Audit Quality and Earnings Management of Listed Oil Marketing Companies in Nigeria

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Abstract

We investigate the impact of audit quality on earnings management (EM) of 8 oil marketing companies listed on the Nigerian Stock Exchange (NSE) from 2004 to 2013.We focus on oil marketing companies because of the alleged large scale financial misrepresentations associated with the Nigerian oil sector. We expect a significant negative relationship between audit quality and EM which is represented by discretionary accruals estimated by the modified Jones Model. We use audit firm size, auditor industry specialization and auditor tenure as proxies for audit quality. Contrary to expectations, our results reveal that both audit firm size and auditor industry specialization have negative but insignificant impact on EM of the sampled companies. We, however, find evidence of a significant negative impact of auditor tenure on EM which is consistent with our a priori expectations. We recommend the removal of the restriction placed on the tenure of auditors to a maximum of nine consecutive years by the Securities and Exchange Commission (SEC) because of its potential to constrain earnings management practices of Nigerian listed companies.

Keywords: Audit Quality, Earnings Management, Oil Marketing Companies, Nigeria.

1.0   Introduction

The oil and gas industry is one of the vital industries in the world, been a major source of energy and provider of foreign exchange earnings to nation states endowed with the resources. The industry has distinctive features of been capital intensive, association with high level of risk and uncertainty, and complexity in technical and operational set up (Faure & Wang, 2004 as cited by Samaila, 2014). The oil industry in Nigeria is classified into the upstream and the downstream sectors. The upstream sector is characterized by activities like acquisition of mineral rights in oil and gas, exploration, development, and production of oil and gas. The downstream sector engages in storage and transportation of oil, refining and hydro processing, marketing and distribution of oil, gas and its derivatives.

The Nigerian National Petroleum Corporation (NNPC) is charged with the responsibility of coordinating the activities of both sectors and ensuring that the finished petroleum products reach the final consumers. The oil marketing companies procure and transport refined petroleum products from NNPC depots or other marketers and sell such products through a network of stations, peddling trucks and vessels (Samaila, 2014). Oil marketing companies are also involved in marketing of locally made and imported lubricants, insecticides, bitumen and other related petroleum products.

The operations of the NNPC have been associated with allegations of fraudulent financial practices ranging from unremitted funds to the federation account to excessive expenditure of oil proceeds. For instance, in the PriceWaterHouse report commissioned by the government (see Punch, February 5, 2015), cases of unremitted amounts and expenditure of about 40% of oil proceeds by the NNPC were reported. These financial scandals have been identified with oil marketing companies as well, exemplified by the case of African Petroleum plc (now Forte oil plc) where a credit facility of 24 billion naira was not disclosed in the financial statements (Samaila, 2014). The implication of accounting scandals of these nature is obvious- loss of public confidence in the financial reports of Nigerian companies generally and oil marketing companies in particular amidst fears that financial reporting fraud could be more pervasive than imagined among the oil marketing companies.

One of the most important responsibilities of the managers of a firm is to provide financial reports and information used by current and potential investors, creditors and other potential users in making investment and financing decisions. These financial reports contain accounting earnings which different stakeholders use to evaluate the profitability of the firm, predict the future earnings and its related risks, and assess the performance of management of the reporting entity generally (Karimi & Gerayli, 2014). Given the importance of accounting earnings, managers sometimes use their discretion over the selection of accounting choices accorded them by Generally Accepted Accounting Principles (GAAP) to influence the amount of reported earnings with the intent of deriving personal benefits at the expense of other stakeholders. This manipulative behavior of managers is at best called earnings management and at worst tagged as financial statement fraud (FSF). Extant literature, therefore, associates earnings management with the deliberate altering of financial statements through the use of judgment in structuring transactions to either mislead the firm's stakeholders about the true economic picture of the firm or to achieve some contractual benefit that is based on accounting numbers (Healy & Wahlen, 1999). The principal reasons for this obscure managerial behaviour are traced to, amongst others, attempts to enhance

compensation bonus (Sun & Sun, 2007), beat analyst forecast (Comprix, Mills & Schimidt, 2007), and attract favorable subscription during Initial Public Offerings (IPO) (Teoh, Wong & Rao, 1998).

