

**AUDIT FIRM SIZE AND EARNINGS MANAGEMENT OF LISTED INTERNATIONAL LICENSED COMMERCIAL BANKS IN NIGERIA**

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**Abstract**

The study examined audit firm size and earnings management of listed international licensed commercial banks in Nigeria. The specific objectives were to; Evaluate the relationship between big audit firm and discretionary accruals of listed international licensed commercial banks in Nigeria, examine relationship between small audit firm and discretionary accruals of listed international licensed commercial banks in Nigeria, Ascertain the relationship between big audit firm and discretionary provisions for loan loss of listed international licensed commercial banks in Nigeria, examine the relationship between small audit firm and discretionary provisions for loan loss of listed international licensed commercial banks in Nigeria. This study adopted ex-post facto research design. The population and sample size of the study is the eight (8) listed commercial banks with international license in Nigeria stock exchange as at December 31<sup>st</sup> 2021. Secondary data was used as instrument. The formulated research questions were analyzed with descriptive statistics. The hypotheses were tested using the multiple regression analysis with the aid of E-view version 10. The study concludes that, there is significant the relationship between big audit firm and discretionary accruals in listed international licensed commercial banks in Nigeria. There is no significant relationship between small audit firm and discretionary accruals in listed international licensed commercial banks in Nigeria. There is significant the relationship between independence and discretionary provision for loan loss in listed international licensed commercial banks in Nigeria. There is no significant the relationship between financial expertise and discretionary provision for loan loss in listed international licensed commercial banks in Nigeria. The study recommends that international licensed commercial banks in Nigeria audit firm size and discretionary accruals are positive and significantly related. Thus, management should maintain this level of audit firm size. Shareholders and investors and other stakeholders of international licenced banks, should advocate for audit tenure of five years, more professional application of audit expertise, technology, contributions, and auditor independence to earnings managements.

***Keywords: Audit Firm Size, Earnings Management, Big Audit Firm, Discretionary Accruals, Small Audit Firm and Discretionary Provisions for Loan Loss.***

**INTRODUCTION**

The continuous increase in the reported cases of manipulation of accounting figures in the financial statement of firms globally in the last decade, has led to several accounting scandals and failure of corporate organizations which have put the auditing function into doubt as the auditors (audit firms) were not able to detect and report these manipulations (Goodness, 2022). For instance, in the case of ENRON, profits were overstated by as much as 586 million dollars for four years. Similar case of fraudulent practice was also reported in the case of WorldCom and Parmalat failed in the early 2000s (Egbunike, et al., 2015). Nigerian has had her own share of financial reporting failures with the problems in Cadbury Nigeria Plc. in 2006; Afribank Nigeria Plc face problem of financial reporting in 2009; Intercontinental Bank Plc. in

2009, Oceanic bank 2011, Skye bank 2018, among others. These have remained reference points for fraudulent financial reporting in Nigeria (Ajayi, 2020). The increasing incidence of these has led to the loss of public confidence in the audit firms and quality of reported (Okolie, 2022).

Arens et al. (2012), define audit firm size as, "Certified Public Accountants (CPA) firms' is a distinction of an audit firm based total revenues, number of partners, number of staff professionals, and number of offices. The four classifications based on such categories, are as follows: Big 4 international firms, national firms, regional and large local firms, and small local firms". Colbert et al. (1999), state that audit firm size is, "a distinction of firm size based on number of CPA's, number of partners, the total number of professional staff, and the total number of clients served by the firm". CPA firms provide audit services, as well as other attestation and assurance services. Additional services provided by CPA firms include accounting and bookkeeping services, tax services, and management consulting services (Arens et.al., 2012). Furthermore, Arens et.al. (2012), categorizes the size used to describe a public accountant firm, namely:

- The Big Four International firms in which these firms have branches throughout the United States and around the world. The big four conducts audit services and other assurance services to mostly big companies in the United States and around the world.
- National firms where the firm is large but much smaller than the big four. This firm has an affiliation with another firm in another country and has international capability.
- Regional and large local firms where the firms have more than 100 professional staff. Some have only one office and serve clients primarily within commuting distances.
- Small local firms have fewer than 25 professionals in a single-office firm. They perform audits and related services primarily for smaller businesses and not for profit entities.

the size of audit firm is an important characteristic that reflects auditor independence. Thus, the issue of maintaining auditor independence is more crucial for smaller firms than larger firms. A large body of research examines the relationship between audit firm size and audit earnings management.

