



Audit Quality & Earnings Management of Listed Manufacturing Firms in Nigeria

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ABSTRACT

This research project looked at what happens to earnings management and audit quality in publicly traded Nigerian manufacturing companies between 2012 and 2022. The purpose of this research was to examine the relationship between earnings management proxied by discretionary accruals and audit firm size, audit fees, auditor industry specialty, and auditor tenure. All 21 firms operating in the consumer goods industry were considered part of the study's population, with 12 of those firms serving as the study's samples. The analysis relied on secondary data gathered from the firms' annual reports over the time frame. In this case, we used an ex-post Factor layout. Information was analyzed using STATA Version 16 and various regression methods. At the 5% significance level, the regression result showed that company size (Big 4), audit fees, auditor industry specialty, and audit tenure all had a substantial and favorable influence on earnings management. The study recommend that manufacturing industries in Nigeria should hire the Big4, and as well adhere strictly to the mandatory rotation policy of auditors. The study further recommend that higher fees should be paid to auditors which will be commensurate with the audit engagement.

Keywords: audit quality, earnings management, financial statement

INTRODUCTION

The recent global financial crises and the aggressive manipulation of financial information by management have given serious concerns to regulators and users of financial statement. Earnings management occurs when managers practice judgment in financial reporting and structuring transactions to modify financial information with the intention to deceive stakeholders on the true economic situation of their company (Healy & Wahlen, 1999) this practice negatively impact on the organization performance since managers are willing to sacrifice up-coming cash flows to increase current period income (Chih et al 2008) earning manipulation may moderate confidence and assurance in the financial information system.

To forestall and mitigate such fraudulent practices, organization often require the services of external auditors that can provide independent opinion and assessment of financial statements to enable users of financial information to make sound and informed judgment about the financial performance of the company.

In order to restore stakeholders' confidence and improve financial reporting quality, the Financial Reporting Council (2020) took a number of steps to enhance the audit quality of financial reports of companies. These steps included increasing the length of auditors' tenure, instituting mandatory auditor rotation, requiring auditors to be independent, and increasing the level of independence and competence of auditors. The "Code" mandates yearly audit engagement, partner rotation as a means for companies to foster greater auditor independence. The intangible character of an auditor's experience and competence

has led to the use of and compatibility with (Bashiriedim, 2010) — user perceptions of auditor quality based on audit firm size, audit fees, auditor tenure, industry specialization, and auditor's reputation. Conversely, managers may employ earning management as a tactic to artificially increase or decrease profits to meet a predefined goal. It comprises organising and carrying out measures to manipulate or smooth profits, increase earnings, and affect the stock price. GAAP (Generally Accepted Accounting Principles) can be used to meet earnings management goals. This is often the result of discretionary accruals manipulations, which can create issues for accurate and reliable profit reports in developing markets like Nigeria's NSE.

Statement of Problem

The collapse of many manufacturing industries and financial scandals in Nigeria are attributable to managers' involvement in deliberate manipulation of financial statements. Managers achieve this by not complying with general acceptable accounting principles (GAAP). Reporting fictitious profit or high profit, overestimation of operational expenses, overestimation of company's fixed assets, artificially inflate earnings. In addition to violating (GAAP), earnings management can be considered fraudulent if it involves intentional deception or misrepresentation of financial results. This can include using false or misleading financial statements or omitting material information. The quality of a company's reported profits influences investors, confidence, and the allocation of resources in the financial markets, therefore audit quality and earnings management continue to be crucial to stakeholders, investors, and regulars. Corporate governance and auditing are two methods that keep an eye on how a business reports its finances. External auditing has a potential influence on the quality of financial information, auditing helps to reduce information asymmetry, earnings management, and creative accounting in the manufacturing industries.

Objectives of Study

The essence of this study is to determine the impact of audit quality on earnings management. Specific objectives

- i. To ascertain the effect of audit firm size on earnings management.
- ii. To determine the effect of audit fee on earnings management.
- iii. To investigation the influence of industry specialized auditor on earnings management.
- iv. To examine the potential influence of audit tenure on earnings management.

