



Audit Firm Attributes and Real Earnings Management: Evidence from Quoted Nigerian Service Firms

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ARTICLE INFO

Article History

Received : 28.04.2025
Revised : 22.05.2025
Accepted : 30.05.2025

Article Type :
Research Article



ABSTRACT

This study investigated the relationship between audit firm attributes and real earnings management among listed service firms in Nigeria, covering a ten-year period from 2014 to 2023. Drawing on the auditor theory of inspired confidence, secondary data were collected from the annual reports and accounts of quoted companies on the Nigerian exchange group and analysed via STATA 13 statistical package. The findings revealed no significant relationship between any of these audit firm attributes and real earnings management, indicating that these factors do not have a measurable influence on managerial decisions to manipulate earnings through operational activities among the sampled Nigerian service firms. It is therefore recommended that Regulatory bodies should prioritize strengthening audit regulations and enforcement mechanisms, as relying solely on larger audit firms may not effectively curb real earnings management in Nigerian service firms.

Keywords: Real Earnings Management, Auditor Switching, Audit Firm Size, Audit Tenure, Audit Fee

1. INTRODUCTION

The contemporary auditing field is evolving to enhance the expansion of the economy and related industries, similar to any other business. More specifically, the demand for the practice of modern auditing increased when ownership and management began to diverge throughout the eighteenth century industrial revolution. Globalization trends and the expansion of the stock market are both contributing factors to the industry's progress. Large corporations operate in both their own nations and other nations in the globalized world. Similarly, the purpose of auditing, as a function of corporate governance, is to increase the "credibility of the audited object" and foster confidence in the financial reports that are given to stakeholders. Furthermore, auditing is important to the financial system since it protects investors from managers' opportunistic actions and offers assurance services.

Like in any other profession, one way auditors are compensated for performing this role is through the audit fee. Verma et al. (2024) posits that auditing is seen vital for three reasons: firstly, it functions as a monitoring tool; secondly, it equips investors with the knowledge required to make more informed decisions; and thirdly, it acts as insurance against material misstatements. Controlling profits corporate management use techniques that purposefully falsify financial reporting in order to fulfill preset goals or get particular financial results (Bassiouny et al., 2016). These activities include dishonest conduct that violate accounting regulations and accounting decisions that are acceptable and compatible with generally accepted accounting standards (GAAP). Charles & Maccarthy (2023) note that managers may inflate results for a variety of reasons, such as satisfying analyst expectations, earning bonuses, and avoiding debt covenant violations. Typical strategies involve the manipulation of accruals, postponing the acknowledgment of expenses, and expediting the acknowledgment of revenue.

Although limiting profits can be done legally, engaging in excessive or unethical actions might mislead investors and compromise the accuracy of financial reporting. Audit quality is the ability of the auditing

process to reliably and effectively detect and reveal significant financial statement frauds. Ajekwe & Ibiamke (2017) state that in addition to the accuracy and thoroughness of their examination of a company's financial records, it also involves the auditor's knowledge, objectivity, and adherence to professional norms. High-quality audits increase the confidence of stakeholders by ensuring that financial statements are accurate and trustworthy, thereby improving the credibility and value of financial reporting (Okpara et al., 2023). Some of the factors that could impact the quality of an audit are the auditor's competency, the audit company's resources, and the regulatory environment in which the audit is conducted.

In turn, earnings are made up of cash items and accruals, with accruals being primarily under management control. These days, earnings management is the term used to describe the manager's capacity to manipulate accruals to make the company appear more successful than it actually is and to improve the firm's ability to forecast future earnings. In other words, since most investors and managers believe that firms with a proper profitability than similar companies, managers strive to achieve consistent and predictable results by choosing acceptable accounting procedures. Agency theory, on the other hand, suggests that managers might be driven to manipulate profits in order to further their own goals. Gaining the trust of individuals who are interested in investing is definitely necessary in order to guide their investments, and in order to accomplish this, investors need data that enables them to make profitable investments. People consider a variety of variables while making judgments, including accounting earnings and its components' for moving from an underdeveloped to a developed economy is investment.

The reliability of financial statements and the standard of financial reporting are essential to the maintenance of investor confidence and the efficient functioning of the capital markets. However, the ongoing use of profits management strategies, which could mislead stakeholders and distort financial judgment, poses a severe threat to this dependability. One of the most important responsibilities of a company's managers is to provide financial reports and data that creditors, other potential customers, and current and future investors use to make financing and investment decisions. These financial reports contain accounting earnings that are analyzed by different stakeholders to assess the management performance of the reporting entity as a whole, the profitability of the company, and any prospective earnings difficulties.

