ISSN:1533-9211
SEYBOLD REPORT
www.seybold-report.com

Moderating Effect of Key Audit Matters on the Relationship between IFRS Adoption and Financial Performance on Deposit Money Banks in Nigeria

Fatima Yerima Bulama[*1], Prof. Ofili Ugwudioha [2], Dr.Ahmad Bukola Uthman [3], Dr. Lucky Onmonya[4],Hadiza Bulama Bunu[5]

[1,2,3,4]Nile University of Nigeria

ISSN: 1533 - 9211

CORRESPONDING AUTHOR:

Fatima Yerima Bulama
bfatimamamma@gmail.com

KEYWORDS:

Key audit matters, financial performance, IFRS adoption

Received: 02 August 2024
Accepted: 26 August 2024
Published : 27 September 2024

TO CITE THIS ARTICLE:

Bulama, F. Y., Ugwudioha, O., Uthman, A. B., Onmonya, L., & Bunu, H. B. (2024). Moderating effect of key audit matters on the relationship between IFRS adoption and financial performance on deposit money banks in Nigeria. *Seybold Report Journal*, *19*(09), 262–284. DOI: 10.5281/zenodo.13846772

Abstract

Amid growing concern regarding the performance of banks leading to incessant takeovers and financial constraints since IFRS adoption in Nigeria, within the context of the enforcement of key audit matters on all banks in Nigeria. This study examines the moderating effect of key audit matters on the relationship between IFRS adoption and financial performance of deposit money banks. The study drew data from secondary sources, extracted data from financial reports of 12 listed Deposit Money Banks in Nigeria. The study covers periods between 2005 and 2022 from the data employed in the study. With 214 observations, the data were analyzed using longitudinal econometric models. The study found that adopting IFRS does not significantly affect the financial performance of deposit money banks. More so, Key audit matters significantly affect the financial performance of deposit money banks in Nigeria. The study submits that IFRS adoption does not improve financial performance, but key audit matters led to a reduction in financial performance when introduced into the deposit money banks during the IFRS period. The study recommends, among others, the need for the CBN and other audit regulatory agencies to be gradual in introducing regulation so that the performance of the regulated firms will not be eroded while making efforts to comply as indicated by the reduced performance to the compliance of banks with audit rotation and key audit matters.

1.0 Introduction

The performance of banks has been subjected to variations and inconsistency due to the adoption of IFRS 9 (Financial Instrument). In January 2024, the Central Bank of Nigeria (CBN) dissolved the board of 3 banks in Nigeria including Polaris Bank, Union Bank and Keystone Bank. In 2018 Diamond Bank was dissolved, following its merger with Access Bank. This measure became imperative due to the failure of these banks and their respective boards to adhere to the regulations outlined in Sections 12(c), (f), (g), and (h) of the Banks and Other Financial Institutions Act, 2020 in Nigeria.The banks' violations ranged from regulatory non-compliance and corporate governance lapses to disregarding the terms of their licenses and engaging in activities that were posing risks to financial stability, among other infractions (CBN, 2023).

Guo et al (2023) argues that IFRS 9 brings about challenges and changes in equity and investment strategies and in turn have implications for the performance of a business. According to Awuye & Taylor (2023), IFRS 9 may be intricate, nevertheless, it is successful in attaining the goal of enhanced market discipline and transparency rather than being a regulatory overreach. The continual revision of IFRS 7 and IFRS 9 on financial instruments is notable with regards to financial performance of banks. Chnar (2021) suggests that when it comes to disclosure, IFRS 7 lacks the necessity for providing ample details on delineating between book value and liquidity, as well as assessing economic maturity, there might be shortcomings.

Amid these arguments regarding IFRS adoption and implications, the CBN has revised the Code of Corporate Governance for Financial Institutions in Nigeria (CBN, 2023) to capture key audit reforms in a bid to strengthen financial discipline in the industry and ensure the fidelity of accounting numbers, through audit regulatory compliance. The reforms range from setting rules surrounding non-audit services, disclosure of Key Audit Matters, reforming the audit rotation

period as well as strengthening the regulations regarding the financial expertise of the audit committee.

Scholars have examined IFRS adoption on financial reporting from different perspectives but with mixed results. Ghosh et al (2020) studied how IFRS adoption affected inter-company operating performance comparability. The study noted that IFRS cannot ensure the application of same accounting standard across similar firms and thus could not enhance comparability. This study excluded the possibility of IFRS, having direct relationship with performance of firms within the context of audit reforms. While existing literature has explored the direct impact of IFRS adoption on financial performance, there is limited research on how financial reforms, such as changes in regulations, policies, or institutional frameworks, may moderate this relationship. Investigating the moderating effect of financial reform could provide insights into the conditions or contingency factors that influence the effectiveness of IFRS adoption in improving financial performance. Exploring potential mediating factors of key audit matters, could help elucidate the pathways through which financial reform influences the IFRS adoption-financial performance link.

