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RESEARCH ARTICLE

Audit Quality and Earnings Management: A Case of Nigerian Deposit Money Banks

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ABSTRACT

This study examines audit quality and earnings management: a case of Nigeria deposit money banks. The main objective of the study is to determine the effect of audit quality on earnings management in Nigeria deposit money banks. The specific objectives of the study are to evaluate the effect of size of audit on earnings management in Nigeria deposit money banks, to assess the effect of audit quality on earnings management in Nigeria deposit money banks and to determine the effect of audit independence on earnings management of deposit money banks in Nigeria from 2009 to 2020. The proxies for independent variable, audit quality, are size of audit, audit fees and audit independence. The study adopted ex post facto research design. The secondary data for the variables were obtained from annual audited reports of seven (7) selected deposit money banks in Nigeria. Ordinary least square regression analysis was used to analyze the data. The result of the analysis showed that size of audit has significant negative effect on earnings management while audit fees and audit independence have insignificant negative effects on earnings management in deposit money banks in Nigeria. It was recommended that deposit money banks should ensure that audit firms are hired on the basis of the previous assignment performance, also ensure independence of audit firms they hire in order to reduce the practice of earnings management. Again, users of audited financial statement should subject audited financial statement to the same scrutiny irrespective of whether it was audited by the big or small audit firms.

Keywords: *Audit Quality; Earnings Management; Nigerian Deposit Money Banks*

Introduction

Deposit Money banks engage in earnings management and income smoothing with the sole purpose of presenting a positive view of their financial statements. The opportunity to engage in earnings management is created through the application of accounting techniques and principles where best of judgments is applied to arrive at the figures to be shown in the financial statements. These banks engage in income smoothing in order to impress their investors and gain public confidence. Hassan, Taofik and Mohammed (2020) quoting Saleh (2017) noted that Nigeria banks have witnessed systematic economic irregularities which have contributed to financial disaster of many banks, resulting to adopting merger and acquisition as a means of saving potential crises in the banking industry.

In the recent time, there has been call by the regulatory authorities on the deposit money banks management to ensure preparation and presentation of reliable financial information as the dearth of reliable financial information has been fingered as one of the causes of bank failure. However, bank managements most often are tempted to engage in earnings management to enable them enjoy bonus payments which are tagged on performance (Unaidu, Mohammad and Ahmed, 2020). On the other hand, Eriabie and Dabor (2017) stated that there is general incentive by banks' management to engage in earnings management, citing the need to satisfy regulation, gain customers' confidence and asset substitution as the incentives.

The incentives to engage in earnings management and income smoothing especially among financial institutions become high in the period of economic hardship and financial crises as a result of possible high default rates. This is so because during this period, businesses experience declines in cash flow as a result of low economic activities. Earnings management in deposit money banks are usually carried out through manipulation of the non-performing loan figures to reduce provisioning and increase profit. Various approaches such as loan restructuring, administrative extension, loan rescheduling is used to achieve this.

According to Lopes (2018), earning management is achieved by taking advantage of flexibility of accounting standards or even by non-compliance, by modifying financial information. Aliyu, Musa and Zachariah (2015), on the other hand stated that earnings management occurs when managers apply judgment in financial reporting and in structuring transactions to alter financial reports either to mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcome that depend on reported accounting profit. Earnings management can therefore be defined as the use of accounting techniques to produce financial statements that present an overly positive view of the company's business activities and financial position. To curb this and ensure that the reliability of financial statements is guaranteed at all times, firms need quality and adequate audit services. This is because the credibility of financial statement is enhanced through the activity of auditing which report gives the owners of an entity the assurance that what the management presented to them represent the true performance and position of their investment as at the reporting date.

In support of the above claim, AdhityaAgri and Nanda (2019) noted that earnings management arises from conflict between management and shareholders of a company as a result of information asymmetry, hence creating the need for auditors whose services help to give assurance that financial information provided by company management can be relied on.

Therefore, the quality of audit measured by size, independence and fees are important in curbing the financial misrepresentation especially in the period of economic downturn when deposit money banks are tempted to window dress their financial information to retain public confidence. Some of the attributes of audit that could positively affect audit quality and increase chances of discovering and reporting material intentional errors and misstatements in the financial statements according to Aliyu et al (2015) quoting De Angelo (1981), are the size and experience of the auditor, auditor's remuneration and joint audit services.

