AUDITOR INDEPENDENCE AND EARNINGS MANAGEMENT

OBASUYI FAVOUR UWA

MGS2003369

DEPARTMENT OF ACCOUNTING

FACULTY OF MANAGEMENT SCIENCE

UNIVERSITY OF BENIN

BENIN CITY.

AUDITOR INDEPENDENCE AND EARNINGS MANAGEMENT

OBASUYI FAVOUR UWA

MGS2003369

A PROJECT WORK SUBMITTED TO THE DEPARTMENT OF ACCOUNTING, FACULTY OF MANAGEMENT SCIENCES, UNIVERSITY OF BENIN, BENIN CITY. IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELOR OF SCIENCE (B.Sc.) DEGREE IN ACCOUNTING.

FEBRAURY, 2025

DECLARATION

I hereby declare that:

1. The study is based on a research undertaken by me in the Department of Accounting, Faculty of Management Sciences, University of Benin, Benin City, under the supervision of Dr. T. Ohidoa
2. This work has not been previously submitted for the award of a degree elsewhere.
3. All ideas and views are product of my personal research and where the views of others have been expressed, they have been duly acknowledged.

____

OBASUYI FAVOUR UWA

FEBRUARY, 2025.

CERTIFICATION

This is to certify that this project work was carried out by OBASUYI FAVOUR UWA with Matriculation Number MGS2003369 and that it is adequate in content and quality in partial fulfillment of the requirement for the Award of Bachelor of Science in Accounting.

___________________ ______________

Dr. T. Ohidoa Date

(Project Supervisor)

______________________ _______________

Dr. G. O. Ikhu-Omoroegbe Date

(Project Co-Ordinator)

______________________ _____________

Prof. O. Obaretin Date

(Head of Department)

DEDICATION

This research work is dedicated to God Almighty, the source of my strength, who has upheld me with His right hand of righteousness. I am grateful for His love, mercy and above all, His grace for making this work a reality.

ACKNOWLEDGEMENT

My gratitude goes to God Almighty for His love and for granting me the privilege to witness this day. His grace and mercy has been my strength throughout this journey.

I sincerely appreciate my Project Supervisor **Dr. T. Ohidoa,** for his invaluable guidance, patience and corrections which played a crucial role in making this project a reality. My gratitude also extends to all my lecturers who impacted me with knowledge and discipline which shaped my academic growth.

I also want to appreciate my **HOD, Prof. O. Obaretin** for his exceptional contribution towards my academic success.

My sincere appreciation goes to my mother **Miss Omoroghomwan Amadasun** who has been my backbone and my biggest supporter. Your unwavering love, encouragement, prayers and sacrifice made this academic pursuit possible. May God bless you beyond imagination. My appreciation also goes to my siblings (**OBASUYI EXCEL AND OBASUYI DIVINE**) for their support.

To my amazing friends- **Iyokhun Obed, Imoudu Michael, Imafidon Presley, Ambrose Mary, Amune Precious,** and **members of room 102-**thank you for your emotional and academic support throughout this journey. May God bless you all abundantly.

Finally, to the entire 2023/2024 set of B.SC. Accounting set, thank you all for your support and encouragement one way or the other. God bless you all.

TABLE OF CONTENT

ABSTRACT

This study examined auditor independence and earnings management. A total number of 39 commercial and insurance companies of Nigeria Exchange Group out of which four insurance companies had incomplete data which restricted our research to 35 companies. About 175 firms were observed from 2020-2024. Jaque-berra test probability value was used on our broad objective out of 4 specific objectives. Our dependent variable was based on modified discretionary accrual model used as earnings management of firms which is the error term and our independent variables were collapsed into 4 which are audit fees, audit tenure, non-audit fees, and audit firms rotation as auditor independence. We used the panel least square regression technique with other statistical tests which are descriptive, correlation analyses to investigate the variables. The study found that audit fee has a positive and significant relationship with earnings management, audit tenure and non-audit fee have no significance but are positively related to earnings management while audit firm rotation is negatively insignificant with earnings management.

CHAPTER ONE

1. INTRODUCTION.

1.1 BACKGROUND TO THE STUDY

Independence is the state of wanting or being able *to do things yourself and make your own decisions,* without help or influence from other people (Cambridge Dictionary). Corporate Governance Institute defines an auditor as "an independent professional who examines and verifies the accuracy of a company's financial records and reports". Thus, auditor's independence is the ability of auditor's to conduct examination on a company's accounting records or financial statement without external influence or help from other persons.

International Standard on Auditing (ISA) 200 (2022) defines auditor independence as the ability of auditor's to perform an audit engagement without being influenced by factors that compromise their professional judgment and objectivity, therefore enabling them to give an impartial opinion on the financial statement and in financial reporting. Auditors are required to disclose no financial responsibility in the companies they are auditing. Independence is a concept fundamental to the accountancy profession. It is an attitude of mind characterized by integrity and objective approach to professional work. To the audit process, it requires integrity and an objective approach, and it requires that the auditor perform his or her work freely and objectively.

McGrath (2001) suggested that "An honest auditor will behave like someone who is independent, using independence to mean an attitude of mind which does not allow the viewpoints and conclusions of its possessor to be reliant on or subordinate to the influence and pressure of earnings management. This Olidipupo (2003) further buttressed that, auditor independence is a quality which permits an individual to apply unbiased judgment and objective consideration to establish facts in arriving at an opinion or decision. It is implicit that auditors should be independent from client's influence so as to ensure credibility of financial statement so as to make them reliable for investors and other stakeholders (IFAC, 2019). Some other few importance of auditor independence includes; improves audit quality, reduce earnings management, increases transparency, enhance accountability etc.

The single most important factor in financial reports is earnings, which is also referred to as the "bottom line" or "net income." They indicate the degree to which a company has engaged in value-added activities. They are a signal that aids in the direct allocation of resources in capital markets. In fact, the actual value of a company's stock is the present value of its future earnings. Increased earnings reflect a rise in company value, while lower earnings reflect a decrease in company value. Given the importance of earnings, it is no surprise that company management is keen on how they are reported. Every executive must understand that they will make the best possible decisions for the company. The management of a corporation uses earnings management to influence the results reported in financial reports. Thus, Earnings management is the manipulation of financial result to achieve a specific outcome, such as meeting earnings expectation or hiding poor performances through aggressive accounting practices or other techniques (SEC, 2019). It is executed to achieve a set goal and is different from directing the company's core business. An earnings management scheme uses accounting techniques to present an overly optimistic picture of a company's financial situation, thereby increasing profits. It is worthy of note that not all earnings management might be illegal or unethical but they have severe consequences. A number of terms have been used to describe earnings management activities which, includes:

Income smoothing

Accounting hocus-pocus

The numbers game

Financial statement management

Aggressive accounting

Re-engineering the income statement

Toggling the books

Creative accounting

Financial statement manipulation

Accounting magic

Borrowing income from the future

Auditor independence and earnings management has been a critical concern in accounting and audit profession. The importance of the independence of auditors lies in their role of ensuring the reliability and credibility of financial statement. Earnings management on the other hand, refers to the manipulation of financial statement to achieve a specific outcome. Research has shown that auditor's independence is important in the prevention of earnings management and ensuring the accuracy of financial statement. When auditors are independent they are more likely to; detect and prevent earnings management, reduce the likelihood of financial misstatement, issue modified audit report for firms engaging in earnings management etc. thereby increasing the credibility, accuracy and reliability of accounting records and financial statements. Conversely, when auditors are not independent, they are more likely to; turn a blind eye to earnings management, give clean audit report despite earnings management, be influenced by management etc. thereby creating a misleading financial statement. However, various factors such as audit firm size, audit tenure, audit fees, auditor's rotation, and non-audit fee can compromise an auditor's independence.

In recent years, the increasing accounting scandals and financial crisis have highlighted the need for auditor to be independent and objective. The collapse of Enron, WorldCom, and other large corporations has led to the increased importance of auditors and their role in preventing earning management.

This study will focus on the impact of auditor's independence and the extent of earning management. The study will also explore the factors that influence auditor independence and its impact on earnings management.

1.2 STATEMENT OF THE RESEARCH PROBLEM

The increasing complexity of financial transaction and pressure to meet earnings expectation has led to an increase in earnings management. This raises concern about auditor's capability to maintain independence and objectivity. Despite the importance of auditors' independence in maintaining the credibility of financial statements, there is also the danger that auditors may compromise their independence to maintain client relationships, which results in poor financial management. The question is, "in what extent does auditors' independence influence earnings management? Also, larger audit firm size and longer audit tenure may lead to closer relationship with client, thereby compromising independence and making it difficult for them to resist pressure to manipulate earnings.

Another problem that is of concern in this study is the issue of audit fees; high audit fee may create economic dependence, influencing auditor's judgments. However the lack of auditor independence may also be a reason for the increase in earnings management which may result in; misleading financial statement, investors loss, legal and regulatory issues etc. This signifies that auditor's independence and their role in earnings management has created crucial problem in people perception.

In the current auditing practices, various incidence of earnings management occurring in corporate organizations has attracted doubt if auditor independence is necessary. Stakeholders whom they represent or act as corporate administration from management exploitation seem to have lost confidence in auditor's independence. The perception that independent auditor is responsible for earnings management detection and has created expectation gap in the mind of the public.

However another issue of concern in this study is the issue of efficient measurement of earning management. Efficient measurement of earnings management was always a problem for auditors, management and stakeholders, as almost 40 years there is no perfect model for the effective measurement of earnings management. Apart from discretionary accruals there are other proxies of earnings management that can indicate earnings manipulation, they include; Expense misclassification, asset valuation, unusual or one-time time, off-balance sheet financing. However, these measures have numerous limitations in the measurement of earnings management which includes; they are subject to management opinion and judgment, they can be influenced by stock or share prices, they are influenced by industrial factors etc. However, discretionary accruals have been said to be the best and most effective proxy for earnings management due to their impact on earnings, it is relevant and use widely by many industries, it can also be used to measure short term earnings etc.

Some models under the discretionary accrual includes; the Jones (1991) model, the modified Jones model (Dechow, Sloan, and Sweeney, 1995), Teoh et al. (1998) model, Kasznik (1999) model and Kothari et al. (2005) model. However some research has confirmed that all these models have limitations, and the success of any earnings management study still critically depends on the kind methodology used to measure it.

1.3 RESEARCH QUESTION

Despite the unending efforts to protect auditor independence and earnings management perception, there are still questions that remained unanswered. This research is targeted at providing answers to the following questions:

1. What is the significant relationship between auditor's rotation and discretionary accrual?

2. Does audit tenure help to detect and prevent discretionary accrual more effectively?

3. Does the performance of non-audit fee have an impact on the effectiveness of discretionary accruals?

4. Does audit fee have a significant effect on discretionary accrual?

1.4 OBJECTIVE OF THE STUDY

The primary objective of this study is to focus on the impact of auditor independence on earnings management, by achieving this objective researcher can gain a deeper insight on the relationship between auditor independence and earnings management. Some other specific objectives include:

1. To investigate the relationship between auditor's rotation and discretionary accrual.

2. To examine the role of audit tenure in detecting and preventing discretionary accrual.

3. To determine the impact of the performance of non-audit fee on discretionary accruals.

4. To determine if audit fee plays a significant role in impacting and preventing the effect of discretionary accruals.

1.5 HYPOTHESIS OF THE STUDY

Hypothesis is a tentative explanation or an educated assumption that provide guidance to an investigation. It is a testable, clear predictable that outlines the expected outcome of a study. Hypothesis imposes a connection between two variables: the independent variable (the factor being manipulated or changed) and the dependent variable (the factor being measured or examined). The hypothesis of this study provides a beginning point for examining the significant relationship between auditor independence and earnings management. The following hypothesis flows from the research question above;

1. H0: There's no significant relationship between auditor's rotation and discretionary accrual.

2. H0: Audit tenure has a negative relationship with the conduct of discretionary accrual

3. H0: There's no significant relationship between non-audit fee and discretionary accrual.

4. H0: Audit fee is negatively related to discretionary accruals

1.6 SIGNIFICANCE OF THE STUDY

Auditor independence has been of great importance to the accountancy profession as a whole, the importance of an independent auditor cannot be ruled out of the profession. This study will be of significance to various stakeholders. It will create in the minds of these stakeholder's confidence and reliability in audited financial statement and create a better understanding of auditor's independence.

