Gusau Journal of Accounting and Finance (GUJAF)

Vol. 4 Issue 1, April, 2023 ISSN: 2756-665X

A Publication of
Department of Accounting and Finance,
Faculty of Management and Social Sciences,
Federal University Gusau, Zamfara State -Nigeria

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Published and Printed by:
Ahmadu Bello University Press Limited, Zaria
Kaduna State, Nigeria.
Tel: 08065949711, 069-879121
e-mail: abupress2013@gmail.com
abupress2020@yahoo.com
Website: www.abupress.com.ng

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FOR INQUIRY
The Head,
Department of Accounting and Finance,
Federal University Gusau, Zamfara State.
elfarouk105@gmail.com
+2348069393824

FOR MORE INFORMATION, CONTACT
The Editor-in-Chief on +2348067766435
The Associate Editor on +2348036057525
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MODERATING EFFECT OF AUDIT COMMITTEE ON THE RELATIONSHIP BETWEEN AUDIT QUALITY AND EARNINGS MANAGEMENT OF LISTED NON-FINANCIAL SERVICES FIRMS IN NIGERIA.

Ahmad Muhammad Ahmad
Department of Accounting
Nigerian Army University, Biu.
Shaktarmakarfi@gmail.com
+2348060305681, +2348124266895

Lubabah Mansur Kwanbo (Ph.D.)
Department of Accounting
Kaduna State University
lubakwanbo@kasu.edu.ng
+2348035547928.

Shehu Usman Hassan (Ph.D.)
Prof. Department of Accounting
Federal University Kashere, Gombe.
Shehu.hassanus.usman@gmail.com,
+2348067766435.

Musa Suleiman Umar (Ph.D.)
Department of Accounting
Kaduna State University
+2348028130097, +2348061603390

Abstract
This study investigated the moderating impact of audit committee on the relationship between audit quality and earnings management. Earnings management is the dependent variable, audit quality is the independent variable proxy by audit independence, audit fee, audit tenure and audit size while the moderator is audit committee proxy by audit committee governance score. Secondary source Panel data was extracted for a period of ten (10) years from a population of 113 listed non-financial services firms and a sample of 76 companies were selected based on the model adopted to measure the dependent variable. The research engaged a historical causal design to answer the research question raised. The data was analysed using the multiple linear regression technique and the results reveals that audit committee moderates the relationship between audit quality and real earnings management. Conclusively, audit independence has positive insignificant effect on real earnings management, audit fee and audit size have a positive and significant impact on real earnings management, audit tenure has a negative and significant impact on real earnings management, while audit committee has a significant moderating impact on audit quality and real earnings management. The study recommends amongst others that the number of financial experts

in the audit committee should be increased to three and that the companies should be encouraged by the relevant regulatory authority to engage Big4 auditors as their external auditors for a transparent and credible financial statement. The study is limited to only quoted non-financial services firms in Nigeria.

Key Words:
https://doi.org/10.57233/gujaf.v4i1.208

1. Introduction

Delivering the company's annual financial information in a timely and reliable manner to both internal and external stakeholders is the primary purpose of the mandatory annual financial statement (Shafie et al., 2015). They further argued that accounting earnings is a major element of the financial statement because most of the stakeholders take informed decisions based on reported earnings since it is perceived to contain the economic and financial activities of the company. Managers of companies engage in manipulating the accounting earnings for various reasons in a manner suitable so as to achieve their personal goals or the entity's objectives, this is commonly known as earnings management (EM). The choices of Accounting are being made within the IFRS framework; Accounting standards are the set of practices, rules and conventions that explains what is acceptable limit in financial reporting to external stakeholders. However, it is the responsibility of management to detect and prevent fraud and or error not the responsibility of the external auditor but the mandatory audit exercise is expected to serve as a deterrent to fraud. A stream of previous studies relating to corporate governance, audit quality and earnings management have been undertaken in developed countries suggest that monitoring the process of financial reporting and ensuring high-quality reliable financial statements internally is one of the major tasks bestowed on the board and in particular, the independent outside directors of the company (Hosseini, 2017). Furthermore, the external auditor is expected by law to provide assurance reasonably that the published financial report is fairly presented and free from material misstatements and also errors that are immaterial (Davis & Soo, 2016). The annual audit of published financial report is a monitoring mechanism performed to provide a reasonable assurance that the financial statement prepared by management is free from material misstatement.

The quality of audit is expected to be associated with reduction of error and increase in compliance with rules, regulations and standards (Osemene & Fakile, 2018). Thus, the annual statutory audit is not performed primarily to detect fraud or prevent fraud but to give assurance and credibility that the preparation and presentation of the financial statement is true and fair (Huguet & Gandía, 2016).

