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Original Research Article

Audit Firm Size and Earnings Management in Listed Manufacturing Firms in Nigeria: An Empirical Analysis

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Abstract

The study investigated the relationship between Audit Firm Size and Earnings Management of listed Consumer Goods Manufacturing firms in Nigeria. This study tested Audit firm size and earnings management proxies that is (earnings restatement and discretionary accruals), using 26 listed consumer-goods manufacturing firms as the study population. Secondary data were extracted from the annual report of 13 listed consumer-goods manufacturing firms while judgmental sample from the population, covering the study period from 2012 to 2018 using historical data were adopted. The data were tested through the use of Univariate, Bivariate and Multivariate analysis. Univariate/descriptive, Bivariate, Pearson Product Moment Correlation (PPMC) techniques by use of E-view 10 Econometric software and Multivariate – regression model. The findings of the study showed that Audit firm size significantly influences earnings restatement practices and discretionary accruals of listed consumer-goods manufacturing firms in Nigeria. The study concludes that audit firm size is a significant indicator of audit quality in terms of earnings restatement constraining capacity, provided auditees' sizes variability do not matter. On the other hand, if auditees' size variability is controlled, firms audited by a Big 4 firm are associated with a greater magnitude of discretionary accruals and, as such, are more prone to manipulation of results. In the light of these, it is the recommendation of this study that Financial Reporting Council of Nigeria (FRCN), should explore the principles of the deep pocket hypothesis whereby stiffer disciplinary measures (e.g. litigations and claims) for damage to be meted out. To ensure positive significant relationship with earnings management, the firms should voluntary engage two audit firms in all to other to allow for effective comparison, so that hidden information in financial statement could be dictated or revealed.

Keywords: Audit Firm Size, Discretionary Accrual, Earning Restatement, Earnings Management, Manufacturing Companies, Nigeria

Introduction

One of the major problems facing consumer manufacturing firms in Nigeria is the inability of audit process, functions and audit report disclosing financial misstatements, material errors omissions to curtail earnings management practices. These inadequacies and actions of auditors has resulted to periodical cluster of business fraud, failure and imminent litigations-like the cases of collapsed firms in Nigeria Cadbury Nigeria PLC; African Petroleum PLC, and several deposit money banks (DMB) etc. The perceived failure of audit to fully alert equity and other stake-holders concerning the said misrepresentations, and others in financial position and to sufficiently report accurate operational earnings has resulted to inability shareholders of investors to undertake rational economic choices and decisions affecting firms generally. The need for more private investments to sustain the current level of growth rate is imperative.

The consumer goods manufacturing sector which ought to serve as the engine of growth for the Nigerian economy, now given the resolve of the economy is that managers' and other operators as catalyst should diversify the economy

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away from oil base, to enable this country to stabilize economically. All these challenges and effects, might not be unconnected with concerns about the quality of reported earnings and the inability of audit quality to effectively reduce earnings management of firms, exemplified by recent corporate accounting scandals (Badawi, 2008; Enofe, 2010). Differences in audit quality result in uncertainty in the credibility of auditors and the reliability of the earnings reports of firms. The recent corporate financial scandals pose a great challenge to the veracity, credibility, utility or value relevance of the audit function. In the opinion of Alles et al. (2004), the degree to which assurance adds value to communication between an auditor and its audience is directly related to the credibility of the auditor.

Whatever may be their real cause, the effect of corporate scandals in the last two decades, especially Enron and the subsequent collapse of Arthur Anderson, has been to undermine public confidence in the audit programme. Badawi (2008) reports a list of firms involved in cases of accounting scandals related to poor audit quality and earnings manipulations in the past decade. In Nigeria, corporate scandals include the cases of Cadbury Nigeria Plc and African Petroleum Plc (Okolie & Agboma 2008); Savannah Bank and African International Bank (Odia, 2007); Wema Bank, Nampak, Finbank & Spring Bank (Adeyemi & Fagbemi, 2010); and more lastly Intercontinental Bank Plc., Bank PHB; Oceanic Bank Plc. and AfriBank Plc. Audit firm size, auditors' tenure, industry expertise, audit fees, economic dependence, reputation and cost of capital have been documented as indirect measures of audit quality, (Chandegani, 2011).

This present study prefers the indirect proxies as they can reveal high and low levels of Audit quality on earning management of listed consumer-goods firms in Nigeria, using auditor's tenure, joint audit and audit firm size as proxies of Audit Quality. Audit firm size as proxy of audit quality is anchored on the works of De-Angelo (1981). De Angelo (1981) theoretically analyzed the relation between audit quality and audit firm size and argued that large audit firms have more clients and their total fees are allocated among those clients. Defining the auditor's independence by the conditional probability that the auditor will disclose any misstatement in financial statements given that this misstatement was already discovered, De Angelo(1981) assert that large audit firms are more independent and therefore, provide higher audit quality.

In considering audit firm size and earnings management De Angelo (1981) argues that Big-4 auditors provide better audits quality than non-Big 4 auditors. This position has gained extensive support of subsequent empirical studies including Palmrose (1988); Deis and Giroux (1992); Becker, et al (1998); Francis and Krishnan (1999); Krishnan and Schauer (2000); Kim et al. (2003); Krishnan (2003), and Teoh and Wong (1993). Likewise, Davidson and Neu (1993) provide additional support for the use of audit firm size as proxy for audit quality by using an indirect method to support the argument that audit firm size is a good proxy for audit quality. They argued that managers have incentives to manipulate the reported earnings to meet the analysts' forecasts. Using data for Canadian firms, their results support the expectation indicating that the auditor firm size is a good proxy for audit quality. Lennox (1999) looked at the two explanations of the hypothesized positive relation between audit quality and audit firm size.

