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Audit Quality Moderation on Earnings Management of Production Industries in Nigeria

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ABSTRACT

This work, Audit Quality Moderation on Earnings Management, was carried out to find out on how audit quality could moderate earnings management of production industries listed in Nigeria Stock Exchange, from the period 2014-2019. To achieve this, three variables of audit quality (firm size, audit fee and audit tenure) were verified to ascertain how they moderate earnings management (accruals). The population of the study was (25) and the sampled size of (19) was based on the availability of complete annual financial data suitable for the study. The study analyses and the test applied in the study are: Descriptive statistics; Reliability test; Multi-co linearity test using Variance Inflation Factor (VIF); Pearson correlation analysis and multiple regressions. The analyses result showed that the F-statistics value of 4.886 (Prob.>F = 0.0015), that were found indicates that the model was fit to explain the moderation effect of audit quality measures on earnings management. The fixed effect has R^2 value of 0.56, indicating that about 56% of the total variation found: is in the criterion variable by total accruals in the operating cash flow were jointly explained by the explanatory variables of audit firm size AUDFZ, audit fee AUDTF and auditor tenure AUDTN. But, the value of 44% indicates that there are other issues (in the criterion variable) to be explained by other factors not captured in our explanatory variables. The result further showed that AUDTF, AUDTFZ and AUDTN have negative significant moderating effect on Earnings Management. The study recommends that Firms should pay commensurate remuneration to client audit assignment; and audit firm size and audit tenure should not be compromised by firm's management to avoid earnings management manipulations.
Keywords: Audit Firm Size, Audit Fee, Audit Tenure, Earnings Management, Accruals.

INTRODUCTION

Production industries are seen as a spring board for economic development. These industries as far as Nigeria economic development is concerned provide raw materials for consumer goods, supply workers of other industries with materials and give numerous jobs and assist to develop other economy and the growth of other dependent industries. The development of production industries are considered to hold the key to economic development for most sub-sahara countries including Nigeria [1]. In the same manner, [2] stated that industries are the bed rock of economic growth, development and poverty eradication in the developing countries; while [3], regards it as the engine panacea to economic prosperity.

Audit quality and financial reporting of production industries in Nigeria is to be considered as important as its existence and economic contributions. When an entity is guaranteed of audit quality and financial reporting quality that is devoid of earnings manipulations, it gives credence to the existence of the entity. Audit quality practice is a procedure established by auditors to ensure that financial reporting communicates relevant and reliable information to members of an organization and the public needs. It was stated by [4], that audit quality is the probability that financial statements contain no material statements.

The global financial crises, corporate failures and scandals in various countries of the world, has raised a significant doubt and questions on the true and fair view and authorities of audit quality and financial reporting quality, especially earnings management. The recent trend is that different regulatory and professional bodies are under pressure and as a result they are devising to improve the quality of the auditors and to restore investor confidence in financial reporting globally. A proper audit quality brings about financial quality and this is an evidence of longevity and freedom from financial crises, [5].

Audit quality ensures a trusted accounting report in the published financial reports of firms. It is expected to provide a timely and reliable input to various stakeholders, shareholders, potential investors, employees, suppliers, creditors, financial analysts, stockbrokers, management and the government agencies, information useful in making prudent, effective and efficient decisions, [6]. Nobody wants to invest without an assurance of proper returns in investments. As regards this, [7], categorically stated that audit minimizes information asymmetry and protects the interest of the principals, investors, suppliers, employees and the general public by providing reasonable assurance that financial statements prepared by management are free from material misstatements. At the same time, financial position of a firm, affect almost every stakeholder and possibly the economy. They help to determine the allocation of capital across countries, economic sectors and companies and within individual business. Such reporting ensures whether the entity is a failure or a success, how much the employees earns, the security of their job, how much dividend that shareholders receive and the far value of the company to the government (ICAEW, 2016).

Literatures exist in audit quality and earnings management. Audit quality by [8], identified three proxies to audit quality as: (a) output based quality measures, (b) input based audit quality and audit fees and (c) measure from machine, readable databases

[9], applied two dimension of audit quality of a material misstatement and reports. Thus, the audit must determine and report material misstatements error, omission and falsification and report same in the financial reports. The view of [10] was that audit quality is regarded as the alternative to state that entity has a going concern through their opinion. Audit quality is such that help to determine whether a business has a future or not. [11] also stated that audit quality is a fundamental ingredient in enhancing the credibility of financial statement to users of accounting information.

Audit quality can affect firm performance and the levels of earnings to be achieved in not just for a period but in several periods. Proper earning manipulation can boast earning per share and increase the expectation of the investors and analyst forecast. [12], view earning as a current income which is an expected cash flow that has the capacity to influence firm performance through the earning per share increase. Independent audit reports is a credential for audit quality, it is an important monitoring and safeguarding mechanisms of public trusts in an efficient market environment. This creates an investors' confidence, reliability and truthfulness of financial statements, guarantees market efficiencies, credibility and integrity auditors which are critical to firms financial performance. According to (IAASB, 2011), a proper conducted audit in compliance with auditing standards and other proper regulatory auditing rules makes financial statements to be reliable transparent and useful.

