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AUDIT QUALITY, OWNERSHIP CONCENTRATION AND EARNINGS MANAGEMENT: EVIDENCE FROM QUOTED MANUFACTURING FIRMS IN NIGERIA

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ABSTRACT

The study examines the effect of audit quality and ownership concentration on earnings management. The study adopts the ex post facto research design. A total of twenty-one (21) firms in the consumer goods sector were selected based on a purposive sampling technique. The study utilised longitudinal data from annual financial reports for the period 2011 to 2017. The data were analysed using multiple regression technique with the aid of E-views, 9.0. The results showed a non-significant negative effect of audit firm size on accruals quality; but, a significant negative effect of ownership concentration on accruals quality. The interaction of ownership concentration and audit firm size had a significant negative effect. Based on this, the study recommends that the issue of earnings management be given due considerations by regulatory authorities through effective ownership structure in corporations. The study further recommends a combination of alternative governance mechanisms in curbing managerial opportunistic behavior. The study discusses limitations inherent in the study.

Keywords: Audit Quality, Ownership Concentration, Earnings Management, Accruals.

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1. Introduction

The objective of financial statements is to provide information about the financial strength, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions (Thoopsamut & Jaikengkit, 2009). External users of financial statements, such as current and potential investors, creditors, among others, need reliable information to base their resource allocation decisions (Farouk & Hassan, 2014). The primary role of external auditors is to express an opinion on whether an entity's financial statements are free of material misstatements (Thoopsamut & Jaikengkit, 2009). External audit is a monitoring mechanism that helps reduce information asymmetry and protect the interests of the various stakeholders by providing reasonable assurance that financial statements are free from material misstatements (Farouk & Hassan, 2014). In Nigeria, statutory external audits are undertaken by members of the Institute of Chartered Accountants (ICAN) established in 1965; or, the Association of National Accountants (ANAN) formed in 1979 and incorporated in 1983 (AbdulGaniyy, 2013). These two bodies are charged with the regulation of audit practice in Nigeria.

Auditors undertake audits in accordance with the Generally Accepted Auditing Standards (GAAS), and attest to the truthfulness and fairness of financial reports (Lin, Liu, & Wang, 2007), and, such reports (clean, reserved, abstention from giving opinion, contrary) have a clear impact on the decisions made by users of financial report (Kabajeh, Al Shanti, Dahmash, & Hardan, 2012). The audit report is considered an important informational tool by many parties (Kabajeh, Al Shanti, Dahmash, & Hardan, 2012); and a trusted informational frame for many financial decisions by many parties (Kabajeh, Al Shanti, Dahmash, & Hardan, 2012; Khasharmeh, 2003). The audit report enhances disclosure quality, increases transparency and enables investors to better assess a firms' performance (Lin, Liu, & Wang, 2007). The informational content of the auditor's report refers to the 'financial informational frame' which contains many indications that can be trusted and used to make informed financial decisions by users of such information (Al Thuneibat, 2009).

The quality of corporate financial disclosure has become an important policy issue following notorious corporate scandals (Lin, Liu, & Wang, 2007) that occurred in both the international and local scene, for example: Enron scandal of 2001; Parmalat in 2003; Cadbury Nigeria Plc. in 2006 and Afribank Nigeria Plc. in 2009 (Ajani, 2012; Miettinen, 2011). Countries all around the world have set codes of best practice as guidelines to address governance and financial reporting anomalies (Adeyemi, Okpala, & Dabor, 2012): Cadbury Report was produced in United Kingdom, Sarbanes Oxley in United States, The Dey Report in Canada, the Vienot Report in France, the Olivencia Report in Spain, the King's Report in South Africa, Principles and Guidelines on Corporate Governance in New Zealand and the Cromme Code in Germany (Adeyemi, Okpala, & Dabor, 2012). The goal of these regulations was to improve firms' corporate governance environments (Bhagat & Bolton, 2009).

The literature has documented that internal corporate mechanisms; such as, audit quality and ownership structure have an effect on earnings management (Anis, 2014; Johnson & Waidi, 2013). Both mechanisms were geared at reducing the information asymmetry between managers and shareholders (Usman, 2013; Jones, 2011). For instance, firms with high ownership concentration mount greater pressure on managers to act in conformity with shareholders interest (Sanda, Mikailu, & Garba, 2005).

