Volume 20 Issue 47
Originally issued as D2

Global Journal of Management and Business Research: D
Accounting and Auditing
Volume 20 Issue 2 Version 1.0 Year 2020
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

Audit Quality and Earnings Management of Selected Listed Consumer Goods Firms in Nigeria (2007-2016)

By Oladejo Abiodun Oyebamiji
Obafemi Awolowo University

Abstract- The study investigated the relationship between audit quality and earnings management among listed consumer goods firms' in Nigeria.

Secondary data were used for the study and the data covered the period between 2008 and 2017. The study employed purposely sampling technique in selecting 15 out of the 22 listed consumer goods firms based on their relative size, financial performance, data availability and accessibility. Data were obtained from the audited financial statements of the selected consumer goods firms' in Nigeria, Global Corporate Governance Indices and the Nigerian Stock Exchange Fact Books. Data collected were analysed using descriptive, correlation and random effect method.

Keywords: *audit firm size, audit regulation, legal environment, discretionary accruals.*

GJMBR-D Classification: *JEL Code: M42*



Strictly as per the compliance and regulations of:

© 2020. Oladejo Abiodun Oyebamiji. This is a research/review paper, distributed under the terms of the Creative Commons Attribution-Noncommercial 3.0 Unported License http://creativecommons.org/licenses/by-nc/3.0/), permitting all non-commercial use, distribution, and reproduction in any medium, provided the original work is properly cited.

Audit Quality and Earnings Management of Selected Listed Consumer Goods Firms in Nigeria (2007-2016)

Oladejo Abiodun Oyebamiji

Abstract- The study investigated the relationship between audit quality and earnings management among listed consumer goods firms' in Nigeria.

Secondary data were used for the study and the data covered the period between 2008 and 2017. The study employed purposely sampling technique in selecting 15 out of the 22 listed consumer goods firms based on their relative size, financial performance, data availability and accessibility. Data were obtained from the audited financial statements of the selected consumer goods firms' in Nigeria, Global Corporate Governance Indices and the Nigerian Stock Exchange Fact Books. Data collected were analysed using descriptive, correlation and random effect method

The results showed that audit firm size (t=-2.09, p<0.05); audit regulations (t=-2.32, p<0.05); legal environment (t=-0.58, p<0.05) and company type (t=-2.5, p<0.05) had inverse relationship with earnings management, whilst leverage (t=0.02, p<0.05) exhibited positive association with earnings management.

The study concluded that audit quality had inverse and significant effect on earnings management practices among listed consumer goods firms in Nigeria.

Keywords: audit firm size, audit regulation, legal environment, discretionary accruals.

I. Introduction

Audit quality involves carrying out audit assignment in line with the International Auditing Standards and Guidelines, total observance of basic audit processes, complete compliance with quality control requirements and refusal to bend the rules when it comes to reporting anomalies. Therefore, quality audit service delivery brings about quality and credible financial reporting. It is pertinent to offer financial reporting information that is of modest quality due to the fact that it is expected to have a favourable influence on the business financiers and other stakeholders in arriving at a position on their choices of investment, provision of loan facilities, resources sourcing and their allocations so as to improve global proficiency of the market place (Adediran, Alade and Oshode, 2013).

Earnings management on the other hand is a strategy used by company managers to deliberately manipulate company earnings to match a predetermined target and involves the planning and execution of certain activities that manipulate or smooth income, achieve high earnings level and sway the company's stock price" (Healy and Wahlen, 1999; Schipper, 1989). This practice is usually accomplished through the utilization of the accounting choices offered by the Generally Accepted Accounting Principles (GAAP) popularly described as Discretionary Accrual Management (DAM). It is equally achieved by making a predetermined amendment to the entity's operating activities which is described as either Cash-Based or Real Earnings Management (Okolie, 2014).

The operating results quality and the strength of audit quality to curtail Earnings Management (EM) of entities across the world and specifically in Nigeria have generated enormous controversies resulting from recent corporate frauds (Enofe, 2010). The recent corporate frauds have created suspicion in the minds of the investors regarding the reliability, value relevance, credibility, utility and veracity of the audit function (Okolie, Izedonmi and Enofe, 2013). Badawi (2008) has identified quite a number of entities; such as: World Com, Cendant, Sunbeam, Enron Corporations, among others that have engaged in cases of corporate frauds resulting from poor audit quality and opportunistic behaviours in the United States of America in the last ten years. In Nigeria, similar cases of corporate frauds have occurred such as: Oceanic Bank International, Cadbury, African Continental Bank, Lever Brothers, African Petroleum, Intercontinental Bank, Savannah Bank, just to mention a few (Okolie, Izedonmi and Enofe, 2013; Adeyemi and Fagbemi, 2010). The foregoing cases brought about increased agitation on the reliability, integrity and accuracy of reported earnings. The poser that came to mind was whether or not the recent incidences of business collapse were not the direct aftermath of inability of the statutory audit function to effectively curb managers' opportunistic behaviours.

The consumer goods industry is among the sub-sectors of the Nigerian economy that were most prone to earnings management. The industry constituted a very vital sub-sector of the Nigerian economy. Since there are efforts and resolve by both government and industrialists to develop the industry as priority area of industrial investment and a support toward government diversification policy. It was,

Author: Department of Management and Accounting Obafemi Awolowo University, Ile-Ife, Osun State, Nigeria.
e-mails: oladejoabiodun@oauife.edu.ng, oladejoabiodun67@yahoo.com

© 2020 Global Journals

therefore, pertinent to assessed the effect of audit quality on earnings management in selected listed consumer goods firms in Nigeria.

