

UNIVERSITY OF PORT HARCOURT JOURNAL OF ACCOUNTING AND BUSINESS
DEPARTMENT OF ACCOUNTING
UNIVERSITY OF PORT HARCOURT, CHOBA
PORT HARCOURT, RIVERS STATE
NIGERIA
VOL. 8 NO. 2 JUNE 2021

AUDIT QUALITY AND EARNINGS MANAGEMENT OF LISTED MANUFACTURING FIRMS IN
NIGERIA

OSHO, FOLAKEMI F.
Department of Accounting,
Babcock University,
Ilishan-Remo, Ogun state

And

KWARBAI, JERRY D.
Department of Accounting,
Babcock University,
Ilishan-Remo, Ogun state

Abstract

Earnings management is the process of deviating from standard accounting processes and adjusting reported income (Roychowdhury, 2006). Corporate managers engage in earning management, inflating current earnings at the expense of the business' economic values, in order to attain a high stock price and/or earnings in order to satisfy the earnings benchmark. Hence, the basic objective of this study is to seek investigate the effect of audit quality on earnings management of 16 consumer goods listed manufacturing firms in Nigeria for the period 2010-2019. The study relied on the data on abnormal cash flow from operating activities, audit fee, audit size and audit tenure were drawn from the published annual report and accounts of the sampled companies. Pearson correlation and OLS regression were employed in the analysis of data. The effect of audit quality on abnormal cash flow from operating activities is positively significant. The study recommended that Management of listed firms in Nigeria should maintain stability and consistency in their earnings, while avoiding earnings management as much as possible. This is by employing uniform accounting policy in accordance with the relevant accounting standards for the preparation of financial accounting information. Management of listed firms in Nigeria should create more innovative ideas and inventions that are substantial enough to project the earnings of the organizations to acceptable level.

Keywords: Abnormal Operating Cash Flow, Audit quality, Audit size

Introduction

In recent times, several accounting scandals have occurred due to manipulations of financial figures reported in the financial statements (Goncharov, 2005). According to Healy and Wahlen (2019) Firms purposefully manipulate profits in financial statements to deceive investors in regards to the entity's success or influence major decisions based on accounting data. Earnings per Share results, which are often called the shareholders' profits, are often

controlled such that they meet the desired rate. Davidson and DaDalt (2003) opined that managers while engaging in earnings management make use of the flexibility of accounting rules and principle when incurring expenses and recognizing revenues knowing full well that the presence of earnings management will create problems in the financial report analysis and firm income assessment turns into a mixture of evaluating the firm's economic reality and identifying the likely changes that have been made (Sincerre, Sampaio, Famá, & Santos, 2015).

Due to several scandals, a serious question about the effectiveness of auditors in monitoring and controlling managerial opportunistic behavior, since the responsibility of audit is making sure that the quality of reported earnings is monitored. The accuracy with which audit identifies and records material misstatements in financial statements is referred to as audit quality (Gul, 2009). Since financial statements audited by high quality auditors are less likely to include material misstatements (Balsam et al., 2003), and thus minimize earnings control, high audit quality should be correlated with high information quality of financial statements. After the Cadbury Nigeria Plc scandal in 2006, there has been a greater emphasis on earnings management in Nigeria. In the case of Cadbury, it was revealed that overstatements were discovered in their released financial statements for the four years.

Financial crises in recent years have raised questions about the audit function's authenticity, integrity, utility, and value relevance. Badawi (2018) called out some companies that have been involved in accounting scandals involving inadequate audit quality and profit manipulations during the last decade. Cadbury Nigeria Plc and African Petroleum Plc (Okolie and Agboma 2018); Savannah Bank and African International Bank (Odia, 2017); Wema Bank, Nampak, Finbank, and Spring Bank (Adeyemi & Fagba 2018); As a result, there is concern about the integrity of auditor's reports and their relevance to the quality of accounting income, as evidenced by the recurring clusters of business failures, frauds, and litigations.

The primary aim of this study is to examine the impact of Audit quality on the earnings Management of listed manufacturing firms in Nigeria. The specific objectives are to:

- i. Examine the effect of audit quality on cash flow from operating activities of listed manufacturing firms in Nigeria.
- ii. Ascertain the controlling effect of firm size, leverage and corporate age on the effect of audit quality on abnormal cash flow from operating activities of listed manufacturing companies in Nigeria.

