary data obtained from the annual audited statements of 14 listed deposit money banks for the period between 2007 and 2017 were used for this study. Generalized least square model was adopted for the analysis of the study. The findings indicated that improvement in financial reporting quality of banks is associated with the adoption of International Financial Reporting Standards (IFRS), busy accounting period (audit busy season), and extended audit tenure. This findings is in line with the public interest theory which advocates for regulation to correct the anomalies in the market and restore public confidence in corporate reporting.

Keywords: Nigerian deposit money banks, regulatory interventions, financial reporting quality, generalized least square.

1. INTRODUCTION

The plethora of corporate scandals and the 2007-2009 global financial crises have revealed weaknesses associated with financial reporting quality and auditing worldwide (Faycal, Aicha, & Yousef, 2018; Sodan, Barac, & Vuko, 2013). Financial reporting stakeholders have accused regulatory oversight as a pivotal cause of the crises. This accusation has therefore put pressure on government and regulatory bodies to activate reforms that will restore confidence in financial reporting and auditing (Barth, Lin, Ma, Seade, & Song, 2013; Holm & Zaman, 2012). In response to these criticism, government and regulatory bodies worldwide embarked on regulatory interventions that revolves around financial and auditing reforms intended to improve corporate reporting (Bushman & Landsman, 2010; Leuz & Wysocki, 2015). This is in recognition of the fact that accounting reforms or standards alone are insufficient to influence financial reporting quality (Gebhardt & Novotny-Farkas, 2011). For the purpose of this study, regulatory interventions represent the set of all mandatory disclosure rules including accounting standards, auditing standards and guidance (Bertomeu & Magee, 2011). For instance, in the United States of America (USA), government enacted the Sarbanes Oxley (SOX) Act that birthed the Public Company Accounting Oversight Board (PCAOB) saddled with the role of regulating the auditing profession and raising standards for financial reporting quality.

The various reforms embarked upon by developed and developing economies, including international accounting bodies validated the fact that many forces shape financial reporting quality, and accounting standard may be weak relative to other institutional factors (Holthausen, 2009). Furthermore, studies have shown that accounting standards alone do not determine financial reporting quality (Holthausen, 2003). Evidences from the literature suggest that the auditing profession was culpable in the various scandals and the global financial crises that engulfed the global economy (Aziz & Omoteso, 2014; Sikka 2009, 2015), resulting in new audit regulations and reforms (Hess, 2014). Some of the audit reforms include audit tenure, disclosure of audit fee, rotation of audit firm and partner, as well as the provision of non-audit services, etc (Duhnke, 2018). Studies have therefore recognised that financial regulation

and audit regulation are intertwined (Choudhury, 2014). Consequently, Leuz and Wysocki (2016) calls for more studies that recognise the interaction between financial and audit regulation, while Ball, Robin and Wu (2003) argues that economies interested in financial reporting quality must consider auditor-auditee relationship, among other institutional features. Hess (2014) posits that “despite the ongoing debate among financial reporting stakeholders, the empirical evidence on the association between regulatory measures intended to improve the quality of financial reporting is mixed and restrictive.” The restriction derives from the fact that most studies are focused on a single regulatory measure, thereby ‘neglecting possible complementarities and substitution effects with other regulatory measures, as well as posing identification challenges for such studies’ (Gow, Larcker, & Reiss, 2016). However, Bushman and Landsman (2010) posit that the countries differ in legal requirements, politics, culture, corruption and institutional factor, and one size may not fit all. There is therefore the need to consider the effect of regulatory interventions on financial reporting quality country by country.

In Nigeria, the banking crisis that happened in 2009 where the chief executive officers of seven banks were dismissed for fraudulent behaviour, among other vices, led to criticism of the audit profession. The external auditors were accused of incompetence and compromised independence resulting in poor audit quality demonstrated by giving clean audit reports to financially troubled deposit money banks (Bakre, 2007; Otusanya & Lauwo, 2010). The supervisory authorities such as Central Bank of Nigeria (CBN), Nigerian Stock Exchange (NSE), Nigeria Deposit Insurance Corporation (NDIC), Financial Reporting Council of Nigeria (FRCN) and the Corporate Affairs Commission (CAC) embarked on different regulatory measures to restore confidence in corporate financial reporting system in the banking industry. The Nigerian Federal Executive Council approved 1st January, 2012 as the effective date for the adoption of IFRS by public listed entities and January 2012 for significant public interest entities. The CBN also established corporate governance code which stipulate a maximum tenure of ten years for auditors after which the auditor may not present itself for reappointment until after a period of another ten years. Another regulatory intervention was the mandatory submission of audited annual accounts within 90 days of financial accounting year-end. This regulation was occasioned by complaints among investors on the unavailability of audited financial statements on time to allow appropriate investment decision (Shehu, 2011). These decisions were sequel to the enactment of SOX Act of 2003 by the USA after the Enron saga.