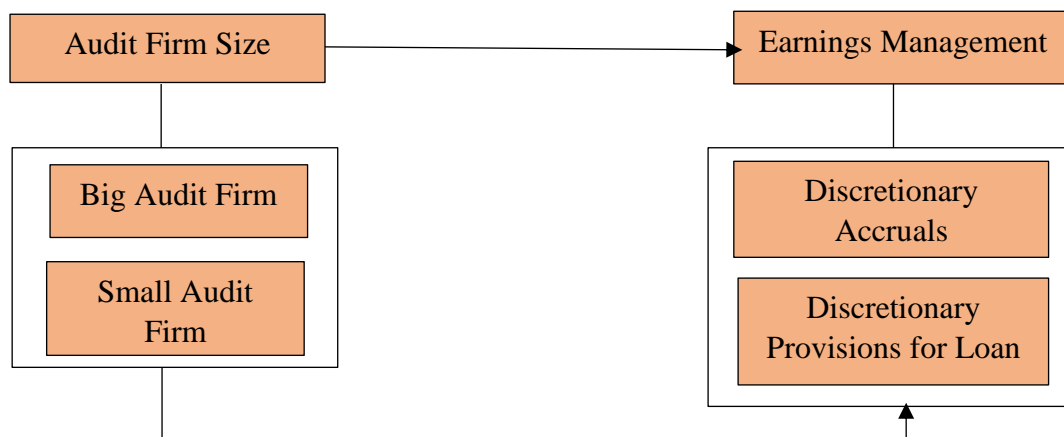
Earnings management is considering a bad signal because it decreases the reliability of financial statement information. Managers always used earnings management for basis that is not understandable. There is, however, a reliance on earnings management to convert inside information to a wide range of users, because the costs of exposure this information is often very costly. Earnings management involves the use of this management judgement and discretions so as to mislead users of financial reports or to influence contractual agreement. Similar to this view of earnings management is that it is primarily achieved by managed actions that make it easier to achieve desired earnings levels through accounting choices inherent in Generally Accepted Accounting Principles (GAAP). Financial reporting is said to be reliable and free of omission and material misstatement only when an independent auditor assent to the financial report. Audit firms involves the independent examination of financial report so as to ensure that the information disclosed therein are free of material misstatement, in other words, the information is true and fair.

### **Statement of Problem**

Several studies {(Toto Rusmanto (2016); Ilaboya & Ohiokha (2017); Stefan, & Tobias (2016); Yahn-Shir et al. (2013); Yuniarti (2019); and Seyed et al. (2014)}; have shown that audit quality and earnings quality is correlated or asymmetry with size of the audit institutions. In view of these studies, audit quality and audit size has become the focus of much debate. However, evidence suggests that large audit institutions do not always offer audit quality

better than small audit institutions. Many companies suffered corporate collapse due to poor earnings management, resulted from poor audit quality. The poor audit quality was due to lack of appropriate and sufficient audit evidence and not the size of the firm. Enron’s auditors, Arthur Andersen failed to gather sufficient audit evidence about the use of the ‘special purpose entities’ (SPEs) and their accounting treatment (Mallin, 2010). Could the poor audit quality work of Arthur Andersen have been due to lack of auditor independence, experience and accountability?

The spate of audit failure in the world (Enron, in the US, Northern Rock in the United Kingdom, Metagelshaft in Germany, Parmalat in Italy) especially in Nigeria (Lever Brothers and Cadbury in Nigeria, etc), has brought great disappointment to the users of financial reports. The bane of the problem has been linked to whether the size of audit firm really matters in audit reporting of quality of audit opinion which has also been linked with earnings management. In Nigeria the challenge of audit firm size and earnings management has not attracted much empirical studies beyond mere anecdotal opinions (Ilaboya & Ohiokha, 2017). Furthermore, the few studies available did not consider dimensions of big audit firms and small audit firms on measures as; discretionary accruals and discretionary provision for loan loss, particularly for banking industry which this study utilized. This study by examining these dimensions and measures will fill the existing research gap. Thus, this study will examine audit firm’s size and earnings management of listed international licensed commercial banks in Nigeria.



**Figure: 1.1** Conceptual Framework

**Sources:** ICAN (2018); Eriabie & Dabor (2017); Iwiyisi & Ifeanyi, 2018) and Sayyar et al (2016) and researcher’s conceptualization, 2022.

### **Aims and Objectives of the Study**

The aim of the study is to examine audit firm’s size and earnings management of listed international licensed commercial banks in Nigeria. The specific objectives are to;

1. Evaluate the relationship between big audit firm and discretionary accruals of listed international licensed commercial banks in Nigeria.
2. examine relationship between small audit firm and discretionary accruals of listed international licensed commercial banks in Nigeria.
3. Ascertain the relationship between big audit firm and discretionary provisions for loan loss of listed international licensed commercial banks in Nigeria.
4. Examine the relationship between small audit firm and discretionary provisions for loan loss of listed international licensed commercial banks in Nigeria.