This study is different from existing literature in two major ways. Earnings management is measured by the adoption of manipulation of real activities in methodology rather than discretionary accruals method, some of the reasons in doing so are: the fact that manipulation in discretionary accruals does not have direct effect on operations cash flow of the company but real activities management has a direct consequence on operations cash flow of the company.

The recent accountings scandals in the oil & gas sector, the aviation sector as well as the consumer goods sector of the listed non-financial firms from 2013-2020. These have provided reasonable and sufficient evidences from the decided cases to argue that there is negligence and lack of integrity on the part audit committees and top management officials of corporate entities. These show that accounting scandals are still being experienced in Nigeria. Is it the audit independence that is compromised, or the auditors are highly compensated or non-financial firms are not audited by the experienced auditors such as big4, or is it that audit committee of the non-financial firms' board that are not really composed of non-executive directors, or the members of committee on audit are not experts in financial statements analysis, evaluation and interpretation, or the meetings frequency by members of the committee on audit is not adequate enough for scrutinising the audited financial statement of the company? Hence, the provision of answers to these raised research questions is primary to this study. For these reasons a stream of previous studies has attempted to investigating the relationship between the impact of audit committee on real earnings manipulations of listed non-financial fir companies in the Nigerian stock exchange but these studies have been using the Roychowdhurry (2006) model and in this study a new revised model of measuring real earnings manipulation is adopted known as the Srivastava (2019) model thereby paving a methodological gap to be filled by this study. And again, this study will be current because the period of the study is extended to 2020 thereby filling a time gap by this study. Also, this study will also carry-out post-estimation tests to improve the reliability of and originality of the study.

The main objective this study is to examine the impact of the moderating role of audit committee on the relationship between audit quality and real earnings management of listed non-financial firms in Nigeria. The specific objectives of the study are:

i. To examine the impact of auditor's independence on real earnings management of listed non-financial firms in Nigeria.

ii. To investigate the impact auditor's remuneration (fee) on real earnings management of listed non-financial firms in Nigeria.
iii. To assess the impact of auditor's tenure on real earnings management of listed non-financial firms in Nigeria.
iv. To investigate the impact of auditor's size on real earnings management of listed non-financial firms in Nigeria.
v. To establish whether audit committee can moderate the relation between audit quality and real earnings management of listed non-financial firms in Nigeria.

In line with the objectives of the study, the following hypotheses are formulated in null form:
H_{O1} Auditor independence has no significant impact on real earnings management of listed non-financial firms in Nigeria.

H_{O2} Auditor remuneration (fee) has no significant impact on real earnings management of listed non-financial firms in Nigeria.

H_{O3} Auditor tenure has no significant impact on real earnings management of listed non-financial firms in Nigeria.

H_{O4} Auditor size has no significant impact on real earnings management of listed non-financial firms in Nigeria.

H_{O5} Audit committee has no significant moderating effect on the relationship between audit quality (Independence, fee, tenure and size) and real earnings management of listed non-financial firms in Nigeria.

This study examines the moderating impact of audit committee on the relationship between audit quality and real earnings management and it's restricted to external auditors and non-financial firms listed on floor of NSE as at the end of 2020 accounting period. This research covers a period of ten (10) years (2011-2021). Real earnings management is the dependent variable of this research proxied by model of Srivastava (2019). The independent variable of the study is external auditor proxy by Auditor independence, Auditor remuneration, tenure of audit firm and Size of firm. The moderator of the research is Audit committee proxied by audit committee governance score.

This research being an empirical research work will firstly contribute to existing literatures on mechanism of corporate governance on the association between audit committee and real earnings manipulations. Policy makers will be assisted in setting enforceable and relevant policies, regulatory bodies will benefit because in order to protect shareholders and other relevant stakeholder and also ensure efficiency and effectiveness in the capital market where the shares of these companies are publicly traded. It will also provide investors with information as to the credibility and competence of the auditors in ensuring that the financial statement undergoes scrutiny before it is presented.

2. Literature Review

Dechow and Skinner (2011) identified three categories of earnings management namely: Accruals management, cash-flow earnings management which is also termed real earnings management and fraudulent accounting, Accruals management is related to choice within GAAP which makes efforts to "mask" and or "obscure" real economic performance, cash-flow occurs when actions are being taken by management which involves changing the underlying operations of a firm with the intention of boosting earnings in the current period and fraudulent accounting involves the choices of accounting the violates or is contrary to GAAP. Osemene and Fakile (2018) defined earnings management as the chance given to managers with opportunistic behaviour to select certain procedures of reporting that assists them in maximising their wealth. Choudhary et al. 2016) earnings management is the process by which deliberate steps are being taken by management which is prompted by GAAP (Generally Accepted Accounting Principles) to take earnings to a desired level of reported income.