2.0 Concept of IFRS Adoption

According to Hamid et al. (2019), the term "International Financial Reporting Standards" (IFRS) is defined as a set of accounting rules (standards) issued by the International Accounting Standards Board (IASB), a non-profit organization with its headquarters in London. The accounting rules are appropriate to enhance financial reporting by publicly traded companies all over the world. It is "one set of high-quality, understandable, enforceable, and globally accepted accounting standards aimed at achieving transparency, accountability, and efficiency in financial markets around the world and working to serve the public interest by promoting long-term financial confidence, growth, and stability in the global economy." (IFRS, 2018).

It also refers to a body of international accounting standards that, when issued by the International Accounting Standards Board (IASB), specify how specific types of transactions and other events should be reported in financial reports. These standards were developed to establish a common accounting language that would enable companies and nations to understand transactions and events from one another. It is a set of crucial principles whose conceptual framework allows for the option of selecting the ideal measuring foundation and as necessary by the company's conditions, and it offers the most beneficial and accurate information possible (kieso et al., 2020).

According to Akpaka (2015), it is essential that international accounting standards be harmonized to create a single set of accounting standards because financial information is a means of communicating financial transactions. This will speed up the process by which investment and credit decisions are made and facilitate international comparison of a company's performance both inside and outside of the reporting countries. According to Abata (2015), the International Financial Reporting Standards (IFRS) are a set of prescriptive rules and principles with international appeal that offer direction and guidance on how corporate operations in a globalizedworld can achieve the goal of proper record keeping, transparency, and uniformity.

The International Accounting Standards Board (IASB) created a set of financial reporting guidelines known as IFRSs. The goal of IFRS was to create a single, high-quality set of accountingstandards that would be accepted worldwide and be built upon concepts that were easily understood. With the help of IFRS, accounting standards that may be used internationally are madeclear, trustworthy, accurate, and comparable. They are principles-based accounting standards thatwere created with the intention of achieving the harmonization of all international accounting standards in order to promote comparability and the general quality of accounting information (Adeyemi, 2016).

3.0 CBN's Regulatory Efforts and Key Audit Matters

The Central Bank of Nigeria (CBN) plays a vital role in regulating the financial sector, particularly auditing practices within banks. Through its regulatory framework, the CBN implements measures to ensure the integrity and transparency of auditing processes, crucial for bolstering confidence in the banking system and maintaining regulatory standards. This section explores the specific regulatory initiatives enacted by the CBN to improve auditing practices within the banking sector. The central bank of Nigeria (CBN) released several audit and corporate reporting guidelines of which the 2018 and 2023 guidelines supersede all other previous guidelines.

CBN (2023) state that the Board is responsible for appointing and removing external auditors in banks, subject to approval by the Central Bank of Nigeria (CBN). Annually, auditors must report on the bank's compliance with the Nigerian Code of Corporate Governance and relevant guidelines. They also submit reports to the Director of the Banking Supervision Department (BSD) detailing risk management practices and regulatory adherence. For non-interest banks (NIBs), reports must include assessments of investment processes, treatment of profit-sharing account holders, and compliance with regulatory decisions. Also, auditors must forward their reports to the BSD Director by March 31st each year. Banks must publish their annual audited financial statements in national newspapers and on their websites.

In the ever-evolving landscape of financial reporting, the concept of "Key Audit Matters" (KAMs) has emerged as a significant development aimed at enhancing transparency and bolstering investor confidence. KAMs represent a pivotal shift in auditing practices, providing valuable insights into the most complex and challenging areas of an audit engagement. By shedding light on these critical aspects, KAMs serve as a potent tool for investors, regulators, and stakeholders to better

understand the audit process and the potential risks associated with a company's financial statements.

Key Audit Matters are defined as those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period (IAASB, 2015). These matters are selected from the issues communicated with those charged with governance, and they represent areas that required significant auditor attention and consideration due to their complexity, subjectivity, or potential impact on the financial statements.

The introduction of KAMs in auditor's reports represents a departure from the traditional binary approach of providing an unqualified or qualified opinion. KAMs offer a more nuanced and informative perspective, allowing auditors to provide context and insights into the specific areas that posed the greatest challenges during the audit. This enhanced transparency empowers stakeholders to better comprehend the key risks and uncertainties associated with a company's financial reporting, ultimately enabling more informed decision-making.

One of the primary motivations behind the adoption of KAMs is to address the perceived "expectations gap" between what users of financial statements expect from an audit and what auditors deliver (Christensen et al., 2016). By providing greater clarity on the most critical aspects of the audit, KAMs aim to bridge this gap, fostering a deeper understanding of the audit process and the auditor's role in assessing the fairness of financial statements.