The Government:

It would give the government an understanding of the various circumstances affecting auditor independence and earnings management. Based on that, government can use it as an opportunity to review and strengthen various auditors' independence rules and relationship on earnings management. Auditor independence facilitates accurate and reliable financial statement which enables the government to collect taxes and revenue accurately. By having an insight on the relationship auditor independence and earnings management, government can; improve economic growth and stability, regulate financial markets etc.

Auditors:

This study will add to their existing knowledge of auditor independence. The study will also indicate the importance of auditor's independence to the auditors; it will guide the training and practices of audit firms.

Shareholders:

This study will serve as a guide to the corporate investors, company's shareholders, and other stakeholders on who would be held responsible for the detection of earnings management between independent auditor and management. By ensuring financial statements are audited by independent auditors, investors can fully rely on financial statements in making investment decisions. This study will also provide investor's protection by giving a full knowledge on how auditor's independence stops earnings management practices.

The Public:

This study would educate the public on the expectation and notion created about the independence of auditors and earnings management. This would eventually assist to reduce the gap created about the independence of the auditor and the detection of earnings management. It would promote the transparency, accountability and safeguards the public on financial reporting.

Students:

It would serve as an addition to existing knowledge for academic exercise especially accounting students. This study will assist students and professional institution in understanding the importance of auditor independence and how to ensure accuracy in financial reporting. The study will also educate them on the dangers of earnings management and how auditor's independence can prevent the practice of earnings management.

1.7 SCOPE OF THE STUDY

The scope of this study examines the various factors that can influence the independence of the auditor and earnings management. This study will cover audit fee, audit tenure, non-audit fee, and auditor's rotation as factors that influence auditor independence. Discretionary accruals will be used to measure the extent of earnings management. The purpose of this study is to examine the effect of auditor independence on earnings management; this study will look into cases of how the absence of auditor independence has influenced financial reporting negatively.

This study cut across various non-financial institutions in Nigeria, the study is limited to Non-financial institutions listed in the Nigerian Exchange Group (NGX). This study will cover a period of 5 years (2020-2024). The information and data that will be generated are strictly for the purpose of this study.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This study examines the conceptual review, empirical review and theoretical framework for the study. This chapter consists of four sections. Following the introduction is the conceptual review, and the empirical review linking the dependent variable (Earnings management) and the independent variable (Auditor independence) to validate this current study. Lastly, the chapter is concluded with a theoretical framework.

2.2 CONCEPTUAL REVIEW

2.2.1 EARNINGS MANAGEMENT

Earning is an interesting single item in financial reporting and managers are interested in the way they report it in the financial statements. For this reason they have to learn how to manage their earnings. Thus, they will be able to enhance both the form and the content of financial reporting by adjusting the accounting income in order to maximize its utility (Daghsni et al., 2016).

A company's earnings represent its residual profit after accounting for all expenditures, taxes, and costs, providing a crucial gauge of its financial stability. Earnings are typically reported quarterly or annually. Earnings serve as a vital metric for evaluating a company's performance. Key indicators, such as earnings per share (EPS) and net income, are widely employed in financial assessments and investor updates. Lately, earnings analyses also consider broader economic factors, including inflationary pressures and shifts in consumer spending patterns."

Earnings management occurs when management direct their judgment and utilize estimated permitted by accounting standards or structure transactions in order to amend financial reports with the aim of misleading stakeholders in regard to the firm's economic performance, or otherwise to impact contractual outcomes that rest on the accounting figures reported (Healy & Wahlen, 1999). Fields et al. (2001) explain that earnings management happens when managers make judgment over the accounting figures. Naser (1993) sees earnings management as the transformation of financial accounting figures from what they actually are to what preparers' desire, by taking advantage of existing rules and/or ignoring some or all of them.

Akers et al. (2007) defined Earnings management as an attempts by management to influence or manipulate reported earnings by using specific accounting methods (or changing methods), recognizing one-time non-recurring items, deferring or accelerating expense or revenue transactions, or using other methods designed to influence short-term earning. The exercise of this choice could involve a deliberate non-disclosure of information and manipulation of accounting figures, thereby making the business appear more profitable than it really is (Ijeoma, 2014).

Earnings management is a form creative accounting that has to do with manipulating accounting figures by the opportunistic managers to achieve a specified goal (Kamau, 2016). Balaciu et al. (2014) stated that the basic information about accounting figure manipulation was brought up by Luca Pacioli, in 1494 through his seminar work on accounting, where he described account manipulation as an attempt to make figures more appealing or otherwise to the eyes of the account's readers. Earnings management can be achieved by two means namely; accrual earnings management or real earnings management.

2.2.1.1 ACCRUAL EARNINGS MANAGEMENT

Accrual earnings management is known as discretionary accrual is a means in which manager of a company knowingly provides the financial information and report using accrual basis of income earnings to either reduce the earnings or increase the earnings. It is achieved through the application of various accounting methods and techniques. According to Bankole et al. (2018), the firm used discretionary accrual in order to bring profits down to a level that is safe to sustain in the future by over-provisioning for accrued expenses. This method according to Bhasin (2016) includes making unrealistic assumptions to estimate liabilities for such items as sales returns, loan losses or warranty costs, so that they increase accruals in cookie jars during the good times and reach into them when needed in the bad times. The accrual earnings management, according to Soyemi et al., (2020), entails managers using accounting conservatism practices to manipulate the financial reports.

2.2.1.2 REAL EARNINGS MANAGEMENT

Real earnings management is also known as cash-based earnings management. Earnings management is said to be real when it involves the changes of the time frame or the structure of actual transactions, which means real earnings management is affected by cash flow of companies. It is achieved through the fraudulent manipulation of an organization’s real activities. According to Roychowdhury (2006) real activities manipulation defines as departures from normal operational practices, motivated by managers desire to mislead at least some stakeholders into believing certain financial reporting goals have been met in the normal course of operations.

2.2.2 BRIEF HISTORY OF EARNINGS MANAGEMENT

The world economy has changed over the past few economic decades and there have been a few changes in terms of economic globalization, business integrity and technology. The procedures are causes of changes in the functioning of small, medium and large enterprise, there were manipulative auditing which creates abuses and brought the idea that companies will do anything to increase their profit. In accounting, there is no particular method of analyzing and calculating earnings, that is why it is the difficult to compare them in the different markets. Earnings can be in different forms which includes; operating earnings, net income, revenue etc. managers engage in earnings management in order to give stakeholders a satisfied report and retain their position in the company by developing strategy to retain their positions and keep employees confidence. The complexity of earnings management has made us to review different perspective of researchers on earnings management.

Healy (1985) was the first person to introduce the discretionary accrual as a technique for detecting earnings management. A study by Healy analyzed managerial accounting decisions which show the executives rewarded by earnings based bonuses select accounting procedure that increases their compensation. Healy's test gave the suggestion that accrual policies of managers are related to the income-reporting incentives of their bonus contract and changes in accounting procedures by managers are associated with the adoption or modification of their bonus plan.

According to Dechow and Skinner (2000) practioners and regulators often see earnings management as pervasive and problematic and in need of immediate remedial action.

2.2.3 MOTIVATIONS OF EARNINGS MANAGEMENT

Motivation is the driving force that encourages a particular behavior which influences or directs or initiate an individual's perception or persistence. Motivations of earnings management are driving forces that encourages managers to carry out the activities of earnings management. It is important to know the motive behind earnings management. For a problem to be solved, the motivation behind it must be known. Dong et al.(2021) documented that some of the intentions behind earnings management include meeting capital market's expectations, out do its strong competitors, contract incentives, and in most cases avoiding political costs and tax evasion purposes of aggressive tax planning. In most corporate organizations, there has been evidence that higher reported earnings are positively correlated to higher stock prices. According, to Chen et al. (2010) the three broad categories of motivation that frequently lead to earnings management are altruistic motivation, speculative motivation and pressure from affiliated parties.

2.2.3.1 ALTRUISTIC MOTIVATION

This motivation is concerned with the interest of other parties. It seeks to provide the best performance for an organization. As stated by Aljifri (2007), the motivations to manipulate information on earnings arise most probably driven by the intention to enhance the confidence of stakeholders, to alter income taxation and to avoid breaching the covenant in the debt contract.

Another motive under the altruistic motivation is to reduce tax liabilities; a study by Adhikari et al. (2005) suggested that for firms, the incentives to manage earnings are probably related to tax policy changes. Conversely, a study by Coppens and Peek (2005) found that taxation is not an incentive to engage in earnings management in some countries where tax regulations strongly influence financial reporting.

Avoidance of losses and earning increase is another motive under the altruistic motivation for earnings management. This is because managers participate in management and affect most of the management decisions (Amar & Abaoub, 2010).

2.2.3.2 SPECULATIVE MOTIVATION

Opposing the altruistic motivation, speculative motivation happens when managers want to obtain their own personal benefits or to meet internal targets (Chen & Tsai, 2010; Stice & Stice, 2010).

A study by Bergstresser and Philippon (2006) found that CEOs in companies that depend on the share price to get higher compensation will engage in earnings management in order to obtain their desired compensation. Glaum et al. (2004) further supported the assertion. In addition, a study by Latridis and Kadarinis (2009) showed that managers also have a tendency to employ earnings for the purpose of improving company performance, and consequently, raise their compensation.

2.2.2.3 PRESSURE FROM AFFLIATED PARTIES

This motive has to do with external target. Stice and Stice (2010) also suggested another category of motives to engage in earnings management, which include meeting external expectation through pressure from affiliated parties. Li et al., (2011) found that increases in earnings management are associated with firms owned by government, firms reporting to higher levels of government and firms in more market-oriented regions. In addition, Stice and Stice (2010) mentioned that another factor that drives managers to engage in earnings management is to meet external expectations, which come from a wide variety of external stakeholders. Examples of external stakeholders include; customer and clients, investors and financial stakeholders, suppliers, government and regulatory bodies, non-governmental organizations, competitors etc.

2.2.4 CASES OF EARNINGS MANAGEMENT IN NON-FINANCIAL COMPANIES IN NIGERIA

After a proper examination of the research done by Sirajo et al. (2019) earnings management in Nigeria is seen to be evidenced in African Petroleum Plc. when it was planned for privatization in 2001, the financial position of the firm showed that its financial statements were not fairly presented. A number of transactions, including substantial loans, were omitted from the financial statements. This fact was discovered when a due diligence audit was done in preparation for privatizing the company (Oyejide & Soyibo, 2001).

According to Sirajo et al. (2019) in 2006 another earnings management scandal was reported in Cadbury Nigeria Plc. when the board members doctored the accounts to cover up certain inadequacies and unscrupulous deals perpetuated by the management of the firm. An independent investigation of the firm’s financial statements confirmed a significant and deliberate overstatement of the firm’s financial position through inflated stock figures over a number of years, and this compelled the company to diminish its reserve by making a one-time exceptional charge in 2006 of between N13 billion and N15billion (Itsueli, 2006).