A sub-committee established by board of directors of the entity comprising of entirely non-executive directors in a quoted company is known as Audit committee. According to the Nigerian code of corporate governance (2018) a minimum of 3 non-executive members are expected to be part of audit committee and one amongst them must have a vast knowledge in financial expertise, the committee should meet at least twice every financial year. The audit committee play a role of review, assessment and oversight of the rest of the functions and systems in the company. The audit committee is usually being delegated with internal control so as to achieve the objectives of the entity. Among the functions and roles specified in the corporate governance code (2018) the expectation on committee on audit to provide a control culture as well as discipline which will reduce the possibilities of fraud in the entity, the financial statement is reviewed by committee on audit in order to enhance reporting quality, the audit committee also ensures objectivity and credibility in the financial statement which will in turn boost stakeholder confidence. The Audit committee is seen by the Sarbanex-Oxley Act (2002) as a sub-committee established by the board and amongst the board members purposely as an overseer of the financial accounting and processes of reporting of an entity.

Ishaku and Junaidu (2020) investigated the quality audit impact on earnings management of listed non-financial companies spanning 2012-2018, the independent variable of the study audit quality was measured by independence of the auditor while earnings management has been dependent variable proxy with discretionary accruals, the extracted data was through secondary source and Arellano-Bond dynamic panel-data estimation technique was adopted for analysing the data, the results of the analysis revealed an insignificant positive association between a quality audit and earnings management of listed non-financial companies. This study is different from study under review because the study period is extended from 2011-2021 (10years), as this has made this study wider in coverage.

A very recent study undertaken by Suleiman et al. (2020) made an attempt in emerging markets to examine if quality audit has impact on earnings management considering Jordan as case study. The dependent variable of the study is earnings management which has been measured by discretional accruals whereas quality audit which was adopted as independent variable was measured as auditor fee. The study utilised secondary data from 2012-2016 from a sample drawn from listed industrial companies in Amman stock exchange. The generalised least square was adopted for regression of the extracted data. The study pointed out that there is an economic, institutional and cultural difference between Jordan as a country (market) and other emerging markets. The result of the regression revealed that size of audit firm considering big4 firms and non big4 firms and audit fee doesn't have any significant impact on earnings manipulations and it's because of the nature of the low audit fee charged and also low demand on high quality audit by listed firms in Jordan markets (Amman stock exchange). There are two main reasons that make this study different from the study under review, firstly the study period is limited to 2016 but the study period of this study is 2020, and secondly the study is limited to only listed industrial firms which is only a fraction of non-financial companies while the current study looks at the whole non-financial firms listed.

Susanto and Pradipta (2020) research in a question form that can audit committee reduce earnings management? The study scope was from 2013-2016 and committee on audit represented independent variable of the study measured by financial expertise of committee on audit, size of committee on audit, meetings of committee on audit, tenure of committee on audit and independence of committee on audit while earnings management was dependent variable measured by real earnings manipulations. The method adopted for sampling was purposive sampling method, 336 firm year observation was arrived at from sample of 84 manufacturing

Indonesian companies, the technique for analysing data was multiple regression and the regression results revealed that two among the independent variables audit committee expertise and independence have a positive and significant association with real manipulations of earnings while audit committee size, meetings and tenure revealed an insignificant result. What makes our work different is the fact that we are making attempt to capture the whole non-financial firms in Nigeria listed with study scope spanning 2011-2020 (10years).

Fali et al. (2019) made an attempt to find the relationship that exist between committee on audit and earnings management of deposit money banks listed in Nigeria for a period of 10years from 2008 to 2017, loan loss provision was the dependent variable and the (2008) model of Chang, Yat-sen, Shen and Fang was used for estimation, the independent variable was audit committee represented by financial expertise of committee on audit, busyness of committee on audit, committee tenure, committee share ownership and committee meeting, 14 listed banks comprised the population as at 2017 while only 13 banks were selected as samples for the study, multiple correlation research design was adopted and Random Effects Model (REM), to analyse the extracted data ordinary least square was adopted, results showed a strong negative association existed between audit committee financial expertise and busyness of audit committee and earnings management practices, tenure of audit committee members had negative but insignificant association with earnings management while meetings by audit committee members and share ownership by committee members had a positive but insignificant association with earnings management practices among listed deposit money banks in Nigeria. The study was structured on the banking sector that makes it different from the current study because the earnings management measurement proxy of the non-financial firms is different from that of the financial sectors.

Ali et al. (2019) examined the association between characteristics of audit committee (size, financial leverage and experience) and quality of earnings of quoted public Jordanian companies, the study had two objectives: to examine the implementation effectiveness of the of the corporate governance mechanisms rules and regulations of the in Jordan and the association between the independent variables and dependent variable of the study, it was concluded by the study that there was significant positive correlation between attributes of audit committee and earnings quality of quoted public companies in Amman stock exchange, the stakeholder theory and agency theories were adopted to explain the relationships.