Over the last few decades, a number of accounting studies have focused on earnings management (e.g. Roychowdhury, 2006; Gunny, 2010; Zhang, 2012; Abata & Migiyo, 2016; Gerayli, Yanesari & Maatoofi, 2015). However, only a few studies have specifically focused on the effect of audit quality on earnings management, indicating that more research is needed, especially in the context of a western-based manufacturing sector like Nigeria. This study extends previous research on earnings management in several ways. Such as: While previous studies have measured earnings management using accruals methods, we utilize the real earnings management technique because managers can transition from accruals to real earnings management when faced with increased scrutiny from auditors and/or more limited legislation or standards that may limit their capacity to employ discretionary accruals. In addition, we find partial evidence of a strong association between audit quality

and real earnings management in this study and thus made its modest contribution to this study.

This paper is structured as follows; next to the introduction is section 2, in which the review of extant literature and the underpinning theory for the study are presented. The methodology adopted for the study including measurement of variables is presented in section 3. Section 4 highlights the empirical analyses, results and discussions while the study concludes in section 5.

Literature Review

Conceptual Review

Abbad and Hijazi (2016) quote Healy and Wahlen (1999) for a thorough definition: "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".

Earnings management methods, according to Hashim, Salleh, and Ariff (2013), are a significant issue for the accounting profession. This topic has increased in popularity over the last two decades and continues to pique academics' and standard-setters' interest. The purpose for investigating earnings management relies on the assumption that such behavior deceives financial statement users and can sometimes be a precursor to more serious actions like fraudulent financial reporting. Despite the fact that many governments have emphasized the importance of excellent corporate governance standards in limiting the risk of earnings management behavior, it is a worldwide phenomenon.

The existence of diverse, but equally acceptable, accounting methodologies used to approach recognition, measurement, and disclosure of corporate economic trends leads to managers using discretion and engaging in earnings management. Research has increasingly come to focus on other forms of earnings management, known as operational, in which decisions taken by management have been considered more damaging to companies and market participants because they affect cash flow and not only profit. Moreover, earnings management via accruals is easier for the market, auditors and regulators to detect, compared with earnings management via operating decisions, which could thus encourage companies to use this strategy.

There have been a number of attempts in the past to establish "audit quality," according to the International Auditing and Assurance Standards Board (IAASB, 2011). None of them, however, has resulted in a universally accepted and supported definition. In essence, audit quality is a complicated and cross term. Most audit scholars use DeAngelo's (1981) definition of audit quality, which stipulates that audit quality is "the market-assessed joint probability that a given auditor will both"

- a) Find a flaw in the client's accounting system and fix it.
- b) Report the breach.

The definition emphasizes two crucial characteristics of audit quality: (1) the audit firm's competence, which determines how likely a misstatement will be identified, and (2) the auditor's independence and objectivity, which influences what the auditor is likely to do if a misstatement is identified. This definition has shown to be extremely effective in the auditing of quality studies.

Underpinning theory

The Agency theory was popularized by Jensen and Meckling (1976). The theory is based on the relationship between the principal (shareholder) and the agent (managers).

The relationship between the principal (shareholder) and the agent was the basis for this study. The function of agency theory is based on the separation of ownership from management and control in modern business corporations. This separation allows for the appointment of an agent (manager) to oversee the company's day-to-day activities. However, because of this relationship, there is a risk of conflicts of interest between the agent and the principal, which necessitates keeping track of the expenses of resolving these conflicts (Jensen & Meckling, 1976). Agency theory assumes that managers are motivated by their personal gains and work to exploit their personal interest and not the interest of the shareholders. Managers for instance may be interested in buying lavish offices, company cars and other extravagant items, since the cost of these items is not borne by them (managers) but the owners (shareholders).