Hypothesis

1. Audit Firm size has no significant effect on earnings management.
2. Audit fee has no significant effect on earnings management.
3. Industry specialized Auditor has no significant influence on earnings management.
4. Audit tenure has not significant effect on earnings management.

LITERATURE REVIEW

Audit Quality

De Angelo's (1981) definition of Audit Quality as the joint probability that a given auditor will discover a material breach in the client accounting system and report the breach is the most well-known and widely accepted definition of Audit Quality among researchers and scholars. This definition simply means that audit quality depends on the auditor to discover material misstatements or errors in the financial statement and report the misstatement. De Angelo (1981) added that for auditor to be able to discover and detect material breach in the financial statement, he is expected to acquire requisites, experience, professional skill, knowledge and expertise in the field of auditing to perform his duties. Palmrose (1988) defines audit quality as “the level of assurances – the probability that financial statement contain no material omission or misstatement. And argues that a higher level of assurance correspond to a higher level of audit services.

Studies in the auditing literature have suggested that the Big 4 auditors may be able to provide higher quality audits than non-Big 4 auditors because the former group devotes more resources to staff training and developing industry expertise relative to non-Big 4 firms. Krishnan, (2003) posited that because of

their size Big 4 auditors are in a better position, relative to non-Big 4 auditors, (Jordan et al., 2010). Other studies have also demonstrated that firms audited by Big 4 auditors have lower levels of earnings management than firms audited by non-Big 4 auditor (Francis, 2011; Alzoubi, 2016). Nevertheless, most studies revealed that Big 4 auditors offer better-quality audits compared to non-Big 4 auditors. To the extent that audit fees are a measure of audit effort, low audit fees could harm audit quality.

Measures of audit quality

This research considers the following audit quality factors:

Audit Firm Size

Since evaluating audit quality is challenging, many researchers resort to using audit firm size as a stand-in. Large auditing firms have a reputation for performing more stringent inspections. Therefore, larger audit firms are associated with more extensive data than smaller audit firms, everything else being equal (Beatty, 1989; Titman & Trueman, 1986). Since large audit firms spend more in reputation capital and experience than do small audit firms (DeAngelo, 1981; Piot & Janin, 2007), they are in a stronger position to limit earnings management. As a result, large audit companies need to offer distinctive audit services of high quality to preserve their reputation capital. According to DeAngelo (1981), bigger companies conduct more thorough audits since they have more to lose. Furthermore, larger organisations can recruit more highly trained workers due to their greater financial resources. The deep pockets argument posits that customers of major auditing firms are willing to pay more because the firms' financial resources allow them to better defend themselves in the event of legal action. Others have argued that large organisations have earned a reputation for excellent quality because of their prominence and not because of any actual difference in audit quality.

Audit Fees

According to the International Standards on Auditing, an auditor's fee is any payment made to a financial auditor in exchange for the auditor's services in attesting to the truthfulness of financial statements. Accountants have a code of ethics that states audit fees must be set in a way that does not influence the auditor's independence. There have been a lot of research done on what causes audit fees and why. Most research has found that audit fees are heavily influenced by variables including firm size, business complexity, auditor type, auditor tenure, corporate performance, leverage, etc. According to AL-Khaddash, Nawas, and Ramadan (2013), companies pay audit fees to external auditors for both audit and non-audit services, such as management advice and consultants. The SEC defines an audit fee as the total amount paid for an audit or review of a company's financial statements for the most recent fiscal year. According to Chersan (2012), an audit fee is the money the auditor requests or receives in exchange for performing audit services for the auditee.

Auditor Tenure

Accounting literature frequently links auditor tenure as another gauge of audit quality with earnings management. To what extent auditor turnover is related to earnings management is a topic of debate. The first line of defense states that an auditor's independence might be jeopardized if he or she has worked with the same client for too long. Therefore, Piot and Janin (2007) argue that if an auditor stays in the same role for too long, he or she will lose impartiality and start treating the audit as clockwork. On the other hand, those who advocate for auditors to stay with a single client for a longer period of time point to increased audit efficiency and experience as a result. As a result, auditors are more equipped to spot suspicious accounting practises on the part of the client later in the audit engagement than they were at the outset. The second line of reasoning states that there should be a correlation between a longer auditor tenure and less profits management by companies.