Managers occasionally utilise their discretion in selecting which accounting decisions to make in order to manipulate the amount of earnings that are reported in order to achieve personal advantages at the expense of stakeholders, given the significance of accounting profits. Consequently, the corpus of research that has already been done connects earnings management to deliberate manipulation of financial statements through the use of judgment in transaction structuring, either to satisfy contractual obligations based on accounting figures or to deceive stakeholders about the firm's true economic picture. Owing to conflicting empirical results regarding the phenomenon under investigation, the relationship between audit firm characteristics and real earning management is still up for debate among academics. Some studies report a positive relationship (Charles & Maccarthy, 2023; Oludayo, 2024). While other researchers report a negative relationship (Al-Qadasi et al., 2023; Le & Moore, 2023; Okpara et al., 2023; Verma et al., 2024; Wahab et al., 2023). The mixed results of prior studies show that there a need for further examination of the subject matter.

The main goal of this research is to investigate how audit firm characteristics are connected to actual earnings manipulation in publicly traded banks in Nigeria. More specifically, this study aims to delve into the correlation between the size of the audit firm and real earnings management, study the influence of how long an auditor has been with a company on real earnings manipulation, examine the consequences of changing auditors, and scrutinize the link between auditor fees and real earnings management.

2. LITERATURE REVIEW

2.1. Real Earnings Management

Real Earnings Management involves deviating from traditional business practices in order to deceive some stakeholders, at the very least, into thinking that specific financial objectives have been achieved through regular operations (Roychowdhury, 2006). Even if these exits let managers meet reporting requirements, the business does not necessarily benefit from them. In some economic situations, it can be beneficial to use techniques that involve adjusting real business operations, like reducing non-essential spending and offering discounts. When managers alter financial reporting and transaction methods to impact contract terms using

disclosed information or mislead stakeholders about the company's actual economic status, it is known as "earnings management" (Charles & Maccarthy, 2023). This manipulation, which may lead to fraud and substantial misstatements, is driven by personal motives such as compensation or the desire to present the organization in a favourable light (Ching et al., 2015). Nnko (2022) characterizes REM as a different form of financial manipulation that entails modifying the timing of investments or funding activities to influence the recorded outcomes.

According to Roychowdhury (2006), REM is described as departures from regular business procedures, driven by managers who aim to deceive some stakeholders by making them believe that specific financial reporting targets have been achieved through usual operations. Despite allowing managers to fulfill reporting obligations, these exits may not always increase the value of the company. Yuan et al. (2016) posit that REM is the process of controlling a company's regular operations in order to modify profits in accordance with managers' goals. On the other hand, AEM is accomplished by representing operating activities utilizing distinct accounting standards and regulations. Real earnings management entails adjusting regular business operations, which should have an impact on the cash flows of the company (Eriabie & Leslie, 2017).

2.2. Audit Firm Attributes

Scholars utilize substitutes to differentiate between high-quality and low-quality auditing firms. The auditing institutes' levels of excellence differ from one another. Researchers use a range of discriminating variables to achieve this, including the standing of the auditing businesses, their history, and their trade mark. The theory is that auditing work of a higher caliber is produced by larger organizations and those with more prominent and well-known trade names than the competition. The auditing status is one of the factors that influences the auditing quality. Larger auditing companies, according to DeAngelo (1981), likely offer better auditing services because they wish to gain greater recognition in the market and because they have so many clients that they don't have to worry about losing them. Since these institutions have access to additional resources, such as facilities for educating their own auditors and performing various examinations, it is necessary that they provide auditing services of a higher level. Large audit firms provide reports of higher quality and fewer errors than smaller audit firms. Larger audit companies are thought to do more extensive testing.