Statement of Problem

The Agency theory and stewardship accounting have necessitated the need for periodic financial statement. The responsibility of preparing financial statements lies with the board of directors of deposit money banks. The board of directors uses the financial statements to communicate to the users or the owners of the banks of the financial well-being of their company within a specified period of time usually 12 months. Because the ownership of these banks is separated from the management, management sometimes is tempted to portray a good picture of the bank's performance by engaging in earnings management to convince the owners that all is well even when the otherwise is the case.

The recapitalization of Nigerian banks by the Central Bank of Nigeria effective December 2005 brought about stiff competitions as each bank strives to woo its investors and the general public with good performance. The 2009 global financial crisis and the 20019/2020 global spread of covid-19 across the globe as well as the consistent downward review of bank charges by the central bank of Nigeria posed serious challenges to deposit money bank. The above challenges and the need to convince the investors that all is well with their investments, no doubt causes the management of deposit money banks to engage in earnings management practices.

The auditors who must at all times ensure a high-quality audit report to lend credence to financial statements are not left out in the challenges as they strive to survive in the face of declining revenues from their major clients. The implication is that banks may engage in window dressing as a cover up to convince their investors that all is well thereby exposing the auditors to the challenge of detecting actual occurrence of earnings management. This notwithstanding, the need to ensure credibility of financial statements is still paramount in the minds of investors. To achieve this, there must be quality audit work.

Most of the existing studies on the subject matter tried to establish the effect of quality audit work on earnings management by using, joint audit, audit independence, auditor specialization, audit fees, audit committee, auditor tenure and audit firm size represented with dummy variables (0 and 1) as the independent variables. This study is therefore focused on the determination of the effect of audit quality on earnings management of deposit money banks in Nigeria using audit fees, auditor independence and audit firm size (represented by audit firm revenue) as the variables for audit quality.

Objectives of the Study

The main Objectives of the study are to evaluate the effect of audit quality on earnings management in Nigeria deposit money bank. The specific objectives are as follows:

1. To evaluate the effect of size of audit firms on loan loss provisions deposit money banks in Nigeria.
2. To assess the effect of audit fees on loan loss provisions deposit money banks in Nigeria.
3. To determine the effect of auditor independence on loan loss provisions deposit money banks in Nigeria.

Research Question

The researcher in order to provide solution to the stated problems answered the following questions:

1. To what degree does size of audit firms affect loan loss provisions in Nigeria deposit money banks?
2. To what extent does an audit fee affect loan loss provisions in Nigeria deposit money banks?
3. To what level does auditor independence affect loan loss provisions in Nigeria deposit money banks?

Statement of Hypotheses

1. Ho_1: Size of audit firms has no significant effect on loan loss in Nigeria deposit money banks.
2. Ho_2: Audit fees have no significant effect on loan loss provisions in Nigeria deposit money banks.
3. Ho_3: Auditor independence has no significant effect on loan loss provisions in Nigeria deposit money banks.

Review of Related Literature

Conceptual Review

The Concept of Audit

The need for an audit arises as a result of steward accounting and the separation of ownership of companies from their management. The owners of the company entrusted the operation of the company into the hands of the management and in order to ensure confidence in the financial statements presented by the management, the owners need an external body to look into the financial statements and make express opinion with regard to their reliability and credibility.

According Nwoha, (2014), Audit entails the examination of financial statement prepared by others so as to express opinion as to true and fair view of the state of affairs and the result of the particular concern. Audit does not involve preparation of account but examination of account prepared by others to ensure reliability and credibility of the accounts. According to Odum, (2010), an audit is a carful and unbiased examination of, and inquiry into any statement of account relating to money worth, the underlying documents and the physical assets where possible and all other available evidence as will enable the auditor to form an opinion thereon and report accordingly.

According to Millichamp (1996), an audit is required because the financial statement prepared by the management may contain error, fail to disclose fraud, be inadvertently misleading, be deliberately misleading, fail to disclose relevant information and fail to conform to regulation. He added that in order to resolve this credibility issue, an independent person called the auditor is appointed to investigate the financial report and reports his findings. Hence auditing is an independent examination of the financial reports of an entity with a view to express an opinion as to whether the underlying records presents a true and fair view of the summarized transactions of the period under review and whether the report complies with relevant regulations.

