Audit Quality Determinants of Income Smoothing Likelihood: Evidence from Listed Deposit Money Banks in Nigeria

Dr. Emmanuel O. Emenyi

Department of Accounting,

Akwa Ibom State University

emenyi007@yahoo.com; emenyi007@gmail.com; emmanuelemenyi@aksu.edu.ng

08030989037

Abstract

The study examined audit quality determinant of income smoothing likelihood drawing samples from listed deposit money banks in Nigeria. While income smoothing proxied by small profit is the dependent variable, the independent variables adopted for this study includes audit firm size, audit tenure and audit fee ratio. Data set employed in this study spans through the periods between 2011 and 2020. In the light of this, the empirical result of this study leads to the conclusion that the engagement of big4 audit firms by listed deposit money banks in Nigeria significantly decreases income smoothing. Furthermore, we concluded that increased audit fees increase income smoothing among listed deposit money banks in Nigeria. Therefore, we recommend that regulators should advocate for the employment of big4 auditors by listed deposit money banks to curb income smoothing.

1.0 Introduction

The devastating effects of earnings management recorded among corporate entities all over the world have been a subject of attention in recent decades. Worse among these scandals is the case of Enron and WorldCom in the USA. Little wonder why Albrecht, Albrecht, and Albrecht (2004) noted that the United States alone recorded over ten largest bankruptcies in year 2002. Surprisingly, all the cases have been linked to earnings management practices carried out by managers which heightened the search for the actual relationship between accounting quality and audit process quality. However, a second critical issue lies in the question of whether these corporate collapses are not a result of poor audit quality and the failure of the audit function to stop earnings manipulations. Consequently, Okolie and Izedonmi, (2013) document that to restrain the rise in vicious corporate collapses and to assure the integrity of auditors, audit quality codes of best practice should be developed. Hence, quality audit process tends to examine the probability of material misstatements and also decreases the possibility of undetected misstatements to a manageable level.

Earnings management cannot be completely addressed without considering income smoothing, which is a special strategy in earnings management. It is an earnings management tactic that conveys the impression that managers have incentives to reduce excessively high earnings and raise excessively low earnings. Earnings smoothing, according to Ozili (2017), is a vital earnings management technique that can be either "artificial" or "absolute," with real smoothing involving decisions that affect cashflow and dissipate firm value at obvious costs. Managers are well-known for attempting to influence stakeholders' perceptions on company's financial situation (Boudiche, 2013). This have prompted scholars such as Dechow & Skinner (2000) to propose that managers manipulate the figures "down" to minimize the amount of taxes owed, or "upward" to smooth earnings in order to meet financial analyst standards. According to Bartov, Givoly, and Hayn (2002) managers are forced to manage the results to prove good performance records to shareholders and other financial statement users. Hence curbing income smoothing behaviour cannot be effectively executed without putting into consideration the need for audit quality.

Unpalatable earnings, which serve as a method for making business decisions, as well as various corporate scandals around the world, have brought to lime light the fact that earnings management has become a major concern. Although, most corporate failures have been mostly documented for developed nations such as the United States of America, the United Kingdom, Germany, Spain, a hand full of cases have also been spotted in developing and underdeveloped nations such as Nigeria. In the light of these happenings Adeyemi and Fagbemi, (2018), Okoh, (2015) noted that the rising rate of financial scandals associated with managing earnings has led to loss of public confidence in reported accounting earnings and the function of audit in Nigeria. Studies in Nigeria such as those of Okoh (2015), Okolie (2014), documents significant positive relationship between audit firm size and earnings management while Ndubuisi and Ezechukwu (2017), and Mohammad (2016) documents significant negative relationship between firm size and earnings management. These inconsistencies in results show that there is a need for further investigation which becomes one major gap in literature which the researcher has filled.

More than these, earnings manipulation through discretionary accrual method dominates earnings management literature (Lin & Hwang, 2010) which is also consistent with the views of Dechow, Sloan and Sweeney (1995) who posit that the analysis of earnings management mostly focuses on management's use of discretionary accruals. These studies tend to neglect other possible earnings management avenues one of which is the income smoothing method which is employed to conceal information about the current year and future year earnings of the company. Assem (2011) noted that this action mis-informs users of financial statements. Therefore, in this study we attempt to discover weather managers do practice other forms of earnings manipulations (specifically income smoothing method) and also investigate how well specific audit quality checkmates such activities. It is in line with this rare measure of earnings management that the researcher conducts this study thereby applying small profit model of earnings smoothing. As far as the author can tell, this study provides the first related empirical evidence for the variables of interest in Nigeria.

2.0 Conceptual Literature

Income Smoothing

The intentional normalization of income in order to achieve the desired pattern is known as income smoothing. If the smoothing supplies more knowledge being expressed in the stock price, it is likely to increase resource allocation and can be a key factor in investment decisions. Income smoothing is described by Greenawalt and Sinkey (1988) as managers' strategic reporting behaviour to smooth out fluctuations in realized earnings. Income/earnings smoothing is a common occurrence that Graham et al. (2005)'s in their study indicated that 96 percent of managers which they surveyed showed a clear preference for smoother earnings. Income smoothing entails minimizing recorded earnings variability over time, as well as moving revenue and expenditures between reporting periods to give false impression that a company's earnings are consistent. This practice has been around for decades, and two schools of thought have emerged as to why managers engage in it. First, it provides an ostensibly effective means for managers to disclose confidential information. Second, smoothing is a type of "garbling," in which managers attempt to deceive analysts and others in order to increase managerial compensation (Li & Richie, 2009).