A considerable number of studies have examined management's motivation to "adjust" earnings; and, factors that constrain earnings management (You, Tsai, & Lin, 2003). Studies have extensively examined the effect of audit quality on earnings management in Nigeria. For instance, Olabisi, Agbatogun, and Akinrinlola (2017) focus on Deposit Money Banks; Tyokoso and Tsegba (2015) on Oil & Gas; others include, Olayinka (2012), Isenmila and Afensimi (2012), Dabor and Adeyemi (2009), and, Adenikinju and Ayorinde (2001). Another strand of studies has focused on the link between ownership structure and earnings management. These include studies by Isenmila and Afensimi (2012) focus on Deposit Money Banks; Usman and Yero (2012), Usman (2013), Obigbemi, Omolehinwa, and Oluku (2017) on manufacturing firms.

However, despite the differing themes in existing studies there is still scanty evidence on the moderating role of ownership structure on the audit quality and earnings management nexus. While there is evidence of such from developed and vibrant capital markets; the literature still remains scanty in the Nigerian context. Against this backdrop, the broad objective of the study is to evaluate the effect of audit quality on earnings management. The study also specifically examines the interaction effects of ownership concentration and audit quality on accruals quality.

The study proposes these hypotheses in their null forms. They are:

Ho_1: There is no significant effect of audit firm size on accruals quality.

Ho_2: There is no significant effect of ownership concentration on accruals quality.

H_{03}: Ownership concentration does not moderate the relationship between audit firm size and accruals quality.

2. Review of Related Literature

2.1 Conceptual Framework

2.1.1 Audit Quality

Audit quality refers to the market-assessed joint probability that an auditor discovers an anomaly in a financial statement and reveals it (DeAngelo, 1981). Audit quality explains how well an audit detects and reports material misstatements, reduces information asymmetry and thus assists in protecting the interest of stockholders (Salehi & Azary, 2008). The probability that an auditor discovers material misstatement is a function of his competence; while, the probability that he reports the misstatement is function of his integrity (Dabor & Ibadin, 2013). Therefore, competence and integrity of an auditor affects the quality of audit and is also related to the quality of financial reports (Dabor & Ibadin, 2013).

Audit quality is an essential ingredient in enriching the credibility of financial statements as it helps in verifying management claims about the company affairs thereby reducing the information risk exposure of users (Fairchild, 2008). You, Tsai, and Lin (2003) observed that auditing is valuable in controlling managerial discretion; however, its effectiveness varies with the quality of the audit firm because of differing technical expertise and independence of the engaged auditors.

Auditors usually tend to concentrate on managerial incentives to overstate earnings (Hirst, 1994). Ching, Teh, San, and Hoe (2015) found evidence that high quality lead to improved financial performance. Zehri and Shabou (2011) asserted that high quality auditors are more likely to discover questionable accounting practices by clients and report material irregularities and misstatements compared with low quality auditors.

Consistently, Soliman and Ragab (2014), and Zgarni, Hlioui and Zehri (2012), confirmed that audit quality has a significant negative association with earnings management, measured using discretionary accruals. Thus, a high audit quality is able to better constrain earnings management, and in turn enhance the quality of financial reports (Ching, Teh, San, & Hoe, 2015). However, Yasar (2013) argued that the audit quality of Big Four firms may not restrain accrual earnings management in some institutional environments. The study by Gerayli, Yanesari, and Ma'atoofi (2011) found that firms audited by 'Big 4' firms were involved in lower earnings management than companies with non-Big 4 firms.

Audit quality is difficult to measure and many researchers apply a variety of proxy in their studies (Lin, Liu, & Wang, 2007). Although so many different proxies have been utilized, there is a consensus that firm size (Big-4 *vs.* non Big 4) or brand name of audit firms is an appropriate indicator of audit quality (Chaney & Philipich, 2002; DeFond, Wong, & Li, 2000; Lennox, 1999; Monem, 2003; Reynolds & Francis, 2000).