Statement of the Study Problems

Over the past years, the markets have witnessed several accounting scandals mainly because of the manipulation of the accounting figures reported in the financial statements. This has led to questioning the ability of auditors to effectively constrain such practices, especially in developing countries, [13]. Audit quality moderation on earnings management assist to constrain the shrinking of financial information and safeguards different claimant's interest in an entity by saving financial statements from possible misstatements contents, [14]. The financial crises have brought with it a number of challenges for global economies. The impact of the crisis on the survival of regional blocks has attracted much attention in international circles [15]. The audit failure resulted in so called audit quality report that contains machinations of earnings by management and this has increased the level of doubtfulness on audited statements that have an unqualified report. Thus the issues of audit quality and earnings management has brought worries and dominated public discourse in questioning as to whether corporate failure is being propelled by audit process not preventing earnings misstatements of financial position. This work is being carried out to fill the gap and show concerns about audit quality and reported earnings in audited financial reports which seem to be on the decline. There are only few works found on audit quality and earnings management especially in Nigeria. Some of these works are [16]; [17]; [18]; [19]; [20], who measured audit quality using audit fee and audit size and measured earning management, discretionary accruals and earnings distribution. More so, these works on audit quality did not include audit tenure moderation on earnings management, this study singled out to study the moderation of audit quality (audit fees, audit firm size and audit tenure) on earnings management of production industries listed in Nigeria Stock Exchange NSE. This study therefore raised three major questions of how does audit fees, audit firm size and audit tenure moderates earnings management of production industries? In other words: How does audit fee moderate earnings management of production industries in Nigeria? How does audit firm size moderates earnings management of production industries? How does audit tenure moderates earning management of production industries? The earnings management is proxy by total accruals

Objectives of the Study

The main objective of the study is to determine the moderation effect of audit quality on earnings management of listed food production industries in Nigeria. Other specific objectives are as follows:

(I) To determine the moderation effect of audit fee and earnings management of listed production industry in Nigeria

(ii) To determine the moderation effect of audit firm size and earnings management of listed production industry in Nigeria.

(iii) To determine the moderation effect of auditor tenure and earnings management of listed production industry in Nigeria.

Hypotheses of the Study

The following hypotheses were formulated for this study:

Ho_1 Audit fee has no significant moderation effect on earnings management of listed food production industry goods in Nigeria.

$H0_2$: Audit firm size has no significant moderation effect on earnings management of listed food production industry in Nigeria.

$H0_3$: Audit tenure has no significant moderation effect on earnings management of listed food production industry in Nigeria.

Scope of the Study

The scope of this study covered audit quality of (audit fees, firm size and audit tenure) and earnings management (total accruals), covered audit quality and earnings management of food production industrial listed in the Nigeria Stock Exchange from 2014 to 2019.

REVIEW OF RELATED LITERATURE

Conceptual Review

The concept of earnings management has not been given unanimous definition. But several literatures have attempted the definitions of earnings management. For instance, [21], defined earnings management as an accounting numbers game, then [22] viewed it as a creative accounting while [23] defined it as income smoothing and [24] stated that earnings management is a financial statements alteration using judgments in financial reporting to structure transactions which 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 is represented in this research as the magnitude of total accruals relating to operational cash flow which determines the extent in which management can exercise discretion in reporting earnings by influencing accruals [25]

There are two types of earnings management: efficient earnings management (i.e., to improve earnings in formativeness in communicating private information) and opportunistic earnings management (i.e., management reports earnings opportunistically to maximize his/her utility) [26].

Further, Encyclopedia Britannica defined earnings management as the practice of inappropriately managing the earnings number reported in the company's income statement, and is quite different from the process of managing the company's underlying business. The Panel on Audit Effectiveness, established by the Public Oversight Board in response to a concern expressed by the Securities and Exchange Commission (SEC), found no single definition of the term. Michael R. Young stated that

there are two types of managed earnings. One type is simply conducting the business of the enterprise in order to attain controlled, disciplined growth. The other type involves deliberate manipulation of the accounting in order to create the appearance of controlled, disciplined growth when, in fact, all that is happening is that accounting entries are being manipulated, (Panel on Audit Effectiveness, 2000)

In an interesting overview article, Patricia Dechow and Douglas Skinner suggested that there is a fine distinction between fraudulent accounting and earnings management: Both involve the intent, by reporting management, to distort their company's earnings picture, but fraudulent accounting does so by violating generally accepted accounting standards (GAAP) while earnings management does so within GAAP.

Intensified Pressures for Earnings Management

In 1998, Arthur Levitt, said that "while the problem of earnings management is not new, it has swelled in a market that is unforgiving of companies that miss their [earnings] estimates. Some of the things he listed as intensified pressures for earnings management are:

- Analysts ask managements of the companies they follow for guidance, as they project future earnings for the company and projections are influential in analysts' recommendations.
- Investors use those research reports in their decisions.
- The management people running those companies try to meet the analysts' earnings projections to (i) maintain their credibility with the analyst community, and (ii) maintain the relative price of the company's stock.
- Where the normal operations of the business do not produce earnings equal to the investment community's expectations, managements are pressured to find ways to manage the reported earnings.
- Auditors, who want to retain their clients, bend under their own set of pressures to let this process continue.

Approaches to Managing Earnings

There are many strategies that have been used by companies to manage earnings in ways that are inappropriate. These are strategies that have as their outcome the achievement of predetermined earnings figures. Few of the most popular of these strategies are discussed here.

Decisions Solely to Meet Earnings Goal

Perhaps the simplest way to manage earnings is to control the expense spigot. Even the most lean company can find discretionary expenses that can be trimmed to help meet the earnings target for a period. Advertising, research, staff training, or maintenance programs can be deferred, at least in the short run. There is a great temptation to cut these programs "in the short run" on the assumption that business will pick up in subsequent periods and the deferred programs can then be resumed.

In well-run companies, managements are focused on the long-run success of the entity, and they avoid temptations to enhance, artificially, the results for any single quarter or year.

Making Necessary Judgments to Meet Earnings Goal

Opportunities for earnings management are inherent in accrual accounting. Under the accrual method, management is asked to look beyond the simple cash inflows and outflows the company experienced during a period and give a more nuanced picture of the company's operations. But the application of accrual accounting requires some difficult judgments as the followings:

- Revenues are recorded when the sale transaction is complete, not when the customer makes payment, but management must then estimate what proportion of those credit sales will not be collected in the future.
- When the company pays cash for a fixed asset, that cash outflow is allocated as an expense over future years; but management must then estimate how many years will be benefited from the acquisition.
- If the company is sued, management must estimate the likelihood that the suit will result in an assessment against the company, and how much that assessment is likely to be.