Furthermore, the CBN introduced the uniform accounting year for deposit money banks. The CAC and SEC require companies including deposit money banks to submit their audited financial statement within 90 days of their financial year-end (Dibia & Onwuchekwa, 2013). It is therefore an empirical question whether the regulatory measures fulfil their intention of impacting financial reporting quality. Though few research have been carried out on the effect of regulatory interventions on financial reporting quality in Nigeria, the focus has only been on one regulatory measure, without taking into cognisance the effect of other regulatory initiatives. This study therefore addresses the issue by analysing within one model four regulatory interventions aimed at improving financial reporting quality of deposit money banks in Nigeria. This model enables the identification of the marginal effect of a single regulatory intervention on financial reporting quality, while taking into account the effect of other regulations and covariates. This approach solves the problem of identification identified in previous studies on the subject matter (Hess, 2014).

The rest of the paper is organized as follows: Section 2 provides an overview of the relevant literature. Section 3 describes the data and empirical approach while Section 4 discusses the empirical results. Section 5 details the findings and conclusions.

2. REVIEW OF LITERATURE AND HYPOTHESIS DEVELOPMENT

The concept of financial reporting quality is multidimensional and ambiguous thus leading to its different definitions. Martinez-Ferrero (2014) defines it as “the faithfulness of information conveyed by

the financial reporting process.” Several proxies exist in literature for measuring financial reporting quality and these include: earnings management, earnings quality, information asymmetry, disclosure quality, etc (Hairston & Brooks, 2019). These different proxies of financial reporting quality have resulted in numerous studies with different conclusions. Studies investigating the global financial crises and corporate scandals showed that, specifically the collapse of banks was due partly to information asymmetry which constrained the ability of investors to predict the market accurately using financial information (Ben Othman & Mersni, 2014). There is evidence in literature that accruals are affected by asymmetric information and banks smooth earnings via loan loss provision, which is considered as the most important and largest accruals in the banking sector (Lobo, 2017). The inability of banks to make adequate provision for loan losses contributed substantially to the crisis (McNichols, 2002). In the aftermath of the 2007-2009 global financial crises and the corporate scandals that rocked the confidence of stakeholders in corporate reporting, commentators have asked government and regulators to consider regulatory interventions to restore confidence in corporate reporting. However, the necessity of regulation as a policy instrument of government to correct perceived anomalies in the market has been mixed. While one school of thought argue for the abolition of regulation on the ground that market forces function to optimise service to the society and redistribute resources appropriately, the other school of thought advocate for some form of regulatory interventions on the ground that markets do not always serve the best interest of the society (Gaffikin, 2005). Selznick (1985) as cited in O’Regan (2010) defines regulation as a socio-economic concept which empowers a public agency to exercise sustained and focused control over events that impact positively on the community.

The theoretical and empirical literature on the effect of regulatory interventions on financial reporting quality has been mixed and inconclusive in literature. Two common theoretical hypotheses that have been advanced on the subject matter are the public interest theory and capture theory. Public interest theory, or helping hand theory is defined as “*regulation that is supplied in response to the demand of the public for the correction of inefficient or inequitable market practices.*” (Pigou, 1938; Posner, 1974). The theory posits that regulations are designed and applied to protect the public interest in restoring public confidence in capital markets and businesses, and in avoiding crises (Chalmers, Godfrey, & Lynch, 2012). Capture theory or the interest group theory is defined as “*regulation that is supplied in response to the demands of interest groups struggling among themselves to maximise the income/benefits of their members.*” (Posner, 1974). The idea of the theory is that regulators are captured by those whom they have responsibility over (Bushman & Landsman, 2010). Regulation is seen as ‘*developed and exercised as an expression of power relations between vested interest groups (regulated firms) and the regulators and not for the benefit of the public*’ (O’Regan, 2010; Peltzman, 1976).