KAMs can encompass a wide range of issues, depending on the nature and complexity of the audit engagement. Common examples include revenue recognition, impairment assessments, valuation of complex financial instruments, accounting estimates involving significant judgments or uncertainties, and the evaluation of going concern assumptions (IAASB, 2015). These areas often involve subjective judgments, complex calculations, or significant management estimates, making

them inherently challenging for auditors to assess and increasing the risk of material misstatements. By explicitly communicating KAMs in the auditor's report, users of financial statements gain valuable insights into the specific areas that required the most auditor attention and effort. This information can help investors and analysts better understand the potential risks and uncertainties associated with a company's financial reporting, enabling them to make more informed investment decisions (Boolaky & Quick, 2016).

However, the implementation of KAMs has not been without challenges and criticisms. One concern raised by some stakeholders is the potential for KAMs to become boilerplate or standardized language, diminishing their intended impact and failing to provide meaningful insights (Köhler et al., 2020). Additionally, there are concerns about the potential for KAMs to reveal sensitive information or provide a roadmap for opportunistic behavior, potentially compromising the auditor's professional judgment and the integrity of the audit process.

To address these concerns, regulatory bodies and standard-setters have emphasized the need for auditors to exercise professional judgment and provide entity-specific information when communicating KAMs (IAASB, 2015). Auditors are encouraged to tailor their descriptions of KAMs to the unique circumstances of each audit engagement, avoiding generic or boilerplate language that fails to provide meaningful insights.

4.0 Empirical Review

Guzmán-Raja et al. (2021) examined the impact of key audit matters on audit quality from 2013 to 2018, yet they did not analyze the potential impacts of regulatory changes on audit fees or the evolution of non-audit fees and their relationship with audit fees (NAF/AF) following new regulations.

Garcia-Blandon et al. (2021) focused on the 537/2014 regulation in Spain but conducted their empirical analyses before its enforcement. The study improved upon this by utilizing a more comprehensive sample drawn from listed companies on the Spanish Continuous Market in Madrid.

Honkamäki & Ojala (2019) used Big 4 firms as a proxy for audit quality, gathering hand-collected data for 2017 and 2018. Their study aimed to explore whether Big 4 involvement enhances Key Audit Matters (KAMs) transparency, particularly within the property sector. The findings suggest a positive association between Big 4 firms and industry-specific KAMs transparency, with no significant association found between firm size and KAMs transparency.

Smith (2016) faced limitations in his study, which assessed KAMs transparency using a dummy variable approach. This method, indicating the presence of KAMs to explain their impact on firm profit and loss, could benefit from a deeper examination into the specific types of KAMs themselves.

Moroney et al. (2021) found that including Key Audit Matters (KAMs) enhances the perceived value and credibility of audits, particularly when conducted by Big 4 firms. Conversely, audits by Big 4 firms are perceived as highly valuable and credible regardless of KAM inclusion. The study also highlighted that perceived credibility acts as a mediator between KAMs, audit firm size, and perceived audit value. Further analysis indicated that KAMs divert investor attention towards new and expanded information, shifting focus away from core audit report messages.

Reid et al. (2019) provided empirical evidence that the new audit report format positively correlates with financial reporting quality. Using a dummy variable approach pre- and post- regulation, the study assessed financial reporting quality through earnings management. However, the study's limitation lies in its focus on a single financial year and numerical financial statement

data, potentially limiting sample size and result generalization.

Gold et al. (2020) investigated the impact of KAMs on financial reporting quality from a financial statement perspective, contributing further insights into this domain.

Christensen et al. (2019) discovered that binary signals in audit reports, such as improvements in internal controls or absence of substantial doubts about a company's going concern, fail to effectively communicate continuous underlying risks. Even companies with enhanced internal controls or no going concern issues remain prone to financial statement restatements or bankruptcy, highlighting residual risks that binary signals in audit reports cannot fully convey.

Segal (2019) conducted detailed interviews with audit experts in South Africa, revealing that Key Audit Matters (KAMs) failed to meet regulatory expectations. Interviews with 20 auditors across six firms indicated stakeholders' tendency to overlook the new KAMs section. Moreover, KAMs did not notably enhance transparency. The study's limitation lies in its contextual focus on South Africa.

Masoud (2017) used surveys and interviews to explore the audit expectation-performance gap, revealing empirical evidence that the audit process still inadequately addresses the needs of financial statement users.

Seebeck and Kaya (2021) investigated the communicative value of Extended Audit Reports (EARs) over three years post-ISA 700 implementation. Employing computational linguistics techniques, the study found improvements in various communicative indicators such as readability, evaluative content, visual aids, and specificity. While these proxies did not prove informative to investors, more precise Key Audit Matter descriptions positively impacted capital market reactions, indicating investor appreciation for clearer information.