2.1.2 Ownership Concentration

Ownership concentration also referred to as block holding, refers to the proportion of shares (usually more than 5%) owned by a certain percentage of shareholders (Usman, 2013). Ownership concentration is a measure of the existence of large shareholders' in a firm (Thomsen & Pedersen, 2000). According to Scholten (2014), there are two opposing arguments on the effect of total ownership concentration on firm performance, the 'monitoring argument' and the 'expropriation-of-minority-shareholders argument'. The first argument lays emphasis on the capability to monitor and control the management by large shareholders (Schleifer & Vishny, 1997).

Large ownership concentration creates (more) incentives to monitor management and influence decision-making, because they may be more affected by the actions of management and partly benefiting more from their own monitoring effort than shareholders owning just a little share of the company's equity (Denis & McConnell, 2003; Huddart, 1993; Schleifer & Vishny, 1997). The second argument posits that large shareholders may likely expropriate minority shareholders, by serving their own interests and exert their power for personal benefits (Denis & McConnell, 2003; Schleifer & Vishny, 1997).

Studies have shown mixed results on the relationship between ownership concentration and earnings management. Roodposhti and Chashmi (2010) found a negative relationship between ownership concentration and earning management in Iran; Klai and Omri (2011) documented a negative association between ownership concentration and earnings management in Tunisia. You, Tsai and Lin (2003) reported a negative and significant relationship between managerial ownership and discretionary accruals in Taiwan. The literature, also documents a non-linear relationship between ownership concentration and firm performance. Liu, Uchida, and Yang (2012) found a U-shaped relation between large ownership concentration and firm performance.

2.1.3 Earnings Management

Earnings management refers to attempts by management to influence or manipulate reported earnings by using specific accounting methods or accelerating expense or revenue transactions, or using other methods designed to influence short-term-earnings (Omoye & Eriki, 2014). According to Scott (2003) "Given that managers can choose from a set of accounting policies, it is natural to expect that they will choose policies so as to maximize their own utility and/or the market value of the firm". Belkaoui (2004) view earnings management as the ability to "manipulate" the options available and make the right choices in order to achieve the expected level of profit. The act of manipulating a company's earnings is referred to as earnings management (Nuryaman, 2013); and, such earnings figure no longer reflects a true and fair view of firm performance (Whelan & McNamara, 2004). The distortions in financial reports usually occur from a misalignment of incentives between managers and shareholders (Jiraporn, Miller, Soon, & Young, 2008).

Managers are free to use either the accrual basis or cash basis in reporting accounting numbers (Algharaballi, 2013; You, Tsai, & Lin, 2003). However, the accrual-basis involves much choice and discretion, but contains more relevant information than the cash basis (You, Tsai, & Lin, 2003). The accrual basis accounting provides more precise measures of economic performance; hence, earnings are measured on the accrual basis according to the Generally Accepted Accounting Principles (GAAP). GAAP are the set of rules, practices, and conventions that describe what is an acceptable financial reporting for external stakeholders (Egbunike & Udeh, 2015).

Nevertheless, the discretion involved in accrual-based measurement offers the management opportunities to manipulate the reported numbers (You, Tsai, & Lin, 2003); as there is no clear limit beyond which a choice is obviously illegal. Accruals are the most common activities of earnings management that are performed by management to either increase or decrease reported earnings (Hassan & Ahmed, 2012). Egbunike and Udeh (2015) on a sample of quoted conglomerates on the Nigerian Stock Exchange (NSE) showed that for firms with high discretionary accruals, earnings management positively affected earnings per share and book value per share.

2.2 Theoretical Framework

The study is anchored on 'agency theory'. The theory focuses on the contractual relationship between agents and principals in business. Jensen and Meckling (1976) define an agency relationship as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf, which involves delegating some authority to the agent. The 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, company executives). Agency theory suggests that the firm can be viewed as a nexus of contracts (loosely defined) between resource holders. An agency relationship arises whenever one or more individuals, called principals, hire one or more other individuals, called agents, to perform some service and then delegate decision-making authority to the agents.

2.3 Empirical Review

Olabisi, Agbatogun, and Akinrinlola (2017) examined the relationship between audit quality and earnings management in Nigeria. The sample comprised six randomly selected Deposit Money Banks. They used secondary data covering a period of six years from 2005 to 2014. They used the panel data regression models. The results of the study showed that there is a significant positive relationship between joint audit and earnings management; but, a significant negative relationship between audit specialization and earnings management.

