Impact of Audit Quality on Earnings Management of Listed Deposit Money Banks in Nigeria

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ABSTRACT

High quality audit is the one that is capable of uncovering material errors and misstatements in the financial statements. With the consistent defaults and failures, and unwanted mergers and takeovers in the Nigerian banking sector recently, in spite of unqualified auditors' reports for most of the banks involved, questioned the quality of audit in the banking sector. This study examined the impact of audit quality on Earnings Management of listed deposit money banks in Nigeria. The correlational research design is employed in a sample of ten (10) listed deposit money banks for a period of eight (8) years (2006-2013), using secondary data. The study used the Ordinary Least Squares (OLS) regression technique of data analysis; the study found that audit quality has significant impact on the Earnings Management of listed deposit money banks in Nigeria during the period of the study. The study also found that audit firm size and joint audit services have significant negative impact on the Earnings Management of listed deposit money banks in Nigeria. Similarly, the study found that auditor financial dependence has significant positive impact on Earnings Management of listed deposit money banks in Nigeria. The study recommended that listed deposit money banks should emphasize the use of big 4 audit firm and joint audit services. The study also recommends that the Central Bank of Nigeria (CBN) should increase its surveillance in the areas of auditor remunerations.

Keywords: Agency, Audit Fees, Audit Quality, Earnings Management, Firm Size

INTRODUCTION

Banks are economic institutions that facilitate economic growth and development by mobilizing savings from the surplus unit and channeling them to deficit unit for productive investments. They also provide the payment and settlement system and implement monetary policy of government; it is on this strength that Sanusi (2012) considers banks in the financial system as the central nervous system of the economy. In order to ensure efficiency and to safeguard the economy from crises, banking sector operates on stringent regulations and supervisions. One of the major mechanisms put in place for control and assurances that the public funds are safe is financial statements audit.

Auditing came in as a control and quality assurance following the divorce between ownership and control in the modern corporate world. That is, auditors provide independent verification of financial statements prepared by the management (agents) in the absence of the

principal, lend credibility to accounting information and enhance its integrity (Watts and Zimmerman, 1986). As pointed out by Watts and Zimmerman (1986) audit minimizes information asymmetry and protect the interest of the principals, investors, creditors, suppliers, employees and the general public, by providing reasonable assurance that financial statements prepared by management are free from material misstatements. To achieve this goal audit quality realization became obvious

Wallace (1980) describes audit quality as being synonymous with auditor independence and as a measure of the auditor's ability to reduce noise and improve fitness in accounting data. According to him a high quality audit increases the perception that the auditors are not less objective and therefore higher probability to report discovered errors, misstatement and intentional misstatement in financial statement or Earnings Management (Lowe & Pany, 1995). Earnings Management occurs when managers use judgment in financial reporting and in structuring transaction to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting practices (Healy & Wahlen, 1999).

Existing literature shows that the size of audit fee is the most critical factor capable of eroding audit quality and auditor independence (Semiu and Johnson 2012). According to DeAngelo (1981) some of the attributes of audit that could affect the audit quality positively and increase the chances of discovering and reporting material intentional errors and misstatements in the financial statements include the size and experience of the auditor, auditor remuneration and the joint audit services. In Nigeria however, there are no significant researches on these factors in the banking sector, particularly in the deposit money banks. This constitutes the problem that this study investigates. The study therefore raises the following questions; how does auditor size and experience affect Earnings Management of the deposit money banks in Nigeria? What is the impact of auditor remunerations on Earnings Management of deposit money banks in Nigeria? What is the impact of joint audit services on the Earnings Management of deposit money banks in Nigeria?

Based on the problem of this study, the main objective of the study is to examine the impact of audit quality on the Earnings Management of listed deposit money banks in Nigeria. The specific objectives of the study include:

i.   To assess the effect of audit firm size and experience on Earnings Management.
ii. To examine the effect of joint audit on Earnings Management
iii. To investigate the impact of auditor financial dependence on Earnings Management.

In line with the problem and objectives of this study the following hypotheses are formulated in null form;

H_{01}:   Audit firm size has no significant impact on the Earnings Management of listed   deposit money banks in Nigeria.