Velte (2018) studied the relationship between audit committee financial expertise and KAMs readability in UK premium-listed firms from 2014 to 2017. The study demonstrated that combined financial and industry expertise positively influenced KAMs readability, measured using the Flesh Index. However, the study overlooked the role of independent auditors in determining KAMs.

Yau(2021) investigated the unexpected positive tone of Risk Management Matters (RMMs) in audit reports and its impact on financial reporting outcomes. The study found that while the positive tone of RMMs correlated with reduced future earnings uncertainty and reflected auditors' judgments about client companies, it did not influence stock market reactions significantly. Instead, analysts' forecast revisions and dispersion were influenced by specific elements of RMMdisclosure, such as entity specificity, materiality, word complexity, and section length.

Krasodomska & Street (2021) provided early insights into current practices and challenges surrounding extended audit reports, contributing to the literature in this evolving area.

5.0 Methodology

The research design used for this study was ex-post facto design technique. This was chosen because the researcher cannot influence the data to be collected for the study and secondary data was used for the study analysis. Data were drawn from 12 Deposit Money Banks over a period of 18 years between 2005 and 2022. On the website of the Central Bank of Nigeria, 13 deposit moneybanks as at 31st December 2022 out of which 12 deposit money banks in Nigeria (DMBs) were covered while one was excluded because it is purely a non-interest bank. This period encompasses different economic events capturing significant episodes of shocks such as fluctuating inflation rates, economic downturns, the IFRS adoption. The Econometric Model utilized in the study is stated below.

$$ROA = \alpha_0 + \alpha_1 IFRS_{it} + \alpha_4 KAM2_{it} + \alpha_9 IFRS*KAM2_{it} + \alpha_{10} FEE_{it} + \alpha_{11} FSize_{it} + \alpha_{12} ASGRT_{it} + \varepsilon$$

Table 3.1: Definition of Variables

s/n	Variable	Proxy	Type of Variable	Definition/ Measurement	Source
i	Financial Performance	ROA	Outcome Variable	Return on assets, measured as the ratio of the firm's earnings divided by total assets.	Ball, Tyler and Wells (2015)
ii	IFRS Adoption	IFRS	Explanatory Variable 1	A dummy variable that takes the value of 1 in the IFRS adoption periods and 0 otherwise.	Jung, (2016)
v	Key audit Matters	KAM2	Moderating Variable 3	Number of Key audit Matters disclosed by auditors in the financial report.	Zeng, (2021)
vii	Audit fee	Fee	Control Variable	Log of audit fee	Ball, Tyler and Wells (2015)
viii	Firm Size	Fsized	Control Variable	Log of total assets	Ball, Tyler and Wells (2015)
ix	Asset growth	Asgrwth	Control Variable	Asset growth of clientfirm at the end of the time period	Lipson (2011)

Source: Author's Synthesis (2024).

Basically, the models specified were estimated with Panel Corrected Standard Errors (PCSE) because of the outcome of diagnostics tests which include Hausman, Serial Correlation, Heteroscedasticity as well as Breusch and Pagan Lagrangian Multiplier tests. All models specified were run using the appropriate estimation technique using stata MP 15 statistical package.

6.0 Result and Discussion of

Descriptive Analysis

FindingsTable 1:

Variable	Obs	Mean	Std. Dev.	Min	Max
Year	214	2013.575	5.165934	2005	2022
Code	214	6.495327	3.475937	1	12
Ifrs	214	0.6168224	0.4873009	0	1
kam2	214	0.5373832	0.8313147	0	3
Roa	214	0.0119285	0.0304077	-0.2424154	0.1063985
Fee	214	8.146321	1.067813	0	9.176091
Fsize	214	11.94102	1.274479	0	13.17604
Asgrt	214	-1.067	5.696799	-60.02266	1
Lev	214	1.120259	0.240772	-1.255641	1.68111

Source: Authors' Computation, (2024)

The descriptive analyses are presented in table 4.2. That is, the mean, standard deviation, minimum and maximum. As shown in the table, the years observed began from 2005 and ended in 2022. This sums up to 18 years divided into 7-year pre IFRS adoption in Nigeria between 2005 and 2011 and 11 years post IFRS adoption between 2012 and 2022. In total, the study observation is therefore 214 comprising of 12 banks over a period of 18 years. The 12 banks are indicated by thevariable çode'. The variable IFRS indicated a mean of 61.7%. This could explain the level of adoption and compliance with IFRS in the spread of the study data set disaggregated between preand post IFRS period. The outcome indicated that the data collected is skewed to the post adoptionperiod as the IFRS was proxied with dichotomous variable of '0' pre-IFRS and '1' post IFRS. Thevariable Key audit matter indicated a mean of 53.7%, this disclosure was made mandatory for banks as at the end of 2016 and this shows the primary concerns of the audit carried out. This further denotes the level of compliance which is slightly above average of banks on the international auditing standard (IAS 701) and financial reporting council of Nigeria (FRCN).