Obigbemi, Omolehinwa, and Oluku (2017) investigated the association between ownership structure and earnings management in Nigeria. The sample comprised one hundred and thirty seven manufacturing firms listed on the Nigerian Stock Exchange. They utilised secondary data which was analysed using multiple regression and Pearson correlation. The results showed that ownership structure has a significant relationship with earnings management. Specifically, there is a positive significant relationship between management ownership and family ownership; and, a negative significant relationship between block ownership with earnings management practices in Nigeria.

Tyokoso and Tsegba (2015) investigated the impact of audit quality on earnings management in Nigeria. The sample comprised of eight oil marketing companies listed on the Nigerian Stock Exchange (NSE). They used secondary data from 2004 to 2013. The results revealed that audit firm size and industry specialization had a negative but insignificant impact on earnings management.

Ching, Teh, San, and Hoe (2015) investigated the relationship among audit quality, earnings management, and financial performance in Malaysia. The sample comprised one hundred listed industrial and consumer products firms in the Main Board of Bursa Malaysia. The study utilised secondary data from 2008 to 2013. The data was analysed using multiple regression. The results showed audit firm size had no effect on discretionary accruals of the sampled companies.

Zuo and Guan (2014) investigated the effect of audit firm size and industry specialization on earnings management in China. The sample comprised a total of four thousand six hundred and forty firm-year observations. The study utilised secondary data from 2008 to 2011. The data was analysed using multiple regression. The results showed that there is a significant negative relationship between audit firm size and earnings management. However, there was an insignificant negative relation between industry specialization and earnings management.

Usman (2013) investigated the effect of monitoring characteristics on financial reporting quality in Nigeria. The sample comprised of thirty two manufacturing firms. The study utilised secondary data; obtained from annual reports from 2007 to 2011. They used multiple regression technique to analyse the data. The results showed that institutional and block shareholding had a positive significant effect; while, managerial shareholding had a negative significant effect on financial reporting quality.

Isenmila and Afensimi (2012) investigated the relationship between earnings management and ownership structure in Nigeria. The sample comprised ten Deposit Money Banks. They used secondary data from annual reports from 2006 to 2010. They used multiple regression to analyse the data. The results showed a positive significant effect of external block ownership, insider ownership and earnings management. However, institutional ownership was positive but not significant.

Usman and Yero (2012) examined the effect of ownership concentration on earnings management in Nigeria. The sample comprised thirty firm year observations. The study utilised secondary data; obtained from annual reports. They employed panel regression techniques to analyse the data. The results showed a significant negative relationship between ownership concentration and earnings management.

Klai and Omri (2011) examined the effect of corporate governance on financial reporting quality in Tunisia. The sample comprised twenty two non-financial firms listed on the Tunis Stock Exchange. The study utilised secondary data from 1997 to 2007. The data was analysed using multiple regression technique. The results revealed a negative association between ownership concentration and financial reporting quality.

Gerayli, Yanesari, and Ma'atoofi (2011) investigated the impact of audit quality on earnings management in Iran. The sample comprised ninety non-financial firms. The study utilised secondary data from 2004 to 2009. Earnings management was proxied using discretionary accruals; while, audit quality was proxied as auditor size, industry specialization and independence. The data was analysed using multiple regression technique. The results revealed a negative relationship between discretionary accruals and the audit quality proxies.

Roodposhti and Chashmi (2010) investigated the impact of corporate governance mechanisms on earnings management in Iran. The sample comprised one hundred and ninety six firms listed on the Tehran Stock Exchange from the period 2004 to 2008. The study utilised secondary data; which was analysed using multiple regression technique. The results showed a significant negative effect of ownership concentration on earning management.

You, Tsai, and Lin (2003) examined the relationship between managerial ownership, earnings management, and audit quality in Taiwan. The sample comprised three hundred and ninety three corporations from 1991 to 2001. They used pooled cross-sectional regression model to validate the hypotheses. The results showed that managerial ownership and audit quality are both inversely associated with abnormal accruals.