The empirical evidence on the association between regulatory interventions and financial reporting quality is limited and mixed. Majority of the studies on the effect of regulatory measures on financial reporting quality are based on a single regulatory intervention, thereby ‘*neglecting possible complementarities and substitution effects with other regulatory measures*’ (Hess, 2014). A strand of regulatory intervention aimed at ensuring financial reporting quality is the adoption of International Financial Reporting Standard (IFRS). Many countries have therefore adopted IFRS on the premise of improvement in financial reporting quality, amongst other benefits (Jehu & Ibrahim, 2017; Ofoegbu & Odoemelam, 2018). However, the experiences from different countries on IFRS adoption revealed diversities occasioned by the different underlying economic features and the quality of accounting standards prevalent before the adoption of IFRS (Nijam & Jahfer, 2016). Various studies have therefore investigated the effect of IFRS adoption on financial reporting quality. One school of thought found a positive and significant association between IFRS adoption and financial reporting quality (Ahmed, Mohammed, & Adisa, 2014; Baig & Khan, 2016; Dayanandan, Donker, Ivanof, & Karahan, 2016; Hassan, 2015; Lin, Yao, Hu, & Liu, 2011; Tanko, 2012; Umoren & Enang, 2015; Yahaya, Kutigi, & Mohammed, 2015; Yurisandi & Puspitasari, 2015). A second school of thought found insignificant association between IFRS adoption and financial reporting quality (Jarva & Lantto, 2012), while a third

school of thought document a negative association between IFRS adoption and financial reporting quality (Ahmed, Neel, & Wang, 2013; Intridis & Rouvolis, 2010; Jeanjean & Stolowy, 2008).

Another strand of regulatory intervention is the effect of auditor tenure on financial reporting quality. Some few studies posit that financial reporting quality is initially negatively associated with auditor tenure, implying a positive effect on financial reporting quality during early years of audit engagement (Echobu, Okika, & Mailafia, 2017), and a positive effect when tenure exceeds five years, implying a negative effect on financial reporting quality (Chi & Huang, 2005; El-Bannany, 2018). These mixed results suggest that the effect of auditor tenure on audit fees may differ by market and each case should be examined. Another strand of regulatory intervention is the uniform accounting period also known as the audit busy season, which is the 31st December fiscal year-end date for Nigerian deposit money banks. The uniform accounting period causes workload pressure which results from the need to deliver high quality audits within a limited time period (Tadema, 2014). Theory suggests that uniform accounting period exert negative influence on financial reporting quality (Lopez & Pitman, 2014; Lopez & Peters, 2012), however, empirical studies (Goodwin and Wu (2015), Gul, Ma, and Lai (2017), and Ocak (2018) found an insignificant relationship between uniform accounting period and audit quality.

A fourth and final strand of regulatory intervention in Nigeria is the audit report lag. This is defined as the period (in days) from the accounting year-end to the time when the auditor signs the report (Dibia & Onwuchekwa, 2013; Rusmin & Evans, 2017). Studies posit that the greater the number of days an auditor signs off a financial statement, the lower the quality of the financial statements (Al-Ajmi, 2008). A gap in these existing empirical literature concerns the focus on only one regulatory measure without taking into cognisance the effect of other regulatory measures in the same model. Hess (2014) posits that this position ‘*neglect possible complementarities and substitution effects with other regulatory measures*’ despite the documentation in literature that financial reporting quality is a product of both financial and audit regulations. Therefore, this study addresses these issues by analysing within one model several regulatory interventions aimed at improving financial reporting quality in Nigerian deposit money banks by using the following hypotheses in the null form:

Hypothesis 1: IFRS has no significant effect on financial reporting quality.

Hypothesis 2: Longer auditor tenure has no significant effect on financial reporting quality.

Hypothesis 3: Uniform accounting period has no significant effect on financial reporting quality.

Hypothesis 4: Audit report lag has no significant effect on audit quality.

3. METHODOLOGY

3.1 Data and Variables

The study uses annual panel data set of 14 deposit money banks listed on the Nigeria Stock Exchange (NSE) over the period 2007 to 2017. The use of panel data reduces noise associated with time series regression and also increases the total number of observation and their variances (Westerlund, Narayan & Zheng, 2015). The study focuses on banks as a homogenous group with common characteristics because it enables a more direct comparison among the unit (Avkiran & Morita, 2010; Ozili, 2015), hence, development and merchant banks are excluded. Additionally, examining a single country limits possible confounding effects due to a wide range of country-related factors which might affect the quality of financial reporting (Palea, 2013). A final sample of 14 banks for an 11-year period between 2007 and 2017 gives a total of 154 bank-year observations. These periods are deemed sufficient to capture different regulatory interventions aimed at ensuring financial reporting quality.