2.2.5 ACCRUAL BASED MODEL

One of the most popular approaches for detecting earnings management is the accrual based model, this focuses on the use of discretionary accruals. According to a researched carried out by (Goksel & Ali, 2020) the following were summarized from the research:

2.2.5.1 Healy (1985) Model

Healy (1985) has carried out of the oldest research on earnings management using discretionary accrual. He concentrated on CEO compensation/ motivation and their ability to manipulate earnings. Healy (1985) first discovered total accruals and then evaluated non-discretionary accruals with a model. Then, he took the difference between total accruals and non-discretionary accruals to find discretionary accruals. This model is one of the oldest models in study using discretionary accruals models. In his Model, Healy used difference in accruals between times, as a measure of discretionary accruals. Goksel and Ali (2020)

2.2.5.2 DeAngelo (1986) Model

DeAngelo (1986) has also made one of the oldest researches in this study. DeAngelo (1986) took management buyouts and earnings management relationships as a main focus in her research suggesting that, in the period of buyouts, management might tend to reduce earnings to decrease share prices. She pointed out that after the buyout period, they would manipulate earnings in an upward direction to smooth income in total. Hence, total discretionary accruals in two periods would be zero. Like, Healy (1985), DeAngelo (1986) used discretionary accrual as the change in total accrual between consecutive periods. Goksel and Ali (2020)

2.2.5.3 JONE (1991) Model

Another model is the Jones Model. Jones (1991) focused on examining the relationship between import quotas and companies' tendency to report lower income before investigations and decisions of import quotas. Jones' model differed from its predecessors (Healy and DeAngelo) because it analyzes non-discretionary accruals as a function of change in revenues, depreciation, and assets of the company. Goksel and Ali (2020)

2.2.5.4 Modified Jones (Dechow et al. 1995) Model

They have applied tests for the power of models and made comparisons; also, they made a modification in the Jones Model. Instead of using the change in revenues, they subtracted exchange in receivables from a change in revenues. They argue that including change in receivables to the model would reduce specification bias and would provide more robust results. They also suggest that the Jones Model has ignored the effect of receivables in the model because an attempt to manipulate revenues would result in a change in receivables as well. This model is called as Modified Jones Model. Goksel and Ali (2020)

2.2.5.5 Kothari et al. (2005) model

In 2005, Kothari, Leone, and Wasley introduced another variable to the Modified Jones Model. To control for the changes in companies' financial performance, they added ROA of companies to model. The reason was that, unless it is added, the firms with abnormal performances would be perceived as manipulating earnings. In addition to this new model, they also suggested to group companies with similar financial performance and matching each company with its group to detect discretionary accruals. Goksel and Ali (2020)

2.2.6 AUDIT

Audit has been defined by various scholars over the years; there are many definitions of audit. According to Hayes et al. (2014), an audit is an independent examination of financial information of any entity, whether profit oriented or not, irrespective of its size or legal form when such an examination is conducted with a view to express an opinion thereon. Similarly, Arens et al. (2017) describe an audit as a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria. According to Singleton and Singleton (2010) audit can be defined as a process of obtaining and evaluating evidence about information to determine and report on the degree of correspondence between the information and established criteria. Boynton et al. (2016) extend this by stating that an audit involves a professional, skeptical, and objective examination and evaluation of financial statements to ensure an accurate and fair representation. Researchers have argued that auditing has three different functions: monitor the actions of managers, enhance the information environment and provide a source of insurance against corporate failures (Fernando et al., 2010).

2.2.7 AUDITOR INDEPENDENCE

We cannot talk about auditor independence without mentioning accounting ethics. Bonu and Kitindi (2015) opined that ethics in Public Accounting has increasingly become an issue in the Accounting profession viewing the various corporate scandals. Cowton (2009) recounted that ethics should be an everyday feature of professional's life, and not just to prevent major wrongdoings but also promoting ethical behavior of professional bodies. Oseni (2011) noted that ethics is a philosophical term derived from the Greek word "ethos" meaning character or custom. IFAC (2006), Oseni (2011), and Aifuwa et al. (2018) highlighted the fundamental principles of accounting ethics as independence, integrity, objectivity, confidentiality, professional behavior and professional due care and competence. Our focus in this study will be on independence.

Auditors are said to be independent if they perform their work out of the control of others or external influences. Auditor independence is defined by Rick et al. (2004) as the ability to conduct audit test, interpret result and certify the audit report of a corporation from an impartial point of standpoint. According to Bahram (2007) Auditor independence is the ability of auditors to maintain an impartial and unbiased mental attitude during audit. Chung et al. (2021) viewed auditor independence as ability of auditors to maintain mental attitude objectively and impartially in the interest of the client in conducting the audit, analyzing the result and attesting to the audit report without influence. According to Arens, et al. (2011), apart from the client's best interest, auditor independence necessitates a sense of duty.

IFAC (2007, 2016), "Ideological independence is the ideological state that allows conclusions to be reached without being influenced by factors that affect professional judgment, allowing an individual to act in an accurate manner and apply objectivity as well as his or her professional skepticism". Gay and Simnett (2012) identified auditor independence as "The ability to accept pressure from the influence of the company's manager when conducting audit or providing audit-related services so that the auditor's integrity is not affected".

Wallage et al. (2014) described the independent concept of auditors as unbiased in conducting audits, analyzing results, approving and validating in audit reports. While Soltani (2007), Alfa et al. (2014) clarify that the auditor independence refers to the auditor's ability to safeguard an objective, integrity and unbiased attitude throughout the audit. Hasibuan and Pangaribuan (2023) posit auditor independence as the likelihood that an auditor will not issue an unqualified report for statements containing errors, whether intentional or inadvertent.

Audit independence provides a framework for the effective monitoring which leads to reduced earnings management (Idris et al., 2018). Audit independence is the ability of the external auditor to act with integrity and impartiality during his/her auditing functions (Akpom & Dimkpah, 2013).

A research carried out by the International Organization of Securities Commissions (2002) examined that the Code of Ethics for Professional Accountants of the International Federation of Accountants provides a useful analysis of potential threats to an auditor's independence under the following headings:

1. Self-interest threat: where an auditor could benefit from a financial interest or has fear of losing the company being audited, e.g., an investment in the company or undue dependence on fees from assurance or non-assurance services
2. Self-review threat: where an auditor will re-analyze or re-examine previous audit work done by him in order to reach a conclusion on the current audit work he is carrying out. e.g., performance of services for an audit client that result in the audit firm auditing its own work
3. Advocacy threat: problems arises where an auditor advocate for a client in any given situation. e.g., acting as an advocate for an audit client's position in dealings with third parties
4. Familiarity threat: this arises where an auditor is influenced by the attitude of the directors or management. e.g., long association of an audit engagement partner or other key engagement personnel with a particular client or a recent former partner or senior staff member of an audit firm serving as CFO or in some other key management role at an audit client
5. Intimidation threat: where an auditor is being intimidated by the overwhelming personality of the directors or managers. e.g., threat of replacement of an auditor over a disagreement on the application of accounting principles.

2.2.8 BENEFITS OF DERIVED FROM AUDIT PRACTICES AS A RESULT OF AUDITOR INDEPENDENCE

1. **Enhancement of Financial Reliability and Credibility**

   One of the major benefits of auditor independence is the enhancement of financial reliability and credibility. When auditors are independent audit, practices becomes credible. Moeller (2015) emphasizes that audits provide assurance on the accuracy of financial statements, which is crucial for stakeholders' decision-making. When an auditor is independent it provides assurance of the credibility of financial statement. In a study by Gray et al. (2016), it was noted that audits reduce the likelihood of financial misstatements, thereby enhancing the overall trustworthiness of financial reporting. Knechel and Salterio (2016) further argue that audit play a vital role in maintaining the quality of financial reporting through rigorous checks and balances. This integrity is not merely about error detection but also about instilling a sense of discipline in financial reporting, as highlighted by Romero (2017). The components of this aspect, including thorough review processes, adherence to accounting standards, and the auditors' professional skepticism, collectively contribute to the financial statements' credibility (Power, 2017). Auditor independence has increased firm's reliability and credibility on audit work.

2. **Detection and Prevention of Fraud**

   The role of audit practices in the detection and deterrence of fraud is a significant benefit of auditor independence. According to Glover et al. (2016), the mere presence of an audit process can act as a deterrent to fraudulent activities within an organization. Trompeter et al. (2017) found that regular and rigorous audits decrease the occurrences of fraud, particularly in areas susceptible to financial misreporting. DeZoort and Taylor (2018) assert that the effectiveness of fraud detection is contingent on the auditor's ability to apply professional judgment and skepticism, in the absence of influence from external source. Furthermore, Cohen and Simnett (2019) discuss the evolving nature of audit practices in adapting to sophisticated fraudulent schemes, thus highlighting the dynamic capability of audits in fraud mitigation. Auditor independence has made audit a reliable means for the detection and prevention of fraud in organizations.

3. Risk Management and Internal Control Enhancement

The study by Romero and Ruiz (2017) illustrates that internal control systems are strengthened through the auditor independence leading to more robust and can best increase risk management and enhance internal control. As noted by Beasley et al. (2016), audits help in identifying and assessing organizational risks, thereby facilitating more effective risk management strategies governance structures. According to Arena and AZ zone (2018), the auditor's role in evaluating and recommending improvements to internal controls is crucial for organizational resilience. These benefits emerge from the auditor's ability to provide objective insights into risk exposures and control effectiveness, thereby aiding in the development of stronger internal control mechanisms (Kinney & McDaniel, 2019).

4. Stakeholder Confidence and Investment Attraction

Auditor independence plays an important role in the enhancement of stakeholder confidence and attracting investments. The research by Cohen et al. (2016) indicates that audited financial statements significantly influence investor’s perceptions and decisions. This sentiment is echoed by Coram et al. (2017), who note that audits serve as a signal of financial health and operational transparency, thus attracting potential investors. In their study, Hay and Knechel (2018) elaborate that the assurance provided by audits enhances the credibility of information provided to stakeholders, thereby fostering trust. This aspect of auditing benefits from the enhanced transparency and accountability that audit provide, leading to a more favorable view from external stakeholders (Graham et al., 2019).

5. **Corporate Governance Strengthening**
   The work of Bédard and Gendron (2016) explained the role of audits in enhancing the transparency and accountability of corporate governance practices. In a related vein, Krishnan and Visvanathan (2017) examined how audits contribute to the effectiveness of governance mechanisms, particularly in the context of board oversight. Further, the research by Gray and Manson (2018) emphasizes the importance of audits in providing independent verification of management's stewardship of resources, a key aspect of good governance. This benefit is rooted in the auditor's role as an independent and objective party, providing assurance on the fairness and accuracy of financial reporting and governance practices (Carcello & Nagy, 2019)

2.2.9 FACTORS AFFECTNG AUDITOR INDEPENDENCE

2.2.9.1 AUDIT FEE:

Agoes (2012) defined audit fees as the amount charged that is determined by a number of factors, including the complexity of the services provided, the risk of the assignment, the level of expertise required to execute the services to a proficient level, the cost structure of the firm, and other professional considerations. When auditors and management debate over the audit fees that should be paid for the work done, there is a chance that a clear mutual concession will be made, lowering the quality of the audited financial statements (Hoitash et al., 2017). Dakhlallh et al. (2021) argued that the level of audit fees could affect the independence of public accountants because the big fee may make accounting firms become reluctant to oppose the will of the management, while small audit fee can limit the time and cost required to perform complete audit procedures that will produce quality audit. Audit fee is a key determinant of audit quality. To reduce the risk of fees from a contract, auditors can fulfill customer requests and even cooperate in fraudulent activities (Gavious, 2007). Research by Douglas (2010) suggests that some audit firms make cutbacks in audit fees in order to retain customers, maintain revenue growth or expand market share, and this may impair the independence of auditors.

2.2.9.2 AUDIT TENURE:

Audit tenure is the period of time an auditor conduct the audit of a client. Longer audit tenure can make the auditor develop a personal relationship with the client. Audit firm tenure is one of the indexes that is expected to constrain earnings management, unlike the proposition that longer auditor tenure impairs auditor independency because of the prior knowledge about the firm's accounting information and the close relationships with the management or owners; whereas auditors experience and knowledge about the client with the length of the audit tenure may lead to higher audit quality (Garcia et al., 2020). These scholars ascertain that longer audit tenure will lead to higher audit quality but this study is against this opinion.

Mautz and Sharaf (1961) have noted that long-term association with the same client can lead to the consequence that the auditor's honesty is not exalted, so if the auditor is retained for more than five years, it will affect and reduce the independence of the audit (Teoh & Lim, 1996). Dopuch et al. (2001) found that auditors are less likely to impose an audit result that benefits the client if the audit term is short, creating a basis for the client to improve the quality of financial reporting. Wilson et al. (2018) observed that too much familiarity could retrogressively impact the performance of the audit team which in turn negatively affects auditor's independence.

2.2.9.3 AUDIT ROTATION:

Audit rotation and audit tenure are similar but there is a slight difference. Audit tenure has to with the period an auditor serves a particular firm, while audit rotation is the compulsory/ mandatory replacement of an auditor after a specific period of time. In a study carried out on audit firm rotation by Corbella et al. (2015), several countries presently have mandatory audit firm rotation guideline; Italy has required audit firm rotation since 1975, Brazil since 1999, and Singapore has required audit firm rotation for local banks since 2002.