The financial community has agreed that an accrual-based measure of earnings, subject to these judgments, is a much better measure of business success than a simple measure of cash results. The increase in information in an accrual-based income statement is largely the result of the exercise of managements' judgments.

In well-run companies, managements exercise those judgments, issue by issue, without regard to the effect those judgments have on the entity's reported earnings. To make sure that those judgments are free from bias, well-run companies outline—in formal policies and written accounting manuals the processes to be followed in developing accrual judgments. Earnings management occurs when the decision makers skew issue-by-issue judgments, perhaps skirting their own policies, with an objective of forcing the earnings to a predetermined number.

Audit Quality in Earnings Management

[27] said “although there is no universally recognized definition or analysis of the terms, “Audit Quality” but at the least, quality external audit service would include a rigorous audit, with an appropriate degree of professional skepticism, conducted in compliance with the applicable standards. Other essential elements of audit quality might include depth of industry knowledge, the nature and extent of valuable insights and observations arising from the audit process or the ability to effectively coordinate services from many locations around the world. According to IAASB, Audit quality encompasses the key elements that create an environment which maximizes the likelihood that quality audits are performed on a consistent basis. Audit quality is best achieved in an environment where there is support from and appropriate interactions among participants in the financial reporting supply chain. These chains are: a) Non-Authoritative Framework; b) Auditors are required to comply with relevant auditing standards and standards of quality control within audit firms, as well as ethics and other regulatory requirements; c)The Framework is not a substitute for such standards, nor does it establish additional standards or provide requirements for the performance of audit engagements. The key elements of audit quality are: a) Inputs; b) Process; c) Outputs; d) Interactions; and e) Contextual Factors Audit quality according to [28] depends on the probability that material

misstatement and signals of financial distress are detected and the probability that the auditor will report them. It is assumed to be a function of auditor independence. This is concerned with the technical capability of the auditor or the probability to detect misstatements, errors and going concern issues tend to be constant across various auditor. [29], said it is a less litigious setting capable of weakening the extent an auditor wealth of experience serves as a bond for audit quality. [30], researched on audit quality and found that investors' definitions of audit quality focus more on inputs to the audit process than do auditors', and that investors view the number of PCAOB deficiencies as an indicator of overall firm quality. They also, found a consensus that auditor characteristics may be the most important determinants of audit quality, and that restatements may be the most readily available signal of low audit quality. The research related responses to a general audit quality framework, provide support for archival audit research, and identify additional disclosures that participants suggest could signal audit quality. Further, in their work they provide evidence regarding the construct of audit quality in the post-SOX environment, evaluate many of the audit quality indicators proposed by the PCAOB, and suggest avenues for future research.

Audit fee Moderation on Earnings Management

Audit fee is regarded as the remuneration of the auditors for their professional audit work. The Company and Allied Matters Act CAMA Section (361) stated that the persons appointing the auditor (members, directors) have the power under the section 361 to fix the auditors remuneration on the recommendation of the audit committee [31]. Audit fees/remuneration is the amount payable to the auditor, for carrying out audit services rendered to the client company [32]. Audit fee is the amounts of fees received by an auditor for carrying out an audit assignment on the accounts of the client firm [33], while [34] defines audit fee as the cost associated with companies that perceived to experience weak internal control process. The audit fees is the sums payable/paid to the auditor, for carrying out audit services offered to the auditing company (client).

Audit fees are payments made to the auditor during the 'course of the carrying out the audit function and non-audit fee is the payments for other non audit services carried out by the auditor which may not be part of the audit engagement negotiation, audit committees may be primarily interested in negotiating a lower audit fee for their clients instead of going for higher audit quality that attract a higher audit fee [35].

Literatures have the opinions that the size of audit fee is a major explanatory factor or the ability of the auditor to resist the pressure of management and this matter leads to a misleading report, regardless of the provision of advisory services [36]. The issue of audit fee moderating audit quality has become very critical worldwide since the corporate and audit failure saga in Enron and Cadbury PIc and others even in Nigeria [36]. Other literature has it that Large fees paid to auditors, particularly those that are related to NAS (Non audit services) make auditors more economically dependent on their clients [37]. Therefore the financial reliance may induce a relationship such that the auditor becomes reluctant to make appropriate inquires during the audit process for fear of losing comfortable audit fees, [38], Some audit firms may base their fees on the perceived risk of audit failure [39]. Some opinions view companies’ risk as an important factor that determines audit fees and possibly a high corporate audit risk would result in higher audit fees.

[40], were of the opinions that many scholars have conceptualized that large auditors attract high fees reflective of their greater wealth of experience which is likely to reduce clients' exposures to litigation. Firms that pay high audit fees have a need for audit quality as against those that pay paltry audit fees. Big audit firms are often times are associated with high audit fees and such fees enable the firms to attract and retain better staff and

equally motivate them for quality audit services delivery. Studies like [41] [42] have related high audit fees with audit quality and that audit firms that charge high fees tend to deliver high audit quality service. Further, prior studies have suggested that high audit fees paid by firms to external auditor tend to enhance their economic ties which can lead to compromises in endangering the auditor independence [43], ultimately led to failure of audit quality by providing opportunity for manipulations of earnings [44].