The description of the dependent variable, independent variables and the covariates are as follows:

Dependent variable: The dependent variable is financial reporting quality proxied by earnings management. Studies have shown that the most common proxy for measuring earnings management

practices for banks is the use of loan-loss provision (LLP) (El Sood, 2012; Kwal, Lee, & Eldridge, 2009; Wang, Chen, Lee, & Shyu, 2012). Loan-loss provision has been identified as the most prominent and significant accruals for banks and a way for management to smooth and manipulate earnings (Beatty & Liao, 2014). LLP comprises of both discretionary and non-discretionary components (Alhadab & Al-Own, 2017). In line with the works of Beaver and Engel (1996), Ben-Othman and Mersni (2014), Cheng, Warfield, and Ye (2011), Kanagaretnam, Lobo, and Mathieu (2004), and Zoubi and Al-Khazali (2007), the regression model for the loan loss provision is stated as follows:

$$LLP_{it} = \beta_0 + \beta_1 NPL + \beta_2 \Delta NPL_{it} + \beta_3 \Delta TOTLOAN_{it} + e_{it} \quad Eq (1)$$

Where: “LLP” = represents total loan loss provision for bank divided by loan at the opening Year; “NPL” is the non-performing loan at the opening year divided by loan at the opening year; “ ΔNPL ” is the change in non-performing loan divided by loan at the beginning of the year; “ $\Delta TOTLOAN$ ” is the change in total loan divided by loan at the beginning of the year; and “ e_{it} ” is the residual term, which function as the discretionary LLP in estimating earnings management in line with previous studies (Kanagaretnam et al., 2004; Kwal et al., 2009). This error term which function as proxy for accrual earnings management is multiplied by -1. Thus, higher values indicate higher financial reporting quality.

Independent variables: There are four variables of interest namely (i) adoption of International Financial Reporting Standard (IFRS), (ii) audit tenure, (iii) uniform accounting period (i.e. busy audit season), and (iv) audit report lag of 90 days.

Covariates: We include thirteen control variables related to four factors that are considered in literature to influence financial reporting quality. These four factors are (i) client size, (ii) client complexity, (iii) client risk, and (iv) engagement specific attributes (Desir, Casterella & Kokina, 2014). To control for client size, we use the natural logarithm of total assets (*lnsiz*), the number of years that the auditee has been in operation (*lnage*) (Eshleman & Guo, 2014), and the number of employees (*noofemployee*) (Campa, 2013; Ng, Tronnes & Wong, 2018). To control for client complexity, we include client’s number of business segment (*lnbusseg*) (Lai et al., 2018). To control for client risk, we include cash flow from operating activities (*casdta*), leverage (*lev*), financial difficulties (*zscore*), return on assets (*roa*), loss in previous year (*losslag*), and audit switch (*audsw*) (Manurung, Hardika, Mulyati & Saudi, 2018). To control for auditors’ attributes, we include the four international audit firms (*big4*), audit market concentration (*hhi*) and audit term (*shorterm*). We also included interaction between (i) uniform accounting period and audit report lag, (ii) uniform accounting period and audit firm tenure, (iii) audit report lag and audit firm tenure, and (iv) uniform accounting period, audit report lag, and audit firm tenure.

3.2 Model Specification and Measurement of Variables

Building on prior audit quality studies (Habib & Islam, 2007; Ashbaugh, LaFond & Mayhew, 2003), this study investigates the effect of regulatory interventions on financial reporting quality:

$$\begin{aligned} quality_{it} = & \beta_0 + \beta_1 ifrs_{1it} + \beta_2 lnten_{2it} + \beta_3 busy_{it} + \beta_4 lnreplag_{4it} + \beta_5 lnsiz_{5it} + \\ & \beta_6 hhi_{6it} + \beta_7 lev_{7it} + \beta_8 casdta_{8it} + \beta_9 lnbusseg_{9it} + \beta_{10} roa_{10it} + \beta_{11} shorterm_{11it} + \\ & \beta_{12} big4_{12it} + \beta_{13} lnage_{13it} + \beta_{14} zscore_{14it} + \beta_{15} audsw_{15it} + \beta_{16} losslag_{16it} + \\ & \beta_{17} noofemployees_{17it} + \beta_{18} busy * lnreplag_{18it} + \beta_{19} busy * lnten_{19it} + \beta_{20} lnreplag * \\ & lnten_{20it} + \beta_{21} busy * lnreplag * lnten_{21it} + \varepsilon_{it} \quad Eq. (2) \end{aligned}$$