The reputation hypothesis suggested by De-Angelo (1981) who argued that large Audit firm size have more incentives to be accurate because they have more client-specific rents to lose if their reports are not accurate, and secondly, the deep pockets hypothesis used by Dye (1988) who argued that larger firms tend to be more accurate because they have greater wealth that is exposed to risk in case of any litigation. Therefore, the study is focusing at ascertaining and establishing whether there is relationship between audit quality in terms of audit firm size and earnings management in terms of discretionary accruals and earning restatement in Nigeria.

1.1 Conceptual Framework

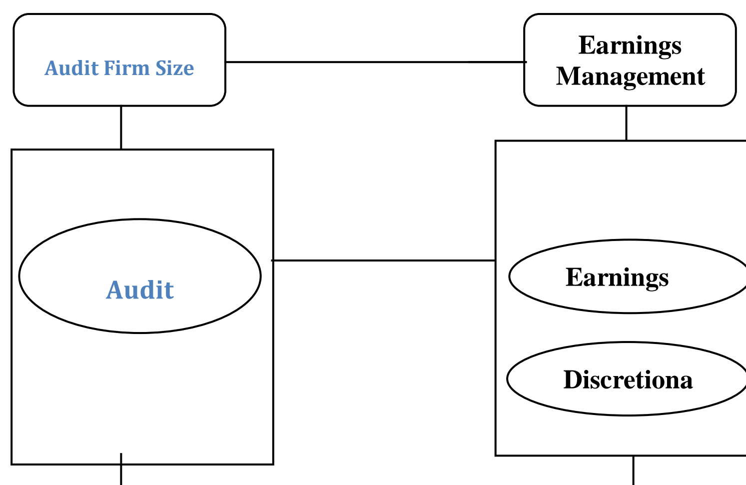

Figure 1.1: Conceptual framework on Audit Firm Size and Earnings Management practices of listed consumer goods firms in Nigeria.
Source: Modification by Gold (2012), Ratzinger et al., (2013), Lope (2018).

1.2 Aim and Objectives of the Study

The general objective of this study is to ascertain the relationship between audit firm size and Earnings Management Practices in Nigeria using listed consumer-goods manufacturing firms. Other specific objectives are to:

1. Ascertain the relationship between audit firm size and earnings restatement of listed consumer goods manufacturing firms in Nigeria.
2. Ascertain the relationship between audit firm size and discretional accrual of listed consumer goods manufacturing firms in Nigeria.

1.3 Research Questions

Based on the specific objectives, the following research questions are raised to include the following:

1. What is the relationship between audit firm size and earnings restatement of listed consumer-goods manufacturing firms in Nigeria?
2. What is the relationship between audit firm size and discretional accruals of listed consumer-goods manufacturing firms in Nigeria?

1.4 Research Hypotheses

In line with the objectives and research questions of this study, the following hypotheses stated in the null form were formulated:

H_{01}: Audit Firm Size has no significant influence on earning reinstatement practices of listed consumer goods manufacturing firms in Nigeria.

H_{02}: Audit Firm Size has no significant impact on discretionary accruals of listed consumer goods manufacturing firms in Nigeria.

2. REVIEW OF RELATED LITERATURE

Conceptual Review

Audit Firm Size

Prior studies (De Angelo, 1981; Palmrose, 1988; Deis & Giroux, 1992; Becker et al., 1998; Francis & Krishnan, 1999; Krishnan &Schauer, 2000; Kim et al., 2003; Krishnan. 2003) which use size of audit firm to measure audit quality treated it as dichotomous variable and a dummy assuming 1 and O for large and non-large audit firms respectively. Audit firm size signifies various types of qualities. It is assumed that size (Big 4 or Big 5, Big 6 ... Big 8, etc.) of audit firms suggest reputation, international affiliation, and integrity which are reflected in the audit report on the accounts of their clients. This reflects the Limperg Institutes' (1985) theory of inspired confidence. It has severally been argued that the large audit firms significantly determine the disclosure of policies of the firms they audit. De Angelo (1981) theoretically analyzed the relation between the quality of audit and auditor's size and argued that large audit firm have more clients and their total fees are allocated among those clients. Defining the auditor's independence by the conditional probability that the auditor will disclose any misstatement in financial statements given that this misstatement was already discovered. De Angelo (1981) asserts that large audit firms are more independent and therefore, provide higher quality of audit.

Earnings Management Practices

Corporate earnings represent the end product of a company and have been recognized as the distinct central item in financial statements which exclusively indicates the amount of value added activities of a company. Earnings signal the direction of resource allocation in capital markets as the speculative value of a company's shares is the present value of its future earnings. Hence, increase or decrease in earnings represent an increase or decrease in the value of a company (Lev, 1989). Earnings management has various definitions, but they all share the same underlying meaning reflecting that earnings management's objective is to misrepresent a firm's performance. Earnings management has been defined by Schipper (1989) as "a purposeful intervention in the external financial reporting process, with the intent of obtaining some private gain". Another commonly used definition by Healy and Wahlen (1999) is that earnings management takes place when managers try to maneuver transactions that can affect the outcome presented in the financial reports in order to hide the real economic performance of the company or to influence some contractual outcomes. According to Fields et al. (2001), earnings management is initiated from the flexibility of accounting choices given by the Accounting Principles, allowing managers to choose the proper reporting procedures and pick assumptions and estimations that are suitable for each business environment.