Literature suggests that one of the mechanisms believed to be effective in monitoring the opportunistic behavior of management is the quality of the external auditor, commonly called audit quality (DeAngelo, 1981). However, the last decade witnessed several accounting scandals and corporate failures that were blamed on earnings management practices of firms globally, which audit quality was not able to detect. The United States alone recorded ten largest bankruptcies in 2002, including the two largest in world history, namely WorldCom and Enron (Albrecht, Albrecht & Albrecht, 2004). In Nigeria, Cadbury Nig. Plc and African Petroleum are exemplar cases. The increasing incidence of corporate scandals or failures associated with earnings management has led to loss of public confidence in the quality of reported accounting earnings and the audit function generally. Accordingly, earnings management has become a matter of great concern to regulators, practitioners as well as accounting researchers (Okolie, 2014) due to the perverse consequences it has on corporate survival.

This paper, therefore, seeks to investigate the effect of audit quality on earnings management of listed oil marketing companies in Nigeria. Specifically, we test the following null hypotheses related to the subject matter: (1) Audit firm size has no significant impact on earnings management of listed oil marketing companies in Nigeria, (2) Auditor industry specialization has no significant impact on earnings management of listed oil marketing companies in Nigeria, and (3) Auditor tenure has no significant impact on earnings management of listed oil marketing companies in Nigeria.

The remaining part of the paper is organized as follows: Section two reviews the related literature and theoretical framework for the study. Section three addresses methodological issues and specifies the model for the study. Section four presents and discusses the results of data analysis while section five provides the conclusion and recommendations.

2.   Review of Related Literature
2.1   The concepts of audit quality and earnings management
Though audit quality is not a new concept in accounting literature, up till now it has no single universally accepted definition. The most widely used definition of audit quality is by DeAngelo (1981 p. 183) which states that "the quality of audit services is the market-assessed joint probability that a given auditor will both (a) discover a breach in the client's accounting system, and (b) report the breach." Other researchers associate audit quality with the reliability of financial statements information and adherence to generally accepted auditing standards (GAAS). Heralding the reliability of financial statements information arguments, Titman and Trueman (1986) posit that high quality external auditors enhance the accuracy of reported accounting information, suggesting that financial statements audited by high quality external auditors rarely contain material misstatements. Researchers who link audit quality to adherence to GAAS (see Bedard, Johnstone, &Smith, 2010) argue that audit conducted in accordance with GAAS provides reasonable assurance that the audited financial statements and related disclosures are presented in accordance with generally accepted accounting principles (GAAP).

Similarly, the accounting literature is yet to provide a universally accepted definition of the term "earnings management''. Earnings management is defined differently by different researchers, depending on how they perceive it. Healy and Wahlen (1999) define earnings management as the altering of financial statements through the use of 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 numbers. In the words of Schipper (1989), earnings management involves 'disclosure management' in the sense of a purposeful intervention in the external financial reporting process, with a view to obtain private gain for shareholders or managers.

Fields, Lys, and Vincent (2001) are of the opinion that earnings management arises when managers exercise discretion over accounting numbers, with or without restrictions. The discretion is exercised to either maximize firm value (Shareholders wealth) or to maximize the selfish interest of managers (opportunistic earnings management).

In another attempt to define earnings management, Dechow and Skinner (2000) classified earnings management into two broad groups: earnings management within GAAP and earnings management that violates GAAP. They termed earnings management that violates GAAP as fraudulent financial reporting. Fraud is defined as " the intentional, deliberate misstatement or omission of material facts, or accounting data, which is misleading and, when considered with all other information made available would cause the reader to change or alter his or her judgment or decision" (The National Association of Certified Fraud Examiners, 1993, P.12).

