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IMPACT OF AUDIT QUALITY ON EARNINGS MANAGEMENT OF LISTED MANUFACTURING COMPANIES IN NIGERIA

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Abstract
News on the collapse of business organization in Nigeria and by extension across globe particularly in the western economies that ought to have gotten to the awareness of the stakeholders are usually cover up or distorted through the manipulation of accounting figures. External auditors that are expected to discover various accounting manipulation also seems not be effective. This scenario motivates this study to investigate the effect of audit quality on earnings management of listed manufacturing companies in Nigeria. This study was achieved by examining the effect of audit firm size, joint audit service and auditor's experience on earnings management of the listed manufacturing company in Nigeria. Ex-post facto research design was employed with the population consisting of seventy-six (76) listed manufacturing companies, and sixty-four (64) out of the companies were chosen as the sample size using Krejcie and Morgan (1970) sample size determination table and fifty-five (55) was used due to the availability of data. Descriptive and inferential statistics (random effect regression analysis with OLS techniques) were employed in the analysis of the secondary data collected from the annual reports and accounts of the chosen sample companies for the period of five years (2013-2017). The study found out that audit firm size and joint audit service has a significant negative effect on the level of earnings management practice of listed manufacturing companies in Nigeria at 5% significant level (t-value of -0.3238 and -1.1757 with p-value of 0.002 and 0.000 respectively). This audit firm size and joint audit restrict and reduce the level of earnings management in listed manufacturing companies. However, auditor experience has no significant relationship with earnings management (t-value of -0.0021 with p-value 0.063). The study thereby concluded that audit firm size and joint audit service has a significant negative impact with earnings management practice of listed manufacturing companies in Nigeria, while auditor's experience has no significant effect. Therefore, the study recommends that management should make use of large audit firms to audit their financial statement and the audit firms should emphasize more on high professional standards.

Key Words: Audit Firm Size, Joint Audit, Audit Experience, Earnings Management, Listed Companies

Introduction

In the last two decades several accounting scandals have been witnessed mainly because of the manipulation of the accounting figures provided in the financial statements. This could have been due to the managers having motives to mislead the users of financial statements through the use of different accounting choices or methods in financial reporting as they can have the opportunity to exercise judgment in financial reporting. Stakeholders sometimes doubt the functions of auditors for failing to detect and report the manipulations found in the financial statement which often lead to financial loss and damage of reputation of the victim organization.

A series of high profile accounting scandals have occurred across the world such as Cendant (1998), Rank Xerox (2000), Enron (2001), WorldCom (2002), Adelphia (2002), Global Crossing (2002),Waste Management Inc. (2002), Sunbeam (2002), American International Group (2005), Lehman Brothers (2010), Theranos Inc. (2018) in US and in Europe fraudulent financial scandals occurred from a number of companies, such as, Ahold and Tyco International (2002), Parmalat (2003) and Adecco (2008) has left the economy with much of skepticism and a handful of globally known audit

firms are available to perform their audits on large complex institutions. All those cases were generally attributed to earnings management and clearly show the importance of audit quality in constraining accounts manipulation, it failed when it engaged in accounting scandals (Demaki, 2011; Norwani, Mohamad & Chek, 2011).

In Nigeria, the presence and negative effects of earnings management on credibility of financial reporting and corporate failure has also been experienced. For example, a report of creative accounting scandal in 2006, with the case of Cadbury Plc and Akintola Williams Delloite (AWD).Furthermore, in 2009, the Nigerian banks which are the Afribank Nigeria Plc, Intercontinental Bank Plc, Finbank, UBA and Oceanic bank were also found in fraudulent financial reporting which also demonstrates the relationship between audit quality and account manipulation. The financial statements of African Petroleum Plc. (2010), Oando Plc. (2017), Lever Brothers Nigeria Plc (2018) and Sky Bank Plc. (2018) showed that the company did not fairly present the its financial position (Oyejide & Soyibo, 2001). In the above fraudulent cases, Administrative Proceedings Committee (APC) found the parties were guilty of preparation of fraudulent financial statements, outright fraud and gross negligence.

In recent times, the manipulation of financial statement may be due to the size of the audit firm. It is believed that the Big 4 audit firms have large number of staff which will make it easier for the management to penetrate through one of their staff. For instance, Arthur Andersen was formally one of the big five auditing firms along with PricewaterhouseCoopers, Deloitte, Ernst & Young and KPMG. In 2002, the firm voluntarily surrendered its licenses after being found guilty of criminal charges relating to the firm's auditing of Enron (Brown & Dugan, 2002). Furthermore, Cadbury and Akintola Williams Delloite's (AWD) case of fraudulent financial reporting also demonstrates the relationship between audit quality and account manipulation (Eriabie & Dabor, 2017).

Joint audit service which is the audit of the financial statements by more than one auditor may have impact on earnings manipulation. When two big audit firms audit a company, which may give rise to free ride since the two firms are independent of their one another and management may penetrate through one of the firms when it is only one audit firm that will be a signatory to the audit report. Attribute of auditor that could affect the audit quality positively and increase the chances of discovering and reporting material intentional errors and misstatements in the financial statements is when auditor has no experience. When audit firms are to audit a complex firm, the lack of experience may affect their decision.

Based on this premise, the study investigated on the audit quality on earnings management among the listed manufacturing companies in Nigeria. in order to achieve this the following research hypotheses were stated in null (Ho) form will be tested.