Audit Quality

Credibility of financial statement is assured because of the involvement of independent external auditors in examining the financial statement to ascertain if it reflects the true and fair view of the underlying records of the company. KPMG (2015) stated that audit quality involves determination and drive to deliver an objective, independent assurance and opinion about the financial statement as well as meeting guidelines of standards or regulations. It involves exercising professional skepticism throughout the audit engagement.

Xiao, Geng and Yuan (2020) opined that audit quality is measured by the likelihood of the auditor discovering any breach in the financial statement such as error and possible material misrepresentation. Audit quality is assured when the auditors, display appropriate values, ethics and attitudes, are knowledgeable, skilled and experienced, have enough time to perform the audit and maintain high level of professionalism in carrying out their duties. A high audit quality increases the chances that the financial statement reflects the true financial position and result of the operation of the entity being audited. Audit quality can be enhanced through size of audit firm, audit fees, audit committee and audit independence.

Size of Audit

For the purpose of this work, size of audit would refer to the to the specific audit firms. The size of audit firms contributes to high quality audit. Ugwu, Aikpitanyi and Idemudia (2020) opined that audit firm size determines if the firm is financially independent and experienced audit firms that are unlikely to be subjected to pressure from the client to look the other way in their role to discover accounting irregularities. The four major audit firms that audit most of the deposit money banks in Nigeria are Pricewater house coopers (PWC), KPMG, Deloitte & Touche and Ernst Young (EY).

Bisogno and De luca (2016) stated that the large audit firms are considered more independent for two reasons. Firstly, as a result of the size, the fees generated from one client constitute a small percentage of the firm's total revenue. Secondly, large audit firm have many specialized divisions to provide services for the client's needs and therefore the person who audits the client would be different from the person who provides non-audit services. The size of audit firm therefore contributes to the independent and assures quality audit work.

Audit Fees

Another factor that enhances audit quality is the fees paid to the auditor. If an auditor or audit firm depends on one client for the greater percentage of its fees, then the tendency to compromise quality to retain the contract is high (Eriabe and Dabor,2017). Francis (2004) stated that quality of audit may decrease with fee dependence if the marginal forces arising from managerial influence overwhelm those arising from the scope of activities involved. Ugwu et al (2020) quoting Neal and Liley (2002) stated that that audit fee is a measure of audit quality and reflects additional audit effort, which leads to a higher audit quality. They also noted that audit firms charge their fees based on the quantum of the work to be done, standard of their report, their reputation among others that indicate quality of audit firms. For quality audit that will enhance financial statement to be possible, auditors/audit firms should not depend majorly on one client for their revenue.

Audit Independence

Nwabueze (2000) stated that an auditor cannot perform their functions if there is no independence adding that for auditors to be independent, they must perform their duties objectively without partiality, ensure that he is free from any influence that may prevent him from discharging his duties and be always ready to give honest and unbiased opinion about financial statements at all times. Odum (2010) noted that an opinion by an independent auditor as to the fairness of financial statement is of questionable value except if the auditor is truly independent stressing that to display independence an auditor must be free from influence of the client or other interested parties that may put pressure on the auditor to report in manner which is favourable to them.

Nwabueze (2000) also pointed out that the auditors independence could be compromised if an auditor receives any beneficial interest, accepts gratifications either in cash or in kind, directly or indirectly gives or receives loans from the officers of his client, has close personal relationship with the client or its officers, has financial involvement in the affairs of the client or has competing interest with the client. To achieve independence, auditors must avoid any form of financial connection and familiarity that will make it look as if the auditors' wealth is dependent on the outcome of the audit and management connection. The establishment of Audit committee by CAMA (1990) as amended helps to achieve independence of auditors.

Earnings Management

Earnings Management is a conscious effort by company management to alter the earnings by taking advantage of the loopholes created by Generally Accepted accounting Principles (GAAP). Unaidu et al (2020) defined earnings management as an intentional alteration of the financial information of a company either to mislead investors or to gain some contractual benefits which depends on accounting numbers. According to Adebinpe, Itoro and Daniel (2018), accruals are the most important instruments used to manipulate earnings because they are component of earnings that are not reported in the current cash flow but require great deal of management discretion to construct. In support of this assertion, Alwan (2021) averred that earnings management is carried out through playing with the accrual components in the financial statements since accruals do not require physical cash, hence can easily be manipulated.

Theoretical Review

The relevant theories for this study include stakeholder theory, stewardship theory and the agency theory.