Larger audit firms are therefore more likely than smaller audit firms to be related to more precise information, providing all other parameters stay the same (Beatty, 1989; Titman & Trueman, 1986). Based on an analytical investigation, there seems to be a positive association between audit quality and audit firm size. For example, Micah et al. (2022) argue that big corporations offer better audits because the bigger audit companies are not as inclined to compromise on quality to retain clients compared to smaller firms. Similarly, Dopuch & Simunic (1982) argued that the audit quality is influenced by both the volume and excellence of audit procedures carried out by the auditor. Bigger companies have greater resources to carry out tests. The level of audit work and the magnitude of the audit firm are directly related, as Moore & Scott (1989) showed analytically. In addition to their notoriety and reputation, larger auditing firms are better at handling challenges like employee independence and training, as well as other critical concerns that affect the improvement of audit quality. As a result, the auditing organization rates the audited companies among those whose financial statement items are highly valuable, meaning that they will ultimately benefit from a higher auditing quality. Conversely, the firms that are audited by other auditing institutions that is, auditing firms that belong to the formal accountant society are thought to be smaller in comparison to the auditing organisation.

2.3. Audit Firm Size

DeAngelo (1981) carried out a theoretical investigation of the connection between auditor size and audit quality. She said that big auditors would have more clients and that their whole fee structure would be split among them. The conditional probability that an auditor will disclose a financial statement misstatement if one has already been discovered is how DeAngelo (1981) characterized an auditor's independence. This implies that larger auditors will conduct audits of a higher caliber since they will be more independent. A few empirical investigations have provided additional evidence in favor of using auditor size as a proxy for audit quality. Davidson & Neu (1993) backed up the claim that auditing quality can be effectively gauged by size using a less direct approach. He maintained that managers are motivated to inflate reported earnings in order to satisfy analyst projections. Thus, we could anticipate that the forecast errors of big auditing businesses'

clients would be higher if they offer audits of a better caliber than those of small auditing firms. Using data for Canadian corporations, his findings are consistent with that premise, demonstrating that auditor size is a reliable indication of auditing quality. According to DeAngelo's (1981) reputation hypothesis, major auditors have more incentive to provide accurate reports since they risk losing more client-specific rents if they do not. The deep pockets hypothesis, put forth by Dye (1993), holds that major auditors will be more accurate since they are wealthier and so more vulnerable to lawsuit risk. Both of these theories for the postulated positive relationship between auditor size and audit quality

2.4. Auditor Tenure

The term "audit tenure" refers to how long a client company has used an auditor or audit firm. Longer audit durations can help auditors become more adept at working with specific clients, which will increase the effectiveness and efficiency of their audits (Ghosh & Moon, 2005). The audit tenure, according to Hartadi (2009), is the predetermined length of the auditor-client partnership. Generally speaking, audit tenure and audit independence are connected topics. Research conducted in 2003 by Ghosh and Moon shows that audit quality increases with audit duration. This result, however, conflicts with a research by Indah & Pamudji (2010), which suggests that as the length of the auditor-client relationship increases, there might be a drop-in audit quality since a too lengthy relationship compromises the auditor's independence. The auditor can utilize this data to find significant misstatements and give the client insightful information. Prolonged audit employment, on the other hand, may jeopardize the auditor's independence and professional skepticism and result in complacency or an overly trusting relationship with the client (Sangkala, 2024). Longer client-auditor relationships result in more efficient operations (i.e., shorter ARL) since it takes time for audit firms to learn about their clients' activities. As a result, audit engagements in their initial years are less productive than those in subsequent years. This has been found to be one factor influencing the effectiveness of auditors. The question of whether companies should hire auditors for a long time or if a rotation of auditors should be mandated has been the subject of many debates (Tran et al., 2023). Long-term audit firm employment may cause the auditors to become less impartial and professional, which could result in a lower-quality audit. It is thought necessary for auditors to undergo extensive training to better grasp their clients and industry, as initial years of the auditor-client partnership may lack the necessary knowledge of both parties (Hohenfels, 2016).

2.5. Auditor Switching

Auditor switching refers to the process by which a company changes its external auditor, replacing its current audit firm with a new one. This phenomenon is an important area of research in auditing and financial reporting because it can signal changes in audit quality, auditor independence, or managerial motives. Auditor switching may be voluntary initiated by the client firm or involuntary, such as when an auditor resigns or is dismissed (Guo et al., 2022). Several factors can drive auditor switching. These include dissatisfaction with audit fees, disagreements over accounting policies, changes in company ownership or management, and perceptions of audit quality or independence concerns. Companies may also switch auditors to seek fresh perspectives, access new expertise, or reduce costs. However, auditor switching raises questions about the continuity and depth of audit knowledge, as a new auditor may require time to fully understand the client's operations, risks, and reporting practices (Kharuddin et al., 2019).