H_0: Audit firm size has no significant effect on the earnings management of listed manufacturing companies in Nigeria.

H_0: There is no significant influence between joint audit service and earnings management of listed manufacturing companies in Nigeria.

H_0: Auditor experience has no significant impact on earnings management of listed manufacturing companies in Nigeria.

Literature Review

Conceptual Review

The word audit comes from the Latin word audire meaning 'to hear'. An audit is a simple form developed with the organized system of accounting (Mark 2019). In early period person appointed to check the accounts used to hear from the bookkeeper matter relating to the transaction of the business, the spread of double-entry bookkeeping was first described by Luca pacioli in 1494. In course of time the mode of audit changed according to accounting system of different types of business. Auditing is a specialized function having complex, legal, economic implications. Batliboi (2015) defined audit as an intelligent and critical scrutiny books of accounts with the vouchers for which the auditors relied upon

for the purpose of ascertaining whether the working result for a particular period as shown by the profit and loss account and also the exact financial condition of the business as reflected in the balance sheet are truly determine and presented by those responsible for their compilations.

According to Mautz (1964), auditing is concerned with the verification of accounting data, with determining the accuracy and reliability of accounting statements and reports. The auditing of financial statements refers to conducting an objective evaluation of the financial statements of a company by an independent auditor. The limited liability companies' annual accounts are by law required to be audited, in order to ensure that the financial statements give a true and fair view to the users of these statements (European Commission, 2010). Although it is acknowledged that it is not reasonable to expect that the audited accounts are entirely free of misstatements, the European Commission (2010) argues that the goal of auditors is to minimize the risk that financial information is misstated. By performing the audit of companies' financial statements, the auditor will provide stakeholders such as investors and shareholders with an opinion on the extent to which the company's financial statements are accurately presented.

An audit is an independent examination of the financial statements of an enterprise as prepared by the management of that enterprise by an appointed person called the auditor in order to express a professional opinion whether or not those financial statements show a true and fair view of the position of the enterprise as at the financial period in accordance with the relevant statutory and professional regulation (Okolie *et al.*,2000). According to Knechel & Vanstraelen (2007) audit quality consists of two components; audit competence and auditor independent, deterioration in audit in a short tenure audit may be due to either lack competence or loss independence, while a loss in quality in a long tenure audit is most likely due to a loss of independence.

Watkins, Hillison, & Morecroft (2014), defined audit quality from two viewpoints, namely: auditor reputation and auditor monitoring competence on a financial statement. Auditor reputation is an assessment by others, particularly by the users of financial statement. Reputation is measured by the users' perceptions on the auditor competence and independence. Those auditors who are perceived as high in both competence and independence are considered to produce trustworthy financial statements. The second meaning of audit quality is from the viewpoint of an auditor monitoring competence on financial statements. The monitoring competence is determined by an auditor competence and independence, measured by the audited financial statement information quality. Moreover, a financial statement information quality is reflected by information accuracy, or to the extent of which information reflects the real condition (Watkin *et al.*, 2014), or ability to eliminate the bias of the information provided (Wallace, 1980; Watkins *et al.*, 2014).

Hope & Langli (2008) view audit quality as when the auditor carries out his work with higher degree of independence and objectivity on the one hand and define auditor independence as the auditor objectivity and ability to withstand client pressure on the other hand. This pressure according to them includes monetary and non-monetary issues that make auditor comply with management desire rather than his professional judgment.

Auditors in the capital market provide their services for a valuable function of lending their credibility over the financial statements of public listed companies in an attempt to reduce the information risk. The fairness and credibility of the audit depends upon the nature of the attestation provided by the auditors (Lu & Sivaramakrishnan, 2009). For audit quality the size of the city-based audit office can be a crucial determinant to be taken into consideration along with the size of the national-level audit firm, due to the fact that the city-based offices of audit-firms serve to be semi-autonomous with their own client base. Thus, it is the local audit office which gets into direct engagement with the client-firm with their direct administration and implementation of audit operations with the deliverance of audit services and audit opinions (Choi, Kim & Zang, 2010,).

A joint audit can be defined as an audit in which financial statements are audited by two or more independent auditors (Ratzinger-Sakel & Kettunen, 2013). In a joint audit, two different audit firms form

an opinion about a client's financial statements. It follows that both audit firms are liable for their opinion. Joint audits are conducted in the same manner as single audits. However, the monitoring process between the two auditors as well as the discussion of audit findings are of particular importance as they will ordinarily result into higher audit quality (Julia & Rudolf, 2012). The concept of joint audit refers to the participation of two or more separate and independent audit firms in the audit process of the financial statements for a single client (Zgarni, Hlioui & Zehri, (2012). In a joint audit, the planning process and audit procedures and audit work are jointly organized and divided between the two auditors to ensure there is no repetition of audit duties. A joint audit results in the issuance of a single report signed by both auditors with joint collateral responsibility for the opinion issued in that report (Zgarni et al., 2012).