The primary issue in agency theory is how to reconcile managers' competing objectives with the interests of shareholders. Consequently, managers alter the company's reported earnings when they have incentives to do so, such as setting high profit targets and receiving performance-based incentive. The relevance and credibility of reported accounting earnings and financial statements are affected as a result of this manipulation. As a function of agency theory, monitoring techniques such as high-quality audit are suggested to decrease these conflicts and align the interests of managers and shareholders. This study therefore draws on agency theory to test the relationship between audit quality and the incidence of earnings management of listed industrial goods firms in Nigeria. Agency theory is chosen because it better explains the motivation for earnings management and the association between audit quality as a monitoring mechanism, and earnings management than the other theories.

Empirical review

Some prior researches have investigated the relationship between audit quality and earnings management, following are examples of that Memis (2012) used a sample of 1507 firm-year observations for 2008-2009 to study the relationship between audit quality and earnings management in eight emerging nations. The modified Jones model was used to quantify abnormal cash flow from operating operations as a proxy for earnings management. The study's findings revealed that, with the exception of Brazilian and Mexican enterprises, there is a substantial link between abnormal cash flow from operating operations and audit quality as judged by the Big Four auditors. The result implies that audit quality does not constrain earnings management in all the sampled emerging countries (Brazil, Greece, Israel, South Korea, Mexico, Poland, Russia, and Turkey). Though the study covers eight emerging countries, the fact that it excluded Nigeria makes its findings unlikely to apply to industrial goods firms in Nigeria due to environmental factors.

Additionally, Inaam, Khmoussi and Fatma (2012) investigated the relationship between audit quality and earnings management of Tunisian firms using 319 firm year observations for the period 2000-2010. Using the modified Jones model (Dechow, Sloan & Sweeney 1995) to measure discretionary accruals, the study showed that auditor industry specialization and auditor size-measured by Big 4 auditors are negatively associated with earnings management of their clients. Auditor tenure had a negative but insignificant association with discretionary accruals. The study is limited because even though Tunisia

and Nigeria are developing nations with several similarities, in view of the fact that the study was not directly in relation to industrial goods firms makes the findings unlikely to apply to industrial goods firms in Nigeria.

In addition, Tyokoso and Tsegba (2015) looked at the impact of audit quality on earnings management of Nigerian listed oil marketing businesses from 2004 to 2013. The modified Jones model was used to estimate the dependent variable earnings management, which was represented by audit firm size, auditor industry specialization, and auditor tenure. The independent variable audit quality was represented by audit firm size, auditor industry specialization, and auditor tenure. The findings of the study indicated that both audit firm size and auditor industry specialization have insignificant negative effect on ACFO of the sampled listed oil marketing companies in Nigeria during the period of study. In contrast, auditor tenure had a significant negative effect on ACFO of the companies.

On the basis of the above inconclusive debate and mixed results, this study proposed our main hypothesis that:

H₀₁: Audit Quality does not have a significant effect on abnormal cash flow from operating activities of listed manufacturing firms in Nigeria.

H₀₂: There is no significant controlling effect of firm size, leverage and corporate age on the relationship between audit quality and abnormal cash flow from operating activities of listed manufacturing companies in Nigeria.

Methodology

The Ex-post facto research design is adopted for this study based on positivist approach. The population of the study involved all quoted companies on the Nigeria stock exchange and they are about 192 quoted companies (Nigeria Stock exchange, 2021) and for the purpose of this study we considered the sixteen (16) consumer goods manufacturing firms. Secondary data was extracted from the published audited annual reports and accounts of the companies. The choice of manufacturing companies was premised on the critical role it plays in aiding the development of the Nigerian economy.

Measurement of variables

The dependent variable in this paper is 'earnings management' using 'abnormal cash flow from operating activities' as a proxy while the independent variable 'audit quality' is measured as audit size, audit fee and audit tenure. The control variables used were corporate age, firm size and leverage. Following the model developed by Roychowdhury (2006), the typical levels of each sort of real activity are approximated as a linear function of sales and sales changes. For each industry and year, we used the following cross-sectional regression to determine the usual levels of cash flow from operations:

$$\frac{CFO_t}{A_{t-1}} = \alpha_0 + \alpha_1 \left(\frac{1}{A_{t-1}} \right) + \alpha_2 \left(\frac{S}{A_{t-1}} \right) + \alpha_3 \left(\frac{\Delta S}{A_{t-1}} \right) + \varepsilon_t$$

Where:

CFO_t is cash flow from operation for firm i in year t ; $Sales_{i,t}$ is sales revenue in period t for firm i ; $\Delta Sales_{i,t}$ is change in sales revenue. It measured by sales in year t less sales in year $t-1$ for firm i ($\Delta Si,t = \Delta Si,t - \Delta Si,t-1$); $Assets_{i,t-1}$ is total assets for firm i in year $t-1$.