Giving managers with an opportunistic behavior a chance to choose certain reporting procedure that helps them maximize their wealth (Watt & Zimmerman, 1990). Therefore, Stakeholders find it hard to recognize the exact net worth and economic value of a firm, as financial reports do not reflect the actual performance of the firm. Earnings

management is commonly estimated in literature using the discretionary accruals models; it is popular that discretionary accruals are usually used as a synonym for earnings management (Kothari, 2001). There is a growing attention on earnings management as manipulation methods that allow managers to meet reporting goals under a certain economic circumstances (Chen et al., 2006). In this perspective, Healy and Wahlen (1999) stated that "Earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting practices". In addition, earning management could also be referenced as a reasonable and legal management decision-making and reporting, intended to achieve and disclose stable and predictable financial results (Chen, 2010).

Meanwhile, Roychowdhury (2006) views earnings management as departures from normal operational practices that occur through managerial intervention in the reporting process; i.e., via accounting estimates and methods and operational decisions as well. According to Healy and Wahlen (1999), managers engage in earnings management for three reasons: capital market motivation, contracting motivation, and regulatory motivation. This could be achieved through, for example, acceleration of sales, alterations in shipment schedules, and delaying of research and development and maintenance expenditures.

Chen et al. (2006) described managers engage in earnings management to minimize the cost of capital or political costs, or to maximize their compensation such as bonus plan and stock options. In this sense, the minimization of capital or political costs will work to the advantage of the firms, while compensation maximization will benefit management at the cost of shareholders. This earning management practices, in part can be mitigated by hiring high quality auditors, presuming that high quality auditors tend to offer higher quality of audit and produce higher information quality and credibility.

The engagement of executives in earnings management might occur through accounting estimates and methods, and operational decisions as well. This intervention includes accruals manipulation in term of sales, shipment schedules, and research, development, and maintenance expenditures. Roychowdhury (2006) is of opinion that the engagement of executives in earnings management is by accrual manipulation, i.e., manipulation of accruals which has no direct cash flow consequences. This include under-provisioning for bad debt expenses and delaying asset write-offs. In addition, managers might engage in earning management through real activities manipulation during the year to meet certain earnings targets. This type of real activities manipulation, such as reductions in expenditures on research and development, will affect cash flows and in some cases, accruals.

Earnings Restatement

A restatement is the revision and publication of one or more of a company's previous financial statements; usually necessitated by the discovery that a previous statement contains a material inaccuracy. The need to restate financial figures can result from accounting errors, noncompliance with generally accepted accounting principles (GAAP), fraud, misrepresentation or a simple clerical error. The choice of earnings restatements to identify financial reporting failure can be justified with the following reasons: restatements are an acknowledgement that prior financial statements were not in accordance with generally accepted accounting principles (GAAP) (Palmrose & Scholz, 2004). They indicate a breakdown in a firm's internal control system. Restatements have a material adverse effect on firm valuation. Palmrose and Scholz (2004) report a market reaction of -9.2% to restatement announcements over a two-day window. Wu (2002) reports that earnings response coefficients decline following restatements, likely indicating a loss of confidence in the company's earnings quality. Hribar and Jenkins (2004) show that the firm's cost of capital increases following a restatement announcement.

Restatements can decrease reported income (income-decreasing) or increase reported income (income-increasing). Income-decreasing restatements suggest that prior accounting was aggressive, whereas income-increasing restatements, though still improper accounting, suggest either conservative accounting or "big-bath" behavior. Prior studies suggest that it is important to distinguish between these types of restatements (Callen et al. 2002; Myers et al. 2003). Restatements can also be technical in nature and not misstatements (Palmrose et al., 2004). These arise from routine actions such as discontinued operations or accounting profession regulatory guideline/task force rulings.

According to Ettredge, et al. (2013), restatements are due to intentional earnings management in as much as most financial statement restatement is blamed on the misuse of the generally accepted accounting principles (GAAP) or on error. He insisted that restatement are fraudulent and calls for more scrutiny. Pamrose et al. (2004) in their work found out that financial reporting by US firms that announced restatement with more core restatement showed a higher tendency of intentional misstatements.

Discretionary Accruals

In accounting, the term “accrual” refers to a journal entry where a revenue, expense or asset item is recorded in absence of an actual cash transaction. In this sense therefore, discretionary accrual refers to accruals which are created by management of a reporting entity in exercise of their discretion; i.e. the entity’s management using its own discretion in deciding whether or not to create accrual. Thus in operational terms, discretionary accrual is a non-mandatory expense, asset or revenue item that is recorded within the accounting system that is yet to be realized.

In earnings management literature, a discrete and substantial area of research differentiates “abnormal” from “normal” accruals by directly modeling the accrual process. Abnormal accruals have been the focus of much empirical research in accounting. Almost more than one hundred papers used “abnormal” accruals generated from an accruals model as a measure of earnings quality.

Abnormal accruals have been used as a proxy for earnings quality to test predictions ¡n almost all of the determinants and consequences categories. The normal accruals are preordained to capture adjustments that reflect fundamental performance, whereas abnormal accruals are inevitable to apprehend distortions induced by application of accounting rules or earnings management. In 1991, Jones used changes in sales control for non-discretionary accruals of current assets and liabilities. Jones (1991) used property, plant and equipment control for the non-discretionary component of depreciation expense. The justification for this was that a firm’s working capital accruals depends upon sales, whereas its depreciation accruals depend on the level of property, plant, and equipment. The proxy for earnings management, that is the discretionary accruals, was estimated as residuals from regression of total accruals on non-discretionary determinants of accruals.