The variable firm size was measured by the total asset of the banks listed in the research at 11.94% this indicated the level at which the entity's asset base has grown or expanded over a the 18 years adopted in the research work. The variable asset growth was measured by the total asset and total liabilities of the banks. The 1.1% denoted the average level of growth for the banks listed on the research work.

Table 2: Correlation Analysis

	roa	**ifrs**	**kam2**	**Ifrs*kam**	**fee**	**Fsize**	**asgrt**	**lev**
Roa	1							
Ifrs	0.1486*	1						
kam2	0.0854	0.5107*	1					
ifrskam2	0.0608	0.5730*	0.8912*	1				
Fee	0.1113	0.3132*	0.2927*	0.2936*	1			
Fsize	0.1153	0.3465*	0.2802*	0.2707*	0.8139*	1		
Asgrt	-0.0153	0.0741	0.1151	0.1273	0.0238	0.003	1	
Lev	0.2438*	-0.1064	-0.029	-0.0874	0.3386*	0.4093*	-0.0378	1
VIF		5.15	5.55		1.4	2.03	1.07	1.09
Tolerance		0.194205	0.18034		0.713445	0.492724	0.933951	0.921588

The correlation matrix also explains the relationship among the variables of study. It indicates that IFRS and Leverage have significant relationship with return on assets (0.1486; 0.2438; $p<0.05$). This indicates that IFRS adoption has positive relationship with return on asset in a similar manner with leverage. That is return on asset appears to have a positive relationship with the adoption of IFRS and the leverage of Deposit Money Banks in Nigeria. Some other pairs of variables exhibit significant relationships. IFRS significantly relates with all the listed variables except asset growth and leverage. This may suggest that the adoption of IFRS does not significantly associate with the growth of firm asset. It may also translate to mean that banks leverage did not associate with IFRS adoption, perhaps because creditors were reluctant to advance credits because of the possible effects IFRS would have on the outlook of financial reports.

Table 3: Regression Results and Test of Hypotheses

roa	Coef.	Het-corrected Std. Err.	z	P>|z|	[95% Conf. Interval	
Ifrs	-0.0203449	0.0134144	-1.52	0.129	-0.0466367	0.0059468
Kam2	0.079341	0.0378391	2.1	0.036	0.0051779	.1535042
Ifrskam2	-0.1416092	0.0630384	-2.25	0.025	-0.2651621	-.0180563
Fee	0.0024611	0.00215	1.14	0.252	-0.0017528	.0066749
Fsize	0.0117775	0.0057664	2.04	0.041	0.0004755	.0230795
Asgrt	0.0002941	0.0002196	1.34	0.181	-0.0001363	.0007245
Lev	0.0281407	0.0166634	1.69	0.091	-0.004519	.0608005
Year						
2006	-0.0172635	0.0092369	-1.87	0.062	-0.0353674	0.0008404
2007	-0.0189584	0.0117849	-1.61	0.108	-0.0420564	0.0041395
2008	-0.0419003	0.0118062	-3.55	0	-0.06504	-0.0187607
2009	-0.0609027	0.0111946	-5.44	0	-0.0828437	-0.0389618
2010	-0.0087929	0.0105289	-0.84	0.404	-0.0294291	0.0118434
2011	-0.0290175	0.0125598	-2.31	0.021	-0.0536342	-0.0044008
2012	-0.0029039	0.008085	-0.36	0.719	-0.0187501	0.0129423
2013	0(omitted)					0(omitted)
2014	0.003883	0.0081114	0.48	0.632	-0.0120151	0.019781
2015	-0.0052184	0.0093697	-0.56	0.578	-0.0235827	0.0131459
2016	-0.0062675	0.0091212	-0.69	0.492	-0.0241447	0.0116097
2017	-0.0032955	0.0318756	-0.1	0.918	-0.0657704	0.0591795
2018	0.0062839	0.0316705	0.2	0.843	-0.0557892	0.0683569
2019	0.0049199	0.0315117	0.16	0.876	-0.0568418	0.0666816
2020	0.001549	0.0313738	0.05	0.961	-0.0599426	0.0630406
2021	0.0004554	0.0313869	0.01	0.988	-0.0610618	0.0619726
2022	-0.0009364	0.031481	-0.03	0.976	-0.062638	0.0607652
R Sq	0.302					
Model Sig	Chi^2 = 157.19 (P<0.01)					
Hausman	Chi^2 = 33.6 (P<0.05)					
Het	Chi^2=546.29 (P<0.05)					
Serial	F=0.3947 (P>0.05)					
Year	F=2.27 (P<0.05)					
Est. Technique	Panel Correceted Standard Error (Het only option) PCSE					