2.2   Theoretical framework
The theoretical framework for this study is anchored on the agency theory and the stakeholder theory. The agency theory articulates principal –agent relationship between the shareholders and the managers with

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managers acting as agents whose personal interest does not always cohere with the company and the shareholder interest (Jensen & Meckling, 1976). The separation of ownership from management and control in modern business corporations provides the basis for the function of agency theory, it creates the potential for conflicts of interests between the agents and principals and requires monitoring of the activities of the managers (the agents). One of the monitoring mechanisms advocated in corporate governance literature is the setting up of a monitoring board, but the collapse of Enron and WorldCom demonstrates the limits of a monitoring board (Deakin & Konzelmann, 2004). The major predicament of agency theory, therefore, is how to align the conflicting interests of the managers with the interests of shareholders but when managers have incentives to manage earnings such as to meet or beat earnings target, performance-based compensation, etc. they are likely to manipulate the company's reported earnings. This reduces the relevance and reliability of reported accounting earnings and financial statements generally. Davidson, Godwin-Steward and Kent (2005) observe that when managers provide inaccurate or false financial reporting information, they introduce earnings management as a form of agency costs. Agency theory, therefore, suggests monitoring mechanisms such as high quality external auditors to reduce these conflicts and align the interests of managers with the shareholders' interests.

The stakeholder perspective construes a stakeholder as "any group or individual who can influence or is influenced by the achievement of the organization's objectives"(see Freeman (1984 p.52), cited in Schilling (2000 p.225). In the words of Clarke (2004), stakeholder theory defines the firm as multilateral agreements between the enterprise and its multiple stakeholders. The relationship between the company and its internal stakeholders (such as employees, managers and owners) is framed by formal and informal rules developed through the history of the relationship. While management may receive finance from shareholders, they depend upon employees to accomplish the productive purpose of the company. External stakeholders (customers, suppliers and the community) are equally important, and also constrained by formal and informal rules that business must respect.

The stakeholder theory recognizes that the firm and the society are interdependent and so the firm serves a broader social purpose than its responsibilities to only shareholders and managers as proposed by the agency theory (Kiel & Nicholson, 2003). We argue, therefore, that there exists a strong linkage between earnings management and the stakeholder theory since the former has the inclination to mislead the latter who rely on reported earnings to take a variety of informed decisions.

2.3   Review of Empirical Studies

The debate on the relationship between audit quality and earnings management is yet to reach closure because of the conflicting empirical results obtained by researchers on the phenomenon of interest. While some empirical studies have reported the abilities of audit quality to significantly constrain earnings management (see Gul et al., 2009; Habbash, 2010; Inaam et al., 2012), others have reported otherwise. A summary of some of these studies conducted from 2003 to 2014 are presented in Table 1 below. These studies utilize discretionary accruals as proxies for earnings management while the ordinary least square regression model is the dominant tool for data analyses.

Table 1: **Summary of some prior studies investigating the effect of audit quality on earnings management from 2003 to 2014**

Author(s) & Year	Proxy for Audit Quality	Results
Krishnan (2003)	Specialist auditors Non-specialist auditors	EM higher under non-specialist auditors than specialist auditors
Balsam et al. (2003)	Specialist auditors Non-specialist auditors	EM higher under non-specialist auditors than specialist auditors
Chen, Wu & Zhou (2006)	Big 5 auditors Industry specialization	Audit quality associated with less EM
Gul et al. (2009)	Specialist auditors Non-specialist auditors	Negative association between auditor industry specialist and EM
Habbash (2010)	Specialized external auditors	Specialized external auditors negatively associated with EM
Gerayli et al. (2011)	Auditor size Auditor industry specialization Auditor independence	EM negatively related to audit quality
Memis (2012)	Auditor size (Big 4 auditors)	Audit quality positively related to EM
Inaam et al. (2012)	Auditor industry specialization Auditor size (Big 4 auditors)	Audit quality negatively associated with EM
Yasar (2013)	Audit firm size	Positive association between audit quality and EM
Pouraghajan et al. (2013)	Audit firm size	Positive but insignificant relationship between audit quality and EM
Okolie, Izedonmi & Enofe (2013)	Audit firm size Audit tenure Audit fees	Significant negative association between auditor quality and EM
Okolie (2014)	Audit fees Audit tenure	Significant negative association between audit fees and EM Negative association between audit tenure and EM
Zhou & Guan (2014)	Audit firm size Auditor industry specialization	Audit firm size negatively and significantly associated with EM Positive relationship between auditor industry specialization and EM