In line with current literature on high dimensional models, we explored the use of adaptive least absolute shrinkage and selection operator (LASSO) (Yamada, 2017) to obtain an optimal subset of variables predicting financial reporting quality. The model is thus reduced as follows:

$$quality_{it} = \beta_0 + \beta_1 ifrs_{1it} + \beta_2 lnten_{2it} + \beta_3 busy_{it} + \beta_4 lnreplag_{4it} + \beta_7 lev_{7it} + \beta_8 casdta_{8it} + \beta_{10} roa_{10it} + \beta_{14} zscore_{14it} + \beta_{19} busy * lnten_{19it} + \varepsilon_{it} \quad Eq. (3)$$

3.3 Data Analysis Strategy

Data were analysed using STATA version 15.1 for Windows. The statistical significance threshold is set at 0.05. Diagnostic tests and descriptive statistics are conducted to ensure the model fits the data. Specifically we tested the model errors structure for homoscedasticity, autocorrelation, and contemporaneous correlation. Homoscedasticity was tested using a modified Wald test to detect the existence of groupwise heteroskedasticity in the residuals of the regression. The result reveals the presence of heteroskedasticity, autocorrelation, and cross correlation, therefore, the model error structure is characterized by panel heteroskedasticity, autocorrelation and contemporaneous correlation. Consequently, the data were analysed using feasible generalized least square techniques because of the problem of heteroskedasticity, autocorrelation, and cross-correlation in literature. Robustness test was also conducted by adopting an alternative proxy for financial reporting quality to validate the results of the analysis.

Table 1: Definitions and A priori Expectation of Variables

S/No	Variables	Definition & A Priori Expectation	Sources
	Dependent Variable		
1	Financial Reporting Quality (quality)	Financial reporting quality is as defined in Equation (1)	
	Independent Variables		
2	International Financial Reporting Standard (ifrs)	This is a list of financial standards established by IASB (+)	Baig & Khan, 2016
3	Audit Tenure (Inten)	This is the period in years that the audit firm has been engaged by the client. It is measured as the logarithm of auditors' tenure in years (+/-)	Chi & Huang, 2005
4	Report Lag /Delay (Inreportlag)	This is the number of days between fiscal year-end and auditor's sign-off date on the financial statement. This is measured as the logarithm of the number of days(-)	Rusmin & Evans, 2017
5	Audit Busy Period (busy)	This is December fiscal year-end where auditors get very busy. An indicator variable (If fiscal year is 31 st December =1, otherwise =0)	Tadema, 2014
	Covariates		
6.	Client Size (Insiz)	This is measured by the logarithm of total assets (+)	Pratoomsuwan, 2017
7.	Audit market concentration (hhi)	Audit market concentration is proxied by Herfindahl Hirschman Index. It is defined as the sum of the market squares of all firms and takes	(Bikker & Haaf, 2002; Eshleman &

		into account both the number of firms and their market share inequality (+/-)	Lawson, 2017)
8.	Leverage (lev)	This is the ratio of total debt to total assets (+)	Eshleman & Lawson, 2017
9.	Client cash flow (casdta)	This is measured by cash flow from operations deflated by total assets	Pratoomsuwan, 2017
10.	Client Business Segment (lnbusseg)	This is a complexity variable measured as the logarithm of the number of auditee's business segments (+)	Eshleman & Lawson, 2017
11.	Return on Assets (roa)	This is the profitability of the firm defined as income before extraordinary items and scaled by total assets (+)	Campa, 2013
12.	Initial engagement (shorterm)	This is an indicator variable (If the auditor is in the first year of tenure = 1, otherwise = 0). (+/-)	Eshleman & Guo, 2014
13.	Big Four audit firms (big4)	If firm is audited by Big4=1, otherwise =0	Beatty & Liao, 2014
14.	Client Age (lnage)	This is measured by the logarithm of the number of years that the auditee has been in operation (+)	Habib & Islam, 2007
15.	Financial Distress (zscore)	This is the inability of the client to meet its obligation as and when due and is proxied by z score (+)	Xu, 2017
16.	Loss (losslag)	An indicator variable to assess whether the client reported a loss in prior year (If Yes = 1, otherwise = 0) (+)	Hossain, Monroe, Wilson & Jubb, 2016
17.	Number of employees (noofemployee)	This is measured by the number of employees in the firm	Eshleman & Lawson, 2017