The model parameters signal good result with model statistics (Chi^2 = 157.19 (P<0.01) and R^2 of 30.2%. Similarly, the model present unsigned significant effects for two control variables in line with a priori expectations for firm size (z = 2.04, p<0.05) and leverage (z = 1.69, p<0.10) which

suggests that financial performance is improved their presence in the model whilst the coefficients and significance of audit fee and asset growth have no significant effect on the financial performance of deposit money banks in Nigeria. The year effect represented in the model as suggested by year effect test (f= 2.27, p<0.05) signals those years 2006, 2008, 2009and 2011 all account for significant variation in the financial performance of bank. This provides explanation for the significant events that took place in these years. Year 2006 was just the beginning of the completion of the mergers and acquisition in the banking sector occasioned by the recapitalization of banks. Similarly, year 2011 marked the beginning of the establishment of the financial reporting council of Nigeria further to which IFRS was mandatorily adopted by all public listed entities including the deposit money banks. The Hausman tests conducted on the data reveal x^2=33.60, p<0.05. This suggests the adoption of fixed effect method for the estimation of the model with inclusion of year effect as indicated by (f=2.27, p<.05). However, the presence of heteroscedasticity (x^2=546.29, p<0.05) shows that the result may not be accurately reliable. Meanwhile the result of the serial correlation (f=0. 3947, P>0.05) indicated that the model is freefrom serial correlation problem. Nevertheless, the study opts of use of panel corrected standard error with het only option for the estimation of panels so as to correct the problem of heteroskedasticity.

7.0 Hypotheses Testing

H01: IFRS adoption has no significant effect on the financial performance of deposit money banks

The regression result displayed in table 3 supports the retention of the null hypothesis (z=-1.52, p>0.15) thereby supporting the proposition that adoption of IFRS adoption does not significantly

affect the financial performance of deposit money banks in Nigeria. The result of hypothesis 1 presupposes that IFRS adoption does not significantly improve financial performance of deposit money banks in Nigeria.

H02: **Audit regulations key audit matters do not significantly affect the financial performance of deposit money banks.**

The regression result supports the rejection of the null hypothesis (z=-2.10, p<0.15) for key audit matters thereby supporting the proposition that key audit matters significantly affect the financial performance of deposit money banks in Nigeria. The result of this hypothesis presupposes that financial performance improves as a result of key audit matters disclosure. This may be explained by the fact that key audit matters improve confidence in the financial reports of deposit money banks due to the disclosure of issues that may raise the hopes of investors thereby making the investors to improve their investments, enjoy increased trusts for other business stakeholders andeventually improve the financial performance of deposit money banks in Nigeria.

8.0 Discussion of findings and Conclusion

Key Audit Matters were noted not to have significant moderation effect on the effect of IFRS on the financial performance of deposit money banks in Nigeria. Key audit matters moderated the effect negatively meaning the moderation of the variable led to the reduction of financial performance in the IFRS era. Although the result is consistent with studies of Johnson, Reichelt and Soleau (2017), Chen, Krishman and Yu, (2018) and Beardsley, Lassila and Omer (2018), it restricted the effect to the pre-IFRS adoption period. The evidence suggests that there was a changein financial performance in the post-IFRS adoption period due to key audit matters. Although, wefound that key audit matters became known only after IFRS adoption as it is the case with extant

studies (Risheh & Al-Saeed, 2014, El Guindy & Trabelsi, 2020), the findings of this study is novel as it provides evidence for the KAM-conditional impact of IFRS adoption on financial performance. Unlike El Guindy and Trabelsi, (2020) who argued that introduction of new audit regulations during the IFRS explains compensation for IFRS premium, our result provide evidence that paying IFRS adoption led to reduction in financial performance due to audit regulations, particularly key audit matters as rightly noted by our findings. To the extent of our knowledge, previous works have ignored this conditional effect of key audit matters on the relationship between financial performance and IFRS adoption. Audit Regulations are necessary efforts usually aimed at changing the status quo to improve an outcome or reverse unwanted results. This study provided notable conclusions on the issue of IFRS adoption moderation of audit regulations and financial performance of deposit money banks in Nigeria particularly, how the audit regulations may have affected the financial performance of deposit money banks in Nigeria

Conflicts of Interest

The authors have disclosed no conflicts of interest.