The Stakeholder Theory

The stakeholder theory was developed by R.E Freeman in 1984. According to him, stakeholders are those groups who are vital to the survival and success of the organization. In other words, stakeholders are all agents that affect or can be affected by the activities of the organization. The theory stresses the relationships between a firm and its customers, suppliers, creditors, debtors, communities where it operates, employees and investors. The theory addresses the problems of value creation and trade, ethics of capitalism and managerial mindset while arguing that the firms need to create value for all stakeholders in order to continue to be in business (Parmar, Freeman, Harrison, Wicks, Colle & Purnell, 2010).

Stewardship Theory

This theory was developed by Donald and Davis in 1989. The theory stipulates that manager will always take decisions and act in the best interest of the firm. They are trustworthy and good stewards over the resources entrusted in their care. According to Abdullah, Qaiser and Md (2012), stewards are the true representative of the shareholders and are only motivated by making the right decision which is in the best interest of the organization since it is believed that the stewards will benefit if the firm prospers.

Agency Theory

Agency Theory was developed by Jensen and Meckling in 1976. This theory arises because of the separation of ownership from the management of the company. Aliyu, et al (2015) stated that agency relationship exists when one person or a group of persons, the principal(s) engage another person or group of persons the agent(s) to carry out a function on his/ their behalf which involves delegating decision making authority the agent(s). According to Tyokoso (2017), stated that agency theory provides a clear explanation of the unethical practices in accounting and financial issues which includes earnings management. Therefore, this work will be anchored on this theory since the theory explains the unethical practices in accounting in relation to owner-management relationship.

Empirical Review

Unaidu, et al. (2020) carried out a study on audit quality and earnings management of listed non-financial companies in Nigeria between 2012 and 2018. They adopted ex post facto research design and employed Arellano-Bond dynamic panel data estimation technique to analyze the data obtained from annual reports of the selected companies. They found that audit size had a significant negative relationship with earnings management while audit firm independence, auditor tenure and audit firm leading partners rotation had no significant positive effect on earnings management.

Oladejo (2020) studied the association between audit quality and earnings management of selected listed consumer goods firms in Nigeria from 2007 to 2016. Purposive sampling technique was adopted to select 15 out of 22 listed consumer goods firms in Nigeria. The random effect model was used to analyze data on audit firm size, audit regulation, legal environment, company type and leverage. The result indicated that audit firm size, audit regulation, legal environment and company type had negative relationship with earnings management while leverage showed a positive relationship.

Tyokoso (2017) studied the effect of audit quality on earnings management of listed oil marketing companies in Nigeria from 2009 to 2014. Correlation research design was adopted while fixed effect regression model was used to analyze data. The result indicated a positive association between audit firm size and earnings management.

Ajekwe and Ibiamke (2017) studied the association between audit quality and earnings management by listed firms in Nigeria from 2009 to 2014.The adopted ex post facto research design. Wilcoxon signed ranked test and multivariate analysis were used to analyze data. They found that auditor size had no significant negative relationship, hence auditor size decreases earnings management but not to a statistically significant level.

Laleh and Alireza (2016) investigated the effect of audit size on earnings management in Tehran Stock Exchange. They applied multiple regression analysis to analyze data for 5 out of 116 companies quoted in Tehran Stock Exchange from 2010 to 2014. They found a significant negative relationship between audit firm size, audit opinion and earnings management.

Mbatuegwu (2021) carried out a study on the effect of post covid-19 on audit quality and cosmetic accounting of quoted consumer companies in Nigeria, using size of audit firms, audit fees and auditing industry specialization as proxies for the independent variables. Ex post facto research design was adopted for the study, while STATA 13 edition and multiple regression were used to analyze secondary data obtained form 13 consumer companies in Nigeria from 2012 to 2018. It was found that audit firm size and auditing industry specialization had significant negative impact on cosmetic accounting while audit fees had positive and non-significant effect on cosmetic accounting of listed consumer goods company in Nigeria.

Juan and David (2021) examined the effect of audit fees on earnings management in Spain using regression model. The result of the analysis revealed that audit fees had negative relationship with earnings management.

Almarayeh, Aibar-Guzman and Abdullatif (2020) carried out study to determine whether audit quality influences earnings management in emerging market in Jordan. They applied generalized least square regression to analyze data obtained from 2012 to 2016. The result of the analysis showed that auditor size and audit fees had no significant effect on earnings management.