### **Research Hypotheses**

- Ho<sub>1</sub>: There is no significant relationship between big audit firm and discretionary accruals of listed international licensed commercial banks in Nigeria.
- Ho<sub>2</sub>: There is no significant relationship between small audit firm and conservatism of listed international licensed commercial banks in Nigeria.
- Ho<sub>3</sub>: There is no significant relationship between big audit firm and discretionary provisions for loan loss of listed international licensed commercial banks in Nigeria.
- Ho<sub>4</sub>: There is no significant relationship between small audit firm and discretionary provisions for loan loss of listed international licensed commercial banks in Nigeria.

### **Audit Firm Size**

The size of audit firm has been used as a surrogate for earnings quality, that is, large audit firms have more reputation to safeguard and therefore will ensure an independent quality audit service. Larger audit firms have better financial resources and research facilities, superior technology and more talented employees to undertake large company audits than do smaller audit firms. Their larger client portfolios enable them to resist management pressure, whereas smaller firms provide more personalized services due to limited client portfolios and are expected to succumb to management requirements (Lys & Watts 1994). Therefore, the size of audit firm is an important characteristic that reflects auditor quality of audit opinion. Thus, the issue of maintaining auditor independence and quality of audit opinion is more crucial for smaller firms than larger firms. DeAngelo (1981) and Ine-Tonbarapa, (2015), argues that large audit firms are more independent and hence of higher quality both because of advanced techniques and more wealth at risk upon audit failure. On the other hand, those investors are more likely to sue a large audit firm than a small audit firm upon untruthful disclosure for their 'deep pocket'. Both theories forecast a positive association between audit size and earnings management.

On the other hand, some other surveys have mentioned that there is no difference between large audit firms and small's one in terms of their impact on audit quality, both of them have the potential to reach an acceptable level audit quality. However, it seems that larger audit firms are more qualified and committed to reach a higher audit quality. It can be attributed to their high technical information and professional competencies as well as their attempt to continue higher education of employees and to maintain firm's reputation on issuing an appropriate audit report. Such activities are necessary in order to keep their clients. Small firms and regulators have argued that the quality of audit should not only be judged on the basis of the size of large public accounting firms as dictated in the disclosure of audit standard on independence of audit quality from auditor firm size (Ilaboya & Ohiokha 2014). DeAngelo (1981), rejected this allegation of small firms and revealed that big audit firms have more independence and higher quality in their audit work.

Furthermore, Francis and Yu (2009) noted that large audit firms have more intention to detect material problems in financial statements. Big audit firms will have the potential to lose their clients if they become notorious, have lower audit quality and show a lack of independence in their judgment. Hence, these issues lead to high motivation for improving audit quality.

### **Dimensions/Categories/classification of audit firm size**

The four categories of audit firm size of Arens et.al. (2012), were recategorized into three by Ine-Tonbarapa, (2016), (a) big audit firms (the big four) (b). small audit firms. They are classified base on essential qualities possessed by the firm, such as audit fee, audit expertise, audit tenure, non-audit service, auditor reputation, technology, international presence, influence and contributions, operations and auditor independence.

**Big Audit Firms:** are the biggest professional services networks in the world, offering audit, assurance services, taxation, management consulting, advisory, actuarial, corporate finance and legal services. They handle the vast majority of audits for public companies as well as many private companies. The big audit firms have more reputation to safeguard and therefore will ensure an independent quality audit service. Larger audit firms have better financial resources and research facilities, superior technology and more talented employees to undertake large company audits than do smaller audit firms. Their larger client portfolios enable them to resist management pressure (Ine-Tonbarapa, 2016).

In the UK in 2011, it was reported that the Big Four audit 99 percent of the companies in the FTSE 100, and 96 percent of the companies in the FTSE 250 Index, an index of the leading midcap listing companies. Such industry concentration has caused concern and calls for the Competition and Markets Authority to consider breaking up the Big Four. In October 2018, the CMA announced it had launched a detailed study of the Big Four's dominance of the audit sector. The big four are; Ernst &Young (EY), Deloitte, KPMG and Pricewaterhouse Coopers (PwC) (Firth et al., 2012).

**Small audit firms:** these are the smaller professional services offering audit, assurance services, taxation, management consulting, advisory, actuarial, corporate finance and legal services. They handle the little majority of audits for public companies as well as many private companies. Smaller firms provide more personalized services due to limited client portfolios and are expected to succumb to management requirements (Lys & Watts 1994). Small audit firms operate mostly locally and some internationally. Small audit firms have quality profession service relations and competent human, material and financial resources and research facilities, quality technology and knowledgeable employees to undertake company audits even more than the big audit firms (Ine-Tonbarapa, 2016).