The debate over the effects of changing auditors on the quality of financial reporting continues. Certain research indicates that when auditors are switched, it could potentially lower the quality of audits temporarily because the new auditor may not be familiar with the client, resulting in higher audit risks (Sun & Liu, 2013). Others argue that switching can improve audit quality by introducing greater auditor independence, especially when the relationship with the previous auditor had become too long-standing or complacent (Lin & Hwang, 2010). Auditor switching is also relevant in the context of regulatory frameworks. For instance, some jurisdictions impose mandatory auditor rotation requirements to promote independence and prevent over-familiarity between auditors and clients. While such policies aim to enhance auditor objectivity, they may also result in more frequent switching, with mixed evidence on whether this improves audit outcomes.

Kharuddin et al. (2019) auditor switching can be influenced by firm characteristics such as company size, financial distress, complexity of operations, or corporate governance structures. For example, smaller or financially distressed firms may be more likely to switch auditors to negotiate lower fees or obtain more favorable audit opinions. In summary, auditor switching reflects a complex interplay of economic, regulatory, and governance factors. While it can provide opportunities for improved audit services and independence, it

also introduces risks related to auditor learning curves and potential disruptions in the audit process. Understanding the determinants and consequences of auditor switching remains critical for evaluating its implications for audit quality and financial reporting integrity.

2.6. Auditor Fee

The compensation that accounting firms and auditors receive for their professional services is referred to as an audit fee. Vu (2012) points out that government agencies, corporation owners, outside investors, firm management, and the general public all have a need for audit services. When audit work is performed, the audit fee is typically collected based on audit quality, opportunity cost, and resources (Musa et al., 2021). Generally speaking, the audit fee should cover the costs of the audit while yielding a reasonable return. Consequently, the audit fee might be conceptualized as a blend of the audit cost and the auditors' profit. Economic theory suggested that in situations where an audit firm was dependent on a specific client, auditors who received a significant portion of their income from that client may lose their objectivity because they formed an economic dependency with the client, making it impossible for them to provide reports critical of the client. Nevertheless, every auditor must have financial independence from the companies they audit. Other research has used the amount of money paid for audits as a stand-in for the quality of the audits.

The studies focus on the idea that audit fees can be a reliable indicator of the effort put into an audit. It is believed that higher fees signify a greater amount of work conducted during the audit process, ultimately leading to improved audit quality. Demand side factors may also have an impact on audit fees. The literature offers multiple corroborating justifications for the need for audits. In conclusion, Hay et al. (2004) identifies the following four explanations: information, insurance, monitoring, and organizational control. The primary rationale behind the need for auditing is rooted in agency theory, which posits that audits are necessary to mitigate issues that arise from conflicting interests between owners and managers (Jensen & Meckling, 1976). The explanation of information highlights the importance of investors favoring audited financial statements for the valuable information they offer in making decisions. Another argument, known as the "deep pocket" theory, suggests that audits are necessary due to the increased legal liability of auditors, allowing investors to hold them accountable for damages caused by financial fraud (Lei et al., 2020).

3. RESEARCH METHODS

This study is adopted the ex-post facto design. The choice of this approach is justified for its ability to allow researchers to analyse and evaluate collected data from secondary sources and see how variations in coordinated data or conditions (Dependent variables) is been affected by other sets of data or conditions (Independent variable), without personal bias or manipulation. The population of this particular study is made up of 20 listed service firms in in Nigeria as at December 31, 2024. Therefore this study population is the listed service firms in Nigeria as at December 31, 2024. The population will consist of all non-financial companies listed on the Nigerian Exchange Group (NGX). The choice of my sample is based on the fact that publicly listed firms are the top enterprise in Nigeria. Also, data on these firms are available because of disclosure requirements of all publicly listed companies in Nigeria.

3.1. Sample Size and Sampling Technique

The study determined the sample size using purposive sampling, focusing on firms in developing countries, including Nigeria. To ensure a fair selection process, specific criteria were established for choosing which firms would be included in the study sample.

- a. The company must be a listed firm in the Nigerian Stock Exchange as at 31st December, 2024.
- b. The company must have consistent data set for the relevant variables utilized in this study such data should be available all through the period enclosed by the study.

On account of the above, a sample of 16 listed service firms met the criteria and were obtained and added in the sample of this study. Thus, this study sample size is 16 service firms in Nigeria. Covering a period between 2014 to 2023

3.2. Method of Data Collection

Data were sourced from annual report of sampled commercial banks listed on the Nigeria Stock Exchange (NSE).