Audit Firm size:

This is measured with a dummy variable, 1 if the firm is audited by a Big 4 auditor and 0 if otherwise.

Audit Fee:

It is measured with a dummy variable as well, 1 if it is audited by a Big 4 auditor, 0 if otherwise.

Audit Tenure:

This is measured with number of consecutive years that the client has retained a particular audit firm.

Firm size:

It is measured by Lagged Total Assets or Total Assets of firm i at year t-1

Leverage:

It is measured by Debts/Equity

Corporate age:

It is measured by Total Age of firm i at year t-1

Model Specification

This paper established the following models to evaluate effect of audit quality on earnings management of listed manufacturing firms in Nigeria, and to determine the controlling effect of corporate age, firm size and leverage on the relationship between quality and earnings management of listed manufacturing firms in Nigeria:

$$ACFO_{it} = \alpha_0 + \alpha_1 AS_{it} + \alpha_2 AF_{it} + \alpha_3 AT_{it} + \epsilon_{it} \dots \dots \dots \text{Model 1}$$

$$ACFO_{it} = \alpha_0 + \alpha_1 AS_{it} + \alpha_2 AF_{it} + AT_{it} + \alpha_4 CORP_{it} + \alpha_5 FS_{it} + \alpha_6 LEV_{it} + \epsilon_{it} \dots \dots \dots \text{Model 2}$$

A priori expectation

This study expected that audit quality would have positive effect on earnings management likewise with the inclusion of the control variables, corporate age, firm size and leverage.

Empirical Results

Table 1: Descriptive analysis

Variable	ACFO	AS	AF	AT	CA	FS	LEV
Mean	-0.0736	0.7875	0.1247	0.7937	31.1875	7.468638	1.5649
Std. Dev	0.1662	0.4103611	0.2043	0.4058	13.75765	0.7909	1.4220
Min	-0.7218	0	0.0131	0	2	5.2473	-4.33
Max	0.6117	1	1.5417	1	55	8.6836	7.82

Table 1 highlights the statistical properties of the variables, with a focus on the average, min, max, and distribution measurements for the variables in this study.

Abnormal Cash flow from operating activities (ACFO) is reported with minimum and maximum value of - 0.7218 and 0.6117, suggesting that there is wide difference between the minimum and maximum values. It is further confirmed by the mean and standard deviation with values of – 0.0736 and 0.1662. The figure of standard deviation which is higher than the mean value suggests that there is a wide variation, indicating that the variable is volatile. Audit Size (AS) has a maximum and minimum value of 1 and 0 respectively, suggesting that there is wide gap between the maximum and minimum values. This is further confirmed by the mean and standard deviation with values of 0.7875 and 0.41036. The value of standard deviation which is lower than the mean value suggests that there is little variation, indicating that the variable is not volatile. Audit Fee has reported in the descriptive statistics states that the minimum and maximum value of 0.0131 and 1.5417 respectively, suggesting that there is wide gap between the maximum and minimum values.

This is further confirmed by the mean and standard deviation with values of 0.1247431 and 0.2043282. The value of standard deviation which is higher than the mean value suggests that there is a wide variation, indicating that the variable is volatile. Audit Tenure, the reported estimate shows the minimum and maximum value of 0 and 1 respectively, suggesting that there is wide gap between the maximum and minimum values. This is further confirmed by the mean and standard deviation with values of 0.79375 and 0.4058825. The value of standard deviation which is lesser than the mean value suggests that there is a no variation, indicating that the variable is not volatile.