### Discretionary Loan Loss Provision

Loan Loss Provision is an income statement expense set aside as an allowance for uncollected loans and loan payments. This provision is used to cover different kinds of loan losses such as non-performing loans, customer bankruptcy, and renegotiated loans that incurred lower than previously estimated payments. The Chang et. al. model is used for measuring the DLLP in banks. The Chang et al Model would be used in the determination of discretionary loan loss Provision using the formula below:

$$LLP/TA_{t-1it} = \alpha_0 1/TA_{it-1} + \alpha_1 LCO_{it}/TA_{it-1} + \alpha_2 BBAL_{it}/TA_{it-1} + \epsilon_{it}$$

Where:

$$DLLP_{it} = \epsilon_{it} = LLP_{it} - (\alpha_0 1/TA_{it-1} + \alpha_1 LCO_{it}/TA_{it-1} + \alpha_2 BBAL_{it}/TA_{it-1})$$

Where:  $LLP$  = Loan Loss Provision for firm  $i$  at time  $t$ .

$LCO$  = the Loan Charge-offs for firm  $i$  at time  $t$ .

$BBAL$  = the beginning balance of LLP for firm  $i$  at time  $t$ .

$TA$  = the beginning total asset of firm  $i$  at time  $t$ .

$e$  = the error term

### Audit Firm Size and Earnings Management

A number of studies have ventured into establishing the existence of any distinct relationship between audit firm size and earnings mappings and to demonstrate whether the relationship has any influence on the market price per share of quoted companies in many countries (Becker et al., 2017). These studies show that the quality of audit is expected to minimize the extent of a firm's manipulations of reported income and this reflects on the market value per

share of companies. However, majority of the findings appear to suffer from discrepancies and inconsistency.

It is assumed that big firms will give better earnings management than the small ones. It is because they have better financial resources which enable them to take advantage of technological developments, do necessary researches and recruit more experienced auditors. They also have larger and more complete information sources on clients' portfolio to effectively detect activities which will affect clients' business life sustainability. On the other hand, they have stronger motivation and effort to avoid audit failures than the small ones' do.

Sawan and Alsaqqa (2016), examined the relation between size of audit firm and earnings management, and the choice of accrual measures for a large sample of firms. A questionnaire was used to collect data. To confirm and support the questionnaire findings, semi structured interviews were conducted. The data used for the study were collected from two sources: the demand side (Libyan oil companies) and the supply side (audit firms working in Libya). The data for the Libyan oil companies were gathered from three different types of respondents: internal auditors, financial managers and accounts managers. For the audit firms, data were gathered from employees at all levels in the firm: managing partners, audit supervisors and auditors. In relation to the impact of different sizes of audit firms on audit quality, a clear majority of oil companies and audit firms agreed that Big Four firms are superior to their non-Big Four counterparts in all of the reputation issues presented to them, and that the size of the audit firm is positively associated with earnings management. Such superiority is seen in terms of resources and audit technology, and the consequent motivation to perform as professionally as possible.

## **Theoretical review**

### **Agency Theory**

Formulated by Adams, (1994) agency theory is based on a premise that there exists an information asymmetry between the principals' and agent. This he notes has negative effects on the ability of the principals to effectively monitor if their interests are being served by agents. However, agency theory attempts to align the interests of a firm's principal to those of its managers. It is based on the assumption that there is an inherent conflict between the interests of a firm's owners and its management further noting that managers now possess superior knowledge and expertise to the firm's owners and are therefore in a position to pursue self-interested action at the expense of shareholders. Agency theory is concerned with resolving problems that can exist in agency relationships; that is, between principals (such as shareholders) and agents of the principals (for example, bank managers). The two problems that agency theory addresses are: the problems that arise when the desires or goals of the principal and agent are in conflict, and the principal is unable to verify what the agent is actually doing and the problems that arise when the principal and agent have different attitudes towards risk. Because of different risk tolerances, the principal and agent may each be inclined to take different actions.

Further, Agency theory contends to deal with the agent's tendency to self-interest and given that bank owners don't have full control over what accounting information system is being applied and what will be reported, internal auditors are employed to increase financial reporting and disclosures that would assist in reducing information asymmetry between banks owners, management and shareholders but to also improve financial reporting quality. Agency theory contends that internal auditing, in common with other intervention mechanisms like financial reporting and external audit, helps to maintain cost-efficient contracting between owners and managers. This research is anchored on this theory, reason been that Agency theory may not only help to explain the existence of internal audit in organizations but can

also help explain some of the characteristics of the internal audit department, for example, its size, and the scope of its activities, such as financial versus operational auditing. Agency theory can be employed to test empirically whether cross-sectional variations between internal auditing practices reflect the different contracting relationships emanating from differences in organizational form. Linking this theory to the study, the researcher sought to unpack the effect of audit quality and earnings management of banks in Nigeria. Specifically, audit quality in banks in Nigeria is an adjunct of the function performed by external audit created by senior managers to satisfy the demands for accountability made by external participants, especially shareholders. The focus of internal auditors in banks and companies will in this case be geared towards financial audit, fraud prevention and internal control compliance work rather than operational reviews and management audits. This therefore means that internal auditors may be inextricably bound to the interests of shareholders and managers, for example through employee share ownership schemes. Arguably this shared interest lowers auditing fee, audit firm size and audit tenure and also affects the nature and scope of internal auditing activities and earnings management.