3.   Methodology

The correlational research design, which is used to describe the statistical relationship between two or more variables, is adopted for this study. It is most appropriate for this study because it allows for testing of expected relationships between and among variables and the making of predictions regarding such relationships.

The population of the research comprises ten (10) oil marketing companies listed on the Nigerian Stock Exchange (NSE) as at 31st December, 2013. The study is focused on oil marketing companies because the oil industry is one of the sectors that has contributed greatly to the development of the Nigerian economy. The sample for the study is 8 oil marketing companies only which are selected based on availability of data for the study period. The sample excludes Afroil Plc because it was delisted by Securities and Exchange Commission (SEC) in 2008. Another company, Beco Plc, was excluded because it was listed on the Nigerian Stock Exchange in 2009 (after 2004) and does not, therefore, have data from 2004 to 2008.

This study covers a ten (10) year period (2004-2013) which coincides with the global economic meltdown that adversely affected the world economy (Nigeria inclusive) and provided incentive for public companies to manipulate reported earnings to present impressive performance. This period also witnessed unprecedented competition for fresh capital by companies listed on the NSE, a situation that could have motivated public companies to engage in earnings management (Bello & Yero, 2011).

 The study used secondary data extracted from published annual reports and accounts of the sampled firms and the NSE fact book for the relevant years. The major tool of data analysis was multiple regression analysis carried out using E-views 7.

3.1   Variables and their Measurement

The dependent variable for this study is earnings management. Following a vast majority of recent studies on earnings management, discretionary accruals is used as a proxy for earnings management in the present study.

To estimate discretionary accruals, the modified cross-sectional Jones Model (Dechow, Sloan & Sweeney, 1995) is used because it has been widely tested and accepted by other scholars to outperform other models of estimating discretionary accruals (Bello & Yero, 2011).

In using the modified Jones Model, we first compute total accruals using the cash flow statement approach which has been proved to be better than the balance sheet approach of computing total accruals. The total accruals are computed under the cash flow statement approach as shown below:

$$TACC_{it} = NI_{it} - CFO_{it} \quad - \quad - \quad - \quad - \quad (1)$$

where:

$TACC_{it}$ = total accruals for firm i in year t

NI_{it} = net income for firm i in year t

CFO_{it} = cash flow from operations for firm i in year t

The second step is to estimate the parameters using ordinary least square (OLS) regression as follows:

$$TACC_{it}/A_{it-1} = \alpha_1\left(1/A_{it-1}\right) + \alpha_2\left((\Delta REV_{it} - \Delta AR_{it})/A_{it-1}\right) + \alpha_3\left(PPE_{it}/A_{it-1}\right) + e_{it} \quad - - \quad (2)$$

where

$TACC_{it}$ = total accruals for firm i in year t

A_{it-1} = total assets for firm i in year t-1

ΔREV_{it} = change in net revenues for firm i in year t

ΔAR_{it} = change in accounts receivables for firm i in year t

PPE_{it} = gross property, plant and equipment for firm i in year t

e_{it} = error term (discretionary accruals for firm i in year t)

α_1, α_2 and α_3 = are firm specific parameters.

Since the study is for one industry and time, the residuals are used directly as discretionary accruals which represent earnings management (see Bugshan, 2005 as cited in Bello & Yero, 2011).