Berliana and Aria (2020) studied the effect of earnings management on audit service fees in 5,396 listed firms in ASEAN-5 which include Indonesia, Malaysia, Philippines, Singapore and Thailand from 2010 to 2014. Purposive sampling technique was used to select listed firm while regression analysis was used to analyze data. The result showed that earnings management had positive relationship with audit fees.

Akintayo and Salman (2018) investigated the effect of audit tenure, audit fees, board independence and board size on earnings management of deposit money banks in Nigeria from 2006 to 2015. Explanatory research design was adopted for the study while secondary data obtained from the annual reports and accounts of the 15 deposit money banks in Nigeria for the period covered were analyzed using panel regression analysis. The result sowed that board independence and audit tenure had negative significant effect on earnings quality while audit fees had positive significant effect on earnings management. Board size exhibited no significant negative effect on earnings management.

Abubakar, Saifullahi and Ahmed (2020) studied the evaluated the effect of audit quality on earnings management of listed insurance companies in Nigeria from 2015 to 2019 using simple random sampling technique. They used secondary data obtained from annual reports and accounts of the selected insurance companies which were analyzed using multiple regression analysis. The result indicated a significant positive effect of audit firm size on earnings management while joint audit services exerted a significant negative effect. Auditor independence showed a non-significant negative effect on earnings management.

Bashir and Oladejo (2019) evaluated the impact of audit on earnings management practice in Nigeria Oil and gas companies from 2014-2018. The adopted correlational research design and analyzed data obtained from the annual reports of 12 listed oil and gas companies using ordinary least square regression. The findings revealed that while audit firm size had significant negative effect, Industry specialist auditor had insignificant negative relationship while audit independence had no significant relationship with earnings management.

Jibril (2014) carried out a study to examine the effect of auditors' independence on earnings management of deposit money banks in Nigeria. The independent variables were audit fees, large reputable audit firms and audit firm tenure. The correlation research design was adopted while ordinary least square technique was used to analyze data obtained from 14 selected banks from 2006 to 2012. The result revealed that audit fees and audit firm tenure had significant positive effect on earnings management. Hence both can be used to influence the report of auditors and encourage earnings management.

Olabisi, Agbatogun and Akinrinola (2017) studied the relationship between audit quality and earnings management among Nigerian deposit money banks from 2005 to 2014 using longitudinal research design. The variables used to proxy audit quality included joint audit, audit specialization, audit independence and audit tenure. Six selected banks were used for the study while the data obtained were analyzed using ordinary least square regression analysis. The result indicated that audit independence had significant positive relationship with earnings management. Lopes (2020) carried out study to determine the relationship between audit quality and earnings management in Portuguese non-listed companies from 2013 to 2015. Multiple regression analysis was used to analyze data and found that there is a relationship between audit quality and earnings management which is lower is firms audited by the big 4 audit firms.

Okolie (2014) examined the association and effect of audit tenure and audit independence on earnings management of quoted companies in Nigeria. Secondary data extracted from the annual reports of 57 selected quoted companies from 2006 to 2011 were analyzed using panel regression analysis. The findings revealed that audit tenure and audit independence had significant effect and showed significant negative relationship with earnings management represented by discretionary accruals.

Gap in Empirical Review

Also, there is time gap in the existing literatures as most existing studies were carried out up till 2019. The present study covered the time gap by covering the year 2009 to the year 2020. Again, most existing studies such as Almarayeh et al (2020), Doddy et al (2020) and Masoyi et al (2015) used dummy or dichotomous variables ('1' or '0') to represent the audit firm size. This study used natural log of revenue to proxy audit firm size to reflect the revenue independence of the audit firms. This will help to compress the data and also reflect the values obtained from annual report rather than by assigning dummy values to the variable.

Methodology

Research Design

The research design adopted in this study is *ex post facto* research design which according to Onyekwelu (2015) is a study conducted with the use of past or existing data. Avwokeni (2019) stated it is also called ''quasi-experimental design'' because the experimental treatment is a natural event that is outside the control of the researcher. The study adopted ex-post facto research design because the data used are already in existence in the annual reports and accounts of Deposit Money Banks (DMBs) in Nigeria.

Area of Study

The study was carried out in the banking sector of Nigeria economy. It focused on the effect of audit quality on earnings management in Nigeria banking sub-sector with particular interest in seven domestic systematically important banks.

Sources of Data

The source of data is secondary data. Time series data from 2009 to 2020 was extracted from the audited annual reports of the selected deposit money banks in Nigeria.