Audit Firm Size Moderation on Earnings Management

[45] said that Audit Firm Size is considered the most important determinants of audit choice. The impact is that auditing large clients requires more resources (human and technical), which are usually provided by large audit firms. Another literature pointed out that auditing theories suggest that audit-fee premiums charged by large audit firms can be attributed to their brand name or stronger reputations due to providing distinguished quality services to their clients, [46]. The size of the audit firm is an important factor related to auditor's independence. Audit firm size may give a competitive advantage to big and nationally known audit firms, seeking new clients. Also, a big audit firm is expected to have resources and ability to give audit service to the large companies listed on the stock exchange [47]. But, a small audit firm is believed to be unable to meet the requirements of the large companies. In other words, [48] pointed out that a small audit firm size dependent more on the client compared with a large audit firm and for small audit firm one client makes a significant contribution to the firm's total income on one side, and further, small audit firm tends to engages in close relationship with client, and this will tend to mar auditors' independence.

Some scholars have theorized that big audit firms are perceived to have gained tremendous experience for audit quality [49]. Big audit firm like the Big 4 have the incentive to provide uniform level of audit quality in different market segments and thus are inclined to supplying high quality audits. Further, they are also inclined to be less lenient to publicly listed firms due to higher risk of litigation. The main fact is that listed firms' financial statements are usually subjected to more scrutiny by investors, financial analysts and stock market regulators as the probability for audit failure, detection of errors and litigation risks is higher [50]. [51] said that Big 4 auditors are likely to provide significant constraint on earnings management by listed firms; while [52], argued that auditors that are large tend to have more incentives to ensure accuracy of their reports otherwise they are more likely to lose specific rents.

Auditor Tenure Moderation on Earnings Management

Provision of audit tenure is in Section 357 (1) of the Company and Allied Matters Acts CAMA and the Acts requires that every company appoint an auditor at each Annual General Meeting AGM. The other Sections of CAMA 362, 363 and 364 stated the removal of the auditor at the AGM will be with a simply proposing of the appointment of a different auditor. The auditors could also resign on their own at any time giving notice to the effect to the client company, Section 365, [53]. Also, [54] explained audit firm tenure as the length of time it has been filling the audit needs of a given client, and as having an influence on the risk of losing an auditor's independence. Given a long association between a company and audit firm can lead to such close identification of the auditing firm with the interests of its client's management and lack that required independent action by the audit firm against the client becomes difficult and as thus complacency, lack of innovation, results to less rigorous audit procedures and a learned confidence in the client may arise after a long association. Too long auditor tenure and client relationship would significantly lead to development of personal relationship that may result to the bonds of loyalty, trust or emotive relationships having developed between the client and the auditor, [55]. Longer audit tenure could encroach in the independent auditor's opinion and increase the likelihood of the auditor yielding to the client's pressure in relation to their choice and application of accounting policies which might ultimately mars the true and fair audit opinion required of the independent auditor.

Auditor tenure was stated by [56] as the length of time the relationship between the auditor and client existed. He has almost the same opinion of [57] that the lengthy relationship between an auditor and client may lead to familiarity leading to less caution and compromise on the audit work. The link between auditor tenure and competence has been reported by [58]. It has been observed that, an auditor's objectivity in anomaly detection in the early years of engagement increases but decreases over time getting to its weakest level after twenty years of service [59]. Therefore, the issue about the decreases in the number of years for auditor tenure has been on debate. For instance in US, it was reduced from 7years to 5 years, in France auditors are engaged for six financial years only, while the European Commission recommended that auditors should be rotated at every seven years. In Nigeria auditors are required to be rotated every three years [60].

HEORETICAL FRAMEWORK

Agency Theory

This work was anchored on agency theory. Agency theory supports that a firm consists of a set of linked contracts between the owners of economic resources and managers who are responsible for using and controlling the resources [61]. In this form of relationship agents tend to have more information than principals as managers of the resources causing information asymmetry which is likely to constrain the ability of the principals to monitor whether or not the action of the agents serve their interest. Proponents of this theory assume that principals and agents act rationally and they use contracts to maximise their wealth. However, the consequence of moral hazard often occurs from this form of contract relationship. Such that principals may not know all the available information at a time agents make decisions for the firm on their behalf, [62].

In summary, agency theory provides the basis for understanding how the role of an auditor developed [63] and why auditing cost is a bonding cost paid by agents on behalf of principals and third parties to satisfy their accountability demands; and to protect their personal economic interest [64]. Audit quality assists to detect manager's manipulation and aligns shareholders and managers interest from the agency theory perspective [65]. Audit is significant for promoting confidence and trust reinforcement on financial information disclosed in audited financial statements and strengthen corporate governance mechanism. Thus, agency theory is an important economic theory of accountability that basically explains the need and development of audit function and audit quality processes [66].

Empirical Review

[67] examined the effect of Audit quality on Earnings Management in the listed firms in Egypt. The research employed OLS regression analysis to explore the relationship between Audit quality proxies which are Audit firm size, auditor industry specialization and auditor tenure and Earnings management in listed companies during the period 2012-2016. The results revealed that; auditor tenure has a significant positive relationship with earnings management, while the rest of the Hypotheses indicate that the other variables remain to have an insignificant relationship with earnings management.

The examination of the relationship between audit quality and earnings management of Portuguese non-listed firms for the period 2013-2015 was carried out by [68]. He collected data from the firms' statement of financial position and income statement and analysed them using the multiple regression tool. He found that there is a significant negative relation between audit quality measured by audit firm size and earnings management. [69], examined the relation between audit quality and earnings management. Earnings management is captured by discretionary accruals that are estimated using a cross-sectional version of the Jones 1991 model. The research hypothesis is supported by evidence from a sample of 10,379 Big Six and 2,179 non-Big Six firm years. The result found out that specifically, clients of non-Big Six auditors' report discretionary accruals that are, on average, 1.5-2.1 percent of total assets higher than the discretionary accruals reported by clients of Big Six auditors. Also, consistent with earnings management, they found that the mean and median of the absolute value of discretionary accruals are greater for firms with non-Big Six auditors. Finally the result also indicates that lower audit quality is associated with more "accounting flexibility".