H_{02}:   Joint audit has no significant impact on the Earnings Management of listed deposit money banks in Nigeria.

H_{03}:   Auditor financial dependence has no significant impact on the Earnings   management of listed deposit money banks in Nigeria.

The study is significant in examining the impact of audit quality on Earnings Management of listed deposit money banks in Nigeria. Therefore, the study is expected to benefit existing and potential shareholders, auditors, depositors, creditors, Managements, Regulators, Researchers and professional bodies. The research is restricted to deposit money banks listed on the floor of Nigerian Stock Exchange (NSE) as at 31st December, 2013. It covers

the period of eight (8) years (2006-2013). This period is chosen because it is immediately after the banking sector consolidation, being the period banking sector witnessed intensive regulations and reforms. This period was also a period that witnessed bank crises owing largely, according to NDIC, to unethical and unprofessional practices.

REVIEW OF RELATED LITERATURE

Barnea et al., (1976) define Earnings Management as the deliberate dampening of fluctuations about some level of Earnings considered being normal for the firm. Schipper (1989) on the other hand defines Earnings Management as disclosure management and the purposeful intervention in the financial reporting process. While Copeland (1968) refers Earnings Management as the repetitive selection of accounting measurement or reporting rules in a particular pattern, the effect of which is to report a stream of income with a smaller variation from trend than would otherwise have appeared.

Merchant and Rockness (1994) describe Earnings Management as any action on the part of management which affects reported income and provides no true economic advantage to the organization and may in fact, in the long-term be detrimental. In the same vein, Healy and Wahlen (1999) define Earnings Management as managers use of judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers. According to them, Earnings Management might be defined differently, but there seems to be the same underlying concept that Earnings Management distorts a company's real performance.

Bello (2010) defines Earnings Management as any attempt to cook/doctor or tailor financial accounting reports to a given desired level. According to him Earnings Management is paradoxical of accountants and relates it to the recent times corporate failures and loss of investors' confidence on both financial reports and auditors. In this study Earnings Management refers to both intentional and unintentional actions that managers take which affect reported earnings and mislead accounting information users.

Hope and Langli (2007) view audit quality as when the auditor carries out his work with higher degree of independence and objectivity on the one hand and define auditor independence as the auditor objectivity and ability to withstand client pressure on the other hand. This pressure according to them includes monetary and non-monetary issues that make auditor comply with management desire rather than his professional judgment. Wallace (1980) defines audit quality as a measure of the auditor's ability to reduce noise and improve fitness in accounting data. In the word of Lee, Leu and Wang (1999), audit quality is the probability that an auditor will not issue an unqualified report for statements containing errors, whether intentional or otherwise.

Titman and Trueman (1986) on the other hand define audit quality as the accuracy of the information reported by auditors. Audit quality in this regard comprises the ability of an auditor to detect a breach (auditor competence) and the willingness to report such a breach (auditor independence). Lowe and Pany (1995) assert that lack of independence in audit engagement, increases the perception that they are less objective and therefore less likely to report a discovered misstatement.

Auditor independence according to the Institute of Chartered Accountants' of Nigeria (ICAN) is divided into two; independence of mind and independence in appearance which are to be observed by an auditor in passing his professional opinion. Independence of mind, according to the institute refers to the state of mind that permits the provision of an opinion without being

affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional skepticism. While independence in appearance connotes the avoidance of facts and circumstances that are so significant that a reasonable informed third party, having knowledge of all relevant information, including safeguards applied, would reasonably conclude that a firm's integrity, objectivity or professional skepticism had been compromised.

This study views audit quality as a state of not being controlled by the management of an entity using any means. It is the ability of an auditor to objectively discover and report errors and misstatements in financial statements including Earnings Management.

There are inconclusive findings with respect to the relationships between audit quality and earnings management in the literature. For instance, with regard to audit firm size and experience Big 4 has been the common and a subject of audit quality studies (DeFond and Francis, 2005; and Carcello, 2005). DeAngelo (1981) holds that since these larger audit firms could not be so financially dependent on the fees from any one client, they are less likely to be subject to pressure from clients to "look the other way" in the event of discovering accounting irregularities. However, Ireland and Lennox, (2002) concur that the Big 4 auditors have more to lose should a scandal arise, in that their brand names and reputations are more valuable compared to smaller audit firms.