Even though the study is current but the fact that it was undertaken in Jordan gives the opportunity to come down to Nigeria and carry out a similar study.

Siagian and Siregar (2018) investigated the existing association between financial expertise of audit committee and earnings management of public quoted firms in Indonesia from a sample 384 firm years observations for a period of 3years from 2012-2014, proxy for earnings management was discretionary accruals as the dependent variable in the study and the Kasznik model was used for estimation whereas the independent variables were measured using audit committee financial expertise, supervision and financial as well as status relative to management, the multiple regression was adopted to test the model, from the results the influence of financial expertise of audit committee was not significant on earnings management, However a positive relationship was found between income decreasing accruals and financial expertise of audit committee, the results was not able to find a significant impact of the joint effect of financial expertise of audit committee and status of committee on audit on earnings management. Such a study is to be undertaken in Nigeria business environment and also the real activities manipulation model of Srivastava (2019) will be adopted rather than the discretionary model which is criticised by its in-ability to detect EM practice in actual cash-flows, the study period will be 10years.

Also, Gandia & Huguet (2020) examined the relationship between fees paid to external auditors and earnings management practices from 2009-2018 (10years), 6997 companies of Spanish SMEs that have voluntary audited financial statements and mandatory financial statements consist of the study sample, quality audit was adopted the proxy for audit fee while discretionary accruals has been adopted being measure for manipulation of earnings practices, the study adopted multiple regression for analysing the extracted data and the result showed existing negative association between quality audit and manipulation of earnings of the SMEs who pay higher audit fee to external auditors. This study is different because the data to be used for analysis will be for listed companies and again not only auditor fee is used as a proxy for audit quality but more variables are used as this makes the analysis of this study more reliable and wider in context.

Martinez and Arquimedes (2017) to explore the relationship between quality audit for the study independent variable represented by fees paid to big 4 firms as the external auditors of the companies and the dependent variable proxy as earnings manipulation for 11years in listed non-financial firms. The accrual model was employed, the analysis that was employed on the secondary data was explanatory and descriptive, results revealed that there is significant negative relationship between fees paid to external auditors and earnings management of listed non-financial firms. This study is different from the study under review because included more variables rather than audit fees and audit rotation being used in the study, again the study scope makes it less reliable because of the advancement that is made in the business world and changes in corporate reporting standards from 2007 to date, this study has updated and validated the findings of the study under review.

Similarly, Effiok and Eton (2016) made an attempt to examine the extent by which earnings management is impacted by audit quality as well as stakeholders wealth in an organisation across the real and service sector of the economy, the study used primary source to gather data from the NSE fact book 2013/2014 of which 68 companies comprised of the population and 38 companies were selected as samples and the ex-post facto as well as descriptive research design were used by the study, for the analysis the ordinary least square was adopted, results showed that corporate governance arm (audit committee), audit quality practice and internal control system is positive and strongly correlated with stakeholder wealth represented by earnings per share (EPS). The study considered real and service sector as its domain, this current study has considered the entire non-financial sector which will make it different and also unlike the study under review this study takes 10 years as its period scope rather than just a single financial year.

Furthermore, Hsiao et al. (2012) made an analysis empirically to investigate the impact of quality of external auditor on financial reporting fraud because they believe it is more direct measure of earnings management for a period of 4years from 2000-2003, the population was 69 AAER firms and a sample of 42 firms from both AAER firms and non-AAER firms which makes the study one of the 1st research works to associate audit fees and non-audit fees, the proxy for audit quality were audit fee, audit tenure, non-audit fees, big5 auditor and ratio of non-audit fees while the dependent variable earnings quality was proxy by financial fraud, it was assumed that only firms that were allegedly caught were selected in the whole population, multiple regression was adopted for the analysis and results concluded that there was no statistical significant relationship between AAER financial reporting fraud and audit fees and non-audit fess. Looking at the period of the study 2000-2003, there are a lot of international financial reporting policies, rules and regulations that were published and companies were mandated to comply with as this makes this study different because it inculcates all the current updated international financial reporting policies and guidelines.

Earlier, Bamahros and Wan-hussin (2015) examined the impact of non-audit services provided by external auditors and audit tenure on earnings management of listed public companies in Malaysia for 2009, the dependent variable (discretionary accrual) was estimated by the (1991) jones model using two measures namely; discretionary total accruals for 2007 and 2008 and discretionary current accruals for 2008 and 2009 prior years because of pre and post IFRS adoption, the population was 985 public non-financial firms and a sample of 525 was selected for the study, multivariate and univariate statistics were carried out on the data, the regression results revealed that non-audit services impairs the auditor independence thereby exacerbating earnings management and this depicts a positive relationship whereas audit tenure had a negative relationship with earnings management. In the process of analysis hetteroskedacity test for multi-colinearity was not carried out in the study so to make this study different the Hett-test is carried out which has rendered this study reliable than the study under review.