[70] studied the relationship between audit quality, debt financing, and earnings management in Jordan using a sample comprising 72 industrial companies during the selected period from 2006 to 2012. Cross-sectional version of the modified Jones model, was used to measure discretionary accruals as a proxy for earnings management. Generalized least squares regression was employed as the tool of analysis. The result was that audit quality (auditor tenure, size, specialization, and independence) and debt financing (low debt) has a negative relationship with earnings management, and as such, enhanced financial reporting quality.

There was a study carried out by [71] on audit quality and earnings management relationship among listed deposit money banks in Nigeria from 2005-2014. The research selected six banks with a total of 60 observations. The study applied a simple pooled ordinary least square regression analysis and the results were as follows: there was a significant relationship between joint audit and earnings management; a significant negative relationship between audit specialization and earnings management; and also a significant positive relationship between audit independence and earnings management and finally an insignificant negative relationship between audit tenure and earnings management.

[72] investigated the association between audit quality and earnings management in less developed economies. The study used a sample of 337 nonfinancial Saudi listed firms from 2006 to 2009. Audit quality was measured by auditor size, auditor industry specialization, auditor opinion, auditor change and timeliness of auditor report) while the absolute value of discretionary accruals based on cross - sectional variation of Kothari model was used as a proxy for earnings management. The findings were that auditor opinion has a significant influence on earnings management practice; while audit firm size, auditor industry specialization and auditor change and timeliness of auditor report insignificant.

There was a research conducted by [3], on audit quality and earnings management in Jordan. He employed a sample of 86 companies listed on the Amman Stock Exchange from 2007 to 2010. The work used cross-sectional modified Jones model to measure discretionary accruals as a proxy for earnings management. The analysis used generalised least square regression. The research findings revealed that there was a significantly negative association between audit quality and earnings management and also that earnings management level is significantly lower among companies using the services of independent auditors. Further finding were that the level of earnings management is significantly less among companies hiring a Big 4 audit firm compared with companies using the service of a non-Big 4 audit firm.

[7] explored the effect of audit quality on earnings management using a sample of 525 companies listed on Malaysian Stock Exchange (MSE) in 2009. Earnings management was proxy by discretionary current accruals (DCA) estimated by the performance- adjusted model of [75] and discretionary total accruals (DTA) estimated by the modified Jones model.

Results reveal a significant negative association between audit firm tenure and both measures of earnings management. There was also a significant negative association between audit committee financial expertise and both measures of earnings management. Audit committee independence had a significant positive association with discretionary current accruals but insignificant with discretionary total accruals. The result finally showed an insignificant negative relationship between audit firm size and audit committee meeting, and earnings management.

[16] made a research on the relationship between audit quality and earnings management using a sample of one hundred (100) industrial products and consumer products companies listed on the main board of Bursa Malaysia during the period of 2008-2013. Audit quality was proxy by audit firm size, audit fees, and audit partner tenure. Earnings management was represented by absolute discretionary accruals estimated from the modified [21] model. The regression analysis outcome showed that both audit firm size and audit fees have insignificant negative relationship with earnings management; while audit partner tenure had an insignificant positive relationship with earnings management.

[26] examined the effect of audit quality (measured by audit firm size, joint audit and auditor financial dependence- a measure of client importance) on earnings management of listed deposit money banks in Nigeria based on a sample of seven (7) deposit money banks listed on the NSE for the period of 2006 - 2013. Earnings management proxy by discretionary loan loss provision was estimated using [9] model, tested by [18]. Data analysis was done using ordinary least square (OLS) regression technique and findings revealed that both audit firm size and joint audit have significant negative effect on earnings management while auditor financial dependence had a significant positive elect on earnings management during the study period.

[12] investigated audit quality effect on earnings management of listed oil marketing companies in Nigeria for the period 2004-2013. Audit quality was represented by audit firm size, auditor industry specialization and auditor tenure and earnings management represented by discretionary accruals estimated using the modified Jones model. Findings indicate that both audit firm size and auditor industry specialization have insignificant negative effect while auditor tenure had a significant negative effect on earnings management for the period.

[23] examined audit firm specialization effect on earnings management in Egyptian firms based on a sample of seventy (70) auditors, comprising both specialist auditors and non- specialist auditors . These auditors were given a common task with the same time period to perform under the supervision of a professor of auditing and three (3) senior practicing auditors. Findings at the end of the experiment showed that industry specialist auditors do not constrain earnings management better than non-specialist auditors.

[5] assessed audit quality and accrual-based earnings management relationship of Nigerian firms using a sample of 57 non-financial firms listed on the NSE. Audit quality was measured using audit fees and audit tenure while discretionary accruals that represented earnings management was estimated based on the modified Jones model. Findings revealed a significant positive association between audit fees and discretionary accruals, and a negative association between audit tenure and discretionary accruals of Nigerian companies.

[29] investigated the relationship between audit quality and earnings management of companies in China based on a sample of 4640 firm year observation for the period 2008-2011. Audit quality was represented by audit firm size, auditor industry specialization while discretionary accruals were estimated using the modified Jones and was the proxy for earnings management. From the regression results audit firm size has significant negative effect on earnings management in China, especially for firms with income increasing abnormal