Population of the study

The population of the study is the thirty-two deposit money banks operating in Nigeria as at 30th September 2021.

Sample Size and Selection Technique

Out of the thirty-two deposit money banks operating in Nigeria as at 30th June 2021, a sample of seven banks classified as domestic systematically important banks were selected (CBN Circular BSD/DIR/CON/LAB/07/026 September 2014). The selection was systematically done from groupings of Central Bank of Nigeria in September 2021. These banks controls more than 50% of the total assets of the banking industry and are at the same time considered 'too big to fail' in terms of capital adequacy, these banks are also considered to be above average, Business post (October 18, 2019).

Model Specification

The models specified below was used to establish the effect of audit quality (size of audit, audit fees and audit independence) on earnings management.

$EMG = \beta_0 + \beta_1 SA + \beta_2 AF + \beta_3 AI + \varepsilon_t$; Where:

EMG = Earnings management, SF = size of audit, AF= audit fee, AI = audit independence, $\beta 0$ = coefficient (constant) to be estimated

β_1- β_3 = parameter of the independent variables to be estimated t=current period, e=stochastic disturbance (error) term.

Adapted from: Doddy et al (2020).

Table 1: Description of Variables

Type	*Name*	*Measurement*	*Proxy*
Dependent Variables	Loan Loss Provision	Log of changes in Loan Loss provisions	Earnings Management (EMG).
Independent Variables	Audit Firm Size	Log of Revenue of the audit firms	Audit Quality
	Audit Fees	Log of Audit fees	Audit Quality
	Audit independence.	$\frac{\text{Audit Fees}}{\text{Total Revenue}}$	Audit Quality

Data Presentation and Analysis of Data

Table 2: Regression Analysis Result
Dependent Variable: EMG
Method: Panel Least Squares
Date: 03/26/22 Time: 06:02
Sample: 2009 2020
Periods included: 12
Cross-sections included: 7
Total panel (balanced) observations: 84

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.310626	0.084052	3.695619	0.0004
SA	-0.033790	0.016067	-2.103098	0.0386
AF	-0.007705	0.014224	-0.541670	0.5896
AI	-0.598464	18.14634	-0.032980	0.9738
R-squared	0.543699	Mean dependent var		0.150607
Adjusted R-squared	0.519251	S.D. dependent var		0.163117
S.E. of regression	0.161540	Akaike info criterion		-0.761683
Sum squared resid	2.087608	Schwarz criterion		-0.645930
Log likelihood	35.99068	Hannan-Quinn criter.		-0.715151
F-statistic	3.543052	Durbin-Watson stat		2.435109
Prob(F-statistic)	0.039804			

Table 2 reveals that size of audit firm has a negative and significant effect on earnings management, with a probability value that is less than 0.05 (0.0386) and t-statistics that is greater than 2 (-2.103098). Audit fees has negative and insignificant effect with earnings management, with a probability value that is greater than 0.05 (0.5896) and t-statistics that is less than 2 (-0.541670). The auditors independence has a negative and insignificant effect with earnings management, with a probability value that is greater than 0.05 (0.9738) and t-statistics that is less than 2 (-0.032980).

The table further depicts that a unit change in audit size, audit fees and auditor's independence will have a negative impact on the earnings management by 0.033790, 0.007705 and 0.598464. The adjusted R-squared (R^2) measure the percentage in earnings management that could be explained by changes in the independent or explanatory variables. In this case, R^2 is 0.519251 (52%). This indicates that about 52% of the changes in earnings management are accounted for by the independent or explanatory variables. The remaining 48% could be explained by other factors capable of influencing earnings management of deposit money banks in Nigeria. The probability of the f-statistic is significant which shows the statistical fitness of the multiple regression result. There is an absence of serial autocorrelation in the panel data extracted from annual reports and accounts of deposit money banks in Nigeria as suggested by Durbin-Watson stat 2.435109

Test of Hypotheses

We formulated three testable hypotheses to evaluate the effect of audit quality on earnings management in Nigerian banking industry against which this study is anchored. These propositions are subjected to empirical testing drawing from the results of our inferential statistical analyses. The decision rule is based on the significances of the t-statistics which are represented by the p-values.

Statement of Decision Rule: Reject null hypotheses (H_0) if the p-value tabulated is less than the A-value calculated (0.05) and t-statistics is greater than 2 (>2).

Hypothesis one: Audit size does not have significant effect on earnings management in Nigerian banking industry.