II. Literature Review

a) Theoretical Framework

i. The Lending Credibility Theory

This study was anchored on lending credibility theory.Lending credibility theory assumes that the most important role of auditing is to win the confidence of the investors and other stakeholders in the financial statements. One of the most important weapons used by the corporate executives in securing the confidence of the owners and other stakeholders in their financial reporting process and minimize inequality in access to information is to have the entities accounts audited. Looking at it from this perspective, what the auditors have to offer to the client and other stakeholders is trust. When financial statements have been audited, the trust of the owners and other stakeholders in the figures contained therein is greatly enhanced. Therefore, having a set of accounts audited brings about an added value in that it increases the reliability of the financial statements and enables owners and other stakeholders make informed decisions. Porter (1993), however, reached a conclusion that "Audited information does not form the primary basis for investors' investment decisions". Considering the theory from another angle, it was frequently postulated that audited accounts performed the role of verifying information previously given out (Hayes, Dassen, Schilder & Wallage., 2005 as cited in Ittonen, 2010). Theory does not consider other vital roles played in the discharge of audit service, thereby restricted in scope and limited in its' elucidatory power (Sijpesteijn, 2011).

III. Empirical Studies

a) Relationship between Audit Quality and Earnings Management

Prior studies used audit firm features as proxies for audit quality. Such features include: audit firm size; auditor tenure; audit fee; audit company type (i.e. firm size); auditor independence; auditor industry expertise; auditor enterprise; audit regulations; and legal environment (Penning and Villier, 2015; Memis and Cetenak, 2012; Abedalgader, Ibrahim and Baker, 2010). Ilaboya and Ohiokha (2014) indicated that earlier researches in this field used observable outcomes as proxies of audit quality, which comprised: audit opinion; auditor selection and change (i.e. auditor switch or rotation); decisions arising from audit report; financial statements outcome; and analyst forecasts. Moizer (1998) reviewed the issue of audit quality from a behavioural angle; specifically pinpointing features that are interpreted by the preparers, auditors and users of financial statements which are closely linked to audit quality. He concluded that the Big 4 audit firms are associated with high quality audit service. Adeniyi and Mieseigha (2003) and Enofe, Mgbame and Enabosi (2013) used the likelihood that a sampled company engages the services of the Big 4 audit firms as proxy for audit quality with a dummy value of 1 or 0 if otherwise.

In this study, however, while discretionary accruals were used for earnings management, audit firm size, audit regulations and legal environment were used as proxies for audit quality.

b) Audit Firm Size and Earnings Management

According to Colbert and Murray (1998), as cited in Sawan and Alsaqqa (2013), several reasons could be adduced to justify the relationships between audit firm size and audit quality; among which were: audit firm size could easily be observed and consequently adopted as a measure of audit quality; prior studies in this field have demonstrated that there was a positive relationship between audit firm size and audit quality; and the establishment of relationship between audit firm size and audit quality could affect the structure of audit liability insurance premium.

It has been demonstrated that the quality of the audit service increases with the size of the audit firm (Arrunada, 1999). The level of the ongoing agitation on the relationship between audit firm size and audit quality signals that there exists a hurdle in arriving at a consensus on the issue. It has been contended that it is an act of biasness to differentiate between the big and small firm if there exist the maintenance of professional standards and qualification across all firms regardless of size (Behn, Choi and Kang, 2008; Arnett and Danos, 1979). In the light of the foregoing, Arnett and Danos (1979) remarked that on the basis of the presumption that there is no difference in the level of quality service delivery amongst audit firms notwithstanding the audit firm size; investors are expected to have similar access to information to guide their decision-making, therefore audit firm size becomes irrelevant. Extant literatures on audit quality have revealed that audit firm size has received the highest focus with the contention that the Big 4 firms have higher quality service delivery relative to the non-Big 4 firms. Several prior researches have reported findings to corroborate the believe that audit firm size has a positive correlation with audit quality noting that the quality increases as the firm grows bigger (Lawrence, Minutti-Meza and Zhang, 2011; Rusmin, 2010).

The reason usually adduced to this general believe was that the Big 4 firms have higher strength in terms of: resources at their disposal; ability to hire high profile personnel; ability to train their staff both locally and internationally; wherewithal to invest immensely in technology; capacity to engage in extensive research; capacity to specialize and decentralize operations;

© 2020 Global Journals

ability to conduct more extensive tests; among other considerations relative to the non-Big 4 firms (Reisch, 2000). According to De Angelo (1981), the Big 4 firms usually have large numbers of high net worth clients and therefore are not afraid of losing any one client; a position which enhance their independence and ability to give qualified opinion where necessary. Moreover, Krishnan and Schauer (2000) provided further evidence that the size of the audit firm is positively correlated to their compliance level as this increases as the firm grows from small to medium to the Big 4.