2.2.9.4 NON-AUDIT FEE:

An essential income generated which is originated to a large extent by audit client for non-audit services provided by external auditors for a client or a firm is known as non-audit fee. Mark and Don (2010) see non-audit fees as other related fee which they see in general as; assurance and related services (e.g., due diligence services) that traditionally are performed by the independent accountant. The non-audit fees are; the sum of Audit Related Fees, Benefit Plan Related Fees, FISDI Fees, Tax Related Fees and Other/Misc Fees.

According to Mark and Don (2010) non-audit fees are analytically as;

1. Benefit Plan Related Fees: these fees compose part of the total audit related fee. In cases where the registrant itemizes their audit related fees and discloses the fees associated with benefit plan audits, the benefit plan fees are subtracted from the total audit related fees and entered under this field.
2. FISDI Fees: Financial Information Systems Design and Implementation related fees. Currently the principal accountant is prohibited from rendering this service. With the implementation of SEC Rule 33-8183, with an effective date of May 6, 2003. These fees were now reclassified as part of or component of other fees.

3. Tax Related Fees: Typically, these categories would include fees for tax compliance, tax planning and tax advice. Tax compliance generally involves preparation of original and amended tax returns, claims for refund and tax payment-planning services.
4. Other miscellaneous auditor fees: (Note that prior to the implementation of SEC Rule 33-8183, with an effective date of May 6, 2003 and a corrected March 31, 2003, this category included tax related fees and audit related fees). An auditor who earns more income in non-audit services whether tax related fees, benefit plans related fees, FISDI fees and other miscellaneous fees would usually give higher attention to the provision of such services compare to when he earns little or nothing.

2.2.9.5 AUDIT FIRM SIZE:

Audit firm size can positively or negatively affect auditor independence, thereby reducing or increasing earnings management. Becker et al. (1998) argue that big six auditors are better able to detect earnings management because of their superior knowledge, and act to detect and report earnings management in order to protect their reputation. Krishnan (2003) argues that large audit firms have greater incentives to protect their reputation due to their larger client base, and therefore higher risk to lose clients. Becker et al. (1998) and Francis et al. (1999) report a negative effect of big six auditors on earnings management. Yet, Bédard et al. (2004) and Davidson et al. (2005) fail to report such an effect. Nevertheless, Lin and Hwang (2010) argue that there is a negative relationship between the big 4/5/6 and earnings management.

2.3 EMPIRICAL REVIEW

This section is summary on; authors year of study, objective of study, methodology, findings.

AUDITOR INDEPENDENCE AND EARNINGS MANAGEMENT

Al-Begali and Phua (2023) characterize Earnings Management as any managerial action impacting reported income without providing genuine economic advantages to the organization, and may, in the long term, be detrimental. Garanina (2023) offers a distinct perspective, defining it as a strategic intervention in the financial reporting process, encompassing disclosure management. Cook (2023) defines Earnings Management as any effort to manipulate financial accounting reports to a predetermined desired level.

Hasibuan and Pangaribuan (2023) posit auditor's independence as the likelihood that an auditor will not issue an unqualified report for statements containing errors, whether intentional or inadvertent.

According to Rahman et al. (2023), larger audit firms like the Big 4 are considered less financially dependent on any single client, reducing the likelihood of succumbing to client pressure to overlook accounting irregularities. Chen et al. (2023), a substantial body of prior empirical studies has consistently documented a positive relationship between auditor size and various proxies for audit quality. Conversely, Hossain and Wang (2023) reported a positive association between financial reporting quality (discretionary accruals) and audit fees, challenging the belief that audit fees erode independence.

In Nigeria, previous studies have revealed varying findings of relationship that exist between earnings management and auditor independence at different periods. Using Fourteen (14) listed oil marketing companies that had consistently published their audited annual financial reports from 2011 to 2020, Orbunde, et al. (2021) study investigate the effect of audit independence on earnings management represented by discretionary accruals of listed oil marketing companies in Nigeria. Pooled Ordinary Least Square (OLS) regression technique was used by the study to examine data and the findings indicated a mixed result of the variables.

David et al., (2008) examine the effect of auditor independence on amount spent on non-audit services in relation to earrings management. A secondary data with descriptive statistics of about 29 firms from 1995 to 2001 were adopted on cross-sectional basis with Jones model 1991. They found out that period measured in terms of time and client's importance is significant. Positively relates the study shows a positive effect on non-audit, long auditor tenure and earnings management. This research was carried out in New Zealand which is a developed country though with smallness in global market. Unlike Nigeria which is developing there might be slight differences if it is carried out in Nigeria.

Setiawanetal (2019) did a work on the effect of IFRS adoption on earnings management and the moderating role of corporate governance: evidence from Bangladesh. Discretionary accrual and a regressive model were used in Indonesia. It was that audit quality has a significant positive association with discretionary accrual which is earnings management. (Abata and Migiro, 2016) effect of corporate governance on earnings management using empirical evidence from selected Nigeria listed companies. 24 listed companies were selected from 2 sectors of 63 examined companies' between 2008 and 2013. Multiple regression tools were used and panel data analysis was employed. It was found out that corporate governance have not helped to address earnings management.

Gandia and Huguet (2020) did a study on audit fee and earnings management using descriptive statistics with a database that contains financial information of Spanish companies. The sample period runs from 2009 to 2018. The assumption that these companies are voluntarily audited is under probable situation since their criteria are more common for larger companies with a sample of 30,548 observations for mandatory audits. Their result considering abnormal fees shows that the significance of voluntary Audit disappears, while the effect of abnormal audit fees on the level of earnings management ids significantly negative.

Antonio and Arguimedes (2016) did a study on the relationship between auditor's fee and earnings management as a proxy of audit quality in the Brazilian market, a sample of 300 large firms were measured . panel data analysis were employed and the Ordinary Least Square (OLS) and logistics regression were employed, they concluded that more aggressive earnings occur predominantly among firms that pay less than expected for audit services and there is implication for members of audit committee and senior management in general for negotiation of audit fee though tempting for managers t contract an auditor willing to accept lower fee which makes auditors cut corners in performing services; which implies negative and insignificant impact on audit quality.

Caitlin et al., (2004) it investigated the extent to which non-audit services and earnings management are related. Modified Jones model was adopted with a sample of Australian Stock Exchange listed firms from 1993 to June 2000 and a secondary data of 1936 firms. There is a positive relationship between abnormal accrual as well as in test confirmed but no evidence was found for non-audit services. The result in this study was country specific and there was no enough data for perfect data usage. However, it was carried out by researchers in South Wales University in Australia: a better result might be gotten if conducted in Nigeria.

Hassan and Wan (2015) examined non-audit services, audit firm tenure and earnings management secondary data with descriptive statistics was adopted and Jones model of 1991 was employed with a sample of 525 companies for the year 2009 Jones model was modified on discretionary accrual with an estimate level of earnings management and current accrual based on performance adjusted model developed by Asbaugh, Lafond and Mayhew (2003) it was found out that longer audit tenure reduces earnings management but the magnitude of non-audit fees worsen earnings management which had a negative implication on the independence of the auditors involved. This study was done in

Malaysia where non-audit services done by auditors is not prohibited compared t the United Kingdom and other developed and developing countries like Nigeria. The true effect will be felt when this is carried out in counties where this practice has been forward at.

Tyoakosu and Ekpe (2018) investigated the effect of creative accounting on the performance of deposit money banks in Nigeria and the used a sample consisting of five (5) deposit money banks in for the period of ten years from 2007-2016. The outcome of the study using multiple regressions established that, non- performing loans do not significantly affect banks performance. It also revealed that total accrual has no significant effect on the performance of Nigeria deposit money banks while gross earnings has a significant positive effect on the performance of Nigeria deposit money banks.

Outside Nigeria, Alexandri and Anjani (2014) determined the factors that affected income smoothing with a sample of 10 private foreign exchange national banks that were listed on the Indonesian Stock Exchange (IDX) for the years 2009 to 2013 with a sub-sample of 50 financial reports. They adopted Eckel Index (1981) model to measure income smoothing, where net profit after tax was an income smoothing object. In addition data were tested panel data analysis techniques while simultaneous test (F-test) and partial test (t-test) were used to identify factors that affected income smoothing. One of the findings of the study revealed that firm profitability had a significant effect on income smoothing.

Kamalnejad and Salteh (2014) tested the effect of income smoothing on the transparency of financial information, stock returns and the cost of equity. The study specifically investigated whether income smoothing had a significant impact on the transparency of financial information, stock returns and the cost of equity in all listed companies in Tehran Stock Exchange from 2007-2011. The study covered a total of one hundred and thirteen (113) and adopted Eckel model to measure income smoothing. The outcome of the study indicated that in 95% of confidence level, income smoothing has no significant effect on the transparency of financial information and return on equity, but it has significant effect on the cost of equity.

Kamau et al. (2012) tested the sharp accounting practices among listed companies in the Nairobi Stock Exchange in Kenya and the study used sixty-four (64) companies. Form the total population, the study selected a sample of thirteen-nine (39) firms for their research and the data were measured on the basis of modified Jones model to estimate discretionary accruals in various sectors. Based on the research findings, the study concluded that there were significant differences in discretionary accruals for various sectors, suggesting that there was a high possibility that manipulative or creative accounting practices could be happening within the various sectors.

2.4 THEORITICAL REVIEW

In this study four theories are examined in an attempt to explain the topic of the paper under review. Our focus will be centered on agency theory and this will be supported by the policeman theory. The theories are; agency theory, policeman theory, opportunistic earnings management theory and positive accounting theory.

2.4.1 Agency Theory

Agency theory is the most widely used theory in accounting, auditing and economies. It has since become a widely used theory in the field of management and social sciences (Ezelibe et al., 2017). Agency theory was delivered by Rose in December 1972 in an economic meeting and was published in proceeding meeting in 1973. It was developed and populated in Jensen and Mackling’s work in 1976. According to agency theory, an agency relationship is a principal-agent relationship which involves delegating decision-making power, which can lead to conflicting interests. As both parties strive to maximize benefits, principals risk agents prioritizes personal gain. The theory notes that in the presence of information asymmetry, the agent is more likely to pursue his personal interest, which may be detrimental to the organization's owners (Sanda et al., 2005). Panda and Leepsa (2017), the major issue with agency is whether the agent (managers, auditors) is performing his assigned responsibilities for the owner or themselves. This theory is relevant to our study because auditors act as agent to shareholders (principals), auditors might also have interests that are conflicting with those of the shareholders. To mitigate potential divergences, the principal can establish appropriate incentives for the agent and incur monitoring costs designed to curtail any deviant activities by the agent, as outlined by Smaili et al. (2023).

2.4.2 THE POLICEMAN THEORY

The policeman theory was considered as most guided theory in auditing by most researchers in 1940s. This theory focuses on the arithmetical accuracy and the detection and prevention of fraud. The theory claims that the responsibilities of auditors was to detect and prevent fraud in a organizations which solely depends on the arithmetical accuracy transparency and accountability and it shows the professionalism of the auditor in analyzing the figures in the financial statement where appropriate. Policeman theory as relating to our study agrees with the view of auditors performing non-audit services such as advisory services, tax computation, consultancy services etc. to their clients. In this way, when tax computation is done by auditors, they are not only doing it to earn fees but to improve the arithmetical accuracy of the financial statement.

The inability to ascertain the truth and fairness (earnings management) of the financial statement when presented by management has led to a change in the duties of auditors. The auditor who gets twice payment (audit fees and non-audit fees) still maintains high quality and integrity while safeguarding the body it represent. This theory supports the aims objective of audit fee, non-audit fee, audit rotation and earnings management.

2.4.3 OPPORTUNISTIC EARNINGS MANAGEMENT THEORY

The roots of opportunistic Earnings Management theory can be traced back to Sari et al. (2023), who posited that managers strategically manipulate accruals to influence bonus income. For example, management may adjust accruals to delay recognizing income when bonus target are unattainable or already exceeded, potentially influencing financial performance. They can accelerate income in other periods, as noted by Nygård and Undall (2023). Havrykiaka (2023) further emphasizes that managers might employ accruals to shift earnings over time with the goal of maximizing long-term bonus income.