Author's Affiliation

Fatima Yerima Bulama: Bfatimamamma@gmail.com
Prof. Ofili Ugwudioha: Ofili.u@nileuniversity.edu.ng
Dr. Ahmad Bukola Uthman: Ahmad.Uthman@nileuniversity.edu.ng
Dr. Lucky Onmonya: lucky.onmonya@nileuniversity.edu.ng
Hadiza Bulama Bunu: yanahadee@gmail.com

COPYRIGHT

© 2024 The Author(s). This is an open-access article distributed under the terms of the Creative Commons Attribution 4.0 International License (CC-BY 4.0), which permits unrestricted use, distribution, and reproduction in any medium, provided the original author and source are credited. See http://creativecommons.org/ licenses/by/4.0/. Seybold Report is a peer-reviewed journal published by Seybold Publications.

HOW TO CITE THIS ARTICLE

Bulama, F. Y., Ugwudioha, O., Uthman, A. B., Onmonya, L., & Bunu, H. B. (2024). Moderating effect of key audit matters on the relationship between IFRS adoption and financial performance on deposit money banks in Nigeria. *Seybold Report Journal*, *19*(09), 262–284. DOI: 10.5281/zenodo.13846772

REFERENCES

Akpaka, N. C. (2015). International financial reporting standards (IFRS) adoption and value relevance of financial information of listed deposit money banks in Nigeria (Doctoral dissertation,School of Post-graduate Studies, Ahmadu Bello University, Zaria). IFRS_THESIS_2015-libre.pdf (d1wqtxts1xzle7.cloudfront.net)

Awuye, I. S., & Taylor, D. (2024). Over half a decade into the adoption of IFRS 9: A systematic literature review. *Journal of Accounting Literature*. https://doi.org/10.1108/JAL-11-2023-0204

Ball, F., Tyler, J., & Wells, P. (2015). Is audit quality impacted by auditor relationships? Journal of Contemporary Accounting & Economics, 11(2), 166–181. https://doi.org/ 10.1016/j.jcae.2015.05.002

Beardsley, E. L., Lassila, D. R., & Omer, T. C. (2018). How do audit offices respond to audit feepressure? Evidence of increased focus on nonaudit services and their impact on audit quality. *Contemporary Accounting Research, 36*(2), 999-1027. https://doi.org/10.1111/1911-3846.12440

Bédard, J., Coram, P., Espahbodi, R., & Mock, T. J. (2016). Does recent academic research supportchanges to audit reporting standards? *Accounting Horizons, 30*, 255–275. https://doi.org/10.2308/acch-51397

Boolaky, P. K., & Quick, R. (2016). Bank directors' perceptions of expanded auditor's reports. *International Journal of Auditing, 20*(2), 158-174. **https://doi.org/10.1111/ijau.12063**

Bryman, A. (2016). *Social Research Methods*. Oxford University Press. Social Research Methods - Alan Bryman - Google Books

Central Bank of Nigeria. (2018). Circular and guidelines for corporate governance. Retrieved from https://www.cbn.gov.ng/Out/2023/FPRD/Circular%20and%20Guidelines%20for%20Corporate%20Governance.pdf

Central Bank of Nigeria. (2023). Circular and guidelines for corporate governance. Retrieved from https://www.cbn.gov.ng/Out/2023/FPRD/Circular%20and%20Guidelines%20for%20Corporate%20Governance.pdf

Chen, L., Krishnan, G. V., & Yu, W. (2018). The relation between audit fee cuts during the globalfinancial crisis and earnings quality and audit quality. *Advances in Accounting, 43*, 14-31. https://dx.doi.org/10.2139/ssrn.2839901

Chnar, A. R. (2021). The effect of international financial reporting standards 7 on financial crisis.*Journal of Global Economics and Business, 2*(5), 87-100. THE-EFFECT-OF-INTERNATIONAL-

FINANCIAL-REPORTING-STANDARDS-7-ON-FINANCIAL-CRISIS.pdf (researchgate.net)

Christensen, B. E., Glover, S., Omer, T. C., & Shelley, M. K. (2016). Understanding audit quality:Insights from audit professionals and investors. *Contemporary Accounting Research, 33*(4), 1648-1684. **https://doi.org/10.1111/1911-3846.12212**

El Guindy, M.N. and Trabelsi, N.S. (2020), "IFRS adoption/reporting and auditor fees: the conditional effect of audit firm size and tenure", *International Journal of Accounting & Information Management*, Vol. 28 No. 4, pp. 639-666. https://doi.org/10.1108/IJAIM-09-2019-0107

Garcia-Blandon, J., Argiles-Bosch, J. M., & Ravenda, D. (2021). The impact of key audit matterson audit quality: Evidence from the European Union. *Journal of International Financial Management & Accounting, 32*(1), 35-64. https://doi.org/10.1080/02102412.2023.2293375

Gold, B., Smith, J., & Jones, M. (2020). Investigating the impact of Key Audit Matters (KAMs) on financial reporting quality: A financial statement perspective. *Journal of Accounting and Finance, 25*(3), 45-67.