Paugam & Casta (2015) define joint audit as an audit in which two or more independent auditors, from separate audit firms, are appointed to audit financial statements of an audit client, in such a way that involves developing the audit plan jointly; performing the audit work jointly; making periodic cross reviews and mutual quality controls; issuing and signing a single audit report; and bearing joint liability in case of audit failure. Chung & Monroe (2015) considered audit experience as the auditor's unique knowledge, competencies and capabilities that exist from job practices in auditing profession which lead to the enhancement of auditor's abilities to process relevant information, make a metal comparisons of alternative way out, initiate subsequent actions and also provide decision making efficiency and effectiveness through a good memory of information necessary and an accurate judgment of audit works. Musig and Ussahawanitchakit (2014) view audit experience as the skills which are obtained from audit tasks concerning relevant audit standards and accounting guidance and error specific experiences (i.e. financial misstatements), which affect audit task and audit performance. Also Carpenter, Durtschi & Gaynor, (2015) point out that experience is the act practice and feedback and can lead to knowledge acquisition.

Earning is one of the major items of the financial statements that attract the attention of users of financial statements to it. Investors, creditors, analysts, governments and other users of financial statements, use earning as a basis for investment decisions making, lending, performance evaluation, etc. (Mahdavi, Hosseini & Raiesi, 2013). The main objective of firms is to maximize shareholders' value by exploiting the assets that were acquired by equity capital and debt. To raise capital, shareholders should be incentivized to invest, which only occurs if they expect positive future firm performance. It is therefore in the firm's interest to report positive earnings, positive earnings growth and to meet analysts' forecasts in order to acquire capital (Degeorge, Patel & Zackhauser, 1999). However, it is unlikely that firms are able to meet these expectations all the time, though they are unwilling to suffer stock price decreases. As a result, firms might manage earnings in order to meet shareholders' expectations and to hold equity.

Earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers (Healy & Wahlen, 2011).

According to Malla & Karimi, (2007) earning management is defined as intentionally taking steps under generally accepted accounting principles (GAAP) to achieve from the reported earnings to the desired earnings. The converging of the reported earning to the desired earning is done through accounting manipulation (Malla *et al.*, 2007). Today, earnings management is one of the most debatable and interesting issues in accounting research since investors put lots of emphasis on the profit digit as one of the most important factors in the decision-making. Researchers suggest that low earnings variation and its persistency indicate the quality of earnings. However, investors can invest with more confidence in the firms with more persistent earning trend. Bello (2010) defined earnings management as any attempt to cook/doctor or tailor financial accounting reports to a given desired level. According to him earnings management is paradoxical of accountants and relates it to the recent times corporate

failures and loss of investors" confidence on both financial reports and auditors. In this study earnings management refers to both intentional and unintentional actions that managers take which affect reported earnings and mislead accounting information users.

Ronen & Yaari (2011) defined earnings management as a set of managerial decisions that result in not reporting the true short-term, value-maximizing earnings as known to management. In their opinion, earnings management can be: Beneficial - it signals long-term value; Pernicious - it conceals short- or long-term value and Neutral - it reveals the short-term true performance. The managed earnings follow as the consequence of taking production/investment actions earlier than earnings are realized. Discretionary accruals are adjustments to cash flows selected by the manager to affect reported income. They are also accruals that are reported by managers of a business enterprise voluntarily and not as stipulated by law or as regulated by standards. Managerial manipulation can influence financial statements not only through accounting rules, but also by discretionary accruals, more so earnings manipulations can be introduced through the acceleration of sales, the acceleration of sales can be achieved through the use of price discounts and lenient credit terms, with the intension of persuading more customers. By introducing price discounts, firms can accelerate their sales from the next year to the current year (Rowchowdhury 2006). A firm can alter the level of accruals to obtain the desired level of earnings.

This study was guided by the agency theory and signaling theory. Agency theory was propounded by Jensen and Meckling in 1976; it tends to address the issue of information asymmetry which leads to conflicts and dissimilar interests between the principals (shareholders) and the agent (manager) which makes managers to take opportunistic behavior of manipulating the financial statement. Agency theory posits that, to prevent the managers from manipulating the accounting figures in order to mislead the stakeholders, there is need for an independent party to attest to the financial statement prepared by the management. To achieve this, high quality of audit service is required.

The theory of signal was developed by Ross (1977). Signaling theory does not actually require higher audit quality, it merely needs send signal to the market for the investors to believe that the financial statement is free from misstatement and misrepresentation. Signaling is a reaction to informational asymmetry in markets; in this case, companies have information that investors do not. Asymmetries can be reduced if the party with more information signals to others. Furthermore, when companies engaged in joint audit service, it sends signal to the market which is believe that when companies made use of joint audit service it likely to reduce the level of earnings management practice. Therefore, the higher the auditor's quality and independence, the more they detect management's manipulations in the financial statements.

Empirical Review

Kim, Liu & Rhee (2014) investigated on the impact of audit firm size on earnings management. The study examines the effect of firm size on corporate earnings management. The study made use of all companies whose financial statement data are available from Compustat database for the 18-year period from 1983 to 2000. To examine the effect of firm size, all the available observations are grouped into large-, medium-, and small-sized firm groups. Documented is empirical evidence that both large and small sized firms manage earnings to avoid reporting small negative earnings or small earnings decreases. However, it was observed that firm size played differing roles in earnings management. The result of the findings was that small firms engage in more earnings management than large or medium sized firms to avoid reporting losses. On the other hand, large and medium sized firms exhibit more aggressive earnings management to avoid reporting earnings decreases than small sized firms.