2.4.4 POSTIVE ACCOUNTING THEORY

This is a theory explains that actual accounting practices, it explains how accounting works, what it is, it make good prediction of real world happenings and translate them into accounting practices. The practice of positive accounting by managers as an opportunistic behavior through self-interest is at the expense of other stakeholders and their wish to apply accounting standards to maximize company's value is inevitable in this theory. Auditors who are not ignorant of this theory assist management by checking on compensation plan, debt of the company and it immediate or future effect to the books of the company having in mind the size of the organization.

For the purpose of this research, agency theory and policeman theory are the major theories; however, this research will anchor on the policeman theory and second by agency theory.

TABULAR EMPIRICAL REVIEW

This section has been simplified specifically on tabular presentation and summary on; authors year of study, objective of study, methodology, findings and researcher's remark which itemized their contribution to knowledge

S/N	AUTHORS & YEAR	OBJECTIVE & METHODOLOGY	FINDINGS	REMARK(S)
1	Anthonio and Arguimedes (2016)	Objective was to investigate the relationship between audit fee and earnings management. A secondary data with a sample of 300 firms Elvis econometrics software with identified control variables of ordinary least square and logistics regression.	Their findings supported the hypothesis stating that predominately occurs in firms that pay less than normal for audit services.	This study shows the effect of audit fees on earnings management a finding that was based in Brazil which is a developing country like Nigeria but due to certain differences, might not be applicable here except if the study is replicated in Nigeria
2	David et al., (2008)	To examine the effect of auditor independence on amount spent on non-audit services in relation to earnings management. A secondary data with a descriptive statistics of about 239 firms between 1995-2001 were adopted on cross sectional basis with Jones model of 1991	They found out period measured in terms of time and client importance is significant and positively related.	The study shows a positive effect on non-audit fees, long term audit and earnings management. The New Zealand which is a developed country though with smallness in global market. Unlike Nigeria which is developing, there might be slight differences if it is carried out in Nigeria.
3	Hassan and Wan (2015)	They examined non-audit services, audit firm tenure and earnings management secondary data with	It was found out that longer audit firm tenure reduces earnings	This study was done in Malaysia where non-audit services are not prohibited compared to United Kingdom and other developed

		descriptive statistics adopted and Jones model of 1991 was employed with a sample of 525 companies for the year 2009 Jones model was modified on discretionary accrual.	management but the magnitude of non-audit fees worsens earnings management.	and developing countries like Nigeria. The true effect will be felt when this is carried out in countries where the practice is been frowned at
4	Caitlin et al., (2004)	It investigated the extent to which non-audit service and earnings management are related. Modified Jones model was adopted with a sample of Australian Stock Exchange listed firms from 1993 to June 2000 and a secondary data of 1936 firms.	There is a positive relationship between abnormal accruals as well as in test confirmed but no evidence was found for non-audit services	The result in this study country specific and there was no enough data for perfect data usage. However, it was carried out by researchers in South Wales University in Australia: a better result might be gotten if done in a country like Nigeria.
5	Setiawanetal (2019)	Did a work on effect of IFRS adoption on earnings management and on the moderating role of corporate governance: evidence from Bangladesh. Discretionary accrual and a regression model was use in Indonesia.	It was shown that audit quality has a positive association with discretionary accrual which is the earnings management	This research was carried out in Indonesia. This might have a different result when carried out in Nigeria.
6	Gandia and Huguet (2018)	Did a work on audit fee and earnings management. Used the fitted values of regression model and a sample period of 2009 to 2018 financial information data base of Spanish companies. Small	They found out that fees paid by these companies do not affect levels of earning management among voluntary	

		companies excluding unlimited liability and companies from financial and insurance companies.	audit.	

Source: Student Researcher (2021)

CHAPTER THREE

METHODOLOGY

3.1 INTRODUCTION

This chapter gives an overview of the methods, procedures, modalities and the sequential steps that were adopted in this study to ensure that the results of the investigation are dependable and valid. It presents a description of the research design of the study, the population and sampling techniques of the study, sources if data, model specification, operationalization of the variables and data analysis method.

3.2 RESEARCH DESIGN

Research design refers to an arrangement which shows the method of a research thought fitting to the study (Kothari, 2004). The ex-post facto research design was adopted in the study because the study used archival panel data that already exists and cannot be manipulated by the researcher.

3.3 POPULATION AND SAMPLING

The target population of the study comprised of the entire non-financial companies listed on the Nigeria Exchange Group (NGX). As at year ended 2020, there are a total of thirteen (13) non-financial companies listed on the top-tier of the Nigeria Exchange Group. Considering the target population is not too large, the study employs the census sampling technique since sampling the entire population improves data robustness and would be more useful for policy implication and generalization purposes.

However, during the data collection stage, four (4) of the non-financial companies were inevitably excluded due to incomplete data for the five years period covered by the study. Thus, the final sample size of the study became thirty-five (35) non-financial companies quoted in the Nigeria Exchange Group from which amounted to 175 firm-year observations.

3.4 SOURCES OF DATA

The financial data used for the study are secondary in nature and were hand-extracted from the audited annual report of the sampled financial companies as deposited in the libraries of the Nigeria Exchange Group (NGX).

3.5 MODEL SPECIFICATION

To predict the relationship between the selected auditor independence proxies and earnings management, as underpinned in the agency theory, the study adapted the model by Okolie (2014) to suit the focus of this research. The functional form of the model is given thus:

$Y_1 = f$ (Auditor Independence)………… (1)

Where Y_1 is the level of earnings management; while auditor independence as the independent variable is represented by four (4) different but related factors that triggered auditor independence in literature. They include: non-audit fee, audit fees, audit tenure and audit firm rotation.

In line with prior studies (see Magaji et al, 2020; Omoye & Aronmwan, 2013), there are other firm-specific attributes the conventionally influence different organizational outcomes and need to be controlled. For the purpose of the study, we introduced the variable audit firm size, as a control variable, since of bigger firms have more followership and are more likely to prevent scandal by minimizing their engagement in earnings management (Zafar et al, 2020).

The econometric form of the adapted model including the control variable is specified thus:

$EM_{i,t} = \beta_0 + \beta_1 NAF_{i,t} + \beta_2 AFEE_{i,t} + \beta 3 AUDT_{i,t} + \beta_4 AUDR_{i,t} + \beta_5 SIZE_{i,t} + \in_{I,t}$…………(2)

Where;

β_0 = represents the constant

$\beta 1$, β_2 ….. and β_5 = represents the parameters to be estimated

EM = Earnings Management

NAS = Non-audit Fee

AFEE = Audit Fee

AUDT = Audit Tenure

AUDR = Audit Rotation

SIZE = Firm Size

∈ = Error term

t = time

i = individual firms

3.6 VARIABLE DESCRIPTION

3.6.1 DEPENDENT VARIABLE

Based on the approach of Okolie (2014), discretionary accruals will be used to capture earnings management by firms and this will be done using the modified Jone discretionary accruals model (Dechow et al., 1995) based on this wide usage of literature and prediction power. The model is presented in equation 3.

$$\frac{TA\mathrm{it}}{Ait-1} = \alpha 1 \frac{1}{Ait-1} + \alpha 2 \frac{(\Delta REVit - \Delta RECit)}{Ait-1} + \alpha 3 \frac{PPEit}{Ait-1} + \varepsilon it \quad \text{Type equation here.}$$

Where; total accrual (TA) in this study is the difference between net income and net cash flow from operations; total asset (A) is the sum of current and non-current assets; changes in revenue is the difference between revenue in year t and revenue in year t-1; changes in receivables is the differences between receivables in year t and revenue in year t-1; property, plant and equipment (PPE) is the sum of all intangible non-current assets; and the error term is the discretionary accruals.

3.6.2 INDEPENDENT VARIABLES

The broad independent variable of auditor independence was collapsed into four separate variables (audit fees, non-audit fee, audit tenure and audit firm rotation) which have all the bearings with auditor independence in this literature and are all rooted in the client-auditor economic bonding school of thoughts. For example, Asthana and Boone (2012) argues that the provision of non-audit fee increases the economic-ties between the auditor and the client which increases the chances that auditor independence and objectivity may be compromised owing to the monetary gains from engaging in non-audit fee. Similar argument equally holds for high audit fees, long auditor tenure and rotation table 3.1 shows operationalization of the variables.

Table 3.1 Operationalization of variables

Variables	Notation	Types	Measurement	Source(s)	aprior expectation
Earnings Management	EM	Dependent	Modified Jones model of Dechow et al. (1995)	Okolie (2014)	nil
Non-audit Fee	NAF	Independent	Extra services carried out by auditors (tax advisory, Professional and consultancy Services)	Frankel et al	+

Audit Fees	AFEE	Independent	Amount paid for statutory audit services.	Aronmwan and Okafor (2015)	+/-
Auditor Tenure	AUDT	Independent	length of the auditor-client relationship in number of Years Magaji et al.	Magaji et al. (2020)	+/-
Auditor Rotation	AUDR	Independent	Assigned “1” if audit firm changed/switched within 5 Years (), otherwise “0”	Omoye and Aronmwan (2013)	+/-
Firm Size	SIZ	Control	Natural log of total assets	Magaji et al. (2020)	-

Source: Researcher’s compilation

3.7 METHOD OF DATA ANALYSIS

The statistical analyses consist of both univariate and multivariate analyses techniques. Specifically, descriptive analysis and correlation analysis were used to understand the sample characteristics and the associationships among the variables. Also, the panel least square regression technique was used to analyze and test the hypotheses. The rationale for using the panel least square is because the data include properties of both time-series and cross-sectional data (Studenmund, 2014). The Hausman Test was also performed and used to select the more appropriate model between the random effect and fixed effect panel regression.

Different preliminary diagnostic tests were carried out prior to the estimation of the model in order to fulfill the basic assumption of regression. The diagnostics tests include serial correlation, normality, constant residual error test and multicollinearity tests. The analyses were performed using EViews version 10 econometrics computer software.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSES

4.1 INTRODUCTION

The study performed the statistical analysis that forms the basis for the empirical evaluation of the study. This is following by the estimation of the relationships between the dependent variable and the explanatory variations.

4.2 DATA PRESENTATION

The five year panel data spanning 2020-2024 were sourced from the annual audited reports of the sampled firms. Various regression assumption tests were conducted to check the suitability of the regression data. The results are presented in this section before the regression estimate.

Table 4.1 Descriptive Statistics

	EM	NAF	AFEE	AUDT	AUDR	SIZE
Mean	-0.03913	17506.0	174261.6	4.297143	0.160000	18.54395
Median	-0.08271	67635.00	38250.00	4.000000	0.000000	17.59584
Maximum	4.189564	1960000	1179881	11.00000	1.000000	23.06357
Minimum	-0.95536	0.00000	800.000	1.000000	0.000000	14.18928
Std Dev	0.537381	320448.5	266204.2	2.593702	0.367658	2.441101
Skewness	4.321075	3.577614	1.850062	0.548975	1.854852	0.365584
Kurtosis	31.06905	16.75264	5.407600	2.371657	4.440476	1.757124
JB	6289.489	1752.423	142.0960	11.66891	115.4772	15.16190
Prob	0.000000	0.000000	0.000000	0.002925	0.000000	0.000000
Sum	-6.8469	30636729	30495788	752.0000	28.00000	3245.191
Sum Sq Dev	50.24746	1.790000	1.234536	1170.549	23.52000	1036.862

Obs	175	175	175	175	175	175

Source: Eviews 10, 2025

From Table 4.1, the mean value for discretionary accruals for earnings management (EM) showed a negative value of -0.3913 which means that, taken together, the sampled companies utilised more of income-decreasing earnings management practices within the 5-year period covered by the study. However, the maximum value of 4.19 is suggestive that some of the companies employed the income-increasing earnings management practices. The positive standard deviation far from the mean value which suggests that a large chunk of the sampled firms practiced value-increasing EM activities.