However, Echobu, Okika and Mailafia (2017) employed correlation and ex-post facto research design to investigate the association between the financial reporting quality determinants and earnings manipulations for 8years period spanning from 2008 to 2015, a sample of 7 agricultural and natural resources companies was drawn from a population of the study using censoring sample technique and a longitudinal balanced panel data was used, multiple regression was used to analyse the data and a two steps regression was employed for the residual discretionary accruals which was the proxy for financial reporting quality and for the model of the study, the independent variable were proxy by audit committee independence, leverage, board size, liquidity and firm age and the regression result revealed that there was a positive and significant association between leverage, board size and liquidity with discretionary accruals of listed agricultural and natural resources firms in Nigeria. This current study takes a sample from a population of the whole quoted non-financial companies as the domain of the study compared to that of the study under review which only selected agricultural and natural resources companies as domain of the study.

3. Methodology

The post-positivism has been adopted as the paradigm of this research work. The quantitative approach was selected because the research is deductive in nature and extracted secondary data from the financial statements of the sample for a period of 10 years from 2011- 2021. The research design adopted is the historical causal research design. The population of this study consisted of the entire quoted non-financial companies on the Nigerian stock exchange floor as at 31st Dec, 2020. The source of the secondary data was from the Central Bank of Nigeria (CBN) statistical bulletin, Bureau of Statistics, published audit annual reports and financial statements and Nigerian Stock exchange fact book. The multiple linear regression technique was adopted for this study.

The mathematical models of the study are presented below:

$RAM_{it} = a_0 + a_1\ CMTEEIND_{it} + a_2\ CMTEEMET_{it} + a_3\ CMTEESIZ_{it} + a_4\ CMTEEDIV_{it} + a_5\ FRMSIZ_{it} + \mu_t$……………………………………………………..………..………………………

Whereas:

RAM = Real Activities Management
CMTE = Audit committee
IND = Independence
MET = meetings
SIZ = Size
DIV = Diversity
FRMSIZ = Firm Size (control Variable)
a_o = Intercept
$a_1 + a_5$ = Co- efficient of independent variables
μ = Term Error

Table 1:-
Variable measurement of dependent and independent variables

S/N	Variable	Measurement
1	Real Earnings management manipulation	Residuals of (Srivastava, 2019) model.
2	Audit independence	Audit fee or amount paid to auditors divided by revenue (Frankel et al., 2002).
3	Audit fee	The natural logarithm of total payment made to the external auditor annually as audit fee (Okolie, 2014).
4	Audit tenure	The relationship length between auditor-client: if 3yrs + = '1' and if otherwise = '0' (Okolie, 2014).
5	Audit size	Audit size is dichotomised into two, the non-big 4 audit firms and big 4 audit firms. If financial statement has been audited by Big4 (1) and if otherwise (0) (Farouk & Hassan, 2014).
6	Audit committee	The strength of the overall audit committee is captured by Audit Committee governance score which is measure for Audit committee attributes.

Source: Authors' compilation, 2023

The audit committee governance score is specifically derived from four characteristics of the audit committee that are commonly used: size of the audit committee (*ACI*), independence of the audit committee (*ACS*), financial expertise of the audit committee (*ACF)* and meetings conducted by the audit committee (*ACM*). For the four characteristics of audit committee governance of each sampled company, for the summary measure a dichotomous measure is developed, strong governance is represented by a value of 1 while weak governance is represented by the value "0".

Table 2:
Variable measurement of moderator

S/N	Variable	Measurement
	Independence of audit committee	According to Klein (2002); Bedard et al. (2004), considerable evidence depicting that the association between independence of audit committee and integrity is positive. If in each year of the sampled companies there is a non-executive director or independent director as audit committee's members for the year, a code "1" is given and if otherwise we code "0".
2	size of audit committee	According to Anderson et al. (2004), DeZoort and Salterio (2001), large audit committee members of a company devote more effort and time to oversee and ensure a sound internal control system and financial reporting processes and enhance improved discussions within the members of the committee on audit committee. The code of corporate governance requires every incorporated company to at least have a minimum of three directors as audit committee members. If a sampled company in every year has more than three members in the audit committee the company is code with "1" and if otherwise we code sampled companies with "0".
3	Audit committee financial expertise	The code of corporate governance (2018) directs for inclusion of a financial expert in the composition of committee on audit. It is implied that all board committees will comprise of a financial expert. We code Sample Company in percentage computed as financial expert in the committee on audit to total number of members of committee on audit.

4	Audit committee meetings	According, Menon and Williams (2004), it is unlikely effectiveness for committees on audit that meet only once in year or they don't even meet at all during the year. In monitoring management, audit committees that meet often put serious efforts. If a minimum of four meetings are conducted by the committee during the year we code sampled companies with "1" and if otherwise we code sampled companies with "0".