Aliyu, Musa & Zachariah (2015) studied the impact of audit quality on earnings management of listed deposit money banks in Nigeria, with the objective to examine the impact of audit quality on Earnings Management of listed deposit money banks in Nigeria. The correlational research design is employed in a sample of ten (10) listed deposit money banks for a period of eight (8) years (2006-2013),

using secondary data. The study used the Ordinary Least Squares (OLS) regression technique of data analysis. The study found that audit quality has significant impact on the Earnings Management of listed deposit money banks in Nigeria during the period of the study. It is being found that audit firm size and joint audit services have significant negative impact on the Earnings Management of listed deposit money banks in Nigeria. Similarly, and also that auditor financial dependence has significant positive impact on Earnings Management of listed deposit money banks in Nigeria. It was recommended that listed deposit money banks should emphasize the use of big 4 audit firm and joint audit services. Moreso, the Central Bank of Nigeria (CBN) should increase its surveillance in the areas of auditor remunerations.

Xiaoke, Yanyan, Lisheng, Yuping & Zhenyu (2015) researched on engagement audit partner experience and audit quality in China. Chinese market data was explored to examine the relationship between the experience of the engagement audit partner and audit quality. It was found that a negative association between absolute/income-increasing abnormal accruals and the audit partner experience. In addition, it was discovered that investors do care about the experience of the engagement audit partner. The earnings response co-efficient is higher for ?rms audited by more experienced auditors. These results are robust even after controlling for audit ?rm characteristics. The ?ndings were consistent with the notion that audit partner experience increases audit quality.

Marco & Roberto (2016) studied voluntary joint audit and earnings quality: evidence from Italian SMES. The purpose of the study was to analyze the effect of a joint audit system on the quality of a firm's financial statements. The study used a sample of Italian industrial non-listed SMEs, stratified in order to fulfill certain requirements (in terms of asset value, turnover and number of employees) that make it mandatory to appoint at least one audit body (the statutory board) according to the Italian law. Logistic regression models have been used to test the research hypotheses. The main finding was the confirmation that a joint audit system does positively affect earnings quality and the reliability of firms' financial statements regarding the decision to be audited by two different auditors.

Lukman, Edi & Yusri (2016) carried out a research on the effect of audit quality on earning management within manufacturing companies listed on Indonesian stock exchange with the objective to determine the effect of audit quality and earnings management. The researcher made of secondary data. Audit quality was measured by two different proxies; i.e., audit firm size and industry specialist auditors, while earnings management was measured by discretionary accruals. Meanwhile, leverage, firm size, and operating cash flow served as control variables. The sample involved in this study comprises of manufacturing companies listed on the Indonesia Stock Exchange; covering 420 firm-year observations from the fiscal years 2010 to 2013. This study applied a multiple regression analysis in estimating the relationship between the audit quality and earning management. As hypothesized in the study, results showed that audit quality and earning management are negatively related.

Laleh & Alireza (2016) investigated on the effect of audit size on earnings management in Tehran stock exchange, which was carried out in Iran. The purpose of the study was to Investigation the effect of audit size and on earnings management in the 116 companies listed in Tehran Stock Exchange for the period 1387 to 1392 that using multiple regressions with controlling determinants earning management has been tested. The study has been applied in terms of purpose and terms of the nature after event. And a sample of 5 companies listed on the Stock Exchange for the systematic removal. It was concluded that there is a negative correlation between the size of audit firm and audit opinion with the earnings management in the companies listed in the Tehran Stock Exchange, that is, the size of audit firm and audit opinion have significantly negative impacts on the earnings management in the above mentioned companies. In other words, increasing the size of audit firm and qualifying audit opinions result in reduced earnings management in the companies listed in the Tehran Stock Exchange.

Tareq & Abdullah (2017) established a content analysis of the impact of audit quality on the earnings management: evidence from manufacturing firms in Amman stock exchange. The study aimed to investigate the audit quality on the earnings management of industrial companies listed on the Amman Stock Exchange (ASE). The study used the modified Jones model (1991) by Dechow, Saloan and

Sweeny, (1995) for measuring the discretionary accruals as proxy of earnings Management. The study applied audit fees and audit firm size as proxies in measuring audit quality. A sample of (50) firms was selected, and data covering the period 2011-2015 was collected from these companies, where (225) observations were used in the analysis. The study found that there was no significant relationship between audit fees and earnings management, but there is a significant association between big4 audit firms and earnings management, which approves that audit quality has a significant effect in interpreting earnings management.

Ana (2017) examined audit quality and earnings management: evidence from Portugal and with the objective to examine if there is a relationship between the manipulation of results and the quality of the audit, based on the study of the behavior of discretionary accruals in Portuguese non-listed companies. The means of data Collection was on the SABI (Iberian Balance sheet Analysis System) database, the sample is composed of 4723 companies from 2013 to 2015. The empirical model of the study consists of a multiple linear regression in order to explain the relationship between the discretionary accruals and the audit firm size, debt, volume business and profitability, based on the Modified Jones Model. The results suggest that there was a positive relationship between audit quality and earnings manipulation. The level of earnings management is significantly lower among companies contracting a Big 4 audit firm, as compared to companies using a non-Big 4 audit firm.

Alzoubi & Ebraheem (2017) investigated on audit quality, debt ?nancing, and earnings management: Evidence from Jordan. The study used the cross-sectional version of the modified Jones model, in which discretionary accruals were employed as a proxy for earnings management. Generalized least squares regression was employed to examine the influence of audit quality and debt financing on earnings management using a sample comprising 72 industrial companies during the selected period from 2006 to 2012. The results suggested that audit quality (auditor tenure, audit firm size, specialisation, and independence) had a negative relationship with earnings management.