3.3. Model Specification

The empirical model for this study is focused on measures of audit attributes which are the independent variables (Audit tenure, Audit firm Size, Audit switching, Audit report timeliness and Auditor fee) and real earnings management which is proxied by earnings quality of the firms. Consistent with prior studies, the control variable in this study is firm size and firm age (Jeroh & Ozegbe, 2022). The statistical tests of hypotheses were focused on each of the following models which were developed in view with the specialized objectives and hypotheses under the construct of the Ordinary Least Square (OLS) regression technique.

The following model is presented for this study:

Model I

$$REM_{it} = a_0 + a_1AFSIZE_{it} + a_2FSIZE_{it} + a_3FAGE_{it} + \mu_t \quad eq.1$$

Model II

$$REM_{it} = a_0 + a_1ATENURE_{it} + a_2FSIZE_{it} + a_3FAGE_{it} + \mu_t \quad eq.2$$

Model III

$$REM_{it} = a_0 + a_1AS_{it} + a_2FSIZE_{it} + a_3FAGE_{it} + \mu_t \quad eq.3$$

Model IV

$$REM_{it} = a_0 + a_1AFEE_{it} + a_2FSIZE_{it} + a_3FAGE_{it} + \mu_t \quad eq.4$$

Given the above, *REM* is defined and measured as:

Real earnings management (*REM*) = *f* (Roychowdhury)

Audit Firm Attributes (*AFATT_{it}*) = *f* (*AFSIZE*, *ATENURE*, *AS*, *AFEE*)

3.4. Operational Variables

Table 1. Operational Variables

Variables	Variable Code	Measurement	Sources	Priori Expectation
Audit Tenure	ATENURE	Dummy: 1 = auditor ≥ 3 years; 0 = <3 years	(Lin & Hwang, 2010)	Negative (-)
Audit Firm Size	AFSIZE	Dummy variable: 1 = Big 4 audit firm; 0 = Non-Big 4 audit firm	(Francis & Yu, 2009)	Negative (-)
Audit Switching	AS	Dummy variable: 1 = Auditor switched during the year; 0 = No switch	(Johnson et al., 2002)	Positive (+)
Auditor Fee	AFEE	Natural log of total audit fees paid to external auditor	(Francis, 2004)	Negative (-)
Firm Size	FSIZE	Natural log of total assets at fiscal year-end	(Francis & Yu, 2009)	Positive (+)
Real Earnings Management	REM	Abnormal cash flows from operations, abnormal production costs, abnormal discretionary expenses (per Roychowdhury, 2006)	(Roychowdhury, 2006)	–

Source: Authors' compilation from various empirical studies, 2025

4. RESULTS AND DISCUSSION

4.1. Descriptive Statistics

Table 2. Summary of Descriptive Statistics of the Variables of the Study

Variable	Obs	Mean	Std. Deviation	Minimum	Maximum
REM	160	-0.0079594	.1489369	-265.2873	0.5552
AFEE	160	0.2910281	0.325456	0.0336	1.9578
AFSIZE	160	0.4125	0.4938299	0	1
AS	160	.1	0.3009419	0	1
ATENURE	160	0.76875	0.4229557	0	1

Source: Regression output, 2025

Table 2 displays the descriptive statistics for all the variables, including both independent and dependent variables, based on 160 observations from 16 firms over a span of 10 years. Each variable has been shown with its respective mean, minimum, maximum, and standard deviation values. REM, for example, has an average of -0.0079594, with a highest value of 0.5552 and a lowest value of -265.2873, along with a standard deviation of 0.1489369. It is important to note that while the mean indicates the typical value recorded for each variable, the standard deviation (Std. Dev.) reflects the extent of variability in the data. Measures of audit firm attributes (AFEE, AFSIZE, AS, and ATENURE) recorded a mean of 0.2910281, 0.4125, .1, 128.4, and 0.76875 with minimum and maximum values of 0.0336, 0, 0, 57, 0 and 1.9578, 1, 1, 538, 1 respectively, and standard deviation of 0.61. The control variable FSIZE and FAGE recorded mean of 6.7106042, 18.1875 with minimum and maximum values of 5.5003, 2 and 7.75, 46 respectively, and standard deviation of 11.58354.