4. RESULTS AND DISCUSSION

4.1 Diagnostic Tests and Descriptive Statistics

Table 2 presents the various diagnostics tests of the variables. We checked for heteroskedasticity, multicollinearity, normality, omitted variable bias, outlier, autocorrelation, and cross-sectional dependence tests. We utilized the Breusch-Pagan/ Cook-Weisberg Heteroskedasticity test and the result indicated the presence of heteroskedasticity ($\chi^2 = 52.75$, $p = 0.000$). We utilised the variance inflation factor (VIF) test of multicollinearity and one of the variables exceeded the threshold of 10. Furthermore,

we conducted another collinearity test by analysing the ‘eigenvalue’ of the corresponding condition indexes and variance decomposition proportions. A condition number above 30 is considered as a severe case of multicollinearity (Callaghan & Chen, 2008). The results showed that the condition number (26.79) was below the threshold of 30. Normality of the data were determined using the Shapiro-Wilk W Normality test and the result exhibited non-normality ($z = 5.937$, $p = 0.000$). Omitted variable bias was tested using the “linktest” and the result showed that model had no omitted variable ($t = 0.868$, $p = 0.387$). We conducted the Breusch-Pagan LM test of Independence for the existence of cross-sectional dependence/correlation and the result ($p = 0.002$) indicated cross sectional dependence. Table 3 presents the correlation matrix of the variables and the result showed that the correlation between financial reporting quality and the independent variables are low with the exception of cash flow from operating activities (0.72).

Table 4 presents the descriptive statistics of the banks’ variables for the period under consideration. International Financial Reporting Standards (IFRS) has a mean of 0.55. Audit firm tenure has a mean of 1.03. Majority of the banks had implemented the uniform accounting period resulting in the busy accounting period. Cash flow from operations is less than 1% of total assets. Profitability, as measured by return on asset is low. Leverage has a mean of 0.79 which suggested that 79% of the firms were financed by debt. About 71% of the firms in the sample had an increased risk of bankruptcy which implied inducement to smooth income. The mean of the audit report lag was 4.3.

Table 2: Model Diagnostic Tests

Regression Assumptions:	Test:	Ideal
1. Heterokedasticity problem	Breusch-Pagan/ Cook-Weisberg Test: chi2 (1) : 52.75 p-value : 0.000	> 0.05
2. Multicollinearity Problem	Variance Inflation Factor: busy_inten: 11.16 Inten 6.59 busy: 4.23 ifrs: 1.82 zscore: 1.57 lev: 1.57 casdta: 1.31 roa: 1.26 lnreplag: 6.59 Condition Number, Condition Index, and Variance-Decomposition Proportions: Condition Number: 26.79 Eigenvalues & Cond. Index: 0.02	< 5.00 < 30.00 > 0.0000

3. Residuals are not normally distributed	Shapiro-Wilk W Normality Test: z: 5.937 p-value: 0.000	> 0.01
4. No Omitted Variable Bias	Linktest t : 0.868 p-value : 0.387	> 0.05
5. Influence Observation	Cook's Distance: No distance is above the cut-off value	< 1
6. Autocorrelation	Wooldridge Test for Autocorrelation: F (1, 13): 12.918 Prob: 0.0033	> 0.05
7. Cross-Sectional Correlation	Breusch-Pagan LM Test of Independence: Prob: 0.002	> 0.05

Source: Authors' Computation (2019)