Becker, DeFond, Jiambalvo, Subramanyam, (1998) and Francis, Maydew and Sparks (1999) documented that clients of the Big 4 firms have been shown to have higher accrual quality, typically measured as lower absolute values of discretionary accruals, and are less likely to manage Earnings, as evidenced by income increasing accruals, small positive Earnings changes. On the other hand, Teoh and Wong, (1993) and Behn, Choi and Kang, (2008) report that the stock market response to an earnings surprise is greater and analyst forecasts are, on the average, more accurate for clients of Big 4 firms, suggesting that higher audit quality contributes to more informative earnings disclosures and better informed analysts.

Tate (2001) found that Big 5 auditors' report were more noncompliance with federal regulations in the form of findings and questioned costs than non-Big 5 auditors. However, after controlling for the number and extent of errors identified by the auditor, she discovered that big size auditors were less likely than non-big size auditors to qualify their report on an organization's compliance with federal regulations. She also found that size auditors were less likely than non-Big 5 auditors to report significant deficiencies in internal control.

Becker et al. (1998) examined the effect of audit quality on earnings management through discretionary accruals and discovered that discretionary accruals of clients of Big 6 auditors were lower than discretionary accruals of clients of non-Big 6 auditors. Prior research had shown that audit quality is positively associated with audit firm size (e.g., Krishnan and Schauer, 2000; Lennox, 1999; Colbert and Murray, 1998). DeAngelo (1981) argues that size of an audit firm is positively associated with audit quality, many studies used size (Big 8/6/5 vs. non-Big 8/6/5) as the audit quality proxy (Krishnan, 2003; Zhou and Elder, 2001; Bauwhede et al., 2000; Becker et al., 1998; Hogan, 1997; Clarkson and Simunic, 1994; Firth and Smith, 1992a; Nichols and Smith, 1983). Many audit quality studies indicate that, when accounting firm size is used as the indicator of audit quality, higher audit quality is associated with less information asymmetry and higher information quality.

Becker et al. (1998) revealed that audit quality is negatively related to income-increasing discretionary accruals, which indicates that high audit quality is associated with low information asymmetry. Teoh and Wong (1993) remarked that Big 8 clients are associated with higher

earnings response coefficients (ERCs), that is, the coefficient on earnings resulting from regressing stock returns on reported earnings. Moreover, it has been shown that the perceived audit quality of large accounting firms is higher than that of small accounting firms, so that size can be used as a proxy for perceived audit quality.

Empirical studies on joint audit also reported mixed results. Deangelo (1981) opined that recent literatures have encouraged joint auditors approach in ensuring objective financial reporting. That is the appointment of joint auditors to a firm will enhance its financial reports quality by minimizing earnings management. Based on DeAngelo's (1981) framework, audits performed by two Big 4 audit firms produce the highest-quality financial report, while the lowest level of quality occurs when a single non-Big 4 audit firm is responsible for the audit engagement. Joint audits are always perceived to be of higher quality report than audits by single Big 4 auditors according to DeAngelo's (1981) framework. Consistent with DeAngelo's (1981) framework, a substantial body of prior empirical studies have documented a positive relationship between auditor size and various proxies for audit quality (e.g., Teoh and Wong 1993; Becker et al. 1998; Francis 2004).

A study by Francis et al. (2009) analyzed the consequences of France's joint audit requirement on earnings quality and find that Big 4 auditor-pairs are associated with lower levels of income-increasing abnormal accruals. They found that in France firms with one or two Big 4 auditors are less likely to have income increasing abnormal accruals than other firms. Firms audited by two Big 4 auditors were even less likely to have income-increasing accruals. Big 4 auditors paired with non-Big 4 auditors are also associated with lower levels of income increasing abnormal accruals however to a lesser extent and concluded that a pecking order explains this with regards to earnings quality and auditor-pair choice.