The final step is to compute discretionary accruals (DA) as shown below:

$$DA_{it} = TACC_{it}/A_{it-1} - \alpha_1\left(1/A_{it-1}\right) + \alpha_2\left((\Delta REV_{it} - \Delta AR_{it})/A_{it-1}\right) + \alpha_3\left(PPE_{it}/A_{it-1}\right) \quad ---- \quad (3)$$

where DA_{it} is discretionary accruals while the other variables are as earlier explained above.

Table 2 below presents a summary of all the variables (dependent, independent and control) and their measurements.

Table 2: Study Variables and their Measurement

S/N	Proxy	Type	Measurement	Source
1.	Discretionary accruals (DA)	Dependent	Total accruals minus non-discretionary accruals	Annual reports & Accounts
2.	Audit firm size (AudSIZE)	Independent	A dummy variable 1, if the firm is audited by a Big 4 auditor, 0 otherwise	Annual reports & Accounts
3.	Auditor industry specialization (SPEC)	Independent	A dummy variable 1 if market size (MS) ≥10 percent and 0 otherwise.	Annual reports & Accounts
4.	Audit firm tenure (TENURE)	Independent	Number of consecutive years the client has retained a particular audit firm	Annual reports & Accounts
5.	Company size (CoySIZE)	Control	Natural log of company total assets	Annual reports & Accounts
6.	Cash flow from operations (CFO)	Control	CFO divided by total assets at end of year t	Annual reports & Accounts

3.2 Specification of the Study Model

The study uses a multiple regression model. The panel methodology is adopted since the data to be analyzed has panel attributes. The model is as follows:

$$DA_{it} = b_0 + b_1 AudSIZE_{it} + b_2 SPEC_{it} + b_3 TENURE_{it} + b_4 CoySIZE_{it} + b_5 CFO_{it} + e_{it}$$

where:

DA_{it} = Discretionary accruals

AudSIZE$_{it}$	=	Audit firm size
SPEC$_{it}$	=	Auditor industry specialization
TENURE$_{it}$	=	Audit firm tenure
CoySIZE$_{it}$	=	Company size
CFO$_{it}$	=	Cash flow from operations

4. Results and Discussion

This section presents results and discusses major findings of the study. Descriptive statistics is discussed first, followed by correlation matrix, and finally the regression result.

Table 3: Descriptive Statistics

	DA	AudSIZE	SPEC	TENURE	CoySIZE	CFO
Mean	-16.00038	0.812500	0.600000	5.400000	17.26571	2.743493
Median	-0.185491	1.000000	1.000000	5.000000	17.19612	0.069367
Maximum	2.882635	1.000000	1.000000	11.00000	22.30835	214.4535
Minimum	-1249.850	0.000000	0.000000	1.000000	12.30953	-1.879940
Std. Dev.	139.7051	0.392775	0.492989	2.871069	1.474123	23.97296
Skewness	-8.773703	-1.601282	-0.408248	0.297882	0.030887	8.771804
Kurtosis	77.98966	3.564103	1.166667	1.995050	6.307335	77.96787
Observations	80	80	80	80	80	80

Source: Eviews 7 Output

From Table 3 above, the descriptive statistics results show that discretionary accruals (DA) have a mean value of -16.00038. This suggests very minimal DA for the sample firms during the study period as shown by the low magnitude of DA. The negative sign of the average DA indicates the direction of earnings management during the study period. The median, maximum, and minimum values of DA for the sampled firms stood at -0.185491, 2.882635, and -1249.850 respectively. Audit firm size (AudSIZE) had a mean score of 81.25% which implies that about 81.25% of the sampled firms were audited by the Big 4 audit firms during the study period. The median, maximum, and minimum values of AudSIZE were 1.00, 1.00, and 0.00 respectively. Auditor industry specialization (SPEC) had a mean value of 60% signifying that 60% of the audit firms that audited the sampled firms during the study period possess relevant knowledge and experience in the oil marketing sector. The median, maximum, and minimum values were 1.00, 1.00, and 0.00 respectively. Tenure had a mean value of 5 years which implies that on the average, the sampled companies retained their auditors for at least 5 years. The median, maximum, and minimum values were 5, 11, and 1 year(s) respectively.