4.2. Correlation Analysis

Table 3. Result of Correlation Analysis

Variable	REM	AFEE	AFSIZE	AS	ATENURE	FSIZE
REM	1.0000					
AFEE	-0.0169	1.0000				
AFSIZE	0.0074	0.1607	1.0000			
AS	-0.0627	-0.0050	0.0592	1.0000		
ART	-0.1207	0.3263	0.1367	0.1238		
ATENURE	0.0940	0.0212	-0.0563	-0.6078	1.0000	
FSIZE	-0.0511	-0.3429	0.1917	-0.0437	-0.0115	1.0000
FAGE	-0.1581	-0.1164	0.0293	-0.0072	-0.0540	-0.1131

Source: Regression output, 2025

Also noted is that the correlation coefficient between independent variables can show either a positive or negative connection. The dependent variable REM showed a positive correlation of 0.0074 with AFSIZE and 0.0940 with ATENURE. While REM recorded a negative correlation with AFEE, AS of -0.0169, -0.0627 and -0.1207 respectively. Also REM also recorded negative correlation with the control variables FSIZE and FAGE -0.0511 and -0.1581.

Upon further investigation into the data presented in Table 3, it became apparent that there were no clear signs of multicollinearity among the independent variables. The Pearson Correlation coefficients between the different pairs of independent variables ranged from 0.1917 to -0.0050. The weakest correlation of -0.0050 was observed between AFEE and AS, while the strongest correlation of 0.1917 was found between AFSIZE and FSIZE. Given that none of the pairs of independent variables exhibited a Pearson R value close to or above 0.80, it can be concluded that multicollinearity is not a concern in this study involving both the dependent and independent variables.

4.3. Other Diagnostic Tests

4.3.1. Variance Inflation Factor (VIF)

Table 4. Variance Inflator Factor Results for Independent Variables

Variable	AS	ATENURE	AFEE	AFSIZE	Mean VIF
VIF	1.64	1.61	1.46	1.12	
1/VIF	0.608157	0.622589	0.683562	0.891170	1.35

Source: Regression output, 2025

From Table 4 the VIF values range from 1.06 to 1.64, with an average VIF of 1.35 this confirms that none of the dependent variables are excessively correlated with each other. The fact that all VIF values are close to 1 further strengthens the conclusion that multicollinearity is not an issue in your dataset. Overall, the mean VIF obtained is 1.35 which suggests the absence of multicollinearity among the independent variables. This result further confirms the fitness of the specified models in this study.

4.3.2. Breusch and Pagan Lagrangian Multiplier Test

An examination was performed using the Breusch and Pagan Lagrangian test to determine which model to use for the study, either the robust regression or ordinary least square. Table 5 displays the results of the Breusch and Pagan Lagrangian Multiplier tests.

Table 5. Breusch and Pagan Lagrangian Multiplier test
Breusch-Pagan/Cook-Weisberg Test for Heteroskedasticity

Chi2(1)	36.72
Prob> chi2	0.0000

Source: Regression output, 2025

The Breusch-Pagan/Cook-Weisberg test examines for heteroskedasticity in a regression model. The results indicate a significant chi-squared value of 36.72 with a p-value of 0.0000 (lower than a typical significance level of 0.05), suggesting strong evidence that there is heteroscedasticity. Therefore the robust regression will be suitable in testing the hypothesis.

4.4. Test of Hypotheses

4.4.1.H1: There is no significant relationship between audit firm size and real earnings management of listed firms in Nigeria

Table 6. Results of Model I and Test of Hypothesis I (AFSIZE and REM)

Variables	Symbol	Coefficient	Std. Err.	t-Statistics	P>(t)
Constant	_CONS	0.0704715	0.1021487	0.69	0.591
Audit Firm Size	AFSIZE	0.0054947	0.148923	0.37	0.713
Firm Size	FSIZE	-0.010888	0.0150284	-0.72	0.470
Firm Age	FAGE	0.0001813	0.006271	0.29	0.773
Number of Obs				160	
F (3, 156)				0.24	
Prob> F				0.8665	

* significant at 1% level; ** at 5% level

Source: Researcher's Computation via STATA 13.0

The findings from testing hypothesis one in the current study are displayed in Table 6. Upon careful examination of the data, it reveals that the audit firm size (AFSIZE) has a positive coefficient and standard error of 0.0054947 and 0.0148923, respectively. This indicates that the explanatory variable (AFSIZE) is positively related to real earnings management (REM). Furthermore, AFSIZE has a t-statistic of 0.37 ($P > |t| = 0.713$), indicating that, individually, audit firm size (AFSIZE) has a positive but insignificant association with REM for publicly traded service companies in Nigeria.