Lesage et al., (2011) examined the impact of joint audit on both audit costs and audit quality in Denmark during the period of mandatory joint audit (2005-2009). Firms that continue to use joint audit after the 2005 regulation change are associated with significantly higher audit fees compared with firms voluntarily choosing to use a single auditor. There is no significant relationship between voluntary joint audit and total fees. In addition, audit quality, proxied by abnormal accruals, is not significantly different for the joint and single audit firms. Similarly, Marmousez (2009) examines the impact of joint auditor pairs in France on financial reporting quality, measured by the degree of Earnings conservatism. He provides evidence that Big 4–Big 4 auditor pairs are not associated with earnings conservatism whereas Big 4–non-Big 4 auditor pairs are associated with conservatism.

Zerni et al. (2012) study the impact of voluntary joint audit in Sweden on audit quality. While controlling for differences in characteristics between firms choosing joint audits from other firms, they demonstrate that joint audits improve audit quality. Zerni et al. (2012) define audit quality as earnings conservatism, abnormal accruals, credit ratings, and perceived risk of bankruptcy. They provide evidence of a positive relation between joint audits and general attributes of audit quality. They also report that Big 4–Big 4 auditor pairs are not related with higher earnings quality – defined as lower income-increasing abnormal accruals – than Big 4–non-Big 4 auditor pairs.

The studies on auditor remuneration and earnings management had also reported inconclusive findings. Francis and Ke, (2003); Reynolds, and Francis, (2004) found that audit fee does have a negative relationship with earnings quality, and thus improved the quality of financial reporting. Gul *et al*., (2003) examined the relationship between audit fees and discretionary accruals in a sample of Australian and firms in which the results showed a positive

association between financial reporting quality (discretionary accruals) and audit fees, thus disputing the belief that audit fees erode independence.

Audit fees are also used as a measure of audit quality; the perceptions of some researchers behind these studies have shown that audit fees reflect additional audit effort which leads to a higher level of audit quality (Carcello, Hermanson, Neal & Riley 2002; Abbott, Parker, Peters & Raghunandan, 2003). Early studies (like Ashbaugh et al., (2002) and Francis et al., (2003)) examined the association between audit fees and non-audit services fees and found out that evidence of "knowledge spillovers" which are transfers of knowledge from non-audit to audit services and vice versa existed. Geiger, Lennox, and North (2008) found a positive association between audit fees and qualified audit opinions, which implies that additional audit effort results in more accurate audit opinions. Thus it can be inferred that the results of the studies implied that audit firms receiving higher fees also provide higher actual and perceived audit quality, which translates into greater earnings quality of a firm.

THEORETICAL FRAMEWORK AND RELATED LITERATURE

The theories that underpin this study are the agency theory and opportunistic Earnings Management theory. From the agency theory point of view, agency relationship is seen as a contract under which one or more persons (the principle(s)) engage another person (the agent) to perform services on their behalf which involves delegating some decision making authority to the agent. If both parties are utility maximizers, there is good reason to believe that the agent will not always act in the best interests of principal. The principal can limit divergences from his interest by establishing an appropriate incentive for the agent and by incurring monitoring costs designed to limit the aberrant activities of the agent (Jersen and Meckling, 1976).

The opportunistic Earnings Management literature largely originated with Healy (1985) who concludes that managers use accruals to strategically manipulate bonus income. For instance, managers can defer income through accruals when earnings target for a bonus plan cannot be reached or when bonuses have already reached maximum levels, and can accelerate income in other periods (Marcia et al, 2006). Holthausen et al (1995) concludes that managers may use accruals to shift earnings overtime with goal of maximizing long term bonus income.

DATA AND METHODOLOGY

The study employs correlational research design to assess the relationship between Audit Quality and Earnings Management of listed deposit money banks in Nigeria. The choice of correlational research design is informed by its effectiveness in investigating the association between two or more variables, which is consistent with the main aim of this study. The study takes a two stage design; the measure of Earnings Management which is discretionary or abnormal loan loss provision is estimated from model one (residual of the model) and the relationships between Audit Quality and Earnings Management is examined. The study makes use of secondary data obtained from annual reports and accounts of the sampled banks for the period of eight (8) years (2006-2013).

The population of the study is all the 17 banks listed on the floor of Nigerian Stock Exchange as at 31st December, 2013. Based on data availability and accessibility during the period of the study seven (7) banks are dropped, leaving ten banks as a sample of the study.