accruals. A positive relationship was found between auditor industry specialization and earnings management of the companies. The relationship however, turns negative in firms with income decreasing earnings management in China.
[45] studied the relationship between audit quality (represented by auditor industry specialization and auditor tenure) and, earnings management estimated through modified Jones 1991 model based on a sample of 91 companies listed on Tehran Stock Exchange (TSE) for the period 2008-2012. Evidence from the study indicated that auditor industry specialization has negative association with earnings management of firms listed on TSE while auditor tenure has a negative but insignificant association with earnings management.
[5] inquired into the effect of audit quality on earnings management of companies listed on the NSE for the period 2006-2011 using a sample of 57 manufacturing firms employing regression analysis tool to analyze the data. Findings showed that significant negative associations exist between audit quality (proxy by audit firm size, audit tenure, audit fees, audit client importance) and discretionary accruals of the sampled companies.
[12] explored audit quality effect on earnings management of Australian firms during the global financial crisis of 2006 to 2009. Audit quality was represented by audit committee independence, audit firm size, audit committee meetings and audit committee financial expertise while earnings management was represented by discretionary accruals estimated using [34] model, modified Jones model to enhance robustness. Panel regression analysis tool was used. Findings showed that a significant negative association exists between audit committee independence and earnings management of firms. An insignificant positive relationship was however, found between audit firm size (represented by Big 4), audit committee size, audit committee meeting, audit committee financial expertise and earnings management of the firms.
[47] made an inquiry into the effect of audit quality on earnings management of companies listed on Turkish Stock Exchange for the period 2003-2007. Audit firm size measured audit quality while discretionary accruals represented earnings management. Evidence from the regression analysis indicated that positive associations exist between audit firm size and discretionary accruals of manufacturing firms in Turkey. The inference drawn from the result is that audit quality does not constrain earnings management in Turkey.
[38] studied, the association between audit quality and earnings management of a sample of 140 firms listed on Tehran Stock Exchange for the period 2006-2011. Audit quality was measured by audit firm size and discretionary accruals estimated from the modified Jones model was the proxy for earnings management. The regression results showed that an insignificant positive relationship exist between audit firm size and discretionary accruals.
[8] investigated audit quality and earnings management relationship in 8 emerging countries using a sample of 1507 firm-year observations for the period 2008-2009. Audit quality was represented by audit firm size (big 4) and discretionary accruals were the proxy for earnings management estimated with modified Jones model. The findings from the regression analysis showed that except for Brazilian and Mexican companies, there is significant relationship between discretionary accruals and audit quality measured by big 4 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).

[30] investigated audit quality and earnings management relationship among Tunisian firms using 319 firm year observations for the period 20002010. Audit quality was represented by auditor industry specialization, audit final size and auditor tenure, while discretionary

accruals estimated from modified Jones model was the proxy for earnings management. Evidence from the regression analysis showed that auditor industry specialization and auditor size-measured by Big 4 auditors are negatively associated with earnings management while auditor tenure has a negative but insignificant association with discretionary accruals.

[54] examined audit quality and earnings management relationship using a sample of 73 Iranian companies listed on the Tehran Stock Exchange for the period 2008-2011. The regression results showed that audit firm tenure and audit firm industry specialization are negatively associated with earnings management of Iranian firms during the study period. The study concluded that both auditor tenure and auditor industry specialization are negatively associated with earnings management in Iran.

[56] inquired into the association between audit quality (represented by audit fees, industry specialist auditor, audit committee size, audit committee independence, audit committee financial expertise and audit committee meeting) and earnings management of companies in UK. Earnings management was represented by discretionary accruals estimated using modified Jones 1991 model, and Kothari, Lcone and Wasley (2005) model. The findings showed that audit fees and industry specialist auditors are negatively associated with earnings management. Also, audit committee size and audit committee independence have insignificant negative relationship with earnings management; while audit committee financial expertise and audit committee meeting have mixed results with the different measures of earnings management.

[2] studied the relationship between audit quality and earnings management in Iran using 540 firm-year observations for the period 2004-2009. The dependent variable, discretionary accruals was estimated using the modified-Jones model arid audit quality measured by auditor size, auditor industry specialization and auditor independence. The study applied multiple regression analysis and the findings were that discretionary accruals are negatively related to auditor size, auditor industry specialization and auditor independence measured by audit fees.

[4], investigates the relationship between audit quality (as measured by auditor size and industry specialization) and earnings management (as measured by unexpected accruals) for Taiwan IPO firms. The research used modified Jones model to measure earnings management in the IPO process. They used auditor type (big five versus non-big five) and industry specialist to measure audit quality. The hypothesis predicts that Taiwanese firms with higher quality auditors engage less in earnings management in the IPO process. The sample consists of 367 new issues between 1999 and 2002 from the Taiwan Economic Journal database. They found that big five auditors are related to less earnings management in the IPO year in Taiwan. The work concluded that higher quality auditors constrain earnings management for Taiwan IPO firms.

RESEARCH METHODOLOGY

This study applied secondary data collected from production firms listed in Nigeria Stock Exchange NSE. The data source is the annual financial statements of the selected firms from the various sub sectors of listed production industry in the Nigeria Stock Exchange. The populations of the study are all of the 25 listed production industrial in the Nigerian Stock Exchange. The sample technique of the study was based on the availability of the financial statement from the chosen period of the study from 2014 to 2019. At the end the sample size of the study from the availability of information are (19) industries that have the required annual financial data suitable for the study.

Study Method of Data Analysis and Model Specification

The study applied the following data analytical test: Descriptive statistic; Reliability test; Multi-co linearity test using Variance Inflation Factor (VIF) and

Tolerance Value (TV) statistics; Pearson correlation analysis and multiple regressions.

