



Audit quality and Earnings Management in Quoted Nigerian Banks

Sylvester ERIABIE^a

Eyesan Leslie DABOR^b

^a Ph.D., Department of Accounting, Benson Idahosa University, Nigeria, seriabie@biu.edu.ng

^b Ph.D., Department of Accounting, University of Benin, Nigeria, dabor_el@yahoo.com

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Abstract

The objective of the study is to find out the impact of audit quality on earnings management. The study used a sample of all eighteen banks quoted on the stock exchange as at December, 2010. Data was gathered for the period 2005 to 2010. The cross-sectional year by year regression analysis was performed. Audit quality is measured by using audit fees and auditor change, and abnormal loan loss provision is used to measure earnings management. Though the result was mixed, however, based on the frequency of results for the period of the study, both audit fee and auditor change were positively related to abnormal loan loss provision. This suggests that high audit fee and change in auditor tenure will aggravate earnings management. We recommend that auditor change should not be ceremonial but based on fact of inefficiency and audit fee from each auditor client should be monitored to enforce the five per cent maximum from each client as suggested by Institute of Chartered Accountants code of ethics.