It has further been contended that corporate reporting quality is a direct consequence of the reputation level of the audit firm (Naser and Al-Khatib, 2000). The Big 4 audit firms have been known to have a history of full compliance with the standard information disclosure requirements due mainly to the fact that they will not want to allow anything to soil the image that has taken them several years to build. This informed their readiness to always deliver high quality and objective audit service. In the work of Michael (2007), it was evident that clients of the Big 4 audit firm engage less in opportunistic behaviours than those of the non-Big 4. This was ascribed to the high quality audit service provided by the Big 4 audit firms relative to the non-Big 4. It was further confirmed that the Big 4 audit firms have higher likelihood to issue going concern reports than the non-Big 4 due to their relative independence. It was also reported that the non-Big 4 audit firms are more likely to engage in personalize audit service approach than the Big 4 (McLennan and Park, 2004).

The independence of the Big 4 audit firm was further demonstrated by the fact that they have less reliance on earnings from one or two clients because they usually have large clientele; which constitutes a strong ingredient in audit quality (Devonish and Alleyne, 2006). Several other studies have documented that the Big 4 audit firms have higher propensity to deliver superior quality audit service than the non-Big 4 due to the following reasons among others: reputation; independence; readiness to issue qualified audit opinion where necessary; strict adherence to the rules; and conservatism (Francis and Yu, 2009; Davidson & Neu, 1993; Gaeremynck and Willekens, 2003; Lee and Taylor, 2001).

When we consider audit firm size in relation to audit quality from the investors perspective, what we observed from the review of extant literature was that investors have more preference for companies that are audited by the Big 4 audit firms due to: the less likelihood of earnings manipulation tendencies; ability to project, with some degree of certainty, expected earnings since the Big 4 audit firms have capacity and readiness to issue going concern report where necessary; the financial strength to engage personnel that are specialist in the industry; wherewithal to train and retrain staff and involvement in continuing professional education; higher investment in information communication technology (ICT); greater technical skills and competence (Hussainey, 2009; Morris and Srawser, 1999).

Contrary to the foregoing opinion, it has been argued that the quality of an audit assignment is not a direct off-shot of relative size of an accounting firm, but rather a product of innate ability of individual auditors. It was further asserted that the Big 4 audit firms have no relative hedge over the others in terms of quality service delivery due to the following reasons: the risk of law suits is less in the Big 4 audit firms when compared with the others; the Big 4 audit firms provide significant non-audit services which breeds intimate relationship with the clients thereby compromising their independence and at times water down the quality of audit service delivered (Lee, Cox and Roden, 2007; Chandler, 1991).

Dopuch and Simunic (1980) suggested that the Big 4 audit firms are viewed to produce more credible reports than the non-Big 4 because they have greater resources at their disposal and therefore have the strength to perform more extensive and stronger tests. Nichols and Smith (1983) attempted to test this suggestion so as to establish a strong statistical support for it. The market model methodology on event model was adopted. They tried to establish whether abnormal returns accrue to organizations that switch from non-Big 4 to the Big 4 audit forms and vice versa. The result showed positive, but not statistically significant, reaction from the market.

Choi, Kim, Kim and Zang (2010) study revealed a significantly positive relationship among audit firm size, audit fee and industry expertise. While, Knapp (1991) discovered no significant relationship between audit firm size and ability to detect errors and misstatements in the financial statements, although he confirmed that the Big 4 audit firms have better disclosure probability.

The panacea for resolving the differences between the Big 4 and the non-Big 4 audit firms in relation to quality audit service delivery is the institution of professional standards and qualification monitoring with a functioning regulatory framework.

c) Audit Regulations and Earnings Management

Audit regulations are expected to have positive impacts on audit quality and inverse relationship with earnings management as regulations are issued with the aim of standardizing and enhancing the quality of audit service provided by the individual audit firms. When quality and highly diligent audit services are delivered, there will be little or no tolerance for client management to engage in income manipulations. Various Acts have been enacted in different countries with the aim of bringing about sanity in the practice of accounting profession across the globe. Examples include: Sarbanes-Oxley (SOX) Act, 2002 in the United

© 2020 Global Journals

Kingdom (UK); Auditing Profession Act, 2005 in South Africa, etc. These Acts emphasizes peer review, oversight functions through periodic visitations to firms with the aim of monitoring and assessing the degree of compliance with regulations and standards; identification of engagement partner for each audit assignment so as to ensure diligence and accountability.

It has been demonstrated that audit regulations have an enhancing effect on: the standard of accounting practice by audit firms; quality of audit service delivery; and hence constrain corporate executives' opportunistic behaviours. For instance, enactments of Sarbanes-Oxley Act, 2002 in the US and Auditing Profession Act, 2005 in South Africa brought down significantly corporate executives opportunistic behaviours in those countries (Cohen and Zarowin, 2010).

d) Legal Environment and Earnings Management

There are growing bodies of knowledge that examined legal environment and earnings management. A review of prior studies in this field revealed that in countries where legal environment (in terms of three indices: i. anti-corruption index; ii. legal enforcement index; and iii. investors' protection index) are very strong, managers' opportunistic behaviours are usually very low; when compared with countries that have weak legal system (Shen and Chih, 2005; Leuz *et al*, 2003). Ball et al (2000) argued that the practice of earnings manipulations reduces in code-law countries vis-à-vis common law countries. It has equally been observed that lower earnings management practices exist in countries that have stronger investors' protection, superior and more transparent accounting disclosure requirements (Shen and Chih, 2005; Leuz *et al*, 2003).