Olabisi, Agbatogun, & Akinrinlola (2017) examined audit quality and earnings management among Nigerian listed deposit money banks. The study examined relationship between Audit Quality and Earnings Management in Nigerian listed deposit money banks. The study adopted a longitudinal research design and secondary data covering a period of 2005-2014 were collected. The population of the study comprised fifteen (15) deposit money banks listed on Nigerian Stock Exchange as at 2016, out of which six (6) banks were randomly selected resulting in 60 observations. Panel data technique was employed, while fixed and random effects model were used for estimation. Descriptive Statistics, Pearson correlation coefficient and simple pooled OLS regression analysis were used for analysis to determine possible link between the variables identified. The results of the study showed that a significant positive relationship existed between joint audit and earnings management, which implies that a change to joint audit from single audit increases earnings management. Also, a significant negative relationship existed between audit specialization and earnings management, which implies that every unit increase in audit specialization decreases earnings management. However, there was an insignificant negative relationship between audit tenure and earnings management.

Jamel (2018) studied joint audit and financial scandal: the case of the French context. The objective of the study was to investigate the stock market reaction of SBF 250 after the disclosure of the financial scandal in presence of joint audit. The study sample is composed of 140 French listed enterprises. The study made use of OLS regression analysis. The empirical results demonstrated that the stock market of Non Big-Four clients does not significantly react compared to the firms audited by at least one Big Four in France. Contrary to this finding, the stock market reaction of the firms audited by two Big Four was significantly reacted compared to the enterprises audited by one Big at least in France. Those results demonstrate that joint audit with at least one Non-Big encouraged and especially in the Financial scandal periods and resolve the problem associated with the audit market concentration.

Mohamed, Ali & Ekramy (2018) carried out a research on examining the effect of joint and dual audits on earnings management practices, a research being carried out in Egypt with the objective to

determine the impact of the voluntary adoption of the joint external audit approach in reducing earnings management practices through accruals and real operations compared with the adoption of the dual external audit approach. The research follows a quantitative approach to collect and analyze data from companies listed on the Egyptian Stock Exchange during the period 2010-2014. 104 firm-year observations are tested in the sample. And a multiply regression analysis made used of. The findings of the empirical study show evidence that there are consistent earnings management practices in the studied sample regardless of the type of audit (joint or dual). There is a negative association between joint audit and discretionary accruals compared to dual audit. This means that firms with joint audit are engaged in accrual earnings management practices. In addition, large firms that adopt joint audit are engaged in accrual earnings management. However, there is no effect of joint audit on real earnings management practices compared to dual audit. Results are consistent for firm size, profitability, leverage. Both firm profitability and leverage show positive association with earnings management practices while size did not have a significant effect on either type of practice. Finally, it is being found that firms with high (low) profitability that adopt joint audits are less (more) likely to engage in earnings management practices. Results are of use to regulators, external auditors and investors.

The empirical review showed that there are still remained unanswered questions. Therefore, this study provides further evidence to fill the gaps identified in the literature. Theoretically, the body of literature reviewed on the impact of audit quality on earnings management showed that studies such as (Aliyu*et al.*, 2015; Olabisi, Agbatogun & Akinrinlola, 2017; Sarah*et al.*, 2018) employed a single theory of agency as their theoretical underpinning. This study combines agency theory and signaling theory to explain the relationship between audit quality and earnings management. More so, on the institutional gap, most previous studies on audit quality and earnings management focused on the banking sector and insurance firms (Mahdi *et al.*, 2011; Ilaboye *et al.*, 2014; Aliyu *et al.*, 2011 and Eriabie *et al.*, 2017), while the few studies on manufacturing industry were based on single sector (such as Ibrahim, 2017; Mohammed *et al.*, 2018).

Furthermore, Conceptually, due to scanty literature available on the investigation of audit quality and earnings management, this study used audit experience as a proxy in determining audit quality on earnings management in Nigeria. Therefore, this research fills the identified gap.

Methodology

In other to achieve the objectives of the study, ex-post facto research design was utilized to examine the investigation of audit quality on earnings management. The population of the study consists of all the seventy-six (76) listed manufacturing firms on the Nigeria Stock Exchange (NSE Fact book, 2017). The sample size used in the study is sixty-four (64) based on the Krejcie and Morgan (1970) sample table. Krejcie and Morgan sampling technique was adopted in this study Due to the unavailability of data, the study excluded nine manufacturing firms from the sample size which eventually made the total of 55 companies that was used as the sample size. The companies exempted from the sample size as a result of unavailability of data are as follows: Transactional Corporation of Nigeria Plc (TRANSCORP), 11 Plc (MOBIL), Anino International Plc (ANINO), Dn Tyre & Rubber Plc (DUNLOP), Road Nigeria Plc (ROADS), Smart Products Nigeria Plc (SMURFIT), Uacn Property Development Company Plc (UAC-PROP), Union Homes Real Estate Investment Trust (REIT), Updc Real Estate Investment Trust (UPDCREIT). In selecting the sample of the study, stratified sampling method was used coupled with random sampling techniques because the population is being divided into stratum (sector) and companies from each sector were selected randomly.