Decision: From the multiple regression result in Table 2, the p-value of 0.0386 is < 0.05 A-value, the 2.103098 t-statistics is > 2. Therefore, the null hypothesis is rejected and the alternative hypothesis is accepted. This implies that audit size has a negative and significant effect on earnings management of Nigeria banking industry.

Hypothesis Two: An Audit fee does not have significant effect on earnings management in Nigerian banking industry.

Decision: From the multiple regression analysis in Table 2, the p-value of 0.5896 is> 0.05 A-value, the 0.541670 t-statistics is < 2. Therefore, the null hypothesis is accepted and the alternative hypothesis rejected. This implies that audit fees have a negative and insignificant effect on earnings management in Nigerian banking industry.

Hypothesis Three: Auditors independence does not have significant effect on earnings management in Nigerian banking industry.

Decision: From the multiple regression analysis in Table 2, the p-value of 0.9738 is <0.05 A-value, the -0.032980 t-statistics is >2. Therefore, the null hypothesis is accepted and the alternative hypothesis is rejected. This implies that auditor's independence has a negative and insignificant effect on earnings management in Nigerian banking industry.

Discussion of Findings

In the test of hypothesis one, the regression analysis result depicts that audit size has a negative and significant effect on earnings management in Nigerian banking industry. This implies that as audit size increases, on earnings management in Nigerian banking industry will decrease. This finding is in line with the findings of Unaidu, Mohammad and Ahmed (2020), Oladejo (2020), Laleh and Alireza (2016) and Ajekwe and Ibiamke (2017). The results of the findings disagree with the findings of Tyokoso (2017).

In the test of hypothesis two, the regression result reveals that audit fees has a negative and insignificant effect on earnings management in Nigerian banking industry. This implies that any increase in audit fees, will result to decrease in earnings management in Nigerian banking industry. This finding is in consistent with the findings of Juan & David (2021) and Akintayo and Salman (2019). The study however disagrees with the findings of Mbatuegwu (2021).

In the test of hypothesis three, the regression result reveals that auditor independence has a negative and insignificant effect on earnings management in Nigerian banking industry. This implies that increase in auditor's independence will result to decrease in earnings management in Nigerian banking industry. This finding is in consistent with the findings of Abubukar and Ahmed (2020) and Bashir and Oladejo (2019). The study however disagrees with the findings of Jibril (2014).

Summary of Findings

Based on the analysis of the research work on effect of audit quality on earnings management in Nigerian banking industry, it was revealed that audit quality has a negative effect on earning management in Nigerian banking industry. Specifically, it was also discovered that:

1. Audit size has a negative and significant effect on earnings management in Nigerian banking industry.
2. Audit fees have a negative and insignificant effect on earnings management in Nigerian banking industry.
3. Audit independence has a negative and insignificant effect on earnings management in Nigerian banking industry.

Conclusion

The major function of business managers is to create wealth for the shareholders through increased profitability. In a bid to achieve these profitability goals, proper management of earnings in Nigerian banking industry becomes very pertinent. Therefore, we conclude that audit size, audit fees and audit independence have significant and negative effect on earnings management in Nigerian banking industry.

Recommendations

The study made the following recommendations:

1. Banking industry who hires the services of audit firms in Nigeria should judge audit firms on the basis of size, performance in prior assignments, competence and experience of audit firms. This is because audit firm size significantly reduces earnings management of Nigerian banking industry.
2. Banking industry should ensure that auditors they hire are independent in order to ensure that earnings management in banking industry are minimized
3. Also, users of audited financial statements should subject all audited financial statements to the same scrutiny regardless of whether the audit report is from a big or small audit firm in order to enhance the quality of financial reporting by the banking industry.

Contribution to knowledge

This study has been conducted on the effect of audit quality on earnings management in different countries. The present study has employed the revenue of audit firm to measure audit firm size rarely used to examine the topic in Nigeria and successfully updated the extant literature on effect of audit quality on earnings management to the year 2020. It is also one of the studies done in the period of covid-19 pandemic that captured those unpleasant consequences in the recent economic activities on bank performance.

Suggestions for further studies

Other studies can focus on other variables where earnings management can occur in Banks such as non-performing loans, Loan charge off and changes in loan and advances position of the banks. This study used seven banks classified as domestic systematically important banks by the Central Bank of Nigeria. Other studies can focus on other classification criteria such as banks with international Authorization, regional banks and national banks.

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