It has been demonstrated that in countries with stronger stakeholders' protection, there are strict sanctions on corporate executives who engage in earnings management practices (Enomoto, Kimura and Yamaguchi, 2012). Extant studies have also shown that countries with stronger legal environment have policies which protect stakeholders' rights by granting them power to sanction erring corporate executives (Dyck and Zingales, 2002; La Porta; Silanes and Shleifer, 2002).

Therefore, countries which have strong policies on anti-corruption, legal enforcement and investors' protection are likely to have less incentives for managers' to have inclination towards income manipulation vis-à-vis countries that have weak policies thereon.

IV. Methodology

The data for this study was obtained from secondary source. This study used panel data to establish the relationship audit quality and earnings management of selected listed consumer goods firms in Nigerian over a period of ten (10) years from 2008 to 2017, therefore, the population of this study consisted of all the22consumer goods firms listed on the floor of the Nigeria Stock Exchange as at 31st December, 2018. The purposive sampling technique premised on the size, experience, financial performance and perceived data availability and accessibility was adopted in selecting the 15 companies. The data were obtained from the Annual Reports and accounts, Global Corporate Governance Indices and the Nigerian Stock Exchange Fact Books.

a) Variable Description and Development of Hypotheses Discretionary Accruals

Discretionary accruals are used, in this study, to measure earnings management and have been described as a deliberate attempt by corporate executives to amend operating results so as to achieve a specific revenue target. Here, most often than not, the financial statements contain a misleading position of the firm's economic performance. This act is usually perpetrated whenever an organization is going to the capital market to raise fresh funds, bargaining for loans or sourcing for favourable contracts (Dechow and Skinner, 2000). In this study, it is believed that clients that engaged the services of the Big 4 audit firms, operates under some high standard/ stringent regulations and within the surveillance and close monitoring of the Stock Exchange, Securities and Exchange Commission and other regulatory bodies and therefore, by extension, are likely to experience lower discretionary accruals and high-quality audit. Such companies are equally likely to attract industry specialist auditors.

b) Audit Firm Size

Riyatno (2007) defines audit firm size as a distinction based on the number of clients and the number of members of the firm. Audit firm size can be divided into big (i.e. big four), medium and small accounting firms. This could equally be described as the relative strength of the audit firm in terms of structures, number of partners, number of specialized departments within the firm, clientele, staff strength, capital base, annual gross income, degree of digitalisation, among others.

Ho1: There is no significant relationship between audit firm size and earnings management.

c) Audit Regulations

Audit regulations refer to the rules, procedures, standard requirements and ethical codes set for practitioners by the regulatory bodies such as: i. The Securities and Exchange Commission of Nigeria (SECN); ii. The Financial Reporting Council of Nigeria (FRCN); and iii. Professional Accounting bodies, like: The Institute of Chartered Accountants in Nigeria; The Institute of Chartered Accountant in England and Wales;

© 2020 Global Journals

etc. Five (5) attributes of audit regulations that are in force in fifteen (15) European Union member states could be identified, namely: i. auditor tenure; ii. auditor liability; iii. provision of non-audit services; iv. rotation of audit partners; and v. obligation of joint audits (Benslimene and Dumontier, 2014).

Ho2: There is no significant relationship between audit regulations and earnings management

d) Legal Environment

Legal environment pertains to the strength of entire legal system of a country as regards protection of investors and other outside stakeholders' rights most especially with respect to the opportunistic behaviours of corporate executives (Memis and Cetenak, 2012).

Ho 3: There is no significant relationship between legal environment and earnings management.

e) Control Variables

Control variables were used by some of the prior researchers in this field. The control variables used were: leverage; firm size; cash flow from operating activities; among others, but for the purpose of this study only leverage and firm size were used.

f) Leverage

Leverage was used as one of the control variables in this work. It has been discovered that entities that are highly geared are prone to breaking agreements concerning debts servicing (Press Weintrop, 1990; Duke and Hunt, 1990). They further argued that as the gearing level increases, such companies were usually faced with more restrictive terms and conditions regarding allocation of sourced funds and proceeds from operating activities. Some other researchers have also indicated that such entities were customarily under pressure to adopt accounting choices (i.e. discretionary accruals) that enables them to report higher income so as to forestall breaking debt service agreement (Dhaliwal, Salamon and Smith, 1982; Bowen, Noreen and Lacey, 1981). It has equally been observed that highly levered firms have higher motivation to engage in income manipulations so as to prevent breaking debt service agreements (De Fond and Jiambalvo, 1994). From the foregoing, it could be discerned that favourable relationship exists between leverage and earnings management.

Review of extant body of knowledge have also suggested that capital providers, and business financiers prefer companies with higher operating results and index of good growth rate in income overtime (DeGeorge, Patel and Zechhauser, 1999; Burgstahler and Dicey, 1997). They contended further that, with these expectations from the investors and lenders, managers of such organizations were usually driven to engage in opportunistic behaviours so as to report rosy operating income.

g) Audit Company Type/ Firm Size

This implies the relative size of the client company. This is determined by the total asset base of the company, annual gross income, total capital base, number of shareholders, staff strength, among others. In this work, the natural log of total assets was used to measure firm size in relation to earnings management. It has been asserted that big companies are more likely to engage in earnings manipulations than their smaller counterparts. A review of prior studies revealed that big companies are more exposed to higher government dues and therefore more motivated to manipulate earnings so as to reduce to the barest minimum the financial burdens that are likely to arise from the imposition of such dues. Extant literature equally provided evidence of positive relationship between firm size and earnings management (Becker et al, 1998; De Fond and Park, 1997).