Variables Measurement

The measurements of the variable of the study are stated in table 1 below;

Table 1: Variable measurement

Variables	Measurement
Earnings Management	Measured as the discretionary loan loss provision obtained from the residual of the regression model of Beaver and Engel (1996), Cheng et al., (2010) and Fiechter and Meyer (2011).
Audit Firm Size	Defined as the large global audit firm (Deloitte, PWC, Ernst & Young and KPMG). Measured by dichotomous variable ('1' if a bank is audited by any of the big4 and '0' otherwise)
Joint Audit	Measured by dichotomous variable ('1' if a bank is audited by more than one audit firm and '0' otherwise)
Auditor Financial Dependence	Measured by total amount of audit and non-audit fees paid to the auditor

Models Specification

Two models are used to estimate Earnings Management and to examine the impact of Audit Quality on Earnings Management. The models are mathematically expressed as follows

$$LLP_{it} = \gamma_0(1/TA_{it}) + \gamma_1 LCO_{it} + \gamma_2 \Delta LOAN_{it} + \gamma_3 \Delta NPL_{it} + \mu_{it}\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots i$$

Where:

LLP_{it} = Total loan loss provision of bank I in year t, scaled by total assets

LCO_{it} = Total loan charge off or written off during the year of bank I in year t, scaled by total assets

$\Delta LOAN_{it}$ = Changes in total loan and advances outstanding (current year loans and advances minus previous year loans and advances) of bank I in year t, scaled by total assets

NPL_{it} = Changes in non-performing loans and advances (current year non-performing loans minus previous year non-performing loans) of bank I in year t, scaled by total assets

Intercept/slope = γ_0, and coefficients = γ_1, γ_2, and γ_3

Residual (discretionary loan loss provision) = μ_{it}

Having estimating the measure of Earnings Management from model one above, the model two (model of the study) is expressed as follows;

$$EMG_{it} = \gamma_0(1/TA_{it}) + \gamma_1 AFSIZE_{it} + \gamma_2 JA_{it} + \gamma_3 FDEP_{it} + \mu_{it}\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots ii$$

Where:

EMG_{it} = Earnings Management of bank I in year t

$AFSIZE_{it}$ = Audit firm size of bank I in year t

JA_{it} = Joint audit of bank I in year t

$FDEP_{it}$ = Auditor financial dependence of bank I in year t

Intercept/slope = γ_0, and coefficients = γ_1, γ_2, and γ_3

Residual/error term = μ_{it}

RESULTS AND DISCUSSIONS

In this section, the results obtained from the data collected for the study is presented and discussed. The section begins with the descriptive statistics of the data collected for the study as presented in Table 2 as follows;

Table 2: Summary of Descriptive Statistics

VARIABLES	Mean	SD	Min	Max	N
EMG	0.0000	0.0160	-0.0228	0.0524	80
AFSIZE	0.6875	0.4664	0.0000	1.0000	80
JA	0.4375	0.4992	0.0000	1.0000	80
FDEP	0.0158	0.0089	0.0008	0.0436	80

Source: STATA OUTPUT (Appendix)

Table 2 shows that our measure of Earnings Management (EMG), discretionary loan loss provision scaled by total assets has an average value of 0.0000 with standard deviation of 0.0160, and minimum value of -0.0228 and 0.0524 as the maximum value. The standard deviation of 0.0219 implies that the data deviate from the mean value from both sides by 0.0160, implying that the data is dispersed from the mean because the standard deviation is higher than the mean. The table also shows that the Audit Firm Size (AFSIZE) have an average value of 0.6875 with standard deviation of 0.4664, and the minimum and maximum value of 0.0000 and 1.0000 respectively. This shows that over 68% of the sample deposit money banks in Nigeria were audited by large audit firm (Big 4) during the period of the study.

The table 2 also shows that on average the 43.75% of the sample banks employed the services of Joint Audit (JA) during the period of the study, from the mean value of 0.4375 with standard deviation of 0.4992. The minimum and maximum values of joint audit as measured by dichotomous variable are 0 and 1 respectively. The table also indicates that our measure of Auditor Financial Dependence (FDEP), total auditor remuneration has an average value of 0.0158 with standard deviation of 0.0089. While the minimum and maximum values which are dichotomous are 0 and 1 respectively.