Table 3: Pairwise correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) quality	1.00									
(2) Inten	-0.09	1.00								
(3) busy_Inten	-0.17	0.86	1.00							
(4) busy	-0.15	0.38	0.71	1.00						
(5) casdta	0.72	-0.22	-0.32	-0.41	1.00					
(6) roa	-0.10	0.11	0.10	-0.00	0.12	1.00				
(7) lev	-0.02	-0.16	-0.21	-0.16	0.06	-0.11	1.00			
(8) zscore	-0.16	0.20	0.20	0.12	-0.10	-0.15	-0.44	1.00		
(9) Inreplag	0.06	-0.08	-0.01	0.05	0.16	0.02	0.01	-0.01	1.00	
(10) ifrs	-0.09	0.33	0.51	0.64	-0.31	-0.02	-0.21	0.10	-0.04	1.00

Source: Authors' Computation (2019)

Table 4: Descriptive Statistics of Variables

Variables	Num	Mean	Std. Dev	Min	Med	Max
quality	154	1.42e-19	0.162	-0.352	-0.008	0.886
IFRS	154	0.545	0.499	0.000	1.000	1.000
Inten	145	1.026	0.640	0.000	1.099	2.197
busy_Inten	145	0.846	0.755	0.000	1.098	2.197
busy	154	0.727	0.447	0.000	1.000	1.000
casdta	153	0.049	0.143	-0.509	0.026	0.605
roa	154	0.012	0.026	-0.105	0.014	0.140
lev	154	0.786	0.251	-0.056	0.850	1.402
zscore	154	0.713	0.939	0.000	0.476	4.391
lnreplag	154	4.255	1.054	0.000	4.425	6.215

Source: Authors' Computation (2019)

4.2 Discussion of Findings

The study investigates the effect of regulatory interventions on financial reporting quality of deposit money banks in the Nigeria. Specifically, the regulatory measures are the adoption of IFRS, audit firm rotation, uniform accounting period, and audit report lag. Analysis of pre-estimation tests reveal that the data suffers from heteroskedasticity, autocorrelation, and cross-correlation. Therefore, the study adopted Feasible Generalized Least Square (FGLS), a generalization of OLS regression, which is robust to heteroskedasticity, and correlation. The results of the analysis are as shown in Table 5.

The results of the analysis showed that three of the four variables of interest were significantly related to financial reporting quality. The coefficient of international financial reporting standard (ifrs) and other ancillary statistics (coefficient = 0.03, $z = 2.25$, $p = 0.02$, CI = 0.05, 0.13) is positively associated with financial reporting quality. This result suggests that an improvement in financial reporting quality results from the adoption of IFRS, holding all other variables constant. The result is consistent with some studies (Ahmed et al., 2014; Baig and Khan, 2016; Dayanandan et al., 2016; Hassan, 2015; Lin et al., 2011; Tanko, 2012; Umoren and Enang, 2015; Yahaya et al., 2015; Yurisandi and Puspitasari, 2015) which document that accounting regulation, i.e. IFRS adoption improves financial reporting quality. This result invalidate the first hypothesis (H1) that the adoption of IFRS has no significant effect on financial reporting quality.

The coefficient of audit firm tenure (Inten) and other ancillary statistics (coefficient = 0.09, $z = 4.43$, $p = 0.00$, CI = 0.05, 0.12) is positively related to financial reporting quality. This result suggests that financial reporting quality improves with increases in audit firm tenure, holding all other variables constant. This position is based on the ground that extended audit tenure affords the auditors the opportunity to acquire comprehensive knowledge on clients' total accounting and reporting system. The result is in line with the works of Boone, Khurana, and Roman (2010), Bratten, Causholli, and Omer (2019); and Johnson, Khurana, and Reynolds (2002) which provide evidence of a positive relationship between extended audit tenure and financial reporting quality. This result invalidate the second hypothesis that audit firm tenure has no significant effect on financial reporting quality.

The coefficient of uniform accounting period also known as audit busy season (busy) and other ancillary statistics (coefficient = 0.12, $z = 5.02$, $p = 0.00$, CI = 0.07, 0.16) is also positively related to financial

reporting quality. This result suggests positive association between financial reporting quality and uniform accounting period, holding all other variables constant. The result is in line with the positions of Lopez and Peters (2012), and Lopez and Pitman (2014) which suggest that the positive association between uniform accounting period and financial reporting quality may have been due to the auditors' deployment of recent technological advances and new auditing techniques such as continuous auditing strategies instead of delaying all audit procedures at year-end. Auditors may have adopted interim report system by engaging their clients earlier in the year and also encouraging their clients to use system that will provide information for expression of their opinion during the year (Tadema, 2014). Additionally, uniform accounting period may have contributed to uncovering the use of fraudulent activities in manipulating earnings by moving funds from one bank to another because of the difference in financial year-end. This result invalidate the third hypothesis that uniform accounting has no significant effect on financial reporting quality. Audit report lag (lnreplag) did not exercise any significant effect on financial reporting quality of listed deposit money banks in Nigeria ((coefficient = -0.01, z = -1.50, p = 0.13, CI = -0.01, 0.00). The interaction between uniform accounting period (busy) and audit firm tenure (Inten) exerted a negative effect on financial reporting quality.