Park and Shin (2004) opposed the foregoing arguments. They observed that big companies are subject to regulatory surveillance of the Stock Exchange, Securities and Exchange Commission, other regulatory bodies, the press and financial analysts and therefore are under obligation to engage less in opportunistic behaviours. Smaller firms are less scrutinized by authorities and are therefore more inclined to engage in earnings management (Abdul, Rahman and Fairuzana, 2006; Chen, Moroney and Houghton, 2005). They concluded that adverse relationship exists between audit company type and corporate executives' opportunistic behaviours.

The contradictory positions present a divergent direction regarding the association between the audit company type and corporate executives' opportunistic behaviours which necessitate the inclusion of audit company type as part of the control variables.

The model to capture the relationship between audit quality and earnings management as adapted from the work of Gujarati, 2003 was specified as follows:

$$DACC_{it} = \beta_0 + \beta_1 AFS_{it} + \beta_2 ARG_{it} + \beta_3 LEN_{it} + \beta_4 LEV_{it} + \beta_5 FSZ_{it} + e_{it}$$

Where;

$DACC_{it}$ = Discretionary Accruals for firm i at time t;
AFS_{it} = Audit Firm Size for firm i at time t;
ARG_{it} = Audit Regulations for firm i at time t;
LEN_{it} = Legal Environment for firm i at time t;
LEV_{it} = Leverage for firm i at time t;
FSZ_{it} = Natural logarithm of firm's total assets (Ln_TA) for firm i at time t; and
e_{it} = error term for firm i at time t.

h) Measurement of Variables

This involves both dependent variable and the independent variables that were used in this study. The

© 2020 Global Journals

dependent variable is the earnings management while the independent variables are audit firm size, audit regulations and legal environment. Leverage and firm size were used as control variables. These variables are measured thus;

Variable	Formula/ Measurement	Definition	Source
EMGT	DACCit = TACit - NDACCit	This refers to the corporate executives opportunistic behavior	Scott, (2009); García Lara, Garcia Osma and Mora, (2005); Phillips, Pincus and Rego, (2003); Healy and Wahlen, (1999); Akers, Giacomino and Bellovary, (1999); Munter, (1999); Lev, 1989; Schipper, (1989); Davidson, Stickney and Weil, (1988).
AFS	Natural Log of Audit Fees	This means the relative size of the audit firm (i.e. whether big 4 or non-big 4).	Bafqi, H. D., (2013); Lindberg, (2001); Hosseinniakani, Inacio and Mota, (2014); DeAngelo, (1981); Hussein and Hanefah, (2013).
ARG	1, if sound and effective regulations exist based on five attributes: the minimal duration of auditor tenure, the constraints on joint supply of audit and non-audit services, the legal base for auditors' liability, the mandatory rotation of audit partners, and obligation of a joint audit, 0, if otherwise.	This relates to the effectiveness of the audit standard regulatory bodies in term soundness of pronouncements and enforcement.	Benslimene and Dumontier, 2014; Davis,Soo and Trompeter,2009; Gul, Yu Kit Fung and Bikki, 2009; Johnson, Carcello& Nagy, 2004; Khurana and Raynolds, 2002; Lennox, 2000; Krishnan and Stephen, 1995; Krishnan, 1994.
LEN	1, if there is strong legal enforcement index (i.e. efficiency of judicial system, rule of law, and corruption) and outside investor rights index (i.e. anti director rights index).	This represent the rate of justice dispensation with respect investors' protection and the extent of enforcement of investor rights.	Boonlert and Nabar, 2006; Shen and Chih, 2005; Leuz, Nanda and Wysocki, 2003; La Porta, Silanes, Shleifer and Vishny, 2002.
LEV	Debts/Equity	This implies the debt obligations of company I at time t	Watts and Zimmerman, 1986
FSZ	Lagged Total Assets or Total Assets of firm i at year t-1	Size of the firm i in year t	Erickson, Hanon and Maydew, 2004; Cormier, Magnan and Morard, 1998; Han and Wang, 1998; Jones, 1991

Source: Author's Compilation, 2020

V. Results and Discussions

The table 1 reported the descriptive statistics between the dependent variable and the independent variables. The variables of earnings management, audit firm size, audit regulations, legal environment, leverage and firm size were not normally distributed homogenously, given the values of Jargue-Bera statistics and their probability values. This was because the p-values of Jarque-Bera statistics for all the variables were less than 0.05. Against this background, care was taken in handling the variables which could affect their consistency and efficiency. The means of the variables were far from their medians which also implied the likelihood of inconsistency of the variables and therefore, the estimation of the model using the ordinary least square may not lead to an efficient estimation of the coefficient and hence a more robust method was adopted in estimating the coefficient which took account of the cross sectional fixed and random effect of the variables.

The skewness of EMGT, ARG and LEV indicated that they were positively skewed. This implied that the observed values of the variables have long tails to the right, large values or positive sides. The means and medians of the AFS, LEN and FSZ showed that they exhibited negative skewness, because their means were less than their medians. The standard deviation of the variables indicated that they were relatively low in term of volatility, this showed that each observation was not much dispersed from its mean. In realizing the likely problem of violating the assumption of ordinary least square, the study adopted the panel estimation technique by carrying out Hausman test in order to determine the significant difference between random and fixed effect of the model. The result of the Hausman test favoured random effect model as the p-value was greater than0.05.