Further, the variable of NAF stands for the amount paid by the companies to their auditors for non-audit consultancy and tax advisory services, apart from the statutory audit functions. The mean value of 175067.0 means that, on the average, the sampled firms paid up to N175,067,000 for the non-audit services to their auditors. The maximum value of NAF shows that the highest amount paid as non-audit fees by the sampled companies within the studied period is N1,960,000,000; while the minimum value of zero means that not all the sampled firms paid or disclosed non-audit fees, similarly, the AFEE shows that the average audit fees paid by the sampled companies is about N174,262,000. When compared to the mean value of NAF within the same period, it then means that, taken together, the sampled companies paid slightly more for non-audit services than they paid for the actual statutory audit services. The minimum value of AFEE showed that one of the sampled companies (Universal insurance), in some of the studied years (2016 and 2027), paid as low as N800, 000 as audit fee. Also, the variable of AUDIT has a mean value of 4.297 which signifies that the average tenure of the external auditors among the sample is about 4 years. The average of AUDT also has minimum and maximum values of 1.0 and 11.0 respectively which implies that some of the sampled firms engaged the audit firms for only a single year while the services of some audit firms were retained for up to 11 years at a stretch, which violates the 10-year maximum period stipulated by the regulatory body. Also, on the auditor rotation, the mean of AUDR suggests that about

16% of the sampled financial companies actually switched their auditors within the 5-year period under review. The mean value of SIZE represents the average natural log of total assets of the entire sample.

On the distribution of the data set, the skewness measures the asymmetry of the data set while the kurtosis measures the peakedness/flatness of the distribution. The result showed that all the variables are positively skewed and observed to have positive kurtosis indicating that the variables are leptokurtic in behavior and are heavily tailed with sharp peak curve. The probability values of Jaque-Berra tests suggest that the individual variables did not pass the normal distribution.

4.3. CORRELATION ANALYSIS

To examine the background behavioral patterns of the data se and to understand the relationship among the variables, the bivariate correlation matrix was conducted. The correlation coefficient signifies the degree of association between variables of the study and also helps in detecting whether or not there is any concern for multicollinearity, especially if there is issue of high correlation.

Table 4.2: Correlation Results

Correlation Probability	EM	LN_NAF	LN_AFEE	AUDT	AUDR	SIZE
EM	1.000000 ------					
LN_NAF	-0.043138 0.5708	1.000000				

LN_AFE E	0.153666 0.0423	0.207007 0.006	1.000000 -------			
AUDT	0.156162 0.0390	- 0.010151 0.8939	0.476515 0.000	1.000000 ------		
AUDR	-.041036 0.5898	0.020294 0.7898	- 0.080779 0.2878	- 0.556394 0.000	1.000000 ------	
SIZE	0.088556 0.2439	0.142542 0.0599	0.831000 0.0000	0.429488 0.000	- 0.035753 0.6385	1.00000 0 ----------

Source: Eview 10 Output, 2025

From the correlation matrixes of the variables presented in Table 4.2, it can be observed that a positive correlation exists between the dependent variable (EM) and the explanatory variables employed in this study. LN_AFEE (r=0.154), AUDT (r=0.156) and SIZE (r=0.089), while the other explanatory variables of LN_NAF (r=-0.043) and AUDR (r=-0.041) have negative relationship with the earnings management proxy (EM). This can be interpreted to mean that, on the one hand, the variables of LN_NAF and AUDR move in the opposite direction with EM, meaning that higher levels of non-audit fees and auditor switch are associated with lower levels of discretionary accruals. On the other hand, the variables of LN_AFEE, AUDT and SIZE all move in the same direction with EM, meaning that higher audit fees, longer auditor tenure and large firms levels are most likely associated with higher levels of discretionary accruals. However, despite these interpretations based on the correlation coefficient signs, not all the relationships are statistically significant. On that, it can be observed that only two of the variables, LN_AFEE and AUDR have significant relationship with the EM owing to their low probability values of 0.0423 and 0.039 respectively.

Overall, what this result suggests is that higher level of audit fees is associated with higher level of discretionary accruals, which implies lower earnings and financial reporting quality. Similarly, the result also implies that longer auditor tenure is associated with higher level of discretionary accruals, which also means lower earnings and reporting quality. It also be observed from the results that there are no really no high-correlations among the variables which would have been a sign of multicollinearity problem. The higher correlation of 0.83 between SIZE and LN_AFEE suggests that the problem of multicollinearity is likely not present among the distribution. Hair (2010) suggests that a multicollinearity problem is likely to be present when the correlation coefficient is up to 0.90.

4.3 REGRESSION ANALYSIS

The outcome of the panel regression equation specified in the previous chapter is analysed, interpreted and discussed in this sub-section. The aim is to establish the significance of individual coefficients for the purpose of testing the research hypotheses.

4.4 Result of the Random Effect Panel Regression

Variables	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.127899	0.277600	-0.460731	0.6456
LN_NAF	0.033952	0.024939	1.361400	0.1752
LN_AFEE	0.178272	0.061235	2.911281	0.0041
AUDT	0.025892	0.018631	1.389706	0.1664
AUDR	-0.083919	0.115623	-0.725795	0.4690
SIZE	-0.098319	0.038779	-2535392	0.0121

Source: Eview 10 Output, 2025

Effects Specification			
Cross-section random		0.00000	0.0000
Idiosyncratic random		0.448267	1.0000

Weighted Statistics			
R-squared	0.063404	Mean dependent var	-0.039125
Adjusted R-squared	0.035694	S.D. dependent var	0.537381
S.E of regression	0.527703	Sum squared resd	47.06158
F-statistic	2.288127	Durbin-Watson stat	1.546346
Unweighted Statistics			
R-squared	0.063404	Mean dependent var	-0.039125
Sum squared resd	47.06158	Durbin-Watson stat	1.546346

The regression summary above captures the relationship between the selected auditor independence variables and the earnings management proxy among the sampled listed financial firms in Nigeria. The estimation output appears robust and fit for policy formulation as indicated by the R-square, the value of 0.0634 indicate a poor explanatory power of the model, which means that there are many drivers of the earnings management proxy that are not captured by our model. Particularly, the result shows that the explanatory variables, taken together, explain about 6.3% of the variations in the dependent variable (EM). The adjusted R-square which measures the explanatory power of the model after adjusting for the degree of freedom showed 0.0357 meaning that about 96% of the variance in the dependent variable was not explained by the explanatory variables. The F-statistics is reported to be 2.288 and the corresponding p-value of 0.048 is within acceptable level of significance (<0.05) meaning that there is a linear relationship between the dependent variable and the independent variables taken together, and the overall model is significant and considered linear.

On the performance and contributions of the individual variables to the variances in the dependent variable (EM), the result shows that the coefficient of non-audit fees (LN_NAF) is observed to be positive. This signifies that an increase in LN_NAF will likely lead to increase in EM. Specifically, a one-unit increase in LN_NAF will lead to an increase in EM likelihood by up to 0.3 per cent. However, the p-value of 0.175 is observed to be greater than the 5% level indicating that the relationship between LN_NAF and EM is not statistically significant. On the other hand, the variable od audit fees (LN_AFEE) is found to be positive which suggests a possible positive impact of AFEE on the likelihood of EM. Thus, a change in LN_AFEE by one unit will lead to a corresponding change in EM by about 18%. Therefore, an increase in audit fee would likely lead to an increase in the level of discretionary accruals. Further checks on the probability value showed that the relationship is statistically significant at the 1% level of significance given that its p-value of 0.004 is less than 0.01. thus, it can be said that a significant positive relationship exists between audit fee and discretionary accruals, as proxy for earnings management.

Further, the coefficient of the auditor tenure variable is observed to be positive signifying that higher AUDT may likely increase the EM likelihood. Going by the coefficient units. Thus, increased AUDT will further cushion the likelihood EM by the value of its means that the relationship between AUDT and EM is observed to be non-significant at the 5% level. On the variable of auditor rotation (AUDR), the result showed in possesses a negative coefficient. This suggests that more frequent AUDT woyld negatively influence the likelihood of its coefficient (-0.08). however,this relation is also observed to be statistically non-significant at all the three three typical levels of significant going by the high probability value of 46.9%. and lastly on the control variable of SIZE, the result showed in has a negative coefficient implying that the larger the financial company, the lower the degree of discretionary accrual and implicationally, the likelihood of earnings management.

4.4 TEST OF HYPOTHESIS

The four null hypotheses formulated in the study are tested in this subsection. The t-statistic and probability values obtained from the regression result in Table 4.8 were used for the hypotheses testing. The decision rule is to accept the null hypothesis when the calculated t-statistic is lower than the t-critical value. The t-critical value is 1.97 at 174 (n-1) degree of freedom (2-tailed) at 0.05 (95%) level of significant. Or alternatively, the null hypothesis will be accepted if the p-value is greater than 0.05 or we reject the null hypothesis if the p-value is less than 0.05.

Hypothesis One: *There is no significant relationship between non-audit fees and earnings management*

In testing this hypothesis, a look at regression Table shows that the variable of NAF has a low t-test value of 1.36 which is lesser than the t-critical value of 1.97 degree of freedom at 5% level of significance. Thus, the null hypothesis cannot be rejected, meaning that there is no significant relationship between non-audit fees and earnings management.

Hypothesis Two: *There is no significant relationship between auditor fees and earnings management.*

From the regression results, it can be observed that variable of AFEE has a high t-statistic value of 2.91 which is greater than the t-critical value of 1.97 at 174 degree of freedom at 5% level of significance. Based on our decision rule, there is enough evidence to reject the null hypothesis as provided by the results. This means that, a significant association exists between auditor fees and EM.

Hypothesis Three: *There is no significance relationship between audit tenure and earnings management.*

Based on the given information: t-statistic value: 1.39, p-value: 0.166, t-critical value: 1.97, Degree of freedom: 174, and Significance level: 5% (0.05). Since the p-value (0.166) is greater than the significance level (0.05), we fail to reject the null hypothesis.

Therefore, we fail to reject the null hypothesis that there is no significant relationship between audit tenure and earnings management. In other words, based on the sample data, there is insufficient evidence to suggest a significant relationship between audit tenure and earnings management at a 5% significance level.

Hypothesis Four: *There is no significant relationship between audit firm rotation and earnings management*

On the basis of the following results from the regression output: t-statistic value: 0.726, p-value: 0.469, t-critical value: 1.97, and Significance level: 0.05. Decision Rule is that: If the p-value is less than the significance level (0.05), reject the null hypothesis. Otherwise, fail to reject the null hypothesis. Since the p-value (0.469) is greater than the significance level (0.05), we fail to reject the null hypothesis. Therefore, the decision is: we fail to reject the null hypothesis that there is no significant relationship between audit firm rotation and earnings management. In other words, based on the sample data, there is insufficient evidence to suggest a significant relationship between audit firm rotation and earnings management at a 5% significance level.

4.5 DISCUSSION OF FINDING

The outcome of the first hypothesis test shows that the variable of non-audit fees is positively related to our variable of interest, discretionary accruals, but not statistically significant during the period covered by the study. This led to the acceptance of the first hypothesis. Despite not being statistically significant, the positive coefficient sign is suggestive that high level of non-audit fees may likely increase the likelihood of earnings management, but the impact is not relevant owing to the large p-value. This result is consistent with the economic bonding school of thoughts which suggest that the provision of non-audit services increases the economic-ties between the auditor and the client. Therefore, the chance that the auditor's independence and objectivity would be compromised becomes high owing to the monetary gain from engaging in non-audit services. Empirically, the result is similar to those of Steven et al(2008) which argue that high non-audit fees increases the auditor's dependence on clients which might reduce auditor independence. However, their result did not provide any support for a strong relationship between non-audit fee growth rates and discretionary accruals. The result also corroborates that of Ijaz (2019) whose study showed insignificant nexus between non-audit fees and discretionary accruals using the pool regression model.

On the second hypothesis, the result showed that the variable of audit fees has a strong positive relationship with discretionary accruals. This is due to the small p-value of 0.0041 which is considered significant at 1% level and thus led to the rejection of the null hypothesis two. The implication of this result is that firms that pay high audit fees are strongly associated with high likelihood of earnings management. The result also has practical interwoven implications because accrual management is at the discretion of the management and it is usually difficult to detect, meaning that the auditor will spend more time in such audit assignment leading to high audit fees. The result corroborates the argument of Eshleman and Gno (2013) and Hallak and Silva (2012) that auditors who receives abnormally high audit fees most likely lose their independence and may allow managers to engage in questionable accounting practices. Hence, clients with strong incentives to aggressively manage earnings may succumb to abnormally high audit fees in order to compromise the auditor. Empirically, the result supports that of Ashtana and Boone (2012) which found evidence that audit quality is reduced when positive abnormal audit fees are higher. The result equally tallies with that of Ijaz (2019) which found a strong positive relationship between audit fees and discretionary accruals among Finnish quoted firms.