3. Design and Methodology

The study utilised the *ex-post facto* research design. Ex-post facto investigation seeks to reveal possible relationships by observing an existing condition or state of affairs and searching back in time for plausible contributing factors (Kerlinger & Rint, 1986). It is a systematic empirical inquiry in which the researcher does not have direct control of independent variables because their manifestations have already occurred or because they are inherently not manipulated. The study made use of secondary sources of data. The data were obtained from annual financial reports and accounts of the individual companies downloaded from the websites of the companies.

The study used purposive sampling and the final sample comprised of twenty one companies classified under the consumer goods sector of the Nigerian Stock Exchange (NSE); the companies are listed below as follows:

Table 1: List of firms included in the sample

1	DN Tyre & Rubber Plc.
2	Champion Breweries Plc.
3	Golden Guinea Breweries Plc.
4	International Breweries Plc.
5	Nigerian Breweries Plc.
6	7-up Bottling Company Plc.
7	Dangote Flour Mills Plc.
8	Dangote Sugar Refinery Plc.
9	Flour Mills Nigeria Plc.
10	Honeywell Flour Mill Plc.
11	Multi-trex Integrated Plc.
12	Northern Nigeria Flour Mills Plc.
13	Union Dicon Salt Plc.
14	Cadbury Nigeria Plc.
15	Nestle Nigeria Plc.
16	Guinness Nigeria Plc.
17	Vitafoam Nigeria Plc.
18	P.Z. Cussons Nigeria Plc.
19	Unilever Nigeria Plc.
20	Mcnichols Plc.
21	Nascon Allied Industries Plc.

Source: Nigerian Stock Exchange Website, (2018)

3.1 Methods of Data Analysis

The data analysis is composed of four steps: data preparation through cleaning, data analysis, interpretation and report writing. Microsoft Excel and E-view Statistical Package were used in analysing the data. The study made use of multiple regression technique in testing the formulated hypotheses. Multiple regression technique 'is a statistical technique which analyses the relationship between a dependent variable and multiple independent variables by estimating coefficients for the equation on a straight line' (Hair, Black, Babin, Anderson, & Tatham, 2006). The study specifically uses the Panel Estimated Generalized Least Square (EGLS); which is a plausible technique in order to correct *heteroskedasticity* or auto correlation issues.

3.2 Model Specification

$$AccQ_{(i,t)} = \alpha + \beta_1 AFS_{(i,t)} + \beta_2 OWNCO_{(i,t)} + \beta_3 LEV_{(i,t)} + \beta_4 ROA_{(i,t)} + \beta_5 SIZE_{(i,t)} + \beta_4 AFS*OWNCO_{(i,t)} + \ldots\ldots \mu$$

Table 2: Description of variables

	Variable	**Proxy**	**Description**	**Source**
Accruals quality	Dependent Variable	AccQ	Accrual Quality(AQ) = [Earnings – CFO]/ Average Assets Where: Earnings = Earnings before extraordinary activities, CFO = Cash flow from operation.	Richardson (2003)
Audit firm size	Independent variable	AFS	A dummy variable; 1 is given to a firm audited by a 'Big 4' audit firm (KPMG; Ernst and Young; Akintola Williams Delloitte; PWC); 0 if otherwise.	Ching, Teh, San and Hoe (2015); Kane and Velury (2002)
Ownership Concentration	Independent variable	OWNCO	Measured as the percentage of equity shares owned by the largest shareholder in the period (t)	Makni, Kolsi, and Affes (2012)
Leverage	Control variable	LEV	Total Liabilities/Total Debts	Zureigat (2010)
Return on Assets	Control variable	ROA	Net Profit before Tax/Total	
Firm Size	Control variable	Size	Value of closing assets	

Source: Authors Compilation, 2018

4. Data Analysis and Results

Table 3: Descriptive statistics

	ACCQ	AQ	OWNCO	LEVERAGE	ROA	CLOSING_ASSETS
Mean	-0.483099	0.734694	0.963770	0.466578	0.048310	9.78E+10
Median	-0.101535	1.000000	0.003370	0.199318	0.047452	5.59E+10
Maximum	1.641394	1.000000	15.65568	25.10292	1.950850	5.39E+11
Minimum	-11.82315	0.000000	0.000000	-3.485561	-3.021770	0.000000
Std. Dev.	1.357959	0.443005	3.383742	2.222252	0.339328	1.22E+11
Skewness	-5.815811	-1.063175	3.881912	9.624916	-3.576519	1.728442
Kurtosis	43.76602	2.130342	16.78664	105.4653	54.50725	5.259174
Jarque-Bera	11007.62	32.32575	1533.385	66576.86	16563.00	104.4552
Probability	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Sum	-71.01560	108.0000	141.6742	68.58694	7.101552	1.44E+13
Sum Sq. Dev.	269.2315	28.65306	1671.658	721.0067	16.81098	2.16E+24
Observations	147	147	147	147	147	147