Source: Authors' compilation, 2023

To obtain the audit committee governance score (*AC GOV SCORE*) summary, the four variables are dichotomised and then added up together. We then construct the entire strength of audit committee measure (*ACGOV*) which is then developed by the code "1" if the audit committee governance score of the sampled company is equal to 2 or higher we say the audit committee governance score is strong and if otherwise "0" we say it is weak.

4. Data presentation and analysis

This section present and discuss the descriptive statistics, correlation matrix result of the models, post-estimation test for the un-moderated and the moderated models.

Table 3:
Descriptive Statistics

Variables	Mean	Std.Dev	Min	Max	Skewness	Kurtosis
REM	5.960	6.159	0.003	71.184	4.088	33.908
AUDIND	0.530	3.169	0.000	54.845	14.727	230.121
AUDFEE	4.101	0.586	2.301	5.876	0.211	3.435
AUDTEN	0.771	0.420	0.000	1.000	-1.290	2.665
AUDSIZ	0.566	0.496	0.000	1.000	-0.265	1.070
AUCGOV	3.143	0.811	0.000	4.000	-0.890	3.985

Source: STATA 11 Output, 2023

Table 3 shows that real earnings management (REM) the measure of non-financial firms listed in Nigeria has a mean value of 5.960 and the standard deviation value of 6.159, the maximum value is 71.184 and minimum value is 0.003 respectively. The data is positively skewed from the coefficient value of 4.088. The kurtosis value is 33.908 which indicate the peakness of the data, this suggest that the mean value is lower than most of the values; therefore, it will be said the normal distribution assumption is not met by the data.

Furthermore, Table 3 show that mean value of the audit independence (AUDIND) of the non-financial quoted on stock exchange floor is 0.530, the value of standard deviation is 3.169, and the maximum value is 54.845 while the minimum value is 0.000. The value of coefficient of skewness is 14.727 impling that the data is skewed to the positive.

In addition, Table 3 shows that the measure of audit fee (AUDFEE) in non-financial companies quoted in Nigeria has a mean value and a standard deviation value of 4.101 and 0.586 respectively, and maximum value of the data is 5.876 while the minimum value is 2.301. The kurtosis value of 3.435 indicates the peakness of the data, indicating a normally distributed curve. The coefficient of skewness is 0.211 this implies that the data is skewed positive and moderate.

Table 3 also indicated 0.000 as minimum audit tenure (AUDTEN) implying a situation in which some of the audit firm did not spent up to three years as auditors of a particular firm within non-financial firms quoted in Nigeria. Again, it reveals a standard deviation value of 0.420 the value of mean 0.771, implying a situation in which the deviation of the data from the value of the mean is not far. The kurtosis value indicates the peak of the data with a value of 2.665, this suggests that the values are majorly within a limit which is acceptable and within the assumption of normal distribution. The data is negative skewed as well as moderate and is depicted by the coefficient value of skewness of -1.290.

Table 3 also indicated an average audit size (AUDSIZ) of 0.566 with the value of 0.496 for standard deviation and the maximum value is 1.000 while the minimum value is 0.000. It is implied that an average of 56% of the audit assignment or engagement within the non-financial firms were carried out by BIG4 auditors, and both sides of the mean have a deviation of 0.496. The kurtosis value of 1.070 indicates the peak of data of AUDSIZ. The data is negatively skewed and this is depicted from the coefficient of skewness value of -0.265.

Moreover, Table 3 shows an average audit committee governance score (AUCGOV) of 3.143 with standard deviation of 0.811. The maximum value is 4.000 and the minimum value is 0.000. This implies that on average AUCGOV in non-financial service firms is 3.143 annually and both sides of the mean are deviated by 0.811. The kurtosis value of 3.985 suggests that most of the values are within a normally distributed data. The skewness value of -0.890 implies that, the data is negatively skewed.

Table 4:
Correlation Matrix

Variables	REM	Audind	Audfee	Audten	Audsiz	Aucgov
REM	1.000					
Audind	0.202	1.000				
AUDFEE	0.519	0.355	1.000			
AUDTEN	0.385	0.323	0.827	1.000		
AUDSIZ	0.468	0.288	0.820	0.804	1.000	
Aucgov	0.373	0.294	0.743	0.695	0.732	1.000
Audindacgov	0.100	0.953	0.125	0.120	0.109	0.130
Audfeeaucgov	0.571	0.224	0.722	0.520	0.671	0.767
Audtenacgov	0.435	0.248	0.647	0.663	0.599	0.673
Audsizacgov	0.385	0.193	0.655	0.488	0.688	0.650

Source: STATA 11 Output, 2023

Table 4 shows that real earnings management is positively correlated with audit independence to the tune of 20% at 99% level of significance. This implies that real earnings management has a direct correlation with auditor independence. Audit fee is found to have positive relationship with earnings management to the tune of 52% at 99% level of significance: implying a direct correlation between the two subsisting variables. Real earnings management showed a positive association with auditor tenure at a 39% magnitude. This shows a correlation between the two variables in the same direction. Auditor size has a positive correlation with real earnings management of quoted non-financial companies in Nigeria thus implying a direct relation at a magnitude of 47% at 99% significant level. Audit committee governance score has an association which is positive with earnings management at a magnitude of 37% at 99% significance level implying a direct association between audit committee governance score and real earnings management of quoted non-financial companies.