Auditor Industry Specialization

Professional auditors who have focused their education and expertise on a single sector are called "industry specialists." According to Solomon, Oyerogba, and Olaleye (1999), experts in the field had better non-error frequency knowledge than generalist auditors. Experts in the field are better equipped

to spot mistakes in employees' work papers throughout the audit review process, according to research by Owoso, Messier, and Lynch (2002). According to research by Low (2004), auditors who specialise in a particular sector do better risk assessments. The literature on accounting also supports the idea that auditor industry specialists have a direct correlation with audit quality. Researchers Audousset-Coulier, Jeny, and Jiang (2016) Indicate that the market share of an industry is typically used to identify a specialised auditor, and that several matrices, including audit fees, total assets, and sales income, are used to calculate market share. When compared to general auditors, specialists are superior because of the depth and breadth of their industry-specific expertise and experience. Auditors with industry expertise also tend to spend more on cutting-edge auditing tools. As a result, they can spot unethical accounting practises like earnings management earlier than other auditors (Balsam, Krishnan, & Yang, 2003; Tyokoso & Tsegba, 2015).

Earnings Management

Merchant and Rockness (1994) define earnings management as any managerial action that influences reported income but provides no lasting economic advantage to the company. Intentional and inadvertent management acts that have an impact on financial reporting and may mislead certain information consumers are both included in this study's definition of earnings management. That is, it entails any alteration of financial records that is permitted by accounting legislation, including the use of estimations, choices, and other practises.

As required by law, external auditors must provide reasonable confidence that the financial statements are free of material misstatements and help level the playing field by removing information gaps between management and stakeholders. Earnings management may be detected and avoided with improved quality auditing practises.

Theoretical Framework

The Agency Theory

In 1976, Jensen and Meckling came up with the agency hypothesis. It is predicated on the connection between principal and agent. Agency theory is grounded in the fact that ownership and management of firms are traditionally treated as separate entities. Because of this split, a management can be hired to run the day-to-day operations of the business on behalf of the shareholders. It is important to keep an eye on the expenses of resolving any conflicts of interest that may arise as a result of this connection (Jensen & Meckling, 1976).

Therefore, in order to lessen these conflicts and better match the interests of managers and shareholders, agency theory recommends monitoring procedures like high-quality audits. As a result, the company must pay more for things like contract creation, loss because of agents' decisions, and monitoring and managing agents' behaviour since managers are motivated by their own self-interest. In view of the foregoing, shareholders can hardly blame them for being wary of management. Using agency theory, this research looks at Nigeria's industrial products corporations to see if there is a correlation between audit quality and the prevalence of earnings management. We use agency theory because it provides the most compelling explanation for why companies engage in earnings management and how audit quality is related to earnings management.

Policeman Theory: Assert that the auditor is responsible for searching, discovering and preventing any fraudulent activity. However, the role of auditors is to provide reasonable assurance and an independent true and fair view of the financial statements to users of financial statement to appraise, evaluate and make informed judgment and decision about the financial performance of the organization. Although there has been more pressure on auditors to detect fraud after recent reporting scandals e.g. Enron, it can be argued that in modern societies, the users of financial statement want auditors to be responsible for fraud detection as they use audit reports to analyze and make decision about the firm. However, auditors are not responsible for finding out all faults but should improve their detection rate to instill public confidence.

Credibility Theory: According to this notion, one of the primary functions of auditors is to increase the trustworthiness of their customers' financial accounts. When consumers have more faith in an organization's financial records and management's stewardship, they are more likely to make well-informed choices about investments and funding. However, stakeholders need to have faith in the financial statements, the credibility gained by financial statements would affect decision by stakeholders (e.g. credit limits provided by supplier) and also helps stakeholders put trust in management, reducing the earnings management and information asymmetry between stakeholders and management.