The first control variable, firm size (CoySIZE), had a mean value of 17.26571. The median, maximum and minimum values of CoySIZE were 17.19612, 22.30835 and 12.30953 respectively. The second control variable, cash flow from operations (CFO), had a mean of 2.743493. The median, maximum and minimum value of CFO was 0.069367, 214.4535 and -1.879940 respectively. The Skewness for all the variables was very close to 1 except DA and CFO which had very high values. Similarly, the Kurtosis values for DA and CFO were very high, followed by COYSIZE and AUDSIZE. The high values of Skewness and kurtosis signify the presence of outliers in the data set which was resolved through data transformation. The transformation of data was necessary to take care of outliers (see Table 3 for the high kurtosis and skewness for some variables) in the data that could produce spurious regression results.

Table 4: Correlation Matrix

Correlation	SPEC	TENURE	AudSIZE	CoySIZE	CFO
SPEC	1.000000				
TENURE	-0.288704	1.000000			
AudSIZE	-0.196116	0.270561	1.000000		
CoySIZE	-0.027362	0.281939	-0.078541	1.000000	
CFO	-0.032087	-0.031123	-0.128189	-0.293001	1.000000

Source: Eviews 7 Output

Table 4 above shows the relationship between the regressors in the study model. The result shows that the independent and control variables are fairly correlated with each other. None of the correlation coefficients in the table above is greater than 0.8 (rule of the thumb), suggesting that there may be no problem of multicollinearity in the explanatory variables. However, to further confirm non existence of multicollinearity problem in the data, variance inflation factor (VIF) was computed. The result (see Table 5) reveals that multicollinearity may not pose a problem to the regression analysis as all VIF values were consistently lower than 10.

The result of the regression analysis is presented in the table below:

Table 5: Regression Result (Random Effect Model)

Variable	Coefficient	Std. Error	t-Statistic	Prob.	VIF
C	-23.12434	6.717817	-3.442241	0.0010	
AudSIZE	-0.490525	0.634504	-0.773084	0.4419	1.289490
SPEC	-0.364426	0.345360	-1.055206	0.2948	1.168423
TENURE	-0.547621	0.295477	-1.853346	0.0578	1.113532
CoySIZE	8.410068	2.396009	3.510033	0.0008	1.249650
CFO	0.250696	0.109410	2.291340	0.0248	1.139105
R-squared	0.197915				
Adjusted R-squared	0.143720				
S.E. of regression	1.383523				
F-statistic	3.651905				
Prob(F-statistic)	0.005231				
Durbin-Watson stat	1.947789				

Source: Eviews 7 Output

Table 5 above presents the summary of regression results of the dependent variable (DA) and the independent variable, audit quality (represented by audit firm size, auditor industry specialization, and auditor tenure). The result of Hausman specification test indicates that the random effect model is most appropriate for the data. The result shows that the model is fit for estimation and the explanatory variables are properly selected, combined, and used. This can be confirmed by the value of F-statistics of 3.65 (p=0.00) significant at 1% level of significance. This implies that the explanatory variables included in the model of the study are sufficient to explain the relationship between audit quality and earnings management (proxy by discretionary accruals) of listed oil marketing companies in Nigeria. The coefficient of determination (R^2) is 19.79%. This shows that 19.79% of variation in the dependent variable is jointly explained by the explanatory variables specified in the study model. Though the R^2 is low, it does not pose a problem to the study because the F-statistics value of the model is significant at 1%. The Durbin-Watson statistics of 1.95 (approximately 2) implies absence of auto-correlation problem within the study period.