Kothari et al. (2005) introduced other modifications where, the return on assets was directly used as an additional independent variable into the Modified Jones Model (Dechow et al. 1995) in order to control for firm’s performance. Nevertheless, the performance-matched approach was implemented. They calculated performance-matched discretionary accruals, by matching the firm-year observation of the sample firm with the control firm from the same industry and year. Therefore, the closest return on assets (ROA) of current year or prior year, then subtracted the control firm’s discretionary accruals from the sample firm’s discretionary accruals. Nonetheless, as the literature surrounding the discretionary accruals has evolved over decades, the more efficient approaches have been derived to account for earnings management.

Theoretical Framework

Agency Theory

This study adopted the agency theory as it is the baseline social theory on which the study concept are founded to underscore the prevalence of earnings management practices among listed consumer goods manufacturing firms in Nigeria. Agency theory originated from the work of Berle and Means (1932). They explored the concept of agency and the applications toward the development of large corporations. They found out how the interest of the directors and managers differ from the owners of the firm, thereby using the concepts of agency- principal to explain the genesis of those conflicts. Jensen and Meckling (1976), furthered on the work of Berle and Means (1932) developed agency theory as a formal concept. They also formed a school of thought arguing that corporations are structured to minimize the costs of getting agents (agency costs), to follow the direction and interests of the principals.

The theory essentially acknowledges that different parties involved in a given situation with same given goal will have different motivations, and these differences can manifest in diverse ways. This means that there will always be partial goal conflict among parties, because efficiency is inseparable from effectiveness, and thus information will always be somewhat asymmetric between principal and agent. Agency theory is therefore concerned with contractual relationship between two or more persons called the agent(s) to perform some services on behalf of the principal. Both the agents and the principal are presumed to have entered into mutual agreement or contract motivated solely by self-interest. The principal delegates decision-making responsibility to the agents (Chowdhury, 2004). It is a concept that explains why behaviour or decisions vary when exhibited by members of a group. Specifically, it describes the relationship between one party called the principal who delegates work to another called the agent. It explains their differences in behaviour or decisions by noting the two parties often have different goals and are independent of their respective goals and they have different attitudes toward risk. Invariably, the agents’ decision and choices are assumed to have effect on both parties. These relationships, according to Bromwich (1992), are perceived in economic and business life and also generate more problems of contracting between entities in the economy. This means that there is a contractual relationship between shareholders and directors and audit committee and shareholders or between audit committee and external auditors.

Considering earnings management practice, agency theory explains clearly the existence of the incentive for management to use earnings management. Therefore, Salah (2010) (in Abdul Rauf et al., 2012) suggests that,

management could use earnings to mislead shareholders by showing a different image of the company's earnings. Additionally, Sun and Rath (2008) pointed out that earnings management may arise as a result of information asymmetry or problem of agency conflicts that occur when equity ownership is separated from day-to-day

Review of Empirical Literature

Adeyemi and Okpala (2011) also note that an audit firm's tenure can result in a loss of auditor's independence, a situation which is likely to create room for earnings management practice to fester. A long audit-client relationship could lead to an alignment of the auditors' interest and that of its client which makes truly independent behaviour of the auditor a probability. According to Johnson et al. (2002), as the auditor-client relationship lengthens, there is the tendency that auditor may develop a "learned confidence" in the client which may result in the auditor not performing religiously, the required testing of financial reports. This learned confidence results in the auditor making assumptions about outcomes and using less rigorous audit procedures or static audit programmes. In so doing therefore, fertile ground is potentially being created for earnings management practice to fester.

Martinez and Moraes (2016), investigated effect of audit fees on earnings management in Brazilian market using a sample of 300 firms listed on the BM&F Bovespa for which it was possible to identify the amount paid to the auditors, using data gathered from the Economatica database and the website of the Brazilian Securities Commission. The study analyzed the data using multiple regressions and the findings revealed a negative and significant relationship between audit fee and earnings management meaning that audit firms that charge less for their service tend to be more relaxed regarding earnings management by their client companies.

Aliyu et al. (2015), investigated the impact of audit quality on earning management of listed deposit money banks in Nigeria for the period of 2006-2013. The study used the Ordinary Least Squares (OLS) regression technique of data analysis; the results show that audit quality has significant impact on the Earnings Management of listed deposit money banks in Nigeria during the period under the study. The results also show that audit firm size and joint audit services have significant negative impact on the Earnings Management of listed deposit money banks in Nigeria. While auditor financial dependence has a significant positive impact on Earnings Management of listed deposit money banks in Nigeria.