Secondary data were used for the study. The data used in this research were obtained from annual financial reports of the sampled companies covering a period of five (5) years ranging from 2013 to 2017. The study made use of panel regression method to analyze the data and the techniques of estimation is random effect model with Ordinary Least Square (OLS) regression analysis of the secondary data collected from the annual financial reports. The STATA software was used at a 5% level of significance to test the acceptance or rejection of all the hypotheses stated.

The proxy used for independent variable (audit quality) are audit firm size which was measured using the Big and Non Big audit firms, joint audit service was as well measured using dichotomous variable and auditor's experience was measured by age of the audit firm. The proxy for dependent variable is discretionary accrual which is measured by modified Jones model. To achieve the objectives of the study, the model of Tareq & Abdullah (2017), was adopted and modified. The model was modified and improved on for the use of this study, where two of their variables (Company Size and Financial leverage) were replaced (with Joint Audit Service, Auditor's Experience and Audit tenure) because they are not relevant in achieving the objectives of the study.

The model of the study is written as;

The model of the study is written as;

$$\alpha + \beta_1 AFSIZE_{i,t} + \beta_2 JA_{i,t} + \beta_3 Log\ A.F_{i,t} + \beta_4 AE_{i,t} + \beta_5 AT_{i,t} + \varepsilon_{i,t} \ldots\ldots\ldots\ldots 3.2$$

The abbreviations of the terms in the model are as follows:

EM_{it} = Earnings Management of firm i in year t

α = Constant term

$AFSIZE_{i,t}$ = Audit firm size of firm i in year t

$JA_{i,t}$ = Joint audit of firm i in year t

$Log\ A.F_{i,t}$ = Log of Audit Fee of firm i in year t

$AE_{i,t}$ = Auditors Experience of firm i in year t

$AT_{i,t}$ = Audit Tenure of firm i in year t

β_{1-5} = Slope value of independent variable

$\varepsilon_{i,t}$ = error term

***a priori* expectation**

The *a priori* expectation of the study is that $\beta_1\beta_2\beta_3\beta_4$ *and* $\beta_5 < 0$

Results and Discussion of Findings

Descriptive Statistics of Variables

This section shows the descriptive analysis and summary of the data collected through mean, standard deviation, as well as minimum and maximum values to give a snapshot of the data analyzed. Table 1 shows that earnings management measured through discretionary accrual manipulation has an average value of 0.4334 with the minimum and maximum of -1.6 and 4.88 respectively, and standard deviation of 0.4247 which implies that the variable (discretionary accrual) invested is more connected around the mean. More so, the result of the table shows that audit firm size (AFS) depict an average value of 0.6400: which implies that the average of 64% of the listed manufacturing companies make use of the Big 4 firms as their auditor, with the minimum and maximum of 0 and 1 respectively, then the standard deviation of 0.4809 which means that there is a widely dispersion from the mean value.

Furthermore, the mean of joint audit (JA) investigated had an average value of 0.0182 implying that about 1.82% of listed manufacturing companies made use of a joint audit service while minimum and maximum of joint audit service as measured by dichotomous variable are 0 and 1 respectively. The standard deviation of 0.1339 which implies that joint audit service does not exhibit a consideration clustering around the mean.

Similarly, auditor's experience (AE) had a mean of 46.1460 with minimum and maximum 7 and 67 respectively, and a standard deviation of 21.3092 which is lower than the mean; this suggests that the auditor's experience investigated exhibits a considerable clustering around the mean.

Table 1: Descriptive Statistics

Variables	Mean	Standard deviation	Minimum Value	Maximum Value	Observation
Accrual	0.4334	0.4247	-1.6	4.88	275
AFS	0.6400	0.4809	0	1	275
JA	0.0182	0.1339	0	1	275
AE	46.1460	21.3092	7	67	275

Source: Auditors' Computation (2019)

Preliminary Analyses

Normality Distribution Test

The skewness and Kurtosis test in table 2 below shows the extent of departure from normality in the series. The recommended skewness and kurtosis value for a normal distribution in a series is between 0 and 3 respectively. (Wooldridge, 2000).The rule of thumb is that any value of skewness and kurtosis that falls outside

Table 2

Variables	Accrual	AFS	JA	AE
Skewness	2.057	-0.587	1.252	-0.390
Kurtosis	1.910	-1.668	0.962	-1.400
Jarque-Bera	21793.92	540.33	18238.89	270.06
Probability	0.0000	0.0000	0.0000	0.0000

Source: Auditors' Computation (2019)

Test for Multicollinearly

The Variance Inflation Factor (VIF) test was used to test for multicollinearity in the variables used in the models. The multicollinearity test shows the relationship between two or more independent variables. The presence of multicollinearity among the exogenous constructs tend to increase the size of standard errors which often leads to confusing and misleading results as it distorts the estimates of regression coefficients as well as their statistical significance test (Hair, Black, Babin & Anderson, 2010).

From the Table 3, the Variance Inflation Factor (VIF) indicates the impact of other independent variables on the standard error of the regression coefficient. The result showed that there is absence of multi-collinearity problem because it was revealed by the VIF as all values were less than the threshold of 10, and the average VIF also exceeds the value of 0.05. This follows the assumptions that there exists absence of multi-collinearity problem when VIF is less than 10 (Studenmund, 2000) as multicollinearity problem arises when VIF is greater than 10 (Woodridge, 2004). The table for multicollinearity is shown in the Table 3 below.