Model Specification and Justification

The model for the study was adopted from the work of [66]. The dependent variable Earnings Management was proxy with accruals. Accruals are measured as:

Accrual in numbers is computed as Cash flow from operations minus profit after tax divided by total asset lag. This is the dependent variable in both Jones and modified Jones discretionary accrual model, TACR;

The independent variables were the followings:

Audit Fee AUDTF was measured as,

Audit Fee or Auditors remuneration in thousands is the amount paid to auditors for both audit and non-audit services as reported in the notes to account;

Audit Tenure AUDTN was measured as,

Auditors Tenure in Dummy (1,0) is computed as "1" for Companies that use external auditors that have stay for 3 years and "0" for auditors with less than 3 years engagement;

Audit Firm Size was measured as,

Big 4 Auditors in Dummy (1,0) is computed as "1" for Companies that use PWC, Delotte, E&Y and KPMG as external auditors and "0" otherwise

The model as specified in the work of [6] is as follows:

Accrual= $a_0 + a_1$ AFS $+ a_2$ ADT $+ a_3$ ADT $+ a_3$ AFD $+ a_4$ AC1 +E

This was modified as follows:

$TACR_a = \beta 0 + \beta 0 + \beta 1 AUTF_a + \beta 2 AUTFS_a + \beta 3 AUDTN_a$

Where:

TACR = total accruals in operating cash flow; AUDF= audit fees;

AUTFZ = audit firm size; AUDTN = auditor Tenure; Β0 = constant of the model;

β1- β 4 = coefficients of the model and U = Error Term

PRESENTATION AND ANALYSIS OF DATA

Descriptive Statistics

Below is the presentation of the descriptive statistics of the sampled production industries depicting the mean, the standard deviation, minimum and maximum values of the data for both explanatory and criterion variables.

Table 1: Descriptive Statistics

Variable Factors	Mean	Standard Deviation	Minimum	Maximum
TACR	0.110477	0.052542	0.00119	0.27786
AUDF	0.685484	0.458731	0.23147	0.86544
AUDFZ	0.539618	0.202437	0	1
AUDTN	0.586176	0.289217	0	1

Source: Authors Computation, 2020.

The descriptive statistic table above shows the mean value of earning management among the sampled production industries as 0.11077. This shows that about 10% of the observation has earning management items in their annual report. The maximum value for the study is 0.27786 and the minimum value is 0.00119 with a standard deviation of 0.052542. Audit fee has a mean of 0.685484; Audit firm size has a mean of 0.539618; while Audit tenure has a mean of 0.586176. The audit fee has the highest mean of 0.685484 which means that fee influences a little earning management more among the sampled production industries. The greater mean size is also an indication that the big firms charge more fee/remuneration than small audit firms, this was also evident in the measurement values where big audit firms are assigned (1) value while small firms are assigned (0). But the average value of 11% for total accruals found in the operating cash flow among the production industries is an evident that there is a low earnings manipulation within the sampled period.

Table 2: Pearson Correlation Test Results

Variables	TACR	AUDFZ	AUDFS	AUDTN
TACR	1.00000			
AUDF	-0.23457	1.00000		
AUDFZ	-0.34086	0.34567	1.00000	
AUDTN	-0.31065	0.49677	0.29786	1.00000

Source: Authors Computation, 2020.

The Pearson Correlation test result above shows that none of the explanatory variables correlates with the criterion variable. Two explanatory variables audit firm size AUDFZ and audit tenure AUDTN correlates with one another but the correlation figures are insignificant to deter the study in the form of data singularity as indicated by (Hassan, 2011).

Table 3: Multicollinearity Test Result

Independent Variables	VIF	TV(1/VIF)
AUDF	6.39	0.158984
AUDFZ	1.44	0.714288
AUDTN	1.56	0.649355
Mean VIF	3.13	

Source: Authors Computation, 2020.

The above table shows the result of multicollinearity test results. The aim is to determine if there is any multicollinearity problem among the explanatory variables of audit quality in the study. The result shows that the variance inflation factor (VIF) and the tolerance value (TV) tests values. The VIF for AUDF is 6.39 with a corresponding value of 0.158984 for TV; AUDFZ is 1.44 with a corresponding value of 0.714288 for TV; while AUDTN is 1.56 with a corresponding value of 0.649355 for TV. The average mean value of the VIF is 3.13 which is acceptable because it is below the maximum value of 10 which is the benchmark that indicates absence of multicollinearity problem among the independent variables the chosen production industries.

Table 4: Hausman Fixed and Random Tests Result

TARC	Fixed effect coefficients	Random effect coefficients	Difference
AUDF	.15110434	.00918873	.14191561
AUDFZ	.08589930	.04850895	.03739035
AUDTN	.02671164	.03161523	.00490359
a = consistent under Ho and Ha	b=inconsistent under Ha, efficient under Ho		
Prob (Chi 2) 0.0132			

Source: Authors Computation, 2020.

The study conducted fixed and random effect regressions based on Hausman specification test. The test is to determine which of the model is preferred in the study between the fixed and random effects regression models. This is achieved by checking whether the error terms and repressors are correlated from the result. The test results as shown above, the Chi-square probability is 0.0132 which is significant at 5% level of significance, an indication that the error terms and regressors are not correlated in the outcome. But below, the analysis of the random and fixed effect models indicated that fixed effect regression results appear to be more acceptable and suitable for final test than the random effect results based on the R^2 value of the dataset for our study. The result study concludes that fixed effect model is fit for the study.

Table 5: Random Effect Regression Result

TACR	Beta Coefficient	Standard Error	t-values	Prob>t
AUDF	-0.008388	0.026253	-0.3622	0.8460210
AUDFZ	-0.043708	0.023099	-2.110	0.057126
AUDTN	-0.034715	0.012349	-2.536	0.037353
R^2	0.3994			
F-value	2.7863			
Prob>F	0.0223			

Source: Authors Computation, 2020

Table 6: Fixed Effect Regression Result

TAROC	Beta Coefficient	Standard Error	t-values	Prob>t
AUDF	-0.15410434	0.0535831	-02.8365	0.0254363
AUDFS	-0.09589930	0.0336860	-02.4764	0.049839
AUDTN	-0.02771164	0.0143667	-02.2662	0.043790
R^1	0.5584			
F-value	4.886			
Prob>F	0.0015			

Source: Authors Computation, 2020

The fixed effect result above shows that the R^2 value of 0.56 is the coefficient of multiple determination of the moderation effect. This is an indication that about 56% of the total variation found in the criterion variable earnings management proxy by total accruals in the operating cash flow of the listed production industrial is explained jointly by explanatory variables of audit firm size, audit fee and auditor tenure. On the other hand, the value of 44% indicated that there are other issues to be explained by other factors not capture in our explanatory variables. These other factors are likely to have a moderating effect on earnings management of production industries in Nigeria. The F- statistics value of 4.886 (Prob.>F = 0.0015) indicates that the model is fit to explain the moderation effect of audit quality measures on earnings management as shown in the study model.