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

3. METHODOLOGY

The study adopted the balanced panel data methodology design covering the period from 2012 to 2018 was employed. Accordingly, pooled historical data were collected and analyzed, using quantitative approach with a view to obtaining statistical evidence, on which basis inferences are drawn. Consumer-goods manufacturing firms whose stocks are listed on the floor of the Nigerian Stock Exchange (NSE) as at 3rd of October, 2019 constitutes the population of this study. A total of 26 listed consumer goods firms served as the study population. Firms whose data history does not fall within the study period were not included. Since the population is finite and relatively small, a census approach is adopted instead of taking a sample. Thus 26 firms were sampled for the study. Secondary data were obtained from the published annual reports, databases of the Nigerian Stock Exchange (NSE). The analytical procedure is carried out in two distinct phases, namely univariate (or descriptive) analysis and bivariate analysis

Model Specification

Our model for this study is built around two main variables, namely audit Firm Size (the predictor/independent variable), and earnings management, (the criterion/dependent variable). On the other hand, earnings management, (EM) is measured by earnings restatement (REST) and discretionary accruals (DISC). In generic form, the proposed model and expressed as follows:

$EM = f$ (AFS) *Eqn.*

In accordance with the measures and dimensions used in place of the main variables, eqn. (3.1) is further decomposed and restated as follows:

DISC = f (ASIZE) *Eqn.* (3.2)
REST =f (ASIZE) *Eqn.* (3.2)

Our proposed logistic model is specified thus:

$REST = ß_0 + ß_1 \text{ ASIZE} + \mu.$ *Eqn.* (3.3)

$DISC = ß_0 + ß_1 \text{ ASIZE} + \mu.$ *Eqn.* (3.3)

Table 3.1: Summary of Variable Measurements

Variables	**Measurement Description and Source**
Discretionary Accruals	Modified Jones (1991) model, using the residuals of the equation for total accruals which is determined on cash flow basis. Dechow et al., (1995).
Earnings Restatement	Dummy variable, taking value equal to 1 if in any reporting year, the sampled firm made any prior year adjustment in its book, and 0 if otherwise. Backer et al., (1998), DeAngelo (1981)
ASIZE	Big Four auditors to proxy for higher audit quality and used non-Big Four auditors to proxy for lower audit quality. Evidence exists that earnings of firms audited by Big N audit firms have superior quality compared to firms audited by non-Big N audit firms (e.g. Krishnan, 2003).

4. RESULTS AND ANALYSIS

Descriptive Analysis

Audit Firm Size

Audit Firm Size denotes size of an accounting firm in relation to possession of capacity in carrying out audit services. It is operationalized dichotomously as either being manifested in the form of one of the "big-four" multinational audit firms, or any other of the "Non-Big-four". Accordingly, “1” is assigned in as a score to any of the samples in any year if the financial audit for the sampled firm was done by any one of the "big-four" while "0" is assigned as a score otherwise.

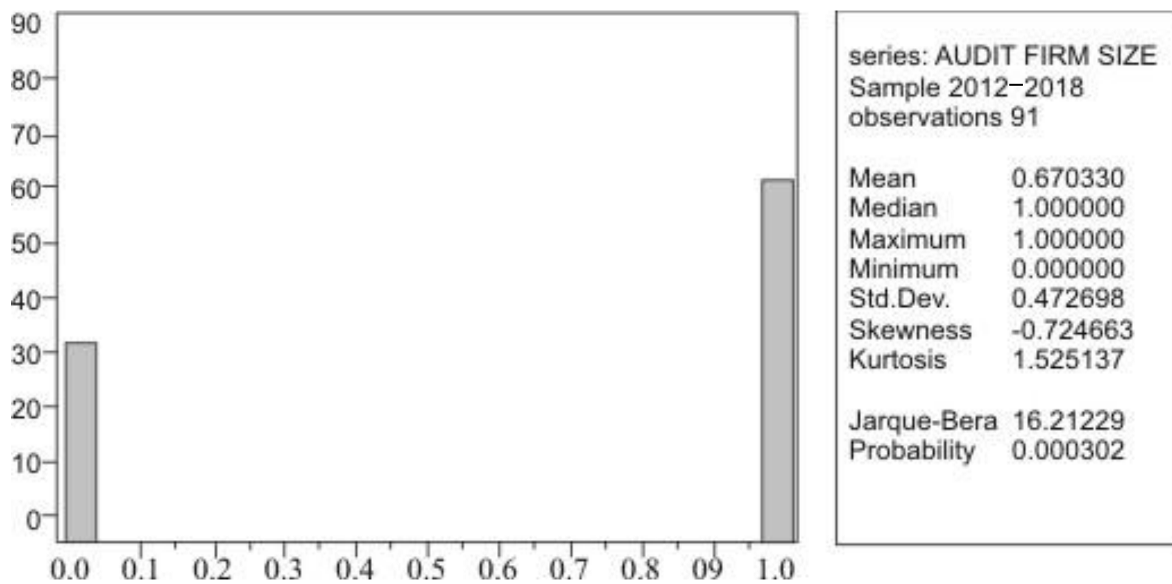

Figure 4.1: Audit Firm Size characteristic of the listed consumer-goods manufacturing firms in Nigeria

A total of 91 observations from 13 listed consumer-goods manufacturing firms were evaluated. With regards to central tendency of the observations, a mean score of 0.6703 was recorded over the range of 0 and 1. This can be interpreted to mean that out of every statutory audit in consumer-goods manufacturing subsector, approximately 67of the audits is done by a member of the big-four auditors in Nigeria (KPMG, PWC, Akintola Williams Delloitte and Ernst and Young).As a clear departure from the previous observation, the frequency of big-four audits in the sector is characterized by low variability, hence the low standard deviation (0.4727) relative to the average. In addition, the frequency of big-four audit is fairly skewed (-0.7247) to the right, away from zero. Therefore, the foregoing statistics appears to confirm the general notion of concentrated audit market in the hand of the big-four audit firms in Nigeria.

Earnings Restatement

Accordingly, "1" is assigned as a score to any of the samples in any year if there is a restatement while "0" is assigned as a score otherwise.