Table 3 shows the summary of the Pearson Correlation Coefficients of the variables

Table 3: Coefficient of Correlation

Variables	EMG	AFSIZE	JA	FDEP
EMG	1			
AFSIZE	-0.8042 (0.0000)	1		
JA	0.7995 (0.0000)	0.8123 (0.0000)	1	
FDEP	-0.5243 (0.0000)	-0.6494 (0.0000)	0.7424 (0.0000)	1

P-Values in Parentheses

Source: STATA OUTPUT (Appendix)

Table 3 reveals that the Pearson Correlation Coefficients of the variables of Audit Quality (Audit Firm Size, Joint Audit, and Auditor Financial Dependence) and Earnings Management (measured by discretionary accruals, loan loss provisions) of the listed deposit money banks in Nigeria with a significant negative association between Earnings Management (EMG) and Audit

Firm Size (AFSIZE) from the correlation coefficient of -0.8042 which is significant at 1% level of significance (from the p-value of 0.0000). This relationship suggests that Earnings Management decreases as big audit firms are employed. Similarly, the results from the table indicate that, there is a significant statistical negative association between Earnings Management (EMG) and joint audit services (JA) from the correlation coefficient of -0.7995 which is significant at 1% level of significance (from the p-value of 0.0000). This implies that, the more banks employ the joint audit services the lower the Earnings Management become.

Moreover, the results show a significant negative association between Auditor Financial Dependence (FDEP) and Earnings Management (EMG), from the correlation coefficient of -0.5243 which is statistically significant at 1% level of significance (p-value of 0.0000), suggesting that auditor financial dependence reduces the Earnings Management of listed deposit money banks in Nigeria during the period of the study.

This section presents and analyzes the regression results of the models under study. The section begins with the analysis of model one as presented in Table 4;

Table 4: Summary of OLS Regression Results: Model One

Variables	Statistics	P-Values
R^2	0.3509	
Adj. R^2	0.3253	
F-Statistic	13.69	0.0000
Mean VIF	1.05	
Hettest: Chi2	0.00	0.9480

Source: STATA OUTPUT (Appendix)

Table 4 shows an absence of Heteroskedasticity in the results as indicated by the Breuch Pagan/Cook-Weisberg test for Heteroskedasticity Chi2 of 0.00 with p-value of 0.9480. However, the null hypothesis that there is constant variance in the residuals is not rejected; as the p-value is not statistical significant at all levels of significance. The table on the other hand, indicated the absence of the perfect multicolinearity among the explanatory variables, as shown by the Mean Variance Inflation Factor (VIF) of 1.05. The decision criterion for the Variance Inflation Factor is that a value of 10 and above implies the presence of perfect multicollinearity.

The results from Table 4 indicate that the independent variables of model one (loan charge/written off, changes in non-performing loans, and changes in loans and advances) explained around 32.53% of the variations in the total Loan Loss Provision (LLP) of the sample listed deposit money banks in Nigeria, from the coefficient of multiple determinations (adjusted R^2 of 0.3253). The table also shows that the model is fitted as evident by the F-Statistic of 13.69 which is significant at 1% level of significance (as indicated by the P-value of 0.0000). Therefore, the study measured the Earnings Management from this regression model, which is the residual of the model (Discretionary Loan Loss Provision).

Table 5: Summary of OLS Regression Results: Model Two

Variables	Statistics	P-Values
R Square	0.7281	
Adj. R Square	0.7174	
F-Statistic	67.84	0.0000
Hettest: Chi2	2.06	0.1514
Mean VIF	3.03	

Source: STATA OUTPUT (Appendix)

The result in Table 5 shows an absence of Heteroskedasticity in the results as indicated by the Breuch Pagan/Cook-Weisberg test for heteroskedasticity Chi2 of 2.06 with p-value of 0.1514. However, the null hypothesis that there is constant variance in the residuals is not rejected; as the p-value is not statistically significant at all levels of significance. The table on the other hand, indicated the absence of the perfect multicolinearity among the explanatory variables, as shown by the mean Variance Inflation Factor (VIF) of 3.03. The decision criterion for the Variance Inflation Factor is that a value of 10 and above implies the presence of perfect multicollinearity.