Corporate Age is reported with maximum and minimum value of 55 and 2 respectively, suggesting that there is a wide gap between the maximum and minimum values. This is further confirmed by the mean and standard deviation with values of 31.1875 and 13.75765. The value of standard deviation which is lower than the mean value suggests that there is a no variation, indicating that the variable is not volatile. Firm size the reported estimate shows the minimum and maximum value of 5.2473 and 8.6836 respectively, suggesting that there is wide gap between the maximum and minimum values. This is further confirmed by the mean and standard deviation with values of 7.468638 and 0.7909957. The value of standard deviation which is lesser than the mean value suggests that there is a no variation, indicating that the variable is not volatile. Leverage is reported with maximum and minimum value of 202.9019 and -118.6865 respectively, suggesting that there is a wide gap between the maximum and minimum values. This is further confirmed by the mean and standard deviation with values of 2.468954 and 19.01068. The value of standard deviation which is higher than the mean value suggests that there is a wide variation, indicating that it is volatile.

Inferential analyses

The paper made use of both correlation and regression analyses. The correlation analysis using both correlation matrix test and Variance Inflation Factor test were carried out to determine whether the series in the distribution are correlated, while the regression analysis was conducted for the test of the hypotheses

Table 2: Correlation analysis

Variable	AS	AF	AT	CORP	FS	LEV	VIF	1/VIF
AS	1.0000						1.76	0.5677
AF	0.0124	1.0000					1.73	0.5771
AT	-0.0382	-0.1216	1.0000				1.64	0.6080
CORP	0.6142	0.1098	-0.082	1.0000			1.36	0.7357
FS	0.4123	-0.4215	-0.421	0.3340	1.0000		1.07	0.9309
LEV	0.0900	-0.0348	-0.121	0.1800	0.1944	1.0000	1.03	0.9663
							Mean= 1.43	

Source: Researcher's Work (2021).

Interpretation

The result on Table 2 reveals that AF, CORP, FS and LEV have positive relationships with Audit size with a R- values of 0.0124, 0.6142, 0.4123, 0.0900 respectively, Whereas audit tenure (AT) has a negative relationship with R- values of -0.0382. However, these relationships are statistically insignificant as shown by their respective probability values. There is positive and significant relationship AF and AT, CORP and FS, and FS and LEV.

Thus, the correlation results show that audit quality measures have significant relationship with earnings management of sampled companies for the period under study. The regression analysis in the next section shows the extent and direction of this relationship.

Table 3: Regression analysis

	MODEL ONE				MODEL TWO			
	POOLED OLS WITH CLUSTER				POOLED OLS WITH CLUSTER			
Variable	Coeff	Std.Err	t-test	Prob	Coeff	Std.Err	t-test	Prob
Constant	-0.1131	0.4455	-2.54	0.011	-0.3389	0.1490	-2.27	0.024
AS	0.0364	0.0383	0.95	0.342	0.0457	0.0412	1.11	0.270
AF	0.0749	0.0924	0.81	0.417	0.1470	0.0728	2.02	0.045
AT	0.00177	0.0332	0.05	0.957	0.0137	0.0319	0.43	0.667
CORP	-	-	-	-	-0.0020	0.0012	-1.64	0.102
FS	-	-	-	-	0.0292	0.0207	1.41	0.160
LEV	-	-	-	-	0.0283	0.0093	3.04	0.003
Adj. R ²	0.0167				0.0615			
F-Stat	F _(0,4) = 11.994				F _(6,153) = 2.74			
Probability of F-Stat	0.0257				0.0148			
Hausman Test	chi ² ₍₃₎ = 3.13(0.3726)				chi ² ₍₆₎ = 3.10(0.7966)			
Heteroskedasticity Test	chi ² ₍₁₎ = 0.18 (0.6739)				chi ² ₍₁₎ = 1.71 (0.1910)			
Serial Auto-Correlation	F _(1,15) = 11.994 (0.0035)				F _(1,15) = 1.761 (0.2043)			
Breusch Pagan LM	chi ² ₍₁₎ = 0.00 (1.000)				chi ² ₍₁₎ = 0.00 (1.000)			

Source: Author's Computation (2021)

Diagnostic Tests

Hausman test was conducted in deciding the most suitable estimation technique between the Fixed Effect and the Random Effect at significance level of 5%; the results of the tests with p-values of 0.3726, and 0.7966 reveals that the hausman test is insignificant and therefore means that the null hypothesis is accepted which indicates that the Random Effect is the most appropriate estimator. The confirmatory tests on the results of Hausman tests were conducted using breusch and pagan lagrangian multiplier test. This was done to determine the most appropriate estimating technique between the Random Effects and Pooled OLS, with null form of "no panel effect" that is "no significant difference across units". The results with p-values of 1.0000, and 1.0000 negate the results of the Hausman test, thus confirmed the inappropriateness of the Random Effect that there is no panel effect for both Models; therefore Pooled OLS is the most appropriate and was used for the analyses of both model one and model two.