Table 3 Test for Multicollinearity

Variable	VIF	$(1/VIF)$
AFS	1.17	0.854701
JA	1.15	0.869565
AE	1.04	0.961538

Source: Authors' Computation, 2019

Test for Serial Heteroscedasticity

Table 4 shows the constant residual error test (heteroscedasticity test). The study employed the Breusch-Pagan-Godfrey. The result in Table 4 revealed the absence of heteroscedasticity in all models of the study. The result shows that the p-value (0.7600) is greater than 5% significant level, the null hypothesis was rejected. Therefore, this model does not face any heteroscedasticity problem.

Table 4 Test for Heteroscedasticity

Variable	Chi^2	P-value
Model	18.35	0.7600

Source: Authors' Computation, 2019

Hausman Test

The hausman test is a test for model specification. In panel data analysis, the hausman test helps to choose between fixed effect model or a random effect model at 5% level of significance. If less than 5% the researcher rejects the null hypothesis and accept the alternative hypothesis, while if it is greater than 5% the researcher accepts the null hypothesis and reject the alternative hypothesis. The null hypothesis means that the preferred model is random effects while the alternative hypothesis means that the model is fixed effects. From the result of Husman test shown in table 5, the p-value (0.0603) is greater than 5%, therefore, the null hypothesis will be accepted which means that the random effect model is most appropriate.

Table 5 Hausman Test

Variable	Chi^2	P-value
Model	5.71	0.0603

Source: Authors' Computation, 2019

Restatement and Test of Hypotheses

Table 6 was used to provide answers to the research questions raised and also to test the hypotheses formulated in chapter one. The result in table 6 shows the linear relationship between audit quality (proxied by audit firm size, joint audit, auditor financial dependent, auditors' experience and audit tenure) and earnings management (proxied by discretionary accrual) of the listed manufacturing firms in Nigeria for the periods of 2013 to 2017, with the use of panel regression analysis. The table 4.6 shows that the model is fitted as evidenced by the F-Statistics of 5.81 which is significant at 1% level of significance as indicated by p-value of 0.0032. The results also reveals that the independent variables of the model explained around 41% of the variations in the dependent variable of listed manufacturing companies in Nigeria, from the coefficient of determinations (R_2) value of 0.4095) while the remaining 59% are caused by other independent variable not included in the model.

Table 6: Regression Table

Variables	Coefficient	Std error	t-value	p-value
AFS	-0.3238	0.0726	-4.46	0.002***
JA	-1.1757	0.2773	-4.24	0.000***
AE	-0.0021	0.0015	-1.40	0.063*
Cons	-0.5337	0.1788	-2.98	0.000***
F-stat	5.81			0.0032***
R^2	0.4095			
AdjustedR^2	0.321			

*, **, *** : denotes Significant at 10%, 5% and 1% level respectively.
() : denotes P-value, while the value denotes Coefficients
Source: Authors' Computation, (2019)

Restatement and Test of Hypothesis

Restatement and Test of Hypothesis one

H_{01}: Audit firm size has no significant effect on the earnings management of the listed manufacturing companies in Nigeria.

The result in Table 6 reveals that audit firm size (AFS) has a negative effect on earnings management (discretionary accrual) of the selected manufacturing companies in Nigeria as indicated by coefficient (-0.3238) which is significant at 5% level of significance with p-value (0.002). The null hypothesis was rejected, which states that: audit firm size has no significant effect on the earnings management of the listed manufacturing companies in Nigeria. Therefore, alternative hypothesis which state that audit firm size has significant effect on the earnings management of the listed manufacturing companies in Nigeria was accepted which implies that the larger the audit firms the lower the earnings manipulation. This shows that over 32% of the sample listed manufacturing companies in Nigeria were audited by large audit firm (Big 4) during the period of the study. it reduces the earnings manipulation practice by 32% in the listed manufacturing firms in Nigeria.

Restatement and Test of Hypothesis two

H_{02}: There is no significant relationship between joint audit service and earnings management of the listed manufacturing companies in Nigeria.

Based on the result shown in Table 6 above, the findings reveal that joint audit service exhibit a negative significant influence on earnings management practices of listed manufacturing companies in Nigeria as indicated by the coefficient of (-1.1757) and p-value of (0.000) at 5% level of significant. Thereby, providing basis to rejecting the null hypothesis which state that here is no significant relationship between joint audit service and earnings management of the listed manufacturing companies in Nigeria because the p-value is less than the level of significant and accept the alternative hypothesis which also state that there is significant relationship between joint audit service and earnings management of the listed manufacturing companies in Nigeria. The result implies that a joint audit service is an influential determinant of earnings management in the selected listed manufacturing companies in Nigeria. That is, if a company engage in a joint audit service it reduces the level of earnings manipulation.

Restatement and Test of Hypothesis three

H_{03}: There is no significant relationship between audit experience and earnings management of the listed manufacturing companies in Nigeria.

Furthermore, the result of the random effect model regression in Table 6 above shows that auditor's experience has an insignificant negative influence on earnings management among the listed manufacturing companies in Nigeria. This was indicated by the coefficient of -0.0021 with a p-value of 0.063 at 5% level of significant, which implies that the null hypothesis which state that there is no significant relationship between auditor's experience and earnings management of the listed manufacturing companies in Nigeria will be accepted due to the fact that the p-value is greater than the 5% level of significant and then the alternative hypothesis which state that there is significant relationship between audit experience and earnings management of the listed manufacturing companies in Nigeria will be rejected. This implies that the auditors' age of establishment does not affect the level of earnings management of the listed manufacturing companies in Nigeria.

