

Effects of Audit Quality and Corporate Governance on Earnings Management of Quoted Deposit Money Banks in Nigeria

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Abstract : The stakeholders' pressure on corporate managers to maintain firm's profitability has created economic incentives for management to engage in earnings management practices. Therefore, this study examines the effects of audit quality and corporate governance on earnings management of quoted deposit money banks (DMBs) in Nigeria. This study specifically investigates the influence of audit tenure, audit fee, board independence, and board size on earnings management of DMBs. Explanatory research design was employed in carrying out the study while secondary data were sourced from the annual reports and accounts of all the 15 quoted DMBs in Nigerian Stock Exchange as at December 31, 2015 for a period of 10 years covering from 2006 to 2015. The data obtained for the study were analyzed using panel regression analysis approach. The findings reveal that board independence has a negative significant effect on earnings management at a 5% level of significance ($p=0.002$), while audit fee has a positive significant effect on earnings management at a 5% level of significance ($p=0.013$) and audit tenure has a negative significant effect on earnings management of DMBs at a 5% level of significance ($p=0.003$). Surprisingly, board size was statistically not significant at a 5% level of significance ($p=0.086$). The study concludes that high audit quality and sound corporate governance could improve the earnings quality of DMBs. Hence, the study recommends that the authorities saddled with the responsibility of banking supervision in Nigeria such the Securities and Exchange Commission (SEC) and CBN to advise the National Assembly in Nigeria to pass into law the three years professional requirement for audit tenure.

Keywords : audit quality, audit tenure, audit fee, board independence, corporate governance, earnings management

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