The results also shows that the control variable FSIZE and FAGE obtained a coefficient and standard error of -0.0108888, 0.0150284 and 0.0001813, 0.0006271 respectively. This is a suggestion that the control variable FSIZE have negative relationship with REM. While FAGE have positive relationship with REM. Additionally, the control variable (FSIZE and FAGE) obtained a t-stat. of -0.72 ($P > |t| = 0.470$) and 0.29 ($P > |t| = 0.773$) respectively. Which further suggests that on an individual basis, both FSIZE and FAGE has insignificant relationship with REM of listed service firms in Nigeria.

Overall, the hypothesis stating that there is no strong connection between the size of audit firms and the actual management of earnings in Nigeria's listed companies is supported, as evidenced by the P value of 0.8665. This suggests that when adjusting for company size and age, the size of the audit firm does not play a significant role in the real management of earnings for service companies listed in Nigeria.

4.4.2.H2: There is no significant relationship between auditor tenure and real earnings management of listed firms in Nigeria

Table 7. Results of Model II and Test of Hypothesis II (ATENURE and REM)

Variables	Symbol	Coefficient	Std. Err.	t-Statistics	P>(t)
Constant	_CONS	0.0650945	0.102047	0.64	0.524
Auditor Tenure	ATENURE	0.0043923	0.170223	0.26	0.797
Firm Size	FSIZE	-0.0101063	0.0146973	-0.69	0.493
Firm Age	FAGE	0.0001183	0.006255	0.29	0.850
Number of Obs				160	
F (3, 156)				0.20	
Prob> F				0.8938	

* significant at 1% level; ** at 5% level

Source: Researcher's Computation via STATA 13.0

The findings for the second hypothesis test in this study are displayed in Table 7. Upon examining the results closely, it is evident that auditor tenure (ATENURE) has a positive coefficient and a standard error of 0.004393 and 0.170223, respectively. This implies that the explanatory variable (ATENURE) is positively correlated with real earnings management (REM). Moreover, ATENURE has a t-statistic of 0.26 ($P > |t| = 0.797$), indicating that, individually, AFSIZE has a positive but statistically insignificant association with REM in Nigerian listed service companies.

The results also shows that the control variable FSIZE and FAGE obtained a coefficient and standard error of -0.0101063, 0.0146973 and 0.0001183, 0.0006255 respectively. This is a suggestion that the control variable FSIZE have negative relationship with REM. While FAGE have positive relationship with REM. Additionally, the control variable (FSIZE and FAGE) obtained a t-stat. of -0.69 ($P > |t| = 0.493$) and 0.19 ($P > |t| = 0.850$) respectively. Which further suggests that on an individual basis, both FSIZE and FAGE has insignificant relationship with REM of listed service firms in Nigeria.

Overall, the hypothesis that there is no significant correlation between auditor tenure and real earnings management in Nigerian listed firms is supported by the computed P value of 0.8938. Therefore, it can be inferred that when considering factors such as firm size and age, auditor tenure does not have a significant effect on real earnings management within Nigerian service firms.

4.4.3.H3: There is no significant relationship between auditor switching and real earnings management of listed firms in Nigeria

Table 8. Results of Model III and Test of Hypothesis III (AS and REM)

Variables	Symbol	Coefficient	Std. Err.	t-Statistics	P>(t)
Constant	_CONS	0.0546318	0.1008147	0.54	0.589
Auditor Switching	AS	0.020043	0.0238408	0.84	0.402
Firm Size	FSIZE	-0.0086277	0.0146673	-0.59	0.557
Firm Age	FAGE	0.0002275	0.006228	0.37	0.715
Number of Obs				160	
F (3, 156)				0.43	
Prob> F				0.7335	

* significant at 1% level; ** at 5% level

Source: Researcher's Computation via STATA 13.0

Table 8 presents the findings from hypothesis three in the study. Upon close examination, it is evident that auditor switching (AS) yielded a positive coefficient and standard error of 0.020043 and 0.0238408 respectively. These results indicate that the variable AS is positively linked to real earnings management (REM). Furthermore, AS showed a t-stat. of 0.84 ($P > |t| = 0.402$), implying that AS has a positive but statistically insignificant association with REM within Nigerian service firms.