The results from Table 5 indicate that the independent variables of model two (audit firm size, joint audit services and auditor financial dependence) explained around 71.74% of the variations in the Earnings Management of (EMG) of the sample listed deposit money banks in Nigeria, from the coefficient of multiple determinations (adjusted R^2 of 0.7174). The table also shows that the model is fitted as evident by the F-Statistic of 67.84 which is significant at 1% level of significance (as indicated by the P-value of 0.0000).

Hypotheses Testing

In this section, the study tests the hypotheses formulated for the study, Table 5 presents the coefficients of the variables of the study from which the hypotheses are tested.

Table 6: OLS Coefficients: Model Two

Variables	Coefficients	P-Values
AFSIZE	-0.1096	0.000
JA	-0.2269	0.000
FDEP	0.0383	0.026
CONSTANT	-1.5792	0.000

Source: STATA OUTPUT (Appendix)

The results from Table 6 show that, Audit Firm Size (AFSIZE) has a significant negative statistical impact on the Earnings Management of the listed deposit money banks in Nigeria, from the coefficient of -0.1096 which is significant at 1% level of significance (p-value of 0.000). This suggests that, as bank continues to employs the services of Big 4 audit firm, Earnings Management decreases by 10.96K; this result is significant at 99% confidence level. Based on this, the study rejects the null hypothesis one (H_{01}) which states that, audit firm size has no significant effect on the Earnings Management of listed deposit money banks in Nigeria. The study therefore infers that audit firm size has significant negative impact on the Earnings Management of listed deposit money banks in Nigeria during the period under review.

Similarly, the table show that, Joint Audit services (JA) has significant negative impact on the Earnings Management of listed deposit money banks in Nigeria, from the coefficient of -0.2269 which is significant at 1% level of significance (p-value of 0.000). This suggests that, as bank continues to employs the joint audit services, Earnings Management decreases by 22.69K; this result is significant at 1% significance level. Based on this, the study rejects the null hypothesis two (H_{02}) which states that, joint audit services have no significant effect on the Earnings Management of listed deposit money banks in Nigeria. The study therefore infers that joint audit services have significant negative impact on the Earnings Management of listed deposit money banks in Nigeria during the period under review.

On the other hand, the table show that, Auditor Financial Dependence (FDEP) has significant positive impact on the Earnings Management of listed deposit money banks in

Nigeria, from the coefficient of 0.0383 which is significant at 5% level of significance (p-value of 0.026). This suggests that, as bank increases the amount of auditor remuneration by N1, Earnings Management increases by 3.83K; this result is significant at 5% significance level. Based on this, the study rejects the null hypothesis three (H_{03}) which states that, auditor financial dependence has no significant effect on the Earnings Management of listed deposit money banks in Nigeria. The study therefore infers that auditor financial dependence has significant positive impact on the Earnings Management of listed deposit money banks in Nigeria during the period under review.

The implication of this findings are that, if the regulatory authorities do not improve surveillance on auditor remunerations in the deposit money banks in Nigeria, the problem of unethical accounting practices is likely to increase. The findings also imply the need of increasing using Big 4 audit firm and joint audit services.

CONCLUSION AND RECOMMENDATIONS

Based on the data analysis conducted and the analysis of the research hypotheses, this study concludes that Audit Quality has significant impact on the Earnings Management of listed deposit money banks in Nigeria. The researcher also concludes that Audit Firm Size and Joint Audit Services has significant negative effect on the Earnings Management of listed deposit money banks in Nigeria during the period covered by the study. Similarly, the study concludes that auditor financial dependence has significant positive impact on Earnings Management of listed deposit money banks in Nigeria.

In line with the findings and conclusions drawn from this study, the study recommends that listed deposit money banks should emphasize the use of Big 4 Audit Firm and Joint Audit Services. The study also recommends that regulators (CBN) should increase its surveillance in the areas of auditor remunerations.