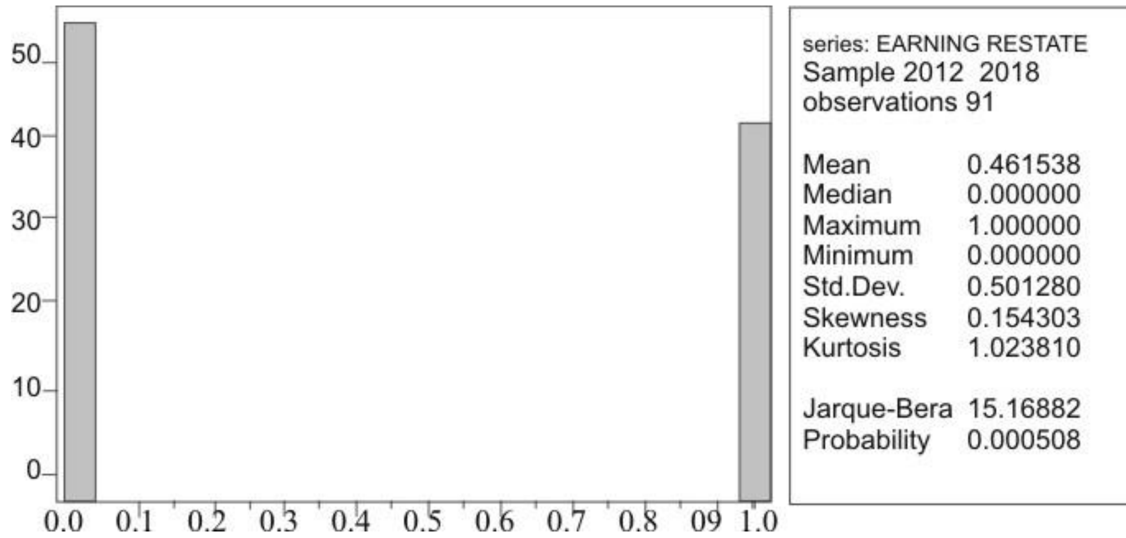

Figure 4.2 Earnings Restatement of Listed Nigerian Consumer-Goods Manufacturing Firm.
Source: researcher's desk

Out of the observed 91 data points that were observed, there were 46 (or 46.15 per cent) confirmed restatement of earnings thus giving rise to 0.4615 approximate mean score. These observations were gathered from a wide range of firms; hence the standard deviation is greater than the observed means score. However, the incidences of earnings restatements and non-restatements are not only almost evenly matched as indicated by the slightly positive skewness (0.154303), they are not normally distributed as well. The implication of its asymmetric distribution is that, as a dependent variable, its estimation procedure may not be compatible with Ordinary Least Squares technique, thus requiring special technique that is not founded on normality assumption as a precondition. Therefore, in conclusion, with a manifestation degree as measured by the mean score, it can be concluded here that there is significant prevalence rate of earnings restatement in the listed consumer-goods manufacturing firm's subsector in Nigeria.

Discretionary Accruals

These are components of non-mandatorily recognized expenses, revenues, or/and assets in reported income or loss, before they are realized. As a variable, it is operationalized as the residual to the normal equation of total accrual which is scaled by total asset. In effect, it measures discretionary accruals per naira book value of total asset.

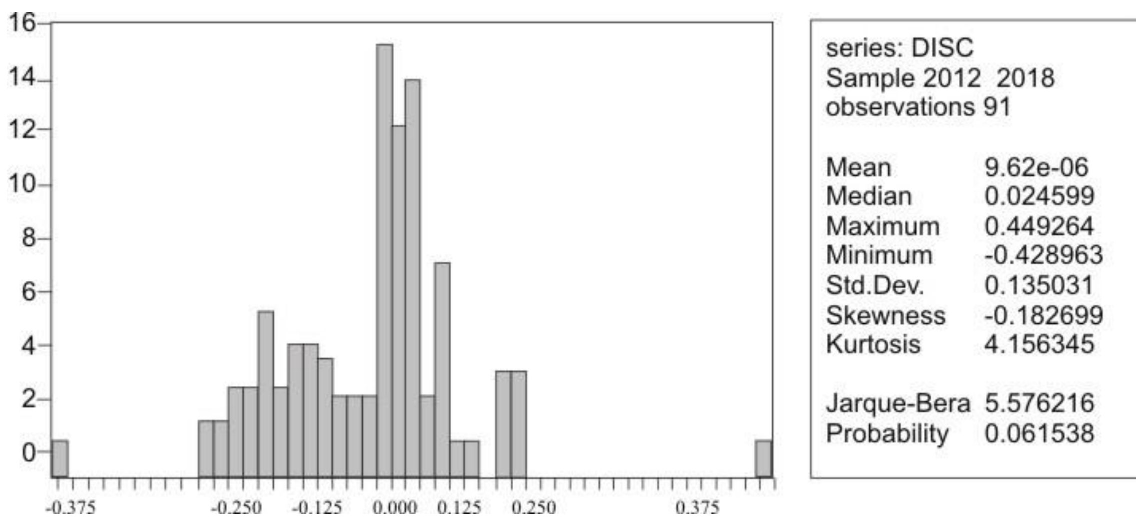

Figure 4.2 Discretionary Accruals of Listed Nigerian Consumer-Goods Firms

Of the total number of observations (91 in number from 13 firm samples), the maximum and minimum recorded discretionary accruals are approximately NO.45 and -M0.43 respectively. This implies that the highest amount by which

reported income of listed consumer-goods manufacturing firm in Nigeria can be overstated is MO.45 for every Ml of the reporting entity's total assets book value. On the other hand, the least amount by which reported income can be understated is M0.43 for every Ml of the reporting entity's total assets book value. The histogram shows that the frequencies of these extreme values are rare. In fact, there are more incidences of income-decreasing accrual than incidences of income-increasing accruals, though the cumulative absolute quantum of income-increasing accruals is greater than that of income-decreasing accruals. The difference however, is negligibly small, hence the near-zero mean value (0.0000096).