DISCUSSION OF THE RESEARCH FINDINGS

Audit Fee Moderation on Earnings Management

The figure of Audit fee found from table (vi) above has a negative moderating effect on earnings management but is significant at 5% level with a coefficient -0.15410434 and t-values -02.8365 and p-value figure of 0.0254373. It could be assumed that firms that can afford to pay large remuneration to auditors seek a quality audit but possibly those who cannot pay audit fee can manipulate earnings. In the same vein, audit firms that collect large audit remuneration can pay better and retain high quality audit staff and resist clients in earnings manipulations. Charging of large audit remuneration have been associated with big auditing firms. This was supported by the findings of [7], who found that a significant negative association exists between audit quality and earnings management and stated that earnings management is significantly lower among companies using the services of independent auditors. Thus the level of earnings manipulation is significantly less among companies hiring the big four audit firms compared to those hiring the non-Big four audit firms. This research finding somehow agree with the findings of [11]; [12]; [13]; [14] who also found that audit fee has negative association on earnings management. But this finding that audit fees has negative moderating effect on earnings management contradicts the finding of [4] who found a positive moderating effect of audit fee on earnings management.

Audit Firm Size Has a Significant Negative Moderating Effect on Earnings Management

The research findings indicates Audit firm size AUDTFZ has a negative but with a significant moderating effect on earnings management with a coefficient figure of -0.09589930 and -0.47464 t-values and a corresponding p-value of 0.049839. Literatures have argued that big audit firms are not likely to influence earnings management because they are somehow comfortable and able to maintain trained workers and keep to audit standards to maintain their big names, while small audit firms can sway to influence earnings management to keep their client. The finding of this research that audit firm size is negative on moderating earnings management agrees with works of these prior authors: [32]; [33]; [34]; [35]. The result did not agree with the result of the followings: [55]; [56]; [57]; [58]; [59] who found audit firm size to be insignificant in earnings management, It did not also agree with the findings of [67]; [68], who found audit firm size to have insignificant negative effect. The result also disagrees with the findings of [1]; [2]; [3]; [4]; [5]; [6], who found negative effect of audit firm size on earnings management. The results of [68], [69]; [70], that showed positive effect on earnings management of firms also disagree with this result. None of these result quite agreed with this findings of audit firm size having a negative but with a significant moderating effect on earnings management.

Auditor Tenure Has a Significant Negative Moderation Effect on Earnings Management

The above result showed that audit tenure AUDTN has a significant negative moderating effect on earnings management at 5% significance level with a coefficient figure of -0.2771164, and a t-value of -02.2662 and with a corresponding p-value of 0.043790. The result concludes that AUDTN has a significant negative moderating effect on earnings management of listed production industries listed in Nigeria Stock Exchange NSE.

From the literatures it has been seen that an auditor's objectivity in anomaly detection in the early years of engagement increases, but decreases over time getting to its weakest level after twenty years of service [7]. This has become an issue of debate even in the developed countries: For instance, in US, it was reduced from 7years to 5 years, in France auditors are engaged for six financial years only, while the European Commission recommended that auditors should be rotated at every seven years. But in Nigeria, auditors are required to be rotated every three years [3]. The finding that AUDTN has a negative effect on earnings management partially agrees with the works of the followings: [9]; [10] [11]; [12], who found that AUDTN has a negative relationship with earnings management. But the works of [6]; [7], found a significant negative effect in quite agreement with the current research findings. Also, [36] found insignificant positive, and [9], found AUDTN insignificant on earnings management. Again [34]; [35] [36] found an insignificant negative effect of auditor tenure on earnings management of firms. Finally, [49] found a positive association between auditor tenure and earnings management of firms.

Summary of Findings

The summary of the research findings are that:

Audit fees AUDTF has a significant negative moderating effect on earnings management

Audit firm size AUDFZ has a significant negative moderating effect on earnings management

Auditor tenure AUDTN has a significant negative moderating effect on earnings management

CONCLUSION

The conclusion of this work includes that about 56% of the total variation found in the criterion variable earnings management proxy by total accruals in the operating cash flow of the listed production industrial is explained jointly by explanatory variables of audit firm size, audit fee and auditor tenure; while the value of 44% indicated that there are other issues to be explained by other factors not capture in our explanatory variables. Audit fees; audit firm size and audit tenure have a significant negative moderating effect on earnings management of the sampled production industrial listed in Nigeria Stock Exchange NSE.

RECOMMENDATION

The following recommendations are anchored on the findings of this research: Firms should pay commensurate remuneration to client audit assignment, if they want audit quality to reduce earnings management. Again, audit firm size and audit tenure should be the primary consideration by firm's management to avoid earnings management manipulations. The debate on audit tenure should not be tampered with to affect the maximum requirement engagement period; and the necessary rotation period of audit tenure as provided by the law to maintain audit quality and reduce earning management.

Current Contribution to knowledge

Some of the contributions of this study includes: 1) The debt empirical literatures evidenced in this work; 2) The modified model applied in the study; 3) the established outcome of the explanatory proxy that indicated significantly negative on the criterion variable.

Suggestions for Further Study

Since our findings showed that about 56% of the total variation found in the criterion variable earnings management proxy by total accruals in the operating cash flow of the listed production industrial is explained jointly by explanatory variables of audit firm size, audit fee and auditor tenure, the study suggest that more research should be conducted to balance the variation using another proxy for earnings management, instead of accruals.

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