Gosh, P. K., Bairagi, R. K., & Mondal, A. (2020). Adoption of principle-based IFRS and intercompany comparability of operating performance. *Asian Journal of Accounting Research, 5*(2). https://doi.org/10.1108/AJAR-10-2019-0076

Guo, S. Y., Mei, B., Rao, Y., & Ye, J. (2023). Challenges and economic consequences of IFRS 9:Evidence from China. *Journal of Accounting Literature*. https://doi.org/10.1108/JAL-06-2023- 0109

Guzmán-Raja, I. A., García, C., & Fuentes, P. M. (2021). The impact of key audit matters on auditquality: Evidence from an emerging market. *Journal of International Accounting, Auditing and Taxation, 44*, 100407.

Hamid, K. T., Majdi, Y., & Alsulmi, H. (2019). IFRS adoption and firms' opacity around the world:What factors affect this relationship? *Emerald Insight*. https://doi.org/10.1108/JRF-06-2019-0109

Honkamäki, T., & Ojala, H. (2019). The effects of key audit matters on the audit expectation gap:Evidence from Finland. *Managerial Auditing Journal, 34*(2), 111-130.

International Auditing and Assurance Standards Board. (2015). Communicating key audit mattersin the independent auditor's report. Retrieved from Auditor Reporting – Key Audit Matters | IAASB

Kieso, D. E., Weygandt, J. J., & Warfield, T. D. (2020). *Intermediate Accounting (17th ed.)*. Wiley. Intermediate Accounting, Volume 2 - Donald E. Kieso, Jerry J. Weygandt, Terry D. Warfield, Irene M. Wiecek, Bruce J. McConomy - Google Books

Köhler, A. G., Ratzinger-Sakel, N. V. S., & Theis, J. (2020). The effects of key audit matters onthe auditor's report's communicative value: Experimental evidence from investment professionals

and non-professional investors. *Accounting in Europe, 17*(2), 105-128.https://doi.org/10.1080/17449480.2020.1726420

Krasodomska, J., Simnett, R., & Street, D. L. (2021). Extended external reporting assurance: Current practices and challenges. *Journal of International Financial Management & Accounting,32*(1), 23-45. https://doi.org/10.1111/jifm.12127

Lipson, M. L., Mortal, S., & Schill, M. J. (2011). On the scope and drivers of the asset growth effect. *Journal of Financial and Quantitative Analysis, 46*(6), 1651–1682. https://doi.org/10.1017/S0022109011000561

Masoud, N. (2017). Exploring the audit expectation-performance gap: Evidence from surveys andinterviews. *Journal of Accounting and Auditing, 14*(3), 45-67.

Moroney, R., Phang, S.-Y., & Xiao, X. (2021). When Do Investors Value Key Audit Matters? *European Accounting Review, 30*(1), 63-82. https://doi.org/10.1080/09638180.2020.1733040

Risheh, K. E. A., & Al-Saeed, M. A. (2014). The impact of IFRS adoption on audit fees: Evidencefrom Jordan. *Accounting and Management Information Systems*, *13*(3), 520-536.

Reid, L. C., Carcello, J. V., Li, C., Neal, T. L., & Francis, J. R. (2019). Impact of Auditor Report Changes on Financial Reporting Quality and Audit Costs: Evidence from the United Kingdom. *Contemporary Accounting Research, 36*(2), 1073-1105. https://doi.org/10.1111/1911-3846.12486

Segal, M. (2019). Key audit matters: Insight from audit experts. *Meditari Accountancy Research,27*(3), 472-494. https://doi.org/10.1108/MEDAR-06-2018-0355

Seebeck, A., & Kaya, D. (2021). The power of words: An empirical analysis of the communicative value of extended auditor reports. *European Accounting Review*. Available at SSRN:https://ssrn.com/abstract=3933827

Smith, J. (2016). Key audit matters: Implications for audit quality and financial reporting. *Journalof Accounting and Finance, 16*(3), 45-62.

Velte, P. (2018). Associations between the financial and industry expertise of audit committee members and Key Audit Matters within related audit reports: An empirical analysis across UK premium listed companies. Available at SSRN: https://ssrn.com/abstract=3274495

Yamin Zeng, Joseph H. Zhang, Junsheng Zhang, Mengyu Zhang; Key Audit Matters Reports in China: Their Descriptions and Implications of Audit Quality. *Accounting Horizons* 1 June 2021; 35 (2): 167–192. https://doi.org/10.2308/HORIZONS-19-189

Yau, L. N. B. (2021). Perceiving auditors' undertone. Available at SSRN: https://ssrn.com/abstract=3867131 or http://dx.doi.org/10.2139/ssrn.3867131