On third and fourth hypotheses, the findings of suggest that there is no significant relationship between audit tenure and earnings management, as well as between audit firm rotation and earnings management. These findings contradict the results of previous studies that have found a significant relationship between audit tenure and earnings management (Myers et al, 2003; Johnson et al, 2002). For example, a study by (Myers et al, 2003) found that longer audit tenure is associated with higher earnings management. However, our findings are consistent with other studies that have found no significant relationship between audit firm rotation and earnings management (Chi & Huang, 2005; Fung et al, 2012). A study by Chi and Huang (2005) found that audit firm rotation does not have a significant impact on earnings management. The findings of this study have important implications for audit regulators and policymakers. They suggest that audit tenure and audit firm rotation may not be effective mechanisms for reducing earnings management. Instead, other mechanisms such as audit committee effectiveness and internal control quality may be more important in reducing earnings management (Abbott 2004; Doyle et al, 2007).

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 INTRODUCTION

The chapter presents the summary of the entire study, draws the final conclusion, makes policy recommendations, presents contributions to knowledge and suggests areas for further study

5.2 SUMMARY OF FINDINGS

Based on the outcome of the study in relation to the specific objectives, the major findings of the study can be summarised as follows:

1. Non-audit fee has a non-significant positive relationship with the discretionary accruals measure of earnings management.
2. Audit fee has a significant positive relationship with the discretionary accruals.
3. Auditor tenure was found to have a positive and non-significant relationship with the discretionary accruals.
4. Audit firm rotation was found to have a negative, but non-significant relationship with discretionary accruals.

5.3 CONCLUSION

In conclusion, this study has provided evidence on the relationship between audit tenure, audit firm rotation, and earnings management. The findings suggest that there is no significant relationship between audit tenure and earnings management, as well as between audit firm rotation and earnings management. These findings have important implications for audit regulators and policymakers, suggesting that audit tenure and audit firm rotation may not be effective mechanisms for reducing earnings management.

Instead, the findings suggest that other mechanisms such as audit committee effectiveness and internal control quality may be more important in reducing earnings management. Therefore, regulators and policymakers should focus on improving these mechanisms to enhance the quality of financial reporting. The study's findings also contribute to the existing literature on audit quality and earnings management, providing new insights into the relationship between audit tenure, audit firm rotation, and earnings management. Overall, the study's findings have important implications for audit practice, regulation, and research.

5.4 RECOMMENDATIONS

The results from the empirical analysis provide strong background and implications so as to allow for certain policy and practical recommendations for policy makers. Some recommendations are keenly articulated below;

1. Although the variable of non-audit fees was found not to have any meaningful impact on earnings management proxy, the observed large portion of non-audit fees in the regression results still raise questions over the incentives and independence of the concerned auditors. There is need for regulations on the minimum amount a company must not exceed when engaging auditors for non-audit services, especially when the latter is still contractually engaged in statutory audit.
2. Similarly, our data gathering experience show that some companies pool the fee they pay for non-audit services with other professional consultancy fees which makes it difficult to detect the portion of the cost that was expended on which. Thus, regulatory bodies should regulate allowable non-audit services and also mandate companies to separately report the amount they paid as non-audit fees in the annual reports among the administration and operational expenses.
3. The variable of audit fees has a significant positive impact on earnings management, meaning that undermine independence. As such, the regulatory

authorities should make policies that would lead to the pegging of what an appropriate audit fees should be, based on factors like industry type, a and size of the firm. This will go a long way in reducing the cases of companies paying abnormal high of too low audit fees.

4. The variable of audit tenure did not have any significant effect on the earnings management. Therefore, this study recommends that a 10 years maximum tenure ship for external auditors should be sustained and compliance should be strictly monitored among firms.
5. The variable of audit firm rotation was found as a non-significant driver of earnings management. Therefore, relevant should device other measures to tackle the issue of earnings manipulation.

5.5 CONTRIBUTION TO KNOWLEDGE

This study contributes to the existing body of knowledge on audit quality and earnings management in several ways:

1. Extends existing literature: This study extends the existing literature on the relationship between audit tenure, audit firm rotation, and earnings management by providing new evidence from specific context or industry.
2. Provides new insights: The study's findings provide new insights into the mechanisms that drive earnings management, highlighting the importance of audit committee effectiveness and internal control quality.
3. Challenges existing assumptions: The study's findings challenge existing assumptions about the relationship between audit tenure and earnings management, suggesting that longer audit tenure may not necessarily lead to higher earnings management.
4. Informing policy and practice: The study's findings have important implications for audit regulators, policymakers, and practitioners, highlighting the need to focus on improving audit committee effectiveness and internal control quality to enhance the quality of financial reporting.

5. Overall, this study contributes to the advancement of knowledge on audit quality and earnings management, providing new insights and challenging existing assumptions.

5.6 RECOMMENDATIONS FOR FUTURE RESEARCH

1. Future research should investigate the impact of audit committee effectiveness and internal control quality on earnings management.
2. Additionally, researchers should explore other mechanisms that can improve audit quality and reduce earnings management.

REFERENCES

Abbott, L. J., Parker, S., & Peters, G. F. (2004). Audit committee characteristics and restatements. Auditing: A Journal of Practice & Theory, 23(1), 69-87.

Adhikari, A., Derashid, C., & Zhung, H. (2005). Earnings management to influence tax policy evidence from large Malaysian firms. *Journal of International Financial Management and Accounting 16:2, 145- 163.*

Akers, M. D., Giacomino, D. E., & Bellovary, J. L. (2007). Earnings Management and Its Implications: Educating the Accounting Profession. . *CPA Journal* *http://www.nysscpa.org/cpajournal/2007/807/essentials/164.htm*

Agoes, S. (2012) *Auditing (Accountants Examination) by Public Accounting Firm (3rd Ed.).* Jakarta: Faculty of Economics, University of Indonesia.

Aifuwa, H. O., Embele, K., & Saidu, M. (2018). Ethical Accounting Practices and Financial Reporting Quality. *EPRA journal of multidisciplinary studies, 15(2); 119-210.*

Akpom, U. N., and Dimkpah, Y. O. (2013) Determinants of auditor independence: comparison of the perceptions of auditors and non-auditors in Lagos, Nigeria. *Journal of Finance & Accountancy. http://www.aabri.com/manuscripts/131506.pdf (Accessed: 28 February 2018).*

Al-Begali, S. A. A., & Phua, L. K. (2023). Accruals, real earnings management, and CEO demographic attributes in emerging markets: Does concentration of family ownership count?. *Cogent Business & Management, 10(2), 2239979.*

Alexandri, M.B. & Anjani, W. K. (2014). Income smoothing, impact factors, evidence in Indonesia. *International Journal of Small Business and Entrepreneurship Research, 3(1): 21-27.*

Alfa Tahir, F., & Zainol Ariffin, Z. (2014). Measuring Nigerian stakeholders' perceptions Of auditor independence: A proposed framework. *Asian Social Science, 10(14), 81-92.*

Aljifri, K. (2007). Measurement and motivation of earnings management: A critical perspective. *Journal of Accounting-Business and Management 14, 75-95. Guardian, Dec: 12.*

Amar, A. B., & Abaoub, E. (2010). Earnings Management Thresholds. Asian Academy Of Management. *Journal Of Accounting And Finance Vol.6, No.2, 35-56.*

Arena, M., & Azzone, G. (2018). The internal audit function: An integral part of organizational governance. *International Journal of Auditing, 22(1), 42-55.* *https://doi.org/10.1111/ijau.12106*

Arens, R., Alvin A., Shailer, G. & Fielder, B. (2011) *Auditing, Assurance Service and Ethics* in Australia. *8th Edition.* Pearson Australia.

Aschauer, E., & Quick, R. (2018). Mandatory audit firm rotation and prohibition of audit firm-provided tax services: Evidence from investment consultants' perceptions. *International Journal of Auditing, 22(2), 131–149.*

Austin, E. and Herath, s.k. (2014) Auditor independence: a review of literature, *International journal of Economics and Accounting, 5(1), pp.62-74*

Bahram, S. (2007) *Auditing_ An International Approach -Trans-Atlantic Publications, Inc.*

Bankole, K. O., Ukolobi, I. O. & McDubus, O. F. (2018).Creative accounting practices and shareholders' wealth. *Accounting and Taxation Review, 2(4): 58-74.*

Beasley, M., Carcello, J., Hermanson, D., & Neal, T. (2016). The audit committee oversight process. *Contemporary Accounting Research, 33(1), 406-435.* *https://doi.org/10.1111/1911- 3846.12138*

Beck, P., Frecka, T. and Solomon, I. (1988). A model for the market for MAS and audit service: knowledge spillovers and auditor-auditee bonding. *Journal of Accounting Literature, 7(1), p. 50- 62.*

Becker, C.L., Defond, M.L., Jiambalvo, J. and Subramanyam, K.R. (1998). The effect of audit quality on earnings management. *Contemporary Accounting Research, 15, p. 1-24.*

Bédard, J., & Gendron, Y. (2016). Strengthening the financial reporting system: Can audit committees deliver*? International Journal of Auditing, 20(2), 174-199.* *https://doi.org/10.1111/ijau.12066*

Bédard, J., Chtourou, S.H. and Courteau, L. (2004). The effect of audit committee expertise, independence and activity on aggressive earnings management. *Auditing: A Journal of Practice & Theory, 23, p. 13-35*

Bergstresser, D., Philippon, T., (2006). CEO Incentives and Earnings Management. *Journal of Financial Economics 80. 511-529*

Bhasin, M.L. (2016). Survey creative accounting practices: An exploratory study of an Asian market. *International Journal of Management and Social Sciences Research (IJMSSR), 5(9): 29-41*

Bonu, N. S., &Kitindi, E. G. (2015). Research on Professional Responsibility and Ethics in Accounting. *Emerald insight journal, 4(2); 129-146*

Boynton, W. C., Johnson, R. N., & Kell, W. G. (2016). *Modern auditing: Assurance services and the integrity of financial reporting (8th ed.).* John Wiley & Sons.

Causholli, M., Chambers, D. J., & Payne, J. L. (2015). Does selling non-audit services impair auditors independence? New Research says "Yes." *Current Issues in Auditing, 9(2), 1–6.*

Chen, C. S., Chen, I. S., Yang, T. C., & Huang, C. Y. (2023). Exploring the departure of audit-partners from Big4 to small-sized audit firm: *Perception from stock market investors.*

Chen, J. Z., Elemes, A., & Lobo, G. J. (2023). David versus Goliath: The relation between auditor size and audit quality for UK private firms. *European Accounting Review, 32(2), 447-480.*

Chen, M. C., & Tsai, Y. C. (2010). Earnings management types and motivation: A study in Taiwan. *Social Behavior and Personality 38(7), 955-962.*

Chi, W., & Huang, H. (2005). Discretionary accruals, audit-firm tenure, and audit-partner tenure: Empirical evidence from Taiwan. Journal of Contemporary Accounting & Economics, 1(1), 1-23.

Chung, J., Smith, A., & Wang, L. (2021). "Assessing Auditors' Independence: A perspective on objectivity and impartiality on audit conduct." *Journal of Accounting Ethics & Integrity, 15(2), 78-94.*

Cohen, J., & Simnett, R. (2019). The effectiveness of fraud detection instruments in auditing. *Journal of Accounting Research, 57(3), 725-758*

Cohen, J., Krishnamoorthy, G., & Wright, A. (2016). Corporate governance in the post-Sarbanes Oxley era: Auditors' experiences. *Contemporary Accounting Research, 33(3), 1210-1246.* *https://doi.org/10.1111/1911-3846.12209*

Cook, R. K. (2023). *Fascist constructs: Economics, aesthetics, and the making of a new via Roma* in Turin (Doctoral dissertation, University of California, Berkeley).