### **Empirical Review**

Christian et al. (2019), the study examined audit firms' size and quality of audit opinion in Rivers state. The research adopted correlational survey research design. The population for this study was one hundred and ninety-four (194) and a sample size of one hundred and thirty - one (131) knowledgeable staff (top management staff, financial analyst in the Nigeria stock exchange in Rivers State. The study used questionnaire instrument, and data were analyzed with the aid of Statistical Package for Social Sciences (SPSS) Version 22. The results of the findings were that there is a very strong positive linear relationship between big audit firms and scope of audit opinion in Rivers state. Also, the second finding revealed that there is a strong positive linear relationship between big audit firms and objectivity of audit opinion. On the other hand, the fourth finding showed that there is a strong positive linear relationship between small audit firms and scope of audit opinion. Whereas, the fifth finding revealed that there is a weak positive linear relationship between small audit firms and objectivity of audit opinion in Rivers state. This study recommended among others that; big audit firms should maintain the scope of audit opinion quality in companies in Rivers state, big audit firms should maintain the objective of audit opinion quality in firms in Rivers state. Also, small audit firms should maintain the scope of audit opinion quality in companies in Rivers state and small audit firms should maintain the objective of audit opinion quality in companies in Rivers state.

Chen-Chin et al. (2014), conducted a research study to investigate how audit firm size can contribute to audit quality? Evidence from two emerging markets. This study investigated whether the Big N audit firms in emerging markets can provide audits of high quality and mitigate information risk, by comparing the audit quality of Big N audit firms in Taiwan with those in China. The two countries share a similar cultural background and engage in frequent economic exchange; however, they have different legal systems and institutional environments. This study followed previous research in the use of bid-ask spread and discretionary accruals as proxy variables for information asymmetry and audit quality. Our results indicate that politicoeconomic differences between Taiwan and China influence the effectiveness of independent auditors when it comes to the mitigation of information asymmetry. Big N audit firms in Taiwan helped to mitigate information asymmetry and provided audit services of higher quality, whereas Big N firms in China were better able to constrain earnings management. Our results indicate that market concentration and market share have a stronger influence on reputation incentive and audit quality than does the size of an audit firm.

Rahayu, et al, (2020), examined the relationship between audit quality and real earnings management among Top 100 firms listed on Bursa Malaysia. This study uses three proxies to measure real earnings management; abnormal cash flow from operations, abnormal production costs and abnormal discretionary expenses and one proxy for audit quality; Big 4 audit firms. Using a final sample of 656 firm-year observations from 2007 to 2014, regression analysis was employed. The study finds that Big 4 auditor has a significant and negative relation with proxies of Real Earnings Management; Real Production Cost and Real Discretionary Expenses. Further, the results also document that a significant and negative relation between Price Waterhouse Cooper and Real Earnings Management measures. The findings suggest that high quality auditor constrains real activities manipulations.

Taylor and Francis (2015), carried out a study on Audit Office Size, Audit Quality and Audit Pricing: Evidence from Small and Medium Sized Enterprises Using Swedish data we investigate how audit quality and audit pricing vary with audit firm and office size. In contrast to prior studies, we use disciplinary sanctions issued against auditors not meeting the quality requirement as the measure of audit quality. We find no significant differences in the likelihood of sanctions between Big 4 audit firms and the fifth and sixth largest audit firms in Sweden (Grant Thornton and BDO). We refer to these collectively as 'Top 6'. However, we find that the probabilities of warnings or exclusions from the profession are much higher for non-Top 6 auditors in Sweden than for Top 6 auditors. Furthermore, we find a strong negative association between the likelihood of sanctions and audit office size for non-Top 6 auditors. This association is insignificant for Top 6 audit firms. Audit fees follow a similar pattern and indicate that larger audit firms and offices put in more effort or have greater expertise. These results suggest that audit quality is differentiated in the private segment market. However, contrary to prior studies, our results suggest that the important dimensions are Top 6 versus non-Top 6 and the office size of non-Top 6 audit firms.

Yuniarti, (2012), examined the determinant factors of audit quality by proposing the hypothesis that the audit firm size (size public accounting firm) and audit fees (audit fees) have an effect on the audit quality. In this study, the unit of analysis is the external auditor who has worked in (Certified Public Accountant) CPA firm; the author takes the CPA Firm in Bandung, West Java, Indonesia. This type of research is descriptive verification research, because it describes the variables and observes the correlation of these variables from the hypothesis that has been made systematically through statistical testing. The statistical test use path analysis and the examination of the hypothesis in this research using two ways: simultaneous test and individual test (partial), using t test and F-test. Empirical test results that the CPA firm size does not significantly affect to audit quality in public accounting firm in Bandung, whereas the number of audits significantly affect to quality of audit and simultaneously CPA firm size and audit fees do not significantly affect to quality of audit in public accounting firm in Bandung.