Breusch-Pagan/Cook-Weisberg Test with p-values of 0.6739 and 0.1910 indicated that there is no presence of heteroskedasticity in both models. The existence of associations among the coefficients of the model and its residuals were tested using Wooldridge test for serial autocorrelation. The statistics derived with p-values of 0.6739 and 0.1910 agrees with the null hypothesis which states that there is no first order autocorrelation. This implies that there is no autocorrelation problem among the series in both models.

Based on the results of the diagnostic tests carried out; both Model One and Model Two are estimated using Pooled Ordinary Least Square with Cluster Standard Errors.

$$ACFO_{it} = \alpha_0 + \alpha_1 AS_{it} + \alpha_2 AF_{it} + \alpha_3 AT_{it} + \epsilon_{it} \dots \dots \dots \text{Model 1}$$

$$ACFO_{it} = -0.1131 + 0.0364 AS_{it} + 0.0749 AF_{it} + 0.0017 AT_{it} + \epsilon_{it} \dots \dots \dots \text{Model 1}$$

The result of the regression model presented in Table 3 (Model One) evidenced that Audit Size (AS) Audit fee (AF) and Audit tenure (AT) have positive effect on abnormal Cash flow from operating activities (ACFO) ($\alpha = 0.0365$); a unit increase in AS would result to 3.65% increase in ACFO; while positively influence ACFO. The $\rho=0.0257$ which is less than the 5 percent level of significance means that the effect of audit size, audit fee and audit tenure is significant to ACFO.

Additionally, The explanatory powers of the independent variables reflect that the joint variations in the independent variables yield 1.67% variation in the ACFO, while the remaining 98.33% changes in ACFO is caused by other factors not captured in this model. Hence, the coefficient of determination shows that the main model has weak explanatory power. This is further emphasized by the probability of the F statistics indicating that this model is statistically significant.

The probability of the F-test (ρ -values of 0.0257) showed that audit quality measured as Audit size (AS), Audit fee (AF) and Audit tenure (AT) does significantly affect cash flow from operating activities of listed manufacturing companies in Nigeria. Therefore from the regression estimates, Audit quality measure by Audit size, Audit fee and Audit tenure jointly have significant effect on abnormal cash flow from operating activities.

Based on the insignificance of the probability of the F-test, with ρ -value of 0.0257 which is less than the chosen level of significance for this study at 5 percent, therefore, this study does reject the null hypothesis which stated that audit quality does not significantly affect cash flow from operating activities of listed manufacturing companies in Nigeria, and thus accepting the alternate hypothesis; therefore, audit quality significantly affects abnormal cash flow from operating activities of listed manufacturing companies in Nigeria.

With Moderating Variables:

$$ACFO_{it} = \alpha_0 + \alpha_1 AS_{it} + \alpha_2 AF_{it} + AT_{it} + \alpha_4 CORP_{it} + \alpha_5 FS_{it} + \alpha_6 LEV_{it} \epsilon_{it} \dots \dots \dots \text{Model 2}$$

$$ACFO_{it} = -0.3389 + 0.0457 AS_{it} - 0.1470 AF_{it} + 0.0137 AT_{it} -$$

$$0.0020 CORP_{it} + 0.0292 FS_{it} + \alpha_5 0.02831 LEV_{it} \epsilon_{it} \dots \dots \dots \text{Model 2}$$