Coppens, L., & Peek, E. (2005). An analysis of earnings management by European private firms. *Journal of International Accounting, Auditing and Taxation, 1-17.*

Coram, P., Mock, T. J., Turner, J., & Gray, G. (2017). The communicative value of the audit report. *Australian Accounting Review, 27(3), 284-303. https://doi.org/10.1111/auar.12149*

Corbella, S., Florio, C., Gotti, G., & Mastrolia, S. A. (2015). Audit firm rotation, audit fees and audit quality: The experience of Italian public companies. *Journal of International Accounting, Auditing and Taxation, 25, 46–66.*

Cowton, C.J. (2009). Accounting and the ethics challenge: re-membering the professional Body. *Accounting and Business Research, 39(3); 177-189.*

Daghsni, O., Zouhayer, M., & Mbarek, K. B. (2016). Earnings Management and Board Characteristics*: Evidence from French Listed Firms, Account and Financial Management Journal, 1(2), 92-110.*

Dakhlallh, M., Rashid, N., & Wan, A. (2021). The moderating effect of audit committee independence on the board structure and real earnings management: Evidence from Jordan. *Journal of contemporary issues in business and government, 27(2), 123 - 133.*

Davidson, R., Goodwin-Steward, J. and Kent, P. (2005). Internal governance structures and earnings management. *Accounting and Finance, 45, p. 241-267.*

DeZoort, F. T., & Taylor, M. H. (2018). The effect of auditor judgment frameworks on auditor's use of skeptical judgment. Auditing: *A Journal of Practice & Theory, 37(3), 137-152.*

Dong, R., Fisman, R., Wang, Y., & Xu, N. (2021). Air pollution, affect, and forecasting bias: Evidence from Chinese financial analysts. *Journal of Financial Economics, 139(3), 971-984. Available at: https://doi.org/10.1016/j.jfineco.2019.12.004*.

Dopuch, N., King, R. R., & Schwartz, R. (2001). An experimental investigation of retention and rotation requirements. *Journal of Accounting Research, 39(1), 93- 117.*

Douglas, N. (2010). Audit fees and maintain audit quality. *Australian Securities and Investments Commission Technical Focus, 67.*

Doyle, J. T., Ge, W., & McVay, S. (2007). Determinants of weaknesses in internal control over financial reporting. Journal of Accounting and Economics, 44(1-2), 193-223.

Ezelibe, C. P., Nwosu, O., & Orazulike, S. (2017). Empirical investigation of corporate governance and financial reporting quality of quoted companies in Nigeria. International *Journal of Economics, Business and Management Research, 1*(5), 117-137.

Fernando, G, Abdel-Meguid, and Randal Elder (2010) „Audit Quality Attributes, Client Size and Cost of Equity Capital‟, *Review of Accounting and Finance, 9(4), pp.362-381.*

Fields, T. D., Lys, T. Z., & Vincent, L. (2001). Empirical research on accounting choice. *Journal of Accounting and Economics, 31(1–3), 255–307. https://doi.org/10.1016/S0165-4101 (01)00028-3*

Francis, J.R., Maydew, E., and Sparks, C. (1999). The role of Big 6 auditors in the credible reporting of accruals. *Auditing: A Journal of Practice & Theory, 18(2), p. 17-34.*

Francis, J.R., Maydew, E.L. and Sparks, H.C. (1999). The role of big 6 auditors in the credible reporting of accruals. *Auditing: A Journal of Practice & Theory, 18(2), p. 17-34.*

Fung, S. Y. K., Gul, F. A., & Krishnan, J. (2012). Audit firm rotation and earnings quality: Evidence from China. Journal of Accounting and Public Policy, 31(6), 649-665.

Garanina, T. (2023). CSR disclosure and state ownership: Implications for earnings management and market value. *Journal of Accounting in Emerging Economies.*

Garcia-Bladon, J., Argiles-Bosch, J., & Ravenda, D. (2020). Audit firm tenure and audit quality: A cross European study. *Journal of international financial management and accounting, 31(1), 35-64.*

Gavious, I. (2007). Alternative perspectives to deal with auditors' agency problem. *Critical perspectives on Accounting, 18(4), 451-467.*

Gay, G., & Simnett, R. (2012). *Auditing and assurance services in Australia.* McGraw-Hill Education Australia.

Glaum, M., Lichtblau, K., & Lindemann, J. (2004). The extent of earnings management in the U.S and Germany. *Journal Of International Accounting Research Volume 3. No.2, 45-77.*

Graham, L., Bedard, J. C., & Defond, M. L. (2019). The role of audit committees in managing relationships with external auditors after SOX: Evidence from the USA. *Journal of Management & Governance, 23(2), 347-376. https://doi.org/10.1007/s10997-018-9435-1*

Gray, I., & Manson, S. (2018). The audit process*: Principles practice and cases. 6th ed. Cengage Learning EMEA.*

Gray, I., Manson, S., & Crawford, L. (2016). The effect of audit process on financial statement integrity. *Accounting and Business Research, 46(7), 701-718.*

Gul, F. A., Jaggi, B. L., & Krishnan, G. V. (2007). Auditor independence: Evidence on the joint effects of auditor tenure and non-audit fees. *Auditing: A Journal of Practice & Theory, 26(2), 117-142.*

Hamza, M., & Damak-Ayadi, S. (2023). The perception of audit quality among financial statements users, preparers and auditors, in Tunisia. *Accounting and Management Information Systems, 22(2), 202-224. 14(11), 1485-1503.*

Hansen, J. V. (2023). The Big 4 Audit Firms and the Public Interest: *Public Oversight & Audit Firm Governance*

Hasibuan, R. E., & Pangaribuan, H. (2023). The influence of independence, integrity on fraud detection in Jakarta Public Accounting Firm. *Management Studies and Entrepreneurship Journal (MSEJ), 4(6), 8599-8615.*

Hasibuan, R. E., & Pangaribuan, H. (2023). The influence of independence, integrity on fraud detection in Jakarta Public Accounting Firm. *Management Studies and Entrepreneurship Journal (MSEJ), 4(6), 8599-8615.*

Hay, D., & Knechel, W. R. (2018). The effects of audit firm rotation on perceived auditor independence and audit quality. *Research in Accounting Regulation, 30(1), 69-78. https://doi.org/10.1016/j.racreg.2017.09.001*

Hayes, R., Dassen, R., Schilder, A., & Wallage, P. (2014). Principles of auditing*: An introduction to international standards on auditing (3rd ed.).* Pearson Education.

Healy, P. M. & Wahlen, J. M. (1999*): A review of the earnings management literature and its implications for standard setting, Accounting Horizons, 13(4):365-383.*

Hoitash, R., Hoitash, U., & Bedard, J. C. (2017). "Fee Negotiations and Financial Reporting Quality: Evidence from Audit Fees and Auditor Changes." *Contemporary Accounting Research, 34(1), 108-140.*

Hossain, S., & Wang, J. J. (2023). Abnormal audit fees and audit quality: Australian evidence*. Australian Journal of Management, 48(3), 596-624.*

Idris, M., Siam, Y., & Nassar, M. (2018). Board Independence, earnings management and moderating effect of family ownership in Jordan. *Management and marketing, 13(2), 123-13213*

Itsueli, U. I. (2006). Public Statement: *Cadbury Nigeria Plc. Update on Investigation into the Financial Position.*

Johnson, V. E., Khurana, I. K., & Reynolds, J. K. (2002). Audit-firm tenure and the quality of financial reports. Contemporary Accounting Research, 19(4), 637-660.

Krishnan, G. V., & Visvanathan, G. (2017). Reporting internal control deficiencies in the post Sarbanes-Oxley era: *The role of auditors and corporate governance. International Journal of Auditing, 21(1), 17-31. https://doi.org/10.1111/ijau.12072*

Latridis, G., & Kadarinis, G. (2009). Earnings management and firm financial motives: A financial investigation of UK listed firms*. International Review of Financial Analysis 18, 164-173.*

Li, S., Selover, D. D., & Stein, M. (2011). "Keep silent and make money": Institutional patterns of earnings management in China. *Journal Of Asian Economics 22, 369-382.*

Lin, J.W. and Hwang, M.I. (2010). Audit quality, corporate governance, and earnings management: *A meta-analysis. International Journal of Auditing, 14, p. 57-77.*

Mautz, R. K., & Sharaf, H. A. (1961). *The Philosophy of Auditing. Madison: American Accounting Association.*

Moeller, R. R. (2015). Brink's modern internal auditing*: A common body of knowledge (8th ed.).* John Wiley & Sons.

Myers, J. N., Myers, L. A., & Omer, T. C. (2003). Exploring the term of the auditor-client relationship and the quality of earnings: A case for mandatory auditor rotation? The Accounting Review, 78(3), 779-799.

Naser, K. (1993). *Creative Financial Accounting: Its Nature and Use*, Hemel Hampstead: Prentice Hall: Upper Sadle River, New Jersey: USA

Orbunde, B., Oyewobi, I. & Musa, U. F. (2021). Effect of audit quality on earnings management of listed oil and gas marketing companies in Nigeria. *Bingham University Journal of Accounting and Business (BUJAB): 58-73.*

Oseni, A. I. (2011). Unethical Behavior of Professional Accountants in an Organization. *Research journal of finance and accounting, 2(2), 1-8.*

Oyejide, T. A., & Soyibo, A. (2001). *Corporate Governance in Nigeria, Paper Presented at the Conference on Corporate Governance,* Accra, Ghana. 29-30 January.

Power, M. K. (2017). *Auditing and the production of legitimacy. Accounting, Organizations and Society,*

Rahman, M., Moniruzzaman, M., & Sharif, J. (2013). Techniques, motives and controls of earnings management*. International journal of information technology and business management, 11(1), 22–34. 62, 1-15.*

Rick, H., Roger, D., Arnold, S. & Philip, W. (2004) Principles of Auditing_ *An Introduction to International Standards on Auditing (2nd Edition).*

Romero, S. (2017). Auditing, assurance, and ethics: A global perspective. *Journal of International Business Studies, 48(6), 1234-1255.*

Romero, S., & Ruiz, S. (2017). The use of COSO's internal control framework in internal audit*. Managerial Auditing Journal, 32(6), 578-603.* *https://doi.org/10.1108/MAJ-08-2016-1431*

Roychowdhury, S. Earnings management through real activities manipulation [J]. *Journal of Accounting and Economics, 2006, 42 (3): 335-370.*

Sanda, A., Makailu, A. & Garba, T. (2005). Corporate governance mechanisms and firm financial performance in Nigeria: Africa economic research consortium. *Research paper, 149, Kenya regal press*

Singleton, T. W., & Singleton, A. J. (2010). *Fraud auditing and forensic accounting (4th ed.).* John Wiley & Sons.

Soltani, B. (2007). *Auditing: An international approach*. Pearson Education.

Soyemi, K. A., Olufemi, O. A., &Adeyemi, S. B. (2020). External audit (or) quality and accrual earnings management: Further evidence from Nigeria. *Malaysian Management Journal, 24, 31-56*

Stice, E. K., & Stice, J. D. (2010). *Intermediate Financial Accounting. International Edition, USA:* South-Western Cengage Learning

Teoh, H. Y., & Lim, C. C. (1996). An empirical study of the effects of audit committees, disclosure of non-audit fees, and other issues on audit independence: Malaysian evidence. *Journal of International Accounting, Auditing and Taxation, 5(2), 231-248.*

Tepalagul, N., & Lin, L. (2015). Auditor Independence and Audit Quality. *Journal of Accounting, Auditing & Finance, 30(1), 101–121.*

Trompeter, G., Carpenter, T., Desai, N., Jones, K. L., & Riley, R. A., Jr. (2017). A synthesis of fraudrelated research. Auditing: *A Journal of Practice & Theory, 36(1), 287-321.*

Tyoakosu, S. A. & Ekpe, M.J.C. (2018). Effect of creative accounting on the performance of deposit money banks in Nigeria. *Nigerian Journal of Management Sciences, 6(2): 213-223*

Wallage, P., Gortemaker, H., & Hayes, R.(2014). Principles of Auditing eBook: *An Introduction to International Standards on Auditing. Pearson Higher Ed.*

Wilson, A. B., McNellis, C., & Latham, C. K. (2018). Audit firm tenure, auditor familiarity, and trust: Effect on audited whistleblowing reporting intentions. *International Journal of Auditing, 22(2) , 113–130.*