Table 5:
Summary of Regression Results

Un-moderated				Moderated		
Variable	**Coefficients**	**T-value**	**P-Value**	**Coefficients**	**T-value**	**P-Value**
AUDIND	0.015	0.92	0.356			
AUDFEE	0.378	5.47	0.000			
AUDTEN	-0.255	-2.86	0.004			
AUDSIZ	0.270	2.69	0.007			
AUCGOV	-0.045	-0.88	0.382			
Constant	-1.071	-4.69	0.000			
AUDINDACGOV				-0.012	-0.35	0.726
AUDFEEACGOV				0.159	9.87	0.000
AUDTENACGOV				0.120	3.28	0.001
AUDSIZACGOV				-0.153	-4.52	0.000
R-square			**0.290**			**0.412**
Chi2			**178.5**			**396.8**
F-Sig			**0.000**			**0.000**

Source: STATA 11 Output, 2023

From the cumulative result for the moderated model, R^2 showed a value of 0.412 which implies that the real earnings management of quoted non-financial companies can be explained by audit independence, audit fee, audit tenure, audit size and all the moderated independent variables of the study to the tune of about 41%. The value of F- statistics showed 396.81 which is significant at 1% indicates that audit quality and real earnings management model with moderation is fit. It connotes that for every change in quality audit and audit committee, real earnings management of quoted non-financial companies in Nigeria will be affected.

Audit independence moderated with audit committee governance score and real earnings management.

As shown on table 5 moderated audit independence has a co-efficient value of -0.012 and a t-value of -0.35 with a p-value of 0.726 which is not significant at 1%, 5% and 10% significance level. This signifies that moderated audit independence is negatively and not significantly affecting real earnings management of quoted non-financial firms of Nigeria. This implies that for every percentage increment in the value of moderated audit independence, real earnings management of quoted non-financial companies in Nigeria will decrease insignificantly by 1%.

Audit fee moderated with audit committee governance score and real earnings management.

From audit fee moderated with audit committee governance score and real earnings management it recorded a co-efficient value of 0.159 and a t-value of 9.87 with a p-value of 0.000 which is significant at 99% confidence level. This signifies that audit fee moderated with audit committee governance score is positively and significantly effecting on real earnings management of quoted non-financial companies in Nigeria. This implies that for every unit increase in audit fee moderated with audit committee governance score, real earnings management of quoted non-financial companies will increase significantly by 16%. The result is contrary to resource dependency theory because the theory assumes that the external audit (external resource) stands as strong mechanism to control or eliminate earnings management because necessary measures are put in place to ensure the fee paid to the auditor does not lead the auditor be partial in expressing the audit opinion on the financial statement.

Audit tenure moderated with audit committee governance score and real earnings management.

Audit tenure moderated with audit committee governance score from the regression result showed a co-efficient value of 0.120 with a t-value of 3.28 which is significant at 0.001 (99%) level of confidence. This signifies that audit tenure moderated with audit committee governance score is positively and significantly impacting on real earnings management of quoted non-financial companies of Nigeria. This implies that when the value of audit tenure moderated with audit committee governance score increase, real earnings management of quoted non-financial companies will increase by 12% from the regression result. The result is contrary to the agency theory for the fact that the committee serves as agents who are supposed to protect the shareholders interest and reduce real earnings management.

Audit size moderated with audit committee governance score and real earnings management.

Finally, for audit size moderated with audit committee governance score which depicted a co-efficient value of -0.153 and a t-value of -4.52, which is significant at 0.000 (99%) level of confidence. This signifies that audit size moderated with audit committee governance score is negatively and significantly affecting on real earnings management of quoted non-financial companies in Nigeria. This implies that combined increment in audit size and audit committee will decrease real earnings management in quoted non-financial companies in Nigeria. This result is in line with resource dependency theory because the theory argues that the external auditor is a crucial resource to the survival of an entity, and as such stands as a mechanism that motivate and influence the attitude and behaviours of management to do the right thing.

Hypothesis Ho_1 of this study states that there is no significant association between audit independence and real earnings management of quoted non-financial companies in Nigeria. From the result of this study, it shows that audit independence has no strong relationship with real earnings management of quoted non-financial companies in Nigeria. Therefore, the result provides us with sufficient evidence which fails to reject the null hypothesis Ho_1 of this study.