## **METHODOLOGY**

This study adopted ex-post facto research design. The population and sample size of the study is the eight (8) listed commercial banks with international license in Nigeria stock exchange as at December 31<sup>st</sup> 2021. Secondary data was used as instrument. The formulated research questions were analyzed with descriptive statistics. The hypotheses were tested using the multiple regression analysis with the aid of E-view version 10.

**Table 1.1 Listed Commercial Banks with International Authorization/license**

S/N	Name of Listed Company	Sub-Sector
1	Access Bank Plc	International commercial licensed
2	Fidelity Bank Plc	International commercial licensed
3	First City Monument Bank Plc	International commercial licensed
4	First Bank of Nigeria Limited	International commercial licensed
5	Guaranty Trust Bank Plc	International commercial licensed
6	Union Bank of Nigeria Plc	International commercial licensed
7	United Bank for Africa Plc	International commercial licensed
8	Zenith Bank Plc	International commercial licensed

**Source:** Nigerian Exchange Group (NEG) as at 31 January, 2022

**Discretionary Accruals (Jones Model of 1991)**

Jones (1991), came up with the projected effective new model of determining nondiscretionary accruals. The model uses plant, properties and equipment (PPE) to manage changes in non-discretionary accruals arising from the change of depreciation, i.e. change of firm’s activities. Also, sales variable is used to manage changes in non-discretionary accruals associated with working capital accounts which come from changes in the firm’s economic environment. This model is based on the postulation that working capital accruals are related to changes in sales and depreciation is related to asset.

The following model are used to determine the total/normal accruals:

$$TA/Ait-1 = \alpha_1 (1/Ait-1) + \alpha_2 (\Delta REVit/Ait-1) + \alpha_3 (PPEit/ Ait-1) + \epsilon_{it-1} \dots \dots \dots 3$$

$$DAit = TAC/Ait-1 [\alpha_1 (1/Ait-1) + \alpha_2 (\Delta REVit/Ait-1) + \alpha_3 (PPEit/ Ait-1)] \dots \dots \dots 4$$

Whereas  $TAit =$  total accruals for firm  $i$  in year  $t$ .

$Ait-1 =$  total assets for firm  $i$  in the previous year,

$\Delta REVit =$  change in revenues from  $i$  in year  $t$ ,

$PPEit =$  gross property and equipment for firm  $i$  in year  $t$ ,

$\epsilon_{it-1} =$  error term for firm  $i$  year  $t$ .

$DAit =$  discretionary accruals.

**Discretionary Provision for Loan Loss (Chang et. al. model, 1999)**

Provision for Loan Loss is an income statement expense set aside as an allowance for uncollected loans and loan payments. This provision is used to cover different kinds of loan losses such as non-performing loans, customer bankruptcy, and renegotiated loans that incurred lower than previously estimated payments. The Chang et. al. model is used for measuring the DPLL in banks. The Chang et al Model would be used in the determination of discretionary loan loss Provision using the formula below:

$$PLL/TA_{t-1it} = \alpha_0 1/TA_{it-1} + \alpha_1 LCO_{it}/TA_{it-1} + \alpha_2 BBAL_{it}/TA_{it-1} + \epsilon_{it} \dots \dots \dots 5$$

Where:

$$DPLL_{it} = \epsilon_{it} = PLL_{it} - (\alpha_0 1/TA_{it-1} + \alpha_1 LCO_{it}/TA_{it-1} + \alpha_2 BBAL_{it}/TA_{it-1}) \dots \dots \dots 6$$

Where: *LLP* = Provision for Loan Loss for firm *i* at time *t*.

*LCO* = the Loan Charge-offs for firm *i* at time *t*.

*BBAL* = the beginning balance of LLP for firm *i* at time *t*.

*TA* = the beginning total asset of firm *i* at time *t*.

*e* = the error term

**Table 1.2 Operational Measurement of Variables**

Variable	Type of Variables	Measurement Scale	Source of Data
Big Audit Firm	Dimension independent variable	Measured by the likelihood that a sampled company employs the services one of the four big audit firms. A dummy value of 3 is used if a firm uses any of the big 4 auditors and 1 if otherwise.	Annual report
Small Audit Firm	Dimension independent variable	Measured by the likelihood that a sampled company employs the services one of the four big audit firms. A dummy value of 3 is used if a firm uses any of the big 4 auditors and 0 if otherwise.	Annual report
Discretionary Accruals (DA)	Measure of dependent variable	The reverse measure of discretionary accruals using Jones' (1991) model proposed by Dechow and Dichev (2002).	Annual report
Discretionary Provision for Loan Loss (DPLL)	Measure of dependent variable	Discretionary Provision for Loan Loss (Chang et. al. model, 1999) as stated above.	Annual report