Source: E-Views 9

The average value of Accruals Quality was -0.483; and, the average value of audit quality was 0.73; in other words, approximately 73% of the sampled firms engage the services of the Big 4 audit firms. The average value of ownership concentration was 0.96; the average value of leverage was 0.46; the average value of ROA 0.05; and, the average value of closing assets was 9.78E+10. The Jarque-Bera statistics showed that all variables were not normally distributed ($p<.05$).

Table 4: Pearson correlation result of independent and control variables

	AQ	OWNCO	LEVERAGE	ROA	CLOSING_ASSETS
AQ	1.000000				
OWNCO	-0.453815	1.000000			
LEVERAGE	-0.116459	0.041876	1.000000		
ROA	0.157556	-0.417149	-0.001854	1.000000	
CLOSING_ASSETS	0.203910	-0.221365	-0.056154	0.021634	1.000000

Source: E-views Ver. 9.0

The results as shown in the table above; report a negative relationship between ownership concentration and leverage with audit quality. However, audit quality was positively related to ROA and closing assets. Ownership concentration is positively related to leverage; but, negatively related to ROA and closing assets. Leverage is negatively related to ROA and closing assets. ROA is positively related to closing assets.

4.1 Test of Hypotheses

Table 5: Multiple regression output for test of hypotheses

Dependent Variable: ACCQ				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.827475	0.070433	-11.74837	0.0000
AQ	-0.243961	0.015237	-16.01061	0.0000
OWNCO	0.412750	0.018851	21.89536	0.0000
AQ*OWNCO	-2.140071	0.917743	-2.331885	0.0214
LEVERAGE	0.016591	0.029998	0.553057	0.5813
ROA	1.092598	0.024676	44.27805	0.0000
CLOSING_ASSETS	1.38E-12	5.56E-13	2.475576	0.0147
Effects Specification				
Weighted Statistics				
R-squared	0.701688	Mean dependent var		-1.268546
Adjusted R-squared	0.637054	S.D. dependent var		2.205818
S.E. of regression	1.279287	Sum squared resid		196.3891
F-statistic	10.85630	Durbin-Watson stat		1.470040
Prob(F-statistic)	0.000000			
Unweighted Statistics				
R-squared	0.153580	Mean dependent var		-0.483099
Sum squared resid	227.8829	Durbin-Watson stat		2.405827

Source: E-views 9.0

The table above shows the results of the Panel EGLS (Cross-section weights), the periods included are 7; and, the cross-sections included are 21. The method used is linear estimation after one-step weighting matrix and white period standard errors & covariance (d.f. corrected). The model showed an R squared value of .702 for ‘Weighted Statistics’ and 0.154 for ‘Unweighted Statistics’ (R^2 measures the proportion of the variance in the dependent variable that is explained by the independent variables). The Adjusted R squared value for ‘Weighted Statistics’ model is 0.637; thus, the model explains approximately 63.7% variation in the dependent variable. The F statistic (ratio of the mean regression sum of squares divided by the mean error sum of squares) which is used to check the statistical significance of the model showed a value of 10.86; p value <.05; therefore, the hypothesis that all the regression coefficients are zero is rejected. The Durbin Watson stat is 1.47; within the context of sample size used for this research clearly show the non-existence of autocorrelation. The control variables: ROA, Leverage, and closing assets were all positive; however, Leverage was not significant.

4.1.1 Test of Hypothesis One

Ho_1: There is no significant effect of audit firm size on accruals quality.

Based on our result, the *t* statistic of our variable of interest representing hypotheses one (Audit firm size) is -16.01, confirming that audit firm size has a negative relationship with accrual quality. However, the result showed a *p*-value = 0.000 ($p<.05$); thus, the null hypotheses is rejected. Thus, there is a significant effect of audit firm size on accruals quality.