With respect to shape of distribution, discretionary accruals of listed consumer-goods manufacturing firms in Nigeria are fairly symmetric as indicated by the Jarque-Bera statistic (5.5762) and associated probability value (0.061538). The implication of the normality of this as a dependent variable is that, its estimation procedure is perfectly suited with Ordinary Least Squares technique, which is rooted on normality assumption as a prerequisite.

Statistical Test of Hypotheses

For the purpose of this study, Pearson's Product Moment Correlation (PPMC) technique was used. The analyses were made in two phases. First the unrestricted Correlation was computed and the results are presented in table 4.1 as Correlation Matrix.

Table 4.1: Correlation Matrix

Correlation Probability Observations	REST	DISC	ASIZE
REST	1.000000		
	91		
DISC	0.407753	1 .000000	
	0.0001	----------	
	91	91	
ASIZE	-0.335454	-0.498589	1.000000
	0.0012	0.0000	-----------
	91	91	91
	91	91	91

Key:

REST	*Earnings restatement*
DISC	*Discretionary Accrual*
ASIZE	*Audit Firm Size*

This phase of the analysis is crucially important because it offers a sneak peek of potentially distortionary effect of multi-collinearity. Multi-collinearity is a phenomenon in which one predictor variable in a multiple regression model can be linearly predicted from the others with a substantial degree of accuracy (Wikipedia, 2019). The correlate on matrix can be used to detect the manifestation of multi-collinearity. According to Gujarati (2004), if the paired variables have coefficient of 0.8 and above, then there is a strong indication of the existence of excess correlation. Furthermore, the correlation matrix as presented in table 4.1 is important because it is instrumental in evaluating the moderating roles of the moderator variable. It gives insight into the interaction levels between the moderator variable and each of the variables at a glance.

The second phase is to test the hypothesized relationships of the variables using their partial correlations technique instead of the unrestricted correlation results which were presented in table 4.2. The preference of partial correlation over unrestricted correlation is based on the fact that the latter is limited by the assumption that relationship between the two variables are established without taking cognizance of extraneous relationships into which either variables are subject.

Therefore, with respect to concerns for multi-collinearity, there is no need for worry as none of the coefficients' absolute value is up to 0.8. The absolute values of the coefficients range between 0.055352 and 0.49858, both inclusive.

With respect to the second phase of the analyses, the hypothesized relationships are analyzed and tested on a case-by-case basis in the succeeding subsections using partial correlation technique. Firm size is used as the contextual factor which is controlled in order to control the extraneous effect in the relationships.

Audit Firm Size and Earnings Management

Analysis of relationship between earnings management and audit firm size was done using earnings restatement and discretionary accrual as surrogates of earnings management. The tool of choice remains Pearson's product moment partial correlation (PPMC) technique, the results of which are presented in table 4.2.

With firm size as the constrained contextual factor, the coefficient of partial correlation between audit firm size and discretionary accrual produced a significant negative relationship (-0.4770; p-value = 0.000 < 0.05). Even if the moderating influence of firm size were to be ignored, the conclusion (-0.3355; p-value = 0.0012 < 0.05) as presented in table 4.2, to reject the null hypothesis remains consistent. However, the coefficients from the two scenarios are significantly different. Thus the difference between the two coefficients clearly establishes the moderating impact of firm size as moderator variable. According to the result, audit firm size of listed consumer-goods manufacturing firms in Nigeria is negatively and significantly associated with their discretionary accruals. Big audit firms' audits are negatively associated with lower frequencies of discretionary accruals. In theory, about 22.8% (i.e. R^2) of the observable variability in discretionary accruals of listed consumer-goods manufacturing firms in Nigeria can be attributed to differences in audit firm sizes carrying out audit services in the firm. In conclusion therefore according to results obtained, there is significant negative relationship between audit firm size and discretionary accruals of listed consumer-goods manufacturing firms in Nigeria. Therefore, regarding hypothesis $Ho_{1:}$ (i.e. *"Audit firm size has no significant relationship with discretionary accruals practices of listed consumer-goods manufacturing firms in Nigeria"),* there is justifiable statistical reason to reject the null hypothesis.

The negative relationship between audit firm size and discretionary accruals of consumer goods manufacturing firms in Nigeria during the period under investigation shows that audit firm size is associated with decrease in discretionary accruals, this did not come as a shock as it is in line with our a prior expectation because the big 4 audit firms have the technical know-how and resources to carry out high audit quality hence constraining earnings management practices of consumer goods manufacturing firms in Nigeria. Again, because of the reputation the big 4 audit firms have to protect and the high risk of litigation cost for not reporting a fraudulent free audited financial statement is a strong reason to prepare a high audit quality report devoid of earnings manipulation.