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APPENDIX

```
. xtset id year, yearly
      panel variable:  id (strongly balanced)
       time variable:  year, 2006 to 2013
               delta:  1 year

. su llp lco cnpl clon emg afsize ja fdep

    Variable |       Obs        Mean    Std. Dev.        Min        Max
-------------+--------------------------------------------------------
         llp |        80    .0245862    .0198897       .0043      .0908
         lco |        80    .0070275    .0122044           0      .0579
        cnpl |        80    .0060888    .0316974      -.0479       .101
        clon |        80    .0945225    .0944696      -.1184      .3628
         emg |        80    8.69e-09    .0160246   -.0227877   .0524443
-------------+--------------------------------------------------------
      afsize |        80       .6875    .4664368           0          1
          ja |        80       .4375    .4992082           0          1
        fdep |        80    .0157537    .0088604       .0008      .0436


. pwcorr llp lco cnpl clon, star (0.05) sig

             |      llp       lco      cnpl      clon
-------------+------------------------------------------
         llp |   1.0000
             |
             |
         lco |   0.3021*   1.0000
             |   0.0065
             |
        cnpl |   0.5493*   0.1508    1.0000
             |   0.0000    0.1817
             |
        clon |   0.0798   -0.0907    0.1916    1.0000
             |   0.4814    0.4237    0.0886


. reg llp lco cnpl clon

      Source |       SS       df       MS              Number of obs =      80
-------------+------------------------------           F(  3,    76) =   13.69
       Model |  .010966081    3   .00365536            Prob > F      =  0.0000
    Residual |  .020286314   76   .000266925           R-squared     =  0.3509
-------------+------------------------------           Adj R-squared =  0.3253
       Total |  .031252395   79     .0003956           Root MSE      =  .01634


         llp |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
         lco |   .3659413   .1535287     2.38   0.020     .0601624    .6717202
        cnpl |   .3232237   .0599809     5.39   0.000     .2037613     .442686
        clon |   .0003146   .0199774     0.02   0.987    -.0394739    .0401031
       _cons |   .0200168   .0028773     6.96   0.000     .0142862    .0257474


. hettest

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
        Ho: Constant variance
        Variables: fitted values of llp

        chi2(1)      =       0.00
        Prob > chi2  =     0.9480
```

```
. vif

    Variable |       VIF       1/VIF
-------------+----------------------
        cnpl |      1.07    0.934738
        clon |      1.05    0.948635
         lco |      1.04    0.962394
-------------+----------------------
    Mean VIF |      1.05
. predict r, residuals


. pwcorr emg afsize ja fdep, star (0.05) sig

             |      emg    afsize        ja      fdep
-------------+------------------------------------------
         emg |   1.0000


      afsize |  -0.8042*   1.0000
             |   0.0000


          ja |  -0.7995*   0.8123*   1.0000
             |   0.0000    0.0000


        fdep |  -0.5243*   0.6494*   0.7424*   1.0000
             |   0.0000    0.0000    0.0000


. reg emg afsize ja fdep

      Source |       SS       df       MS              Number of obs =      80
-------------+------------------------------           F(  3,    76) =   67.84
       Model | 237.253861        3  79.0846202         Prob > F      =  0.0000
    Residual | 88.5998045       76   1.1657869         R-squared     =  0.7281
-------------+------------------------------           Adj R-squared =  0.7174
       Total | 325.853665       79  4.12472994         Root MSE      =  1.0797


         emg |      Coef.   Std. Err.       t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
      afsize | -.1095965   .0234518    -4.67   0.000    -.1563047   -.0628883
          ja | -.2268929   .0475872    -4.77   0.000    -.3216709   -.1321149
        fdep |  .0382745   .0168574     2.27   0.026     .0047001     .071849
       _cons | -1.579242   .2287994    -6.90   0.000    -2.034935   -1.123548


. hettest

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
         Ho: Constant variance
         Variables: fitted values of emg

         chi2(1)      =       2.06
         Prob > chi2  =     0.1514


. vif

    Variable |       VIF       1/VIF
-------------+----------------------
          ja |      3.84    0.260251
      afsize |      2.98    0.335372
        fdep |      2.26    0.442500
-------------+----------------------
    Mean VIF |      3.03
```