When the moderating variables (Corporate age (CORP), Firm size (FS) and Leverage (LEV) are introduced, the result of the regression model as shown in Table 4.2.1 (Model Two) indicated that Audit size (AS) and Audit Tenure have significant positive effect on Cash flow from operating activities (ACFO) ($\alpha = 0.0457$; $\alpha_3 = 0.0137$, $\rho = 0.0148$); a unit increase in AS would result to 4.57% increase in ACFO also a unit increase in AT would result in 1.37% ; Corporate age and Audit fee (AF), also has negative but significant effect; while Firm size (FS) and Leverage (LEV) exert positive but significant influence on ACFO. The explanatory powers of the independent and control variables reflect that the joint variations in the independent and control variables yield 6.5% variation in the ACFO, while the remaining 93.5% changes in ACFO is caused by other factors not captured in this model. The probability of the F-test (ρ -values of 0.0148) showed that audit quality measured as Audit size (AS), Audit fee (AF) and Audit tenure (AT) on ACFO with the controlling effect of Corporate age (CORP), Firm size (FS) and Leverage (LEV), significantly affects earnings management (measured as abnormal Cash flow from operating activities (ACFO) of listed manufacturing companies in Nigeria.

The comparative analysis of the two models (with and without control variables) with multiple coefficient of determination of 1.67% and 6.15% signified the controlling effect of CORP, FS and LEV in the model; which implies that 4.48% additional variation in ACFO is an indication of the inclusion of CORP, FS and LEV as control variables. The 4.48% increment in the coefficient of determination prior and after the inclusion of Corporate age (CORP), Firm size (FS) and Leverage (LEV) as control variables evidenced that they controlled

the relationship between audit quality measured as Audit size (AS), Audit fee (AF) and Audit tenure (AT) and Corporate age (CORP), Firm size (FS), Leverage (LEV) and earnings management (measured as abnormal Cash flow from operating activities (ACFO)) of listed manufacturing companies in Nigeria.

Considering the probability of the F-test (p -value of 0.0148) which is less than the chosen level of significance for this study at 5%, therefore, this study rejected the null hypothesis which stated that there is no significance on the moderating effect of firm size, leverage and corporate age on the relationship between audit quality and abnormal cash flow from operating activities of listed manufacturing companies in Nigeria; and hereby accepted the alternate hypothesis. Therefore, firm size, leverage and corporate age on the relation between audit quality and abnormal cash flow from operating activities of Nigeria's listed manufacturing companies.

Practical Implications

Following the findings, this study can be beneficial to investors, creditors, government, researchers, stakeholders and managers. These implications are outlined below:

Organizations who hire the services of audit firms in Nigeria should judge audit firms on the basis of quality report in prior assignments and not just the size of the audit firm. This is because audit firm size is not associated with less earnings management of Nigerian firms. Those who hire audit services in Nigeria should consider competence of the audit firms rather than size that are likely to be associated with less earnings management of firms. Also, users of audited financial statements should subject all audited financial statements to the same scrutiny regardless of whether the audit report is from a big 4 or small audit firm. This is to avoid making wrong investment decisions.

It is considered as an eye opener to the management of the sampled consumer goods companies in related business that firm size, corporate age and leverage significantly and positively affects the relationship between audit quality and earnings management.

The level of pervasiveness of earnings management practices in manufacturing firms may assist investors and analysts to look for early warning signs of financial statement fraud. Other financial statement users such as financial institutions and creditors may benefit from our study because they rely on financial statement information in their decision-making processes.

It is required to monitor whether companies are providing adequate disclosure and fabricating accounting information in their company annual reports. Our findings help academia to identify various aspects of financial statement of frauds and contribute to the accounting literature.

Conclusion and Recommendations

Since aggressive earnings management reduces the quality of earnings, Standard-setters and regulators should put a stop to creative accounting by eliminating all loopholes in the use of judgments and managerial discretions in asset and liability estimates.

This study has shown empirical evidence of the usefulness of measuring the quality of audit although the three measurement bases show us different results, nevertheless they influence earnings management as such, and investors can rely on accounting information in investment decision. Also in the period of economic recession earning quality was low and earnings management was affected, thus, investors should exercise great care in the use of audit information to make investment decisions during periods of recession.

Policy makers should from policies especially investor's protection act like in that developed economist as it proves to improve the quality of audit and affects the earnings of a company.

Efforts should be intensified by the auditors in order to ensure that the quality of the work they present reflects the actual activity of the firm so as to foster confidence of investors and owners of the business. While earnings management might not be bad in practice, managers should endeavour to avoid aggressive earnings management.

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