© 2020 Global Journals

Table 1: Descriptive Statistics

	EMGT	AFS	ARG	LEN	LEV	FSZ
Mean	315624.9	9.59	0.45	0.53	1.37	16.26
Median	299872.5	9.90	0.00	1.00	0.43	16.95
Maximum	729488.0	11.01	1.00	1.00	18.67	19.92
Minimum	-11296.00	7.60	0.00	0.00	0.00	10.77
Std. Dev.	220299.1	0.95	0.49	0.50	3.73	2.26
Skewness	0.14	-0.83	0.18	-0.13	3.68	-0.82
Kurtosis	1.85	2.36	1.03	1.01	15.16	2.86
Jarque-Bera	8.75	17.93	25.00	25.00	1121.29	15.19
Probability	0.01	0.00	0.00	0.00	0.00	0.00
Sum	47343732	1294.78	68.00	80.00	183.20	2163.14
Sum Sq. Dev.	7.23	122.37	37.17	37.33	1842.86	674.59
Observations	150	150	150	150	150	150

Source: Author's Compilation, 2020

a) Correlation matrix

The correlation matrix in the table 2 displayed the level of association among the explanatory variables with a view to unraveling the likely occurrence of multi-collinearity problem. The correlation test showed that legal environment reported 0.01 correlation with audit regulations and 0.25 correlation with audit firm size. Leverage exhibited 0.00 correlation with audit firm size, 0.04 correlation with audit regulations and 0.10 correlation with legal environment. Firm size reported 0.00 correlation with audit firm size, 0.04 correlation with audit regulations and 0.12 correlation with legal environment.

This result revealed that there was less likelihood of multi-collinearity problem among the independent variables. Therefore, highly efficient and consistent estimates were obtained from the variables.

Table 2: Correlation matrix

Probability	EMGT	AFS	ARG	LEN	LEV	FSZ
EMGT	1.00					

AFS	-0.07	1.00				
	0.37	-----				
ARG	0.03	-0.06	1.00			
	0.69	0.48	-----			
LEN	-0.06	0.09	0.20	1.00		
	0.49	0.25	0.01	-----		
LEV	0.06	-0.49	0.17	-0.14	1.00	
	0.45	0.00	0.04	0.10	-----	
FSZ	-0.09	0.75	-0.17	0.13	-0.57	1.00
	0.25	0.00	0.04	0.12	0.00	-----

Source: Author's Compilation, 2020

b) Model Estimates

The table 3 reported empirical results of the relationship between audit quality and earnings management among listed consumer goods firms' in Nigeria. The results of both the fixed and random effects of the model were shown. In order to determine the most appropriate model for the variables, the study adopted the Hausman test. The test revealed that random effect model is the most appropriate, because the p-value was greater than 0.05 and will tend to capture the relationship between audit quality and earnings management among listed consumer goods firms' in Nigeria better than the fixed effect. The model comprised of Earnings Management (EMGT), Audit Firm Size (AFS), Audit Regulations (ARG), Legal Environment (LEN), Leverage (LEV) and Firm Size (FSZ).

The outcome of the test conducted revealed that AFS has a negative relationship with EMGT with coefficient of -0.02; ($t=-2.09$, $p<0.05$). This implied that audit firm size has adverse effect on the earnings management practices in the sampled firms. Big audit firms tend to protect their high reputation, have large credible clientele, placed high emphasis and insistence on continuing professional education, have wide exposure, have higher technical capability, are more qualified, have the wherewithal to engage high profile professionals, have superior competence and independence. Thus, they have high propensity to issue reliable audit report without hindrance. Consequently, these attributes serve to prevent managers' opportunistic behaviours. This aligned with findings of Michael, 2007.

© 2020 Global Journals

Audit Regulations (ARG) exhibited negative relationship with earnings management with a coefficient of -0.13 (t=-2.32, p<0.05). Therefore, sound ARG leads to reduction in EMGT. This agreed with the findings of Cohen and Zarowin, 2010. Legal Environment (LEN) showed an inverse relationship with Earnings Management (EMGT) with coefficient of -0.23 (t=-0.58, p<0.05). This aligned with the findings of Enomoto *et al,* 2012. Firm Size (FSZ) with coefficient of -0.07 showed a negative relationship with earnings management; (t=-2.50, p<0.05). This was in line with the findings of Park and Shin, 2004.

The explanatory power of the model showed that the explanatory variables jointly accounted for 42.57 percent of the variation in endogenous variable. The F-statistics of 34.33 reported the joint statistical significance of the variables. Durbin Watson Statistics of 2.02 implied that the model has likelihood of being free from serial autocorrelation.

Table 3: Model Estimates – Relationship between Audit Quality and Earnings Management

	Random Effect Model		Fixed Effect Model	
	Coefficient	t-Statistics	Coefficient	t-Statistics
AFS	-0.02	-2.09	1.08	2.09
ARG	-0.13	-2.32	-0.25	-2.56
LEN	-0.23	-0.58	-0.33	-0.75
LEV	0.15	0.02	0.10	0.47
FSZ	-0.07	-2.5	0.12	2.56
C	472.92	-2.09	-924.45	-0.91
R-squared	51.30		77.59	
Adjusted R-squared	42.57		67.94	
F-statistic	34.33		78.89	
Prob(F-statistic)	0.00		0.00	
Durbin-Watson stat	2.02		2.08	
Hausman Test	3.09 (p>0.05)			

Source: Author's Compilation, 2020

VI. Summary and Conclusion

This study investigated the relationship between audit quality service delivery and corporate executives' opportunistic behaviours of selected consumer goods firms listed on the floors of the Nigerian Stock Exchange (NSE). The findings of the study revealed that Audit Firm Size, Audit Regulations, Legal Environment and Firm Size reported negative relationship with earnings management practices among selected listed consumer goods firms' in Nigeria, whilst leverage revealed positive relationship with earnings management among the sampled firms.