Empirical Review

Using 319 firm-year data spanning 2000-2010, Inaam, Khmoussi, and Fatma (2012) looked into the relationship between audit quality and earnings management in Tunisian businesses. The study found a negative correlation between auditor industry speciality and auditor size as defined by Big 4 auditors and earnings management of their customers when using the modified Jones model (Dechow, Sloan & Sweeney 1995) to quantify discretionary accruals. There was a small but statistically significant negative correlation between auditor tenure and discretionary expenditures. The study has limitations because, despite the fact that Tunisia and Nigeria are both developing countries with many parallels, the research was not focused on industrial goods enterprises, therefore the results are not generalizable to industrial goods firms in Nigeria.

Companies' profits management practises and audit quality were studied by Rohaida (2011). Earnings management, represented by discretionary accruals, was estimated using both the Jones and modified Jones 1991 model and the Kothari, Lcone, and Wasley, 2005 model. The research found that both audit fees and industry specialised auditors are associated with less earnings management of the sampled firms, across all measures of earnings management. Likewise, there was no negative correlation between the size and independence of the audit committee and the various metrics of earnings management. Results varied among earnings management metrics, audit committee financial expertise, and audit committee gatherings. However, external auditors in Nigeria have a far lower risk of lawsuit than their UK counterparts, therefore the study's conclusions may not be applicable in that country.

Yasar (2013) conducted research that analysed the audit quality and earnings management of Turkish Stock Exchange-listed firms from 2003 to 2007. Regression results for Turkish manufacturing businesses demonstrate a favourable correlation between audit firm size and discretionary accruals. However, the study's conclusions may not be generalizable to Nigerian businesses due to the vast economic contrasts between Turkey and Nigeria.

From 2006-2011, Pouraghajan, Tabari, Emamgholipour, and Mansourinia (2013) analysed data on 140 businesses listed on the TSE to determine the correlation between audit quality and earnings management. Discretionary accruals, a surrogate for earnings management, were estimated using the MJM. A favourable correlation between audit firm size and discretionary accruals was found, although it was not statistically significant. While the economies of Iran and Nigeria are developing and share many similarities, the study's findings may not be generalizable to Nigerian industrial goods firms due to differences in sector and some jurisdictions.

Memis (2012) examined audit quality and profitability management in 8 developing nations using a sample of 1507 firm-year data for 2008-2009. As a stand-in for earnings management, discretionary accruals were the focus of an adaptation of the MJM. Outside of Brazil and Mexico, the Big Four auditing firms found a strong association between discretionary accruals and audit quality. Even though this study encompasses eight developing countries, the findings are not likely to apply to industrial goods businesses in Nigeria due to environmental restrictions.

Tyokoso and Tsegba (2015) examined the correlation between oil marketing companies' audit quality and profits management from 2004 to 2013. In the MJM earnings management estimation, DA acted as the dependent variable, whereas auditor firm size, auditor industry specialization, and auditor tenure were used as proxies for audit quality. This study found that neither the size of the audit firm nor the auditor's

specialization in the auditing of the oil and gas industry had a significant effect on the DA of the listed oil marketing enterprises in Nigeria.

Ching, Teh, and San (2015) used a sample of one hundred (100) companies from the industrial goods and consumer products sectors that were listed on the main board of Bursa Malaysia between 2008 and 2013. Firm size, audit fees, and the average age of audit partners were utilized as quality indicators. A modified version of Jones' (1991) model was used to calculate absolute discretionary accruals, which are indicative of earnings management. Earnings management in Malaysia's listed industrial and consumer goods industries is inversely connected with audit firm size and audit fees, according to a regression analysis of the data. However, the findings of this study may not be applicable to listed industrial products firms in Nigeria due to several legal and economic disparities between the two countries, such as the level of capital market development.

For the years 2008-2011, Zhou and Guan (2014) looked at the connection between audit quality and the earnings management of Chinese enterprises. The MJM was used to estimate discretionary accruals for a data set consisting of 4,640 firm-year observations. According to the results, larger audit firms in China have a more detrimental impact on earnings management, especially for companies that have anomalous accruals that boost profits. Companies' earnings management was shown to be positively correlated with the auditor industry speciality. However, in companies when income is declining, profits management in China has a detrimental effect on the relationship. Findings from the study may not be applicable to industrial products firms in Nigeria because to the sectoral and economic variations between the two countries and the type of the sampled enterprises in China.