The result of regression analysis shows that audit firm size (AudSIZE) has a negative (-0.49) but insignificant (p-value=0.44) relationship with discretionary accruals (proxy for earnings management) of the sampled oil marketing companies listed on the NSE during the study period. The possible reason for the negative relationship is because large audit firms (represented by Big 4) have more investment in reputation capital than small audit firms (non-Big 4). Secondly, large audit firms have a large client base than small audit firms that makes them less dependent on any one of them (DeAngelo, 1981). Consequently, clients of Big 4 audit firms are likely to be associated with less earnings management and hence the negative relationship in this study. The study concludes that audit firm size has no significant impact on earnings management of listed oil marketing companies in Nigeria during the study period. The present finding is consistent with findings of Chen et al. (2006), Gerayli et al. (2011), Inaam et al. (2012), Zhou and Guan (2014), and Okolie et al. (2014) but contradicts the previous findings by Pouraghajan et al. (2013) and Yasar (2013) who document a positive association between audit firm size and discretionary accruals.

Table 5 above also reveals a negative (-0.36) but insignificant (p-value=0.2948) relationship between auditor industry specialization (SPEC) and discretionary accruals (DA) of oil marketing companies listed on the NSE. The negative association is because industry specialist auditors possess relevant industry specific knowledge and experience that non- industry specialist auditors do not have. Secondly, industry specialist auditors invest in Information Technology (IT) relevant to their clients. The relevant experiences of specialist auditors make them to easily detect accounting irregularities and errors in a client accounting system than non-specialist auditors. This present finding collaborates prior findings by Balsam et al. (2003), Krishnam (2003), Habbash (2010), Gerayli et al. (2011), Inaam et al. (2012), and Ahmadzade et al. (2012) who document a negative association between SPEC and earnings management. The present finding however, contradicts the finding by Zhou and Guan (2014) who found a positive relationship between auditor industry specialization and discretionary accruals of Chinese firms. With the above evidence, the study concludes that SPEC has no significant impact on earnings management of listed oil marketing companies in Nigeria during the study period.

Similarly, Table 5 shows a negative (-0.55) and significant association (p-value=0.0578 at 10% level) between auditor tenure and discretionary accruals of the sampled oil marketing companies listed on the NSE. The possible explanation for the negative relationship is that the knowledge of the auditor of a client's accounting system increases with long tenure. Consequently, the auditor becomes more efficient in detecting

accounting irregularities of the client than he was at the beginning of the audit engagement. The negative relationship is therefore expected. The present result is consistent with Ahmadzade et al. (2012), Okolie et al. (2013), and Okolie (2014) who document negative association between auditor tenure and discretionary accruals. The empirical evidence supports the rejection of the null hypothesis that TENURE has no significant impact on earnings management of listed oil marketing companies in Nigeria.

Table 5 above also indicates that the control variables, company size and cash flow from operations have a significant positive relationship with earnings management. This implies that company size and cash flow from operations did not constrain earnings management of listed oil marketing companies in Nigeria during the study period.

5.0   Conclusion and Recommendations

This study examines the impact of audit quality (audit firm size, auditor industry specialization and auditor tenure) on earnings management of listed oil marketing companies in Nigeria for the period 2004-2013. Earnings management was represented by discretionary accruals estimated by the modified Jones Model. Secondary data were extracted from the annual reports of 8 listed oil marketing companies that form the sample of the study and analyzed using multiple regression analysis. The results reveal that both audit firm size and auditor industry specialization have negative but insignificant impact on EM of the sampled oil marketing companies during the study period. Auditor tenure has a significant negative impact on EM of the sampled oil marketing companies listed on the NSE which is consistent with our apriori expectations. The study recommends the removal of the restriction placed on the tenure of external auditors to a maximum of nine (9) consecutive years since longer auditor tenures are likely to constrain earnings management practices of listed companies in Nigeria.
Acknowledgements

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