Hypothesis Ho_2 of this study states that there is no significant relationship between audit fee and real earnings management of quoted non-financial companies in Nigeria. From the result of this study, it shows that audit fee has a strong impact on real earnings management of quoted non-financial companies in Nigeria. We therefore reject hypothesis Ho_2 of this study which states that audit fee has no strong impact on the real earnings management of quoted non-financial companies in Nigeria.

Hypothesis Ho_3 of this study states that there is no significant association between audit tenure and real earnings management of quoted non-financial firms in Nigeria. From the result of this study, it shows that audit tenure has a strong impact on real earnings management of quoted non-financial companies in Nigeria. Therefore, we reject hypothesis Ho_3 of this study that states Audit tenure has no significant impact on the real earnings management of quoted non-financial companies in Nigeria.

Hypothesis Ho_4 of this study states that there is no significant association between audit size and real earnings management of quoted non-financial companies in Nigeria. The result of this study shows that audit size has a strong impact on real earnings management of quoted non-financial companies in Nigeria. Therefore, we reject the hypothesis Ho_4 which states that Audit size has no significant impact on real earnings management of listed non-financial firms in Nigeria.

It is found that Audit independence has a direct association with the real earnings management both when interacted singly and when moderated with audit committee governance score. Therefore, we fail to reject the hypothesis that states that Audit committee has no significant moderating effect on the relationship between audit independence and real earnings management of listed non-financial firms in Nigeria.

5. Conclusion and Recommendations

This study investigates the association between audit quality and earnings management of quoted non-financial companies in Nigeria. The audit quality attributes were audit independence, audit fee, audit tenure and audit size while the audit committee attributes were modelled into a corporate governance score which consisted of independence of audit committee, size of audit committee, tenure of the audit committee members and meetings conducted by the audit committee members while real earnings management was proxy by residuals of (Srivastava, 2019). As a result of the research questions raised by the study, five objectives were developed and to achieve these objectives, five hypotheses were formulated which were to be tested. Furthermore, the study covers a period of 10 years from 2011-2020.

The regression results of study revealed that among the independent variables, audit fee, audit tenure and audit size were significant in both the moderated model and un-moderated model except for audit tenure that was insignificant in moderated model. In case of audit independence was neither significant in the un-moderated model nor significant in the moderated model. Among the explanatory variables that were significant, only audit fee showed a positive relationship in restraining real earnings management in the quoted non-financial companies in Nigeria. As for audit size, the explanatory variable had a positive relationship with real earnings management in the un-moderated model but after the moderation with audit committee the variable audit size changed to a negative relationship while the case of audit tenure, the explanatory variable was negative in the un-moderated model but after the moderation with audit committee governance score, the variable changed and showed a positive relationship with the real earnings management of the quoted non-financial companies in Nigeria implying that audit tenure does not contribute in reducing real earnings management practices. The co-efficient of determinant (R^2) of the second model resulting in higher value than the un-moderated model, it showed that audit committee represented by audit committee governance score has moderated the association between audit quality and real earnings management of quoted non-financial companies in Nigeria.

This study concludes from the results that independent of the external auditor does not significantly contribute in reducing real earnings management of quoted non-financial companies in Nigeria but rather insignificantly contribute in real earnings management practice. The fee paid to external auditors is significantly contributing to the real earnings management practices among the listed non-financial firms in Nigeria. The fee that is paid to the external auditors allows them to compromise their independence and integrity. The tenure of the external auditor is significantly contributing in reducing the amount of real earnings management among the quoted non-financial companies. External auditors' independence is jeopardise as a result of the long stay with the client which is believed to have developed a familiarity threat to the independence. When the big 4 auditors are allowed to perform without the effective supervision of the audit committee members, they tend to allow a significant increase in the real earnings management practices among the quoted non-financial companies in Nigeria. More so, with contribution of audit committee effectiveness the independence of the external auditor insignificantly contributes in reducing the real earnings management practices among the quoted non-financial companies in Nigeria.

This study came up with the following recommended that the audit committee minimum membership to be increased from 3 to 5 as indicated in the Nigerian code of governance 2018. Also the number of financial expert that can interpret financial statements should be increased from 1 to 3. The professional accounting bodies both local and international should ensure that they communicate to directors of companies through regulators of companies the percentage of the amount of fee paid to the external auditor as to the percentage of total revenue annually. The national codes of corporate governance should be reviewed, specifically principle 20 to reduce to 10years tenure to 5 years and the rotational period to sustain independence to be 3 years not 5 years. The codes of corporate governance should recognise making independent non-executive directors that are finance experts and accounting as audit committee members just like it is mandated for private companies.

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