Karimi and Gerayli (2014) looked into 91 companies that were traded on the Tehran Stock Exchange (TSE) between 2008 and 2012 to determine the correlation between audit quality (as assessed by auditor industry expertise and tenure) and earnings management. A lower prevalence of earnings management among TSE-listed enterprises was shown to be associated with the auditor industry speciality. There was a little but unfavourable correlation between the tested firms' earnings management and the length of time their auditors had been on the job. This study only provides a limited view of the connection between audit quality and company earnings management due to its focus on auditor sector expertise and tenure. The relationship between audit quality and company profits management techniques has been the subject of several studies from emerging economies.

Using a sample of seven (7) DMBs listed in Nigeria between 2006 and 2013, Aliyu, Musa, and Zachariah (2015) analysed the effect of audit quality (represented by audit firm size, joint audit, and auditor financial dependence- a measure of client importance) on earnings management of listed DMBs in Nigeria using the ordinary least square (OLS) regression technique. The results of this study show that the earnings management of listed DMBs in Nigeria is significantly impacted by the audit firm size and the use of a joint audit. This is a Nigerian study, but it has limitations because the banking industry is unique, therefore it's probable that banks' profits management differs from, say, industrial products companies that were left out of the research.

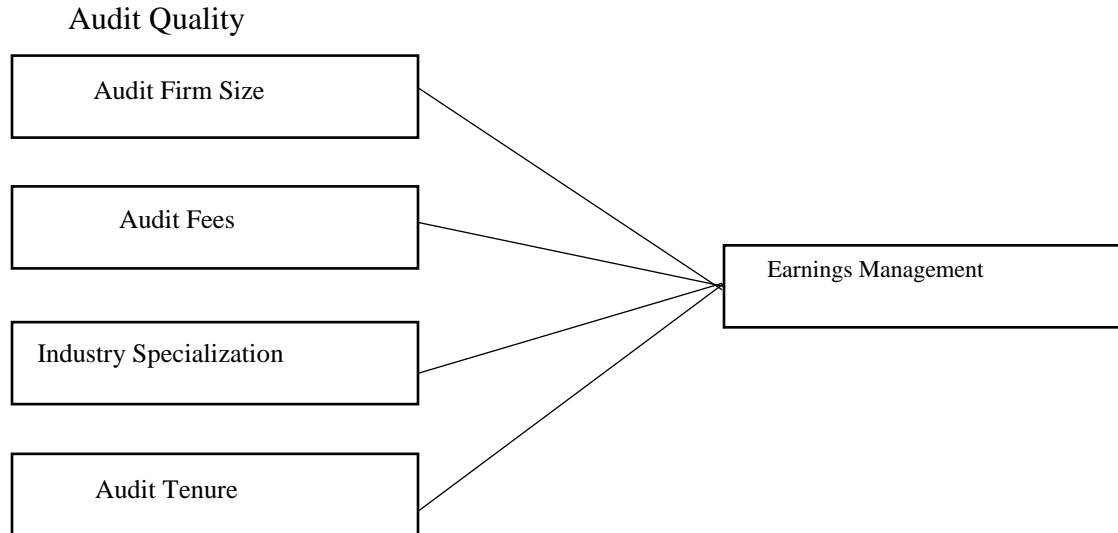


Figure 1: Conceptual Model

Source: Conceptualized by the Researcher, 2023

METHODOLOGY

In order to accomplish its goals, this study makes use of an ex-post facto research strategy. Given that it develops linkages by first recognising certain existing occurrences and then examining data to find plausible causative elements, the design is seen more acceptable. The phenomena being studied has already occurred, hence the researchers were able to utilise data from the public financial statement reports of the listed firms in question without having to control any of the factors. 21 production companies traded on the NGX between 2012 and 2022 make up the study's population. The research sampled twelve (12) publicly traded companies from the consumer products industry using a purposive sampling approach. This total is reached by excluding businesses that did not provide full information for the years in question and did not undergo a re-organisation or merger within that time frame.