Table 4.2: Partial Correlation Analysis of Audit Indicator Firm Size versus Earnings Management

Correlation Probability observations	DISC	REST	ASIZE	JOINT
DISC	1.000000 ----- 91			
REST	0.398942 0.0001 91	1.000000 ---- 91		
ASIZE	1.57E-09 1.0000 91	2.23E-09 1.0000 91	1.000000 ----- 91	
JOINT	-0.477039 0.0000 91	-0.328952 0.0015 91	-5.26E-09 1.0000 91	1.000000 ---- 91

Key:

DISC	*Discretionary Accrual*
REST	*Earnings restatement*
TENURE	*Auditor's tenure*
ASIZE	*Firm Size*

Also, results on the correlation between audit firm size and earnings restatement are presented in table 4.2. According to the results, audit firm size significantly exerts negative influence on earnings restatement of listed consumer-goods manufacturing firms in Nigeria. Since the correlation coefficient is -0.3290, it means the coefficient of determination is

approximately 10.8%, This means about 10.8 per cent of decreases in earnings restatement are attributable to changing dynamics of audit firm sizes of listed consumer-goods producing firms in Nigeria. Therefore, in view of the obtained correlation coefficient and its probability value (i.e. -0.3290; p-value = 0.0015 < 0.05) and with regards to the null hypothesis (HO_2) it can be concluded that there is significant relationship between audits firm size and earnings restatement of listed consumer-goods manufacturing firms in Nigeria. Hence $Ho_{2:}$ (i.e. *"Audit firm size has no significant relationship with earnings restatement of listed consumer-goods manufacturing firms in Nigeria")* is rejected.

The negative relationship outcome is an indication that the big size audit firms known as the big 4 is courteous of the kind of audited account they present to the public, reputation as an identity is of a serious concern and importance to the big 4 audit firms.

Summary and Discussion of findings

	Hypothesis	**Bivariate**	**Multivariate**
H_{01}:	Audit firm size has no significant influence on earnings reinstatement of listed consumer goods manufacturing firms in Nigeria	Rejected	Rejected
$H_{02:}$	Audit firm size has no significant impact on discretionary accruals of listed consumer goods manufacturing firms in Nigeria	Rejected	Rejected

Discussion of Findings

Audit Firm Size and Earnings Management

Results on audit firm size nexus with earnings management also turned out to be mixed. On one hand, results obtained in this study indicate that audit firm size is negatively related with earnings management, if earnings management is viewed from the prism of earnings restatement. On the other hand, if earnings management is viewed from the perspective of discretionary accruals, results appear to indicate that audit firm size is positively associated with earnings management.

Looking at earnings management from the prism of earnings restatement, the test results imply that continued audit by a Big-4 audit firm decreases earnings management progressively. The results of this research support the results of previous research (Alzoubi,2016 and Houqe et al., 2015) that concludes that auditor size has a negative influence on measurement of earnings management in the previous studies. Measurement of earnings management in this research is based respectively on earnings restatement and discretionary accruals, while in previous research, earnings management is measured by discretionary accruals. The results of this research support the explanation that Big-4 auditors possess better audit resources than non-Big-4 auditors. Large audit firms possess resource capacities, including staff number and quality, application of methodology and technology in carrying out audits, internal control of the audit firms, and audit procedures that are better compared to small auditor firms. Thus the knowledge that such vast amount of resources at the disposal of big-4 audit firms can be deployed, client firms' management are kept on their toes and under pressure to avoid cooking the books (deterrence hypothesis). Therefore, it is expected that audit firm size should be negatively (or positively) related to earnings management.

Conversely, results from analysis also indicate that audit firm size is positively related with earnings management, when viewed from the perspective of discretionary accruals as a proxy of earnings management. It is important to note that in relating discretionary accrual to audit quality, client firm size is believed to have significant confounding relationship with both variables, thus necessitating its moderation. Therefore, after controlling for the confounding effect of client firm size, a significant and positive relationship was found to exist between audit firm size and discretionary accruals. The implication of this result is that high-accrual consumer-goods manufacturing firms tend to engage big-4 audit firms more than they engage non-big-4 audit firms. More often than not, such high-accrual firms find themselves in debt covenant constraint and must find some ways to avoid violations. Thus because high-accrual firms have greater incentive for engaging in earnings management, these firms are more likely to hire a big audit firm to provide assurance that earnings are credible. Our findings are consistent with the study's outcome of Yasar (2013), Molik et al. (2013) and Jeong (1999) who found a positive con-elation between audit firm size and discretionary accruals argue that high-accrual firms have greater opportunity for engaging in earnings management but contrary to the findings of Okolie et al. (2013), Becker et al.,(1998) and Francis and Krishnan (1999). Although, the early previous research suggesting audit firm size (big, 4) constraining discretionary accrual were usually performed in the USA where there exist effective and oversight mechanism for auditors than in Nigeria where the Institution is weak and a little litigation risk for auditors as such auditors may not constrain earnings management (discretionary accruals) since there is no strong penalty mechanism against erring auditors.

5. CONCLUSION AND RECOMMENDATION

This study concludes that audit firm size is a significant indicator of audit quality in terms *of* earnings restatement constraining capacity, provided auditees' sizes variability do not matter. On the other hand, if auditees' size variability is controlled, it is the conclusion of this study that firms audited by a Big 4 firm are associated with a greater magnitude of discretionary accruals and, as such, are more prone to manipulation of results. The study therefore recommends that:

Financial Reporting Council of Nigeria (FRCN), should explore the principles of the deep pocket hypothesis whereby stiffer disciplinary measures (e.g. litigations and claims) for damage to be meted out.

To ensure positive significant relationship with earnings management, the firms should voluntary engage two audit firms in all to other to allow for effective comparison, so that hidden information in financial statement could be dictated or revealed.

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