The results also shows that the control variable FSIZE and FAGE obtained a coefficient and standard error of -0.0086277, 0.0146673 and 0.0002275, 0.006228 respectively. This is a suggestion that the control variable FSIZE have negative relationship with REM. While FAGE have positive relationship with REM. Additionally, the control variable (FSIZE and FAGE) obtained a t-stat. of -0.59 ($P > |t| = 0.557$) and 0.37 ($P > |t| = 0.715$) respectively.

$t = 0.715$) respectively. Which further suggests that on an individual basis, both FSIZE and FAGE has insignificant relationship with REM of listed service firms in Nigeria.

Overall, since the computed P value is 0.7335 the hypothesis there is no significant relationship between auditor switching and real earnings management of listed firms in Nigeria is accepted. Impliedly, when controlled by firm size and firm age, auditor switching has no significant impact on real earnings management of listed service firms in Nigeria.

4.4.4.H4: There is no significant relationship between auditor fee and real earnings management of listed firms in Nigeria

Table 9. Results of Model IV and Test of Hypothesis IV (AFEE and REM)

Variables	Symbol	Coefficient	Std. Err.	t-Statistics	P>(t)
Constant	_CONS	0.1011315	0.1113461	0.91	0.365
Auditor Fee	AFEE	-0.016699	0.0238559	-0.70	0.485
Firm Size	FSIZE	-0.0140046	0.0157637	-0.89	0.376
Firm Age	FAGE	0.000333	0.006337	0.05	0.958
Number of Obs				160	
F (3, 156)				0.34	
Prob> F				0.7971	

* significant at 1% level; ** at 5% level

Source: Researcher's Computation via STATA 13.0

Table 9 displays the findings for the fourth hypothesis test in the current study. Upon scrutinizing the results, it is evident that auditor fee (AFEE) has a negative coefficient of -0.016699 and a standard error of 0.0238559. This indicates that the explanatory variable (AFEE) is negatively correlated with real earnings management (REM). Moreover, AFEE has a t-statistic of -0.70 ($P > |t| = 0.485$), indicating that on a singular level, AFEE has a insignificant negative association with REM among the listed service firms in Nigeria.

The results also shows that the control variable FSIZE and FAGE obtained a coefficient and standard error of -0.0150046, 0.0157637 and 0.0000333, 0.006337 respectively. This is a suggestion that the control variable FSIZE have negative relationship with REM. While FAGE have positive relationship with REM. Additionally, the control variable (FSIZE and FAGE) obtained a t-stat. of -0.89 ($P > |t| = 0.376$) and 0.05 ($P > |t| = 0.958$) respectively. Which further suggests that on an individual basis, both FSIZE and FAGE has insignificant relationship with REM of listed service firms in Nigeria.

Overall, the hypothesis that there is no significant correlation between auditor fees and real earnings management in Nigerian listed companies is supported with a calculated P value of 0.7971. Consequently, when factoring in variables such as company size and age, auditor fees do not appear to have a significant influence on the real earnings management of service companies listed in Nigeria.

5. CONCLUSIONS

According to the findings gathered through data analysis and hypothesis testing, the research shows that there is not a notable connection between the size of audit firms and the manipulation of real earnings in Nigerian listed companies. Likewise, there was no significant correlation found between how long an auditor had been serving a company and the manipulation of earnings, or between the fees paid to auditors and earnings manipulation. Additionally, the examination suggests that changing auditors does not greatly affect the way real earnings are managed in Nigerian listed companies.

In light of these findings, several recommendations are proposed. First, regulatory bodies should focus on strengthening audit regulations and enforcement mechanisms, as the reliance on larger audit firms alone does not appear to effectively mitigate real earnings management. Second, firms are encouraged to support auditor tenure policies with robust internal control systems and the establishment of independent audit committees to improve the quality of financial reporting. Third, both auditors and regulators should emphasize audit quality assurance rather than placing undue focus on audit fee structures, in order to maintain auditor independence and reduce the risk of earnings manipulation. Additionally, firms should refrain from unnecessary auditor switching solely for cosmetic purposes and instead aim to foster long-term,

transparent relationships with auditors, supported by regular quality assessments. Lastly, policymakers should improve oversight of the audit process beyond formal report deadlines by encouraging early engagement of auditors and continuous audit reviews, thereby enhancing overall audit effectiveness.

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