Table 3.1 Population

S/N	Name
1.	Champion Brewery Plc
2.	Golden Guinea Brewery Plc
3.	Guinness Nigeria Plc
4.	International Brewery Plc
5.	Nigerian Breweries Plc
6.	Nigerian Enamelware Plc
7.	7 Up Bottling Company Plc
8.	Vita Foam Nigeria Plc
9.	Dangote Sugar Refinery Plc
10.	Flour Mills Nigeria Plc
11.	Honeywell Flour Mill Plc
12.	P. Z. Cussons Nigeria Plc
13.	Nascon Allied Industries Plc
14.	Northern Nigeria Flour Mills Plc
15.	Dangote Flour Mills Plc
16.	Union Dicon Salt Plc
17.	U.T.C. Nigeria Plc
18.	Mcnichols Plc

- 19. Unilever Nigeria Plc
- 20. Cadbury Nigeria Plc
- 21. Nestle Nigeria Plc

Source: Nigerian Stock Exchange website, 2023

Table 3.2 Sample Size of the Study

S/N	Name
1	Champion Brewery Plc
2	Guinness Nigeria Plc
3	Unilever Plc
4	Dangote Sugar Refinery Plc
5	Flour Mills Nigeria Plc
6	Honeywell Flour Mill Plc
7	P. Z. Cussons Nigeria Plc
8	Northern Nigeria Flour Mills Plc
9	International Breweries Plc
10	Vital Foam Nigeria Plc
11	Cadbury Nigeria Plc
12	Nestle Nigeria Plc

Source: Nigerian Stock Exchange website, 2023.

Secondary sources were used to compile information for the study. The sampled firms' annual reports from 2012 through 2022 served as the data source. Research was conducted during a time when Nigeria's capital market had adopted a code of corporate governance. The firms are publicly traded on the NGX as limited liability corporations. Companies listed on the Nigerian Stock Exchange are required to submit an annual financial report to the exchange as a condition of their public limited status.

Technique for Data Analysis and Model Specification

This study used multiple regression analysis to examine how shifting amounts of two or more predictors affected a single dependent variable. Its major use is to predict how much a certain collection of variables will change. Using regression analysis, we looked at how audit quality affected the profit management of publicly listed consumer products companies using the model developed by Dechow, Sloan, and Sweeny (1995). After include data from the sampled company, researchers used residuals from the model developed by Dechow et al. (1995) to conduct a second round of regression analysis. However, the residual is what ultimately defines the quality of the accrual, with greater residuals indicating better earnings management and hence higher quality accruals.

Model Specification

The study's theoretical framework is represented by the following equation. $E=f(AFZ, AF, AT, AIS)$

In econometric notation, the regression model looks like this:

$$EM = \beta_0it + \beta_1AFZit + \beta_2AFit + \beta_3ATit + \beta_4AISit$$

Where:

The letters stand for: EM (Earnings Management), 0 (Constant), AF (Audit Fees), AT (Audit Years in Business), and AIS (Audit Industry Specialization). e = Term of Error

The estimated values of the parameters, denoted by 1 to 7= in the equation Time series with a cross-sectional design

Variable Measurement

Using the model developed by Dechow, Sloan, and Sweeny (1995), managerial earnings are approximated by discretionary accruals.

$$DACC = TAccit/ATit-1 - \alpha_0 + \alpha_1 (1/ ATit-1) + \alpha_2 (\Delta REV \text{ is not zero (Francis; 2008). } REVit / ATit-1 + 3 (PPEit / AT it-1) + 4 ROAit-1+it \text{ where } TAccit = \text{Total Accruals and } PPEit = \text{Property, Plant, and Equipment.}$$

Francis (2008) argues that REV is not zero. In order to solve (1), we got; REV_{it} , t= Variation in Company Revenue; The entire assets of the firm in year t minus one; the return on assets for that same year's operations; the standard deviation of those results, denoted by the symbol ""

Table 1: Measurement of variables

s/n	Variables	Variables measurement
1	AFSIZE	Measured by Dichotomous:1 if company is audited by a Big4, otherwise 0 (DeAngelo, 1981; Khrishan&Schauer, 2000; Khrishan, 2003).
2	Audit Fee	The natural logarithm of the auditing fee paid by the corporation to the auditor represents this value by Effiok and Eton (2013)
3	Auditor Tenure	A count of the years that an audit has been performed on the firm (Jayeola, Taofeekb, & Toluwalase, 2017).
4	AIS	Using a binary scale, with 1 indicating businesses that had industry-specific auditors and 0 indicating those that had generalists. Krishnan & Yang (2003) cite Zhou & Elder (2001).