4.1.2 Test of Hypothesis Two

Ho_2: There is no significant effect of ownership concentration on accruals quality.

Based on our result, the *t* statistic of our variable of interest representing hypotheses two (Ownership concentration) is 21.89, confirming that ownership concentration has a negative relationship with accrual quality. However, the result showed a *p*-value = 0.000 ($p<.05$); thus, the alternative hypotheses is accepted. Therefore, there is a significant effect of ownership concentration on accruals quality.

4.1.3 Test of Hypothesis Three

Ho_3: Ownership concentration does not moderate the relationship between audit firm size and accruals quality.

Based on our result, the *t* statistic of our variable of interest representing hypotheses three (Audit firm size*Ownership concentration) is -2.33, confirming that the interaction of ownership concentration and audit firm size has a negative relationship with accrual quality. However, the result showed a *p*-value = 0.021 ($p<.05$); thus, the alternative hypotheses is accepted. Therefore, ownership concentration moderates the relationship between audit firm size and accruals quality.

4.2 Discussion of Findings

The study focused on the effect of audit quality and ownership concentration on earnings management of Nigerian manufacturing firms. The first hypothesis showed a negative non-significant relationship between audit firm size and accrual quality. Similarly, Tyokoso and Tsegba (2015) in Nigeria; found that audit firm size had a negative insignificant effect on earnings management. Ching, Teh, San, and Hoe (2015) in Malaysia found that audit firm size had no effect on discretionary accruals of the sampled companies.

Contrary, studies by Olabisi, Agbatogun, and Akinrinlola (2017) in Nigeria found a significant negative relationship between audit specialization and earnings management. Zuo and Guan (2014) in China that proxied earnings management using abnormal accruals; reported a significant negative relationship between audit firm size and earnings management. Gerayli, Yanesari, and Ma'atoofi (2011) in Iran; found a negative relationship between earnings management proxied using discretionary accruals and auditor size.

The second hypothesis finds a negative relationship between ownership concentration and accruals quality. This is consistent with Obigbemi, Omolehinwa, and Oluku (2017) in Nigeria; specifically, they reported a positive significant relationship between management ownership and family ownership; but, a negative significant relationship between block ownership. The result is also consistent with that of Usman and Yero (2012) using random effects regression that showed a significant negative relationship between ownership concentration and earnings management. In Tunisia, Klai and Omri (2011) using a sample of non-financial firms found a negative association between ownership concentration and financial reporting quality. Similarly, Roodposhti and Chashmi (2010) in Iran; found a significant negative effect of ownership concentration on earning management.

The interaction of ownership concentration and audit firm size also had a negative effect on accruals quality. Prior study by You, Tsai, and Lin (2003) in Taiwan; using pooled cross-sectional regression on a sample of three hundred and ninety three found that managerial ownership and audit quality were both inversely associated with abnormal accruals.

5. Conclusion and Recommendations

This study investigated the effect of audit quality on accruals quality of quoted manufacturing firms in Nigeria. In addition, the study specifically investigates the moderating effect of ownership concentration on the audit quality and accruals quality nexus. There is large empirical evidence that high quality auditors are more likely to discover questionable accounting practices by clients and also report material irregularities and misstatements compared.

Using Big-4 as surrogate for audit quality, the results showed a non-significant negative effect of audit firm size on accruals quality. However, the variable of ownership concentration had a significant negative effect on accruals quality. The results also showed that the interaction of ownership concentration and audit quality is negative and significant at 5%.

Based on the findings, the study recommends that the issue of earnings management be given due considerations by regulatory authorities through effective ownership structure in corporations. Moreso, it is pertinent that potential shareholders approach risk of earnings manipulation by means of periodical result oriented evaluation and due consideration to corporate organisations' ownership structure. The study further recommends that a combination of alternative governance mechanisms be embraced in mitigating earnings manipulation by manufacturing firms. The study contributes to the literature by verifying the effect of the interaction of ownership concentration and ownership structure on accruals quality in the context of a developing country in Sub-Saharan Africa. The paper has several limitations. *Firstly*, the results may be affected by *endogeneity* problems. *Secondly*, the results are subject to the proxy of earnings management.

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