**Source: Research student compilation, 2022.**

**Model Specifications**

To examine the implications of audit firm size on earnings management, this study follows the works of Ewa et al. (2020); Siyanbola et al. (2017) and Oboh et al. (2018), but with some improvements in terms of the measurement of audit quality and the adoption of a more encompassing measure of earnings management. The functional specifications of the models are provided as:  $\psi = \beta_0 + \beta_1 + \beta_2 + \psi \dots \dots \dots (.05)$

Thus;

$$EM = f(AT + AF)$$

- Where:
- $\psi$  = index of outcome variable
  - $\beta_0$  = Constant term (y intercept)
  - $\beta_1, \beta_2, \beta_3,$  = Coefficient of the independent variables
  - $\psi$  = Error term (causes of discretionary accruals or discretionary provisions for loan loss persistence not explained by variables in the model)

The audit firm size (AFZ) components in the study are [big audit firm (BAF) and small audit firm (SAF) defined as three components used in the study. Whereas earnings management (EM) its measures are discretionary accruals (DA) and discretionary provision of loan loss (DPLL)

The following 2 models were used to analyze the multivariate relationship between the variables.

**The First Model:** The first hypothesis test model; shows the relationship between discretionary accruals and big audit firm and small audit firm:

$$DA_{it} = \beta_0 + \beta_1(BAF)_{it} + \beta_2(SAF)_{it} + \psi (.05) \dots\dots\dots 1$$

**The Second Model:** The second hypothesis test model; shows the relationship between discretionary provision of loan loss and big audit firm and small audit firm:

$$DPLL_{it} = \beta_0 + \beta_1(BAF)_{it} + \beta_2(SAF)_{it} + \psi (.05) \dots\dots\dots 2$$

**Data Analyses and Interpretations**

**Table 1.3 Descriptive Statistics**

	Mean	Median	Maximum	Minimum	Std. Dev.	Jarque-Bera	Prob. Val.	Observations
<b>BAF</b>	4.0000	4.0000	4.0000	4.0000	4.0000	4.0000	4.0000	80
<b>SAF</b>	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	80
<b>DA</b>	-0.0169	-0.0400	2.0220	0.0340	-0.0321	0.0132	0.1010	80
<b>DPLL</b>	0.0303	0.00431	1.2139	-0.0002	-0.0211	0.0001	0.0510	80

*Source: E-view (v.10) Analyzed Researcher's Result, 2022*

The descriptive statistics for the data are shown in table 4.1. big audit firm and big audit firm have mean values of 4.0000 and 1.0000 sequentially. On the hand, discretionary accruals and discretionary provision of loan loss mean values are 4.0000 and 1.0000.

Jarque-Bera statistics [(JB (PValue > 0.05) = Accept Ho (Normal Distribution) and JB (P Value <0.05) = Reject Ho (Non-Normal Distribution)]. Thus, the p-value for the dimensions of the study; big audit firm and small audit firm, were 4.0000 and 1.0000 sequentially, indicating normally distributed.

**Test of Hypotheses:**

**Multivariate Analysis and Results Interpretations**

**The First Model:** The first hypothesis test model; shows the relationship between discretionary accruals and big audit firm and small audit firm:

$$DA_{it} = \beta_0 + \beta_1(BAF)_{it} + \beta_2(SAF)_{it} + \psi (.05) \dots\dots\dots 1$$

Dependent Variable: DA

Method: Least Squares

Date: 25/10/22 Time: 11:50

Sample: 2011 2020

Included observations: 80

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BAF	3.442189	0.351093	2.259462	0.0150
SAF	0.370455	0.077740	1.906290	0.0701
C	6.339924	0.161986	1.098477	0.0421
R-squared	0.737248	Mean dependent var		0.144683
Adjusted R-squared	0.723766	S.D. dependent var		0.310298
S.E. of regression	0.308155	Akaike info criterion		0.528966
Sum squared resid	3.893334	Schwarz criterion		0.610882
Log likelihood	-9.372773	Hannan-Quinn criter.		0.559174
F-statistic	1.586245	Durbin-Watson stat		2.167550
Prob(F-statistic)	0.000000			

*Source: Researcher's Statistical Computation from E-view (v.10), 2022.*

From the above table output, the coefficient of BAF and SAF are 3.442189 and 0.370455 respectively. The standard error of the regression coefficients are 0.351093 and 0.077740 respectively for BAF and SAF. This value identifies limit of error is expected to be inherent in the result. T-statistics value of 2.259462 sufficient statistically evidence of significant for BAF at Prob values (0.0150) less than (<) 0.05 alpha respectively. While SAF 1.906290 is not sufficient statistically evidence of significant as the Prob value (0.0701) is greater than (>) 0.05 alpha.