The four control variables are significantly related to financial reporting quality and in line with their predicted signs. The coefficient of cash flows from operating activities (casdta) is positively significant at 1% level of significance, implying that banks with positive cash flows from operating activities ensure financial reporting quality by not engaging in earnings management. The coefficient of return on asset (roa) is negative and significantly related to financial reporting quality. The coefficient of Leverage (lev) is also negative and significantly related to financial reporting quality at 1% level, implying that banks with less leverage in the capital structure ensure financial reporting quality by not engaging in earnings management. The coefficient of financial difficulties (zscore) also exerted a negative and significant influence on financial reporting quality, which also implies that firms that are not having financial difficulties are not under pressure to smooth earnings but rather ensure quality of their financial reporting. Thus, financial reporting quality is high in banks with positive and better cash flows, less leverage, and no financial difficulties.

Table 5: Regression Results of the Effect of Regulatory Interventions on Financial Reporting Quality and other Covariates

Method	FGLS	
	(a)	(b)
Dependent Variable:		
Financial reporting quality	DLLP (multiplied by -1)	Audit Fees
Independent Variables		
IFRS	0.0285** (0.0126)	0.3278*** (0.0677)
Inten	0.0865*** (0.0195)	0.6978*** (0.0879)
busy	0.1160*** (0.0231)	0.9053*** (0.1164)
busy_Inten	-0.0863***	-0.5192***

	(0.0211)	(0.0993)
casdta	0.9492***	0.0362
	(0.0409)	(0.1492)
roa	-2.0207***	2.247*
	(0.1939)	(1.2132)
lev	-0.1085***	0.6142***
	(0.0279)	(0.1994)
zscore	-0.0415***	-0.0233
	(0.0081)	(0.0487)
lnreplag	-0.0073	-0.0574
	(0.0049)	(0.0373)
Summary Statistics:		
Wald chi2	729.16	270.68
Probability	0.0000	0.0000
N	154	154

*, **, *** represent statistical significance at the 0.10, 0.05, and 0.01 levels respectively. The standard errors are presented in parentheses below the estimated coefficients. Standard errors are clustered by firm. Table 5 reports results from estimating Equation (2) using generalized least square.

Source: Authors' Computation (2019)

4.3. Robustness Test

We performed test to validate the robustness of the analysis. The dependent variable of interest, financial reporting quality is multidimensional with many proxies to capture its essence. The primary measure of financial reporting adopted in this study is the inverse of earnings management. In line with prior studies (Chen and Gong, 2019), this study also adopts audit fees as an alternative proxy of financial reporting quality, because it provides an indirect measure of financial reporting quality. The results showed that three variables of interest (ifrs, Inten, and busy) with similar direction and signs were significant determinants of financial reporting quality proxied by audit fees. This results suggest that the results are not driven by spurious correlations and further validate the robustness of the analysis.

5. CONCLUSION

This study investigates the effect of regulatory interventions on financial reporting quality in the Nigerian banking industry for the period between 2007 and 2017. The investigation is carried out through a review of both empirical and theoretical literature relevant to the study. Our modelling approach accounts for heteroskedasticity, autocorrelation, and cross-correlation. Four control variables that are considered in literature as related to financial reporting quality are included in the model.

The results of the findings showed that improvement in financial reporting quality is associated with the adoption of IFRS, which may have constrained banks from smoothing income, busy accounting period, and extended audit tenure. This findings validate the theory of public interest theory which advocates for regulation to correct anomalies in the business environment and restore public confidence in corporate financial reporting.

This study contributed to the body of knowledge in the following ways. It contributes to literature by analysing the effect of regulatory interventions aimed at enhancing financial reporting quality in Nigerian banks. Secondly, prior studies in Nigeria limited their studies to only one regulatory measure

while our study considers both financial and audit regulations in one model in order to determine their joint effects on financial reporting quality.

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