Researcher's computation (2023)

DATA ANALYSIS AND DISCUSSION OF FINDINGS

Data analysis that describes, illustrates, or summarises the behaviour of data in a comprehensible way is called a descriptive statistic, and it facilitates easier comprehension of the data. In this part, we describe the characteristics of the variables, including their means, minimums, maximums, and standard deviations.

Table 2: Descriptive Statistics

Variables	Mean	Std. Dev.	Min	Max
DA	0.07325	0.0523	0.0003	0.1978
AUDSIZE	0.9350	0.7450	0	1
AF	0.7930	0.5780	1	0.024
AIS	0.8560	0.6970	0	1
TENURE	0.6520	0.5950	0.0230	1

Source: STATA OUTPUT, 2023

Table 2 shows that the sampled manufacturing enterprises engaged in limited earnings manipulation throughout the research period, with the mean value of 0.07325 for discretionary accruals and the standard deviation of 0.0523. During the time frame of this analysis, the range for discretionary accrual is between 0.0003 and 0.1978. Audit Firm Size (AFS) has a mean value of 0.9350 and a standard deviation of 0.7450, as shown in the table below. The magnitude of the standard deviation supports the claim that Big4 auditors are used by 93% of the businesses in the sample for their audit engagement. Average log audit fees (AF) for the sample businesses are shown in the table to be 0.7930, with a standard deviation of 0.5780. The standard deviation illustrates that audit costs for different businesses can vary greatly. Throughout the sample period, the mean value of an auditor's industry specialisation was 0.8560. This value simply implies that 85% of the sampled companies were audited by Industry Specialist Auditors during the period of study

With an audit tenure (AT) of 0.6520, almost two-thirds of businesses switch auditors every three years. The range of the auditor's term is 0.0230 to 1, inclusive.

Correlation Matrix

Correlation matrices are tables that display the strength of associations between different sets of data. The table displays the correlation between each pair of variables in a separate cell. A correlation matrix can serve as a diagnostic tool for more complex investigations as well as a means of summarising data. The table below displays the interrelationships between the independent variables and the dependent variable.

Table 3: Correlation Matrix

Variables	DA	AUDSIZE	AFS	AIS	AT
DA	1.0000				
AUDSIZE	0.393	1.000			
AFS	0.1807	0.4934	1.0000		
AIS	0.273	0.1134	0.2008	1.0000	
AT	0.2328	0.2326	0.1684	0.0547	1.0000

Source: Output from STATA, 2023.

According to the data in the table, there is a positive relationship between the dependent variable of earnings management as measured by discretionary accruals and the independent variables of audit firm size, audit fees, auditor industry specialization, and audit tenure. The coefficients for these relationships are 0.393, 0.1807, 0.273, and 0.2328, respectively. With earnings management, the four explanatory variables all trend in the same way. This also indicates that the quality of the audit has a direct bearing on how well profits are managed.

Table 4 Multiple Regression Analysis

Variable	Coefficient	T Statistics	p-value
AUDSIZE	0.7320	13.90	0.000
AF	0.4630	5.74	0.002
AIS	0.6350	3.89	0.001
AT	0.3670	1.85	0.0014
R-Squared	0.8541		
Adjusted R-Squared	0.7120		
F-Statistics	65.82		
Prob>F			0.003

Source: output from STATA, 2023.