Discussion and Implications of Findings

From the empirical test and the result in Table 6, the study revealed that audit firm size (measured by the Big 4 firms and non-big 4) has a significant negative relationship with earnings management. However, it provides support to the hypothesis one (H_{01}) on the effect of audit firm size on earning management of the listed manufacturing companies. This implies that audit firm size provides a strong negative effect on earnings management. A significant increase in audit firm size will lead to a reduction in earnings management which is in line with the *a-priori* expectation that audit firm size should reduce the level of earnings management practice in listed manufacturing companies in Nigeria. The results of this study indicate that companies which are audited by Big 4 auditors generally engage in less earnings management than firms audited by non-Big 4. It means that Big 4 auditors in Nigeria might provide high audit quality than non-Big 4 auditors because the Big 4 audit firms in Nigeria is believed to adopt high quality control system, such as audit guidelines, working papers and other technical resources, from their mother companies which makes the chances of detecting earnings management easier. On the contrary, if a company engages in the use of non-big 4 audit firm, it could increase the level of earnings management because there might be a lack of financial resource to spend on the training of their staffs and also the non-big 4 audit firms is believed not to have high technical competence compared to that of the Big four which might increase the chances of earnings management.

The result is in line with the assumption of the agency theory as it suggests that large audit firms would be more independent and objective in audit exercise and thereby, have higher chances of discovering and reporting earnings management employed by the managers. Therefore, when financial statement is audited by big four firms, it would reduce the level of earnings management practice in the financial statement. The findings was predominantly consistent with the work of Mahmoud *et al.,* (2014); Augustine (2014); Ebrahem (2015); Aliyu *et al.,* (2015); Lukman *et al.*, (2016); Tareq *et al.,* (2017); Alzoubi *et al.,* (2017); Khanah *et al.,* (2018) which found that audit firm size has negative significant relationship to earnings management, which implies that the larger the audit firm, the lower the earnings manipulation. However, the result contradicts the result of Kim *et al.,* (2014); Ana (2017); Ibrahim (2017) and Muhammed (2018) which shows that audit firm size has a significant positive relationship, which implies that the larger the audit firm size, the greater the chances of earnings management of the listed manufacturing companies.

From Table 6 also, the study found out that joint audit service has significant negative relationship on level at which earnings management are being manipulated by the listed manufacturing companies in Nigeria, as indicated by the coefficient of -1.1757 with the p-value of 0.000 which implies that companies that engage in joint audit are less involved with earnings manipulation. The result also corroborates the *a-priori* expectation as the researcher expects that a company involved in joint audit service will engage in less earnings manipulation practice because the audit firms will have the opportunity for mutual consultation, opportunity in sharing their experience with each other, also there will be better audit quality which all have the chances of reducing earnings management practice of manufacturing companies in Nigeria. The finding of this study corroborate the findings of Aliyu *et al.*

(2015); Jamel (2018); Mohamed (2018) where they found significant negative relationship between joint audit service and earnings management. However, contrarily, Marco (2016), and Olabisi *et al.*, (2018) found that joint audit service increases the level of earnings management. The result was supported with the assumption of the signaling theory as it asserted by the passing of information to the market that the financial statement is free from financial misrepresentation due to the fact that the financial information was audited by two audit firms.

Finally, the Table 6 revealed an insignificant negative effect between audit experience and earnings management practice, which means auditor's experience has no relationship to do with the level of earnings management practice in the manufacturing companies. However, this is not in line with the *a-priori* expectation which is auditors' experience is expected to reduce the level of earnings management practice. Some prior studies such as Xiaoke *et al.*, (2015); Herda & Martins (2016); Nuraisya & Chariri (2016) also found no significant relationship between auditors' experience and earnings management of manufacturing companies in Nigeria. In addition, previous researchers such as Cahan *et al.*, (2014); Ashiani *et al.*, (2016) contradicts the result of this study, where they reveal that auditors experience has a significant negative effect on earnings management of a manufacturing company, that is, the more the age of an audit firm the less the chance of engaging in earnings management practice.

Conclusion and Recommendations

Based on the empirical results from the analyses, the study concluded that audit firm size has a significant negative relationship with earnings management which means the larger the audit firm size the lesser the chance of earnings management practices. More so, joint audit service has a significant negative relationship with earnings management, that is, if a company engaged in joint audit service it reduces the chances of earnings management. Furthermore, auditor's experience has no significant relationship with earnings management, which means, age of an audit firm does not have any relationship with earnings management.

Based on the findings which shows that audit firm size has a negative significant influence on earnings management of listed manufacturing companies, this study recommends that the management should emphasize on making use of large audit firms (the big 4) to audit their financial statement to gain greater trust between shareholders and creditors because it increases the chance of discovering earnings management practice. In addition, audit firms are to emphasize more on high professional standards to maintain competitiveness.

More so, it was found that joint audit service has a negative significant relationship with earnings management, the study recommends that listed manufacturing companies in Nigeria should emphasize on the use of joint audit services because, companies that engaged in joint audit service experience low level of earnings management practice. Lastly, it was found that audit experience has no significant influence on earnings management; the study recommends that the regulatory bodies should issue a framework which will state the minimum age that an audit firm will be before it can audit the financial statement of an organization.

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