The study therefore, concluded with the random effect model which revealed that Audit Firm Size, sound Audit Regulations, strong Legal Enforcement Mechanisms and big Client Size, with the exception of Leverage have inverse relationship with Earnings Management among the Selected Listed Consumer Goods Firms' in Nigeria.

References Références Referencias

1. Abedalgader, A., Ibrahim, T. R., & Baker, R. A. (2010). Do Audit Tenure and Firm Size Contribute to Audit Quality? *Journal of Managerial Auditing, 26*(3), 312-334.
2. Adediran, S. A., Alade, S. O., & Oshode, A. A. (2013). Reliability of Financial Reporting and Companies Attribute-The Nigerian Experience. *Research Journal of Finance and Accounting, 4(16)*, 108.
3. Adeniyi, S. I., & Mieseigha, E. G. (2013). Audit Tenure: An Assessment of It Effect on Audit Quality in Nigeria. *International Journal of Academic Research in Accounting, Finance and Management Sciences, 3*(3), 275-283.
4. Adeyemi, S. B., & Fagbemi, T. O. (2010). Audit Quality, Corporate Governance and Firm Characteristics in Nigeria. *International Journal of Business and Management, 5(5)*, 169-179.
5. Arnett, H., & Danos, P. (1979). Michigan Researchers Cite Excessive Regulation of Accounting Profession. *CPAJ, 49*, 6.
6. Arrunada, B. (1999). The Economics of Audit Quality: Private Incentives and the Regulation of Audit and Non-Audit Services. *Dordrecht*, 2-5.
7. Badawi, I. M. (2008). Global Corporate Accounting Frauds and Action for Reforms. *Review of Business, 26*, 8-14.
8. Ball, R., & Kothari, S. P. (2000). The Effect of International Factors on Properties of Accounting Earnings. *Journal of Accounting and Economics, 29*, 1-51.
9. Behn, B. J., Choi, H., & Kang, T. (2008). Audit Quality and Properties of Analyst Earnings Forecasts. *Accounting Review, 83*(2), 327-359.