The R² (coefficient of determination) of 0.8541 and Adjusted R² 0.7120 shows that the variable combined determines the about 85% and 71% which indicates that audit quality has a potential effect on earnings management. The Adjusted R² of 71% shows that the model is good and fit to be used in testing the hypothesis. The result however reveals that there is a significant relationship between the independent variable (Audit Quality) and the dependable variable (Earnings Management). There is a correlation between Audit Quality and Earnings Management in Nigerian Manufacturing Companies, and the F-Value (F-Stat = 65.82; F-Pro = 0.003) and its likelihood indicate that the Regression Equation is correctly formed. Coefficient = 0.7320, t = 13.90, and p 0.0001 indicate a statistically significant relationship between audit firm size and the explanatory variables. This indicates that the size of the audit company is positively correlated with the Earnings Management of Nigerian factories. Therefore, the study concludes that the null hypothesis (H01) that there is no relationship between audit company size and earnings management of manufacturing businesses in Nigeria is false. The t-value for audit fees is 5.74, the coefficient is 0.4630, and the probability of error is less than 5% (p = 0.002). This suggests that audit fees play a crucial role in the earnings management of publicly traded Nigerian industrial companies. Audit costs significantly affect Earnings Management of Nigerian manufacturing enterprises at the 5% significance level. The results of this study challenge the hypothesis H0 2 and show that audit fees do

have an effect on earnings management practices among publicly listed Nigerian manufacturing companies. With a coefficient of 0.6350, t-value of 3.89, and p-value of 0.001, auditor industry specialisation is statistically significant at the less-than-5% level, indicating that such auditors prevent earnings management and information asymmetry in Nigerian manufacturing enterprises. We thus conclude that industry-specific auditors may have an effect on earnings management in Nigerian manufacturing businesses, contradicting the null hypothesis (H03).

A coefficient of 0.3670, t-value of 1.85, and p-value of 0.0014 (less than the 5% level of significance) reveal that auditor tenure significantly affects earnings management of listed manufacturing businesses in Nigeria. As a result, we find that audit tenure does have an influence on earnings management in Nigerian manufacturing businesses, thereby rejecting the null hypothesis (H04).

CONCLUSION AND RECOMMENDATIONS

- i. This study's findings, taken as a whole, point to a favourable correlation between audit quality and earnings management. Specifically, the research shows that audit firm size in Nigeria's industrial sector. As a result, having the Big Four auditing firms reduces the likelihood of accrual manipulation and false financial reporting. Larger auditing companies have a better reputation, so clients may trust the audits they do. Standardised regressions also indicate that audit fees have a statistically significant positive impact on earnings management. Therefore, the research reaches the inference that audit fees significantly contribute to reducing earnings management. The reason for this is because increased audit costs are a primary incentive for improving audit quality and decreasing information asymmetry in manufacturing companies. The research also demonstrates that the auditor's term affects the earnings management of Nigeria's industrial enterprises for the better.
- ii. The research also found that the earnings management of Nigerian manufacturing enterprises benefited from auditor industry specialisation. An increase in the quality of financial reporting and the elimination of major breaches in the financial statement are two outcomes of having auditors who specialise in the relevant sector do these tasks. The statistical evidence presented here supports the conclusion that AIS has a substantial impact on EM. This claim is reinforced by the fact that auditors with specialised industry expertise have better non-error frequency knowledge than those without such experience.
- iii. The following suggestions are made in light of the foregoing: i. the Big4 audit firms give stakeholders the assurance they need that financial reports are trustworthy and dependable. Therefore, the study suggests that careful thought and emphasis should be given to selecting and hiring big audit companies.
- iv. ii. Fees paid by auditee companies should increase in line with the scope and complexity of the audit. This is because companies that pay less than the legally required audit fees are more likely to engage in aggressive earnings management. However, audit standards advise that audit partners set rates that would cover all potential audit charges while still leaving enough for a healthy profit margin.
- v. The results of the study showed that the length of time an auditor has worked for a company has a major impact on the way earnings are managed for publicly traded industrial firms in Nigeria. The report suggests that the audit engagement partner be changed every five years to ensure its independence, despite the Nigerian Code of Corporate Governance (2018) setting its term at 10 years.
- vi. Further, an auditor with industry-specific expertise is in a better position to fulfil his duties. Therefore, it is suggested that manufacturers insist on using industry professional auditors due to the complexity of the manufacturing sector. Even yet, the "Code" mandates that the engagement partner and audit team have the necessary knowledge, applicable skills, and experience to produce reliable audit results.

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