The result also showed that the R<sup>2</sup>, which measures the goodness of fit, is 0.737248, meaning that 73 percent of the variation in the discretionary accruals (DA) can be explained by the dimension of the independent variables. The result indicates that the model is proper and adequate for the study. The model's goodness of fit and appropriateness is also supported by the outcomes of F-statistics and probability of F-statistics of 1.586245 and 0.000000 respectively. The Durbin-Watson statistics of 2.167550 also indicate the absence of serial autocorrelation.

**Summary of Null Hypotheses Result Findings of the First Model Tested at 0.05 Level of Significance**

Ho<sub>1</sub>: There is significant the relationship between big audit firm and discretionary accruals in listed international licensed commercial banks in Nigeria.

Ho<sub>2</sub>: There is no significant relationship between small audit firm and discretionary accruals in listed international licensed commercial banks in Nigeria.

**The Second Model:** The second hypothesis test model; shows the relationship between discretionary provision for loan loss and big audit firm and small audit firm:

$$DPLL_{it} = \beta_0 + \beta_1(BAF)_it + \beta_2(SAF)_it + U (.05) \dots\dots\dots 2$$

Dependent Variable: DPLL

Method: Least Squares

Date: 25/10/22 Time: 12:02

Sample: 2011 2020

Included observations: 80

Variable	Coefficient	Std. Error	t-Statistic	Prob.
BAF	1.620177	0.746383	3.428972	0.0020
SAF	-1.915036	1.706243	-1.122370	0.2773
C	5.908811	0.344364	22.96645	0.0000
R-squared	0.604468	Mean dependent var	7.767442	
Adjusted R-squared	0.597813	S.D. dependent var	0.648706	
S.E. of regression	0.655101	Akaike info criterion	2.037340	
Sum squared resid	17.59545	Schwarz criterion	2.119257	
		Hannan-Quinn		
Log likelihood	-41.80282	criter.	2.067549	
F-statistic	0.184017	Durbin-Watson stat	2.458704	
Prob(F-statistic)	0.000010			

*Source: Researcher's Statistical Computation from E-view (v.10), 2022.*

From the above table output, the coefficient of BAF and SAF are 1.620177 and -1.915036 respectively. The standard error of the regression coefficients are 0.746383, 1.706243

respectively for BAF and SAF. This value identifies limit of error is expected to be inherent in the result. T-statistics value of 3.428972 sufficient statistically evidence of significant for BAF at Prob values (0.0020) less than (<) 0.05 alpha respectively. While SAF -1.122370 is not sufficient statistically evidence of significant as the Prob value (0.2773) is greater than (>) 0.05 alpha.

The result also showed that the R2, which measures the goodness of fit, is 0.604468, meaning that 60 percent of the variation in the discretionary provision for loan loss (DPLL) can be explained by the dimension of the independent variables. The result indicates that the model is proper and adequate for the study. The model's goodness of fit and appropriateness is also supported by the outcomes of F-statistics and probability of F-statistics of 0.184017 and 0.000010 respectively. The Durbin-Watson statistics of 2.458704 also indicate the absence of serial autocorrelation.

### Summary of Null Hypotheses Result Findings of the First Model Tested at 0.05 Level of Significance

H<sub>03</sub>: There is significant the relationship between independence and discretionary provision for loan loss in listed international licensed commercial banks in Nigeria.

H<sub>04</sub>: There is no significant the relationship between financial expertise and discretionary provision for loan loss in listed international licensed commercial banks in Nigeria.

### Summary Results Findings

**Table 1.4 Summary Computation of Hypotheses Results**

Hypotheses	Coefficient	Std. Error	T-Stat	P-Value 0.05	Statistical Decision	Result
H <sub>01</sub>	3.442189	0.351093	2.259462	0.0150	Significant	Rejected H <sub>01</sub>
H <sub>02</sub>	0.370455	0.077740	1.906290	0.0701	Not Significant	Accepted H <sub>02</sub>
H <sub>03</sub>	1.620177	0.746383	3.428972	0.0020	Significant	Rejected H <sub>04</sub>
H <sub>04</sub>	-1.915036	1.706243	-1.122370	0.2773	Not Significant	Accepted H <sub>06</sub>

### CONCLUSIONS AND RECOMMENDATIONS

The study concludes that, there is significant the relationship between big audit firm and discretionary accruals in listed international licensed commercial banks in Nigeria. There is no significant relationship between small audit firm and discretionary accruals in listed international licensed commercial banks in Nigeria. There is significant the relationship between independence and discretionary provision for loan loss in listed international licensed commercial banks in Nigeria. There is no significant the relationship between financial expertise and discretionary provision for loan loss in listed international licensed commercial banks in Nigeria. International licensed commercial banks in Nigeria audit firm size and discretionary accruals are positive and significantly related. Thus, management should maintain this level of audit firm size. Shareholders and investors and other stakeholders of international licenced banks, should advocate for audit tenure of five years, more professional application of audit expertise, technology, contributions, and auditor independence to earnings managements.

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