© 2020 Global Journals

10. Chandler, R. A. (1991). Guardians of Knowledge and Public Interest: A Reply. *Accounting, Auditing and Accountability Journal, 4*(4), 19 Reads. doi:10.1108/EUM0000000001929
11. Choi, J. H., Kim, C., Kim, J. B., & Zang, Y. (2010). Audit Office Size, Audit Quality and Audit Pricing. *Auditing: A Journal of Practice and Theory, 29*(1), 73-97.
12. Cohen, D. a. (2010). Accrual-Based and Real Earnings Management Activities around Seasoned Equity Offering. *Journal of Accounting and Economics, 50*(1), 2-19.
13. Colbert, G., & Murray, D. (1998). The Association between Auditor Quality and Auditor Size: An Analysis of Small CPA Firms. *Joint Account, Audit and Finance, 13*(2), 135-150.
14. Davidson, R., & Neu, A. D. (1993). A Note on the Association between Audit Firm Size and Audit Quality. *Contemporary Accounting Research, 9*(2), 479-488.
15. DeAngelo, L. E. (1981). Auditor Size and Audit Quality. *Journal of Accounting and Economics, 3*, 183-199. Retrieved from http://dx.doi.org/10.1016/0 1 65-4101(81)9002-1
16. Dopuch, N., & Simunic, D. (1980). The Nature of Competition in the Auditing Profession: A Descriptive and Normative View. *Ed. Buckley J. and Weston F., in Regulation and the Accounting Profession; Lifetime Learn Publications, Belmont, CA, 34*(2), 283-289.
17. Enofe, A. (2010). Reaping the Fruits of Evils: How Scandals Help Reshape the Accounting Profession. *International Journal of Business, Accounting and Finance, 4*(2), 53-69.
18. Enofe, D. O., Mgbame, C. O., & Enabosi, O. C. (2013). Corporate Governance and Audit Quality in Nigeria. *Edo State University of Technology Journal of Accountancy, 4*(1), 138-145.
19. Enomoto, M., Kimura, F., & Yamaguchi, T. (2012). Accrual-Based and Real Earnings Management: An International Comparison for Investors Protection. *Journal of Contemporary Accounting and Economics*, 1-36. Retrieved from http://dx.doi.org /10.1016/j.jcae.2015.07.001.6
20. Francis, J. R., & Yu, M. D. (2009). Big 4 Office Size and Audit Quality. *The Accounting Review, 84*(5), 1521-1552.
21. Gaeremynck, A., & Willekens, M. (2003). The Endogenous Relationship between Audit Report-Type and Business Termination: Evidence on Private Firms in a Non-Litigious Environment. *Accounting Business Research, 33*(1), 65-79.
22. Hayes, R., Dassen, R., Schilder, A., & Wallage, P. (2005). *Principles of Auditing. An Introduction to International Standards on Auditing* (2nd ed.). England: Harlow (England) Prentice Hall/ Pearson Education Limited.
23. Healy, P. M., & Wahlen, J. M. (1999). A Review of Earnings Management Literature and Its Implications for Standard Setting. *Accounting Horizon, 13*(4), 365-383.
24. Hussainey, K. (2009). The Impact of Audit Quality on Earnings Predictability. *Managerial Auditing Journal, 24*(4), 340-351.
25. Ilaboya, O. J., & Ohiokha, F. I. (2014). Audit Firm Characteristics and Audit Quality in Nigeria. *International Journal of Business and Economic Research, 3*(5), 187-195. doi:10.11648/j.ijber.2 0140305.14
26. Ittonen, K. (2010). A Theoretical Examination of the Roles of Auditing and the Relevance of Audit Reports. *Accounting and Finance* (pp. 1-63). Vaasa: Vaasan Yliopiston Julkaisuja, Opetusjulkaisuja 61, Business Administration 28.
27. Krishnan, J., & Schauer, P. C. (2000). The Differentiation of Quality Among Auditors: Evidence from the Not-for-Profit Sector. *Auditing: A Journal of Practice and Theory, 19*(2), 9-26.
28. La Porta, R., Silanes, F., Shleifer, A., & Vishny, R. (2002). Investors Protection and Corporate Valuation. *Journal of Finance, 75*, 1147-1170.
29. Lawrence, A., Minutti-Meza, M., & Zhang, P. (2011). Can Big 4 versus Non-Big 4 Difference in Audit Quality Proxies be Attributed to Client Characteristics? *The Accounting Review, 86*(1), 259-286.
30. Lee, B., Cox, B. S., & Roden, D. (2007). Have the Big Accounting Firms Lost their Audit Quality Advantage? Evidence from the Returns-Earnings Relation. *Journal of Forensic Accounting, 8*(1-2), 271-286.
31. Leuz, C., Nanda, D., & Wysocki, P. (2003). Earnings Management and Investors' Protection. An International Comparison. *Journal of Financial Economics, 69*, 505-527.
32. McLennan, A., & Park, I. U. (2004). The Market for Liars: Reputation and Auditor Honesty. *International Journal of Economic Theory, 12*, 49-66. doi:10.1111/ijet.12080
33. Memis, M. U., & Cetenak, E. H. (2012). Earnings Management, Audit Quality and Legal Environment: An International Comparison. *International Journal of Economics and Financial Issues, 2*(4), 460-469. Retrieved from www.econjournals.com
34. Michael, Y. D. (2007). *The Effect of Big Four Office Size on Audit Quality.* Columbia: University of Missouri.
35. Moizer, P. (1998). Company Directors' View of the Performance of 1987 Big Eight and the 1996 Big Six. *Leeds University Business School Working Paper*.
36. Naser, K., & Al-Khatib, K. (2000). Determinants of the Depth of Voluntary Disclosure in the Board of Directors Statement in a Sample of Jordanian Listed

© 2020 Global Journals

Companies. *Advanced in International Accounting, 13*, 99-118.
37. Nichols, D. R., & Smith, D. B. (1983). Auditor Credibility and Auditor Changes. *Journal of Accounting Research, 21*(2), 534-544.
38. Okolie, A. O. (2014). Audit Quality and Earnings Response Coefficients of Quoted Companies in Nigeria. *Journal of Applied Finance and Banking, 4*(2), 139-161.
39. Okolie, A. O., Izedonmi, F. O., & Enofe, A. O. (2013). Audit Quality and Accrual-Based Earnings Management of Quoted Companies in Nigeria. *IOSR Journal of Economics and Finance, 2*(2), 7-16. Retrieved from www.iosrjournals.org
40. Penning, G., & Villier, C. D. (2015). Can Audit Regulations Reduce Earnings Management? Evidence from an Analysis of the Relationship between Earnings Management and Auditor Switches. *A Paper Presented at the South African Accounting Association Conference.* Unpublished.
41. Porter, B. A. (1993). An Empirical Study of the Audit Expectation-Performance Gap. *Accounting and Business Research, 24*(93), 49-68.
42. Reisch, J. T. (2000). Ideas for Future Research on Audit Quality. *The Audit Report, 24*(1), 1-7.
43. Rusmin, R. (2010). Auditor Quality and Earnings Management: Singaporean Evidence. *Managerial Audit Journal, 25*(7), 618-638.
44. Sawan, N., & Alsaqqa, I. (2013). Audit Firm Size and Quality: Does Audit Firm Size Influence Audit Quality in the Libyan Oil Industry? *African Journal of Business Management*, 213-226. Retrieved from http://www.academicjournals.org/ABJM
45. Schipper, K. (1989). Commentary on Earnings Management. *Accounting Horizons*, 91-102.
46. Shen, C. H., & Chih, H. L. (2005). Investor Protection, Prospect Theory and Earnings Management: An International Comparison of the Banking Industry. *Journal of Banking and Finance, 29*(10), 2675-2697.
47. Sijpesteijn, F. K. (2011). *The Value Relevance of Auditors Communications. Financial Statement Users Understanding of the Messages in the Audit Reports.* Erasmus Universiteit. Rotterdam: Unpublished.

© 2020 Global Journals