Audit Firm Size

According to Shore and Wright (2018) four names – or global brands – dominate the skyline: Deloitte Touche Tohmatsu (Deloitte) PricewaterhouseCoopers (PwC), Ernst & Young (EY) and Klynveld Peat Marwick Goerdele (KPMG). While these Big 4 audit companies are typically seen as single firms, they actually comprise a network of independently owned and managed companies that share a common brand, name and quality standards. In this study, we note that the Big Four is the nickname used to refer collectively to the four largest professional services networks in the world, consisting of Deloitte, Ernst & Young, KPMG, and PricewaterhouseCoopers. The four networks are often grouped together for a number of reasons; they are each comparable in size relative to the rest of the market, both in terms of revenue and workforce; they are each considered equal in their ability to provide a wide scope of quality professional services to their clients; and, among those looking to start a career in professional services, particularly accounting, they are considered equally attractive networks to work in, because of the frequency with which these firms engage with Fortune 500 companies.

Audit Fee

The ability of an auditor to maintain a dispassionate and impartial mental attitude when conducting an audit is referred to as independence. Auditor independence is described by DeAngelo (1981) as an auditor's balanced mental assertiveness in making decisions during the process of conducting an audit and reporting the audit's findings. Where an auditor's integrity is threatened, there is a risk that the auditor may be seen as lacking objectivity. The resulting effect is that the auditor would be seen as lacking in independence if a violation is found. According to Arens, Elder, and Beasley (2014), freedom entails a sense of duty that is separate from the client's interests. The external auditor's independence allows them to maintain a healthy level of professional scepticism. Furthermore, auditor independence is defined to be the unbiased mental attitude of the auditor in providing decisions all through the audit and financial reporting process (Okolie 2014).

Audit Tenure

Adeyemi, Okpala and Dabor, (2012), suggest audit tenure is short when the same auditor has audited the financial statements for a period of three years or long when the same auditor have been engaged for up to nine years. In Pierre & Anderson (1984) audit tenure requires the same auditor to have audited the financial statements of a company for two or three years. Okoh, (2015) remarked that auditor tenure can be seen to be when the same auditor has audited the financial statement of a company for at least a period of nine or more years. But Hartadi (2009) defined “Audit tenure” as the agreed period of engagement between the client and the auditor. Adeyemi and Okpala (2011) opined that an audit firm’s tenure can result in a loss of auditor’s independence which indicates that a long audit-client relationship could lead to an alignment of the auditors’ interest and that of its client which makes a truly independent behaviour of the auditor a probability.

Theoretical Framework

Principal-Agent Theory

The principal-agent theory refers to a relationship or an arrangement in which one entity legally appoints another to act on its behalf. In a principal-agent relationship, the agent (in this study the auditor) acts on behalf of the principal (Owners/Shareholders) and should not have a conflict of interest in carrying out the act. The relationship between the principal and the agent is called the "agency," and the law of agency establishes guidelines for such a relationship. The theory emphasizes the challenges of external auditors: of which this study will be concentrating efforts to reveal the effects of auditors' characteristics on income smoothing. According to the two-tier principal-agent theory, external audits are an incentive to strengthen public trust in financial accounting. The external audit is a monitoring and bonding instrument for management activities and is meant to motivate legally sound and orderly financial accounting. The principal-agent theory assumes that the auditor may impair his ability and freedom to make a sound assessment. There is the possibility of a moral hazard if the auditor and management collaborate. In such a case, the auditor might tolerate faulty financial accounting and grant an unqualified audit opinion in exchange for hidden transfer benefits. Since an auditor's compensation is not fully transparent for the capital market, incurring the risk of hidden actions, there is a danger of biased judgment by the auditor and untruthful reporting on the outcome of the audit. This study relates to this theory as it has been observed that certain auditors' attributes (which we intend to ascertain) may impair his ability and freedom to make sound assessments. Specifically, one or more of these attributes may spur income smoothing of a firm's financial information. (Watts & Zimmerman, 1983).

Empirical Foundation and Hypotheses Development

Audit Firm Size and Income Smoothing

The variation in audit quality provided by Big Firms and Non-Big audit firms has received considerable attention in prior research Most auditing studies categorize audit firms as a big 4/5/6/8 firm or a non-big firm. A big audit firm is perceived as prestigious and reputable consequently provides high audit quality. The Big 4 auditors can sustain a high audit quality level due to the fact that they have a greater number of clients, thus revenues are derived from several clients so their revenue streams will not be affected by a single client, which makes them more independent. Ndubuisi & Ezechukwu, (2017) Becker et al. (1998) argue that big six auditors are better able to detect earnings management because of their superior knowledge and act to detect and report earnings management in order to protect their reputation. Nevertheless, Lin and Hwang (2010) argue that there is a negative relationship between big 4/5/6 and earnings management. Thus, we state the first hypotheses as:

$H0_1$: Audit firm size does not significantly determine income smoothing of listed deposit money banks in Nigeria

Auditor Tenure and Income Smoothing

Academic literature shows mixed results on the effect of auditor tenure on earnings manipulations. To this extent, Hohenfels (2016) reports a positive effect of auditor tenure on earnings management, arguing that investors perceive a potential impairment of audit quality as the tenure increases which would affect earnings quality. On the other hand, as auditor tenure increases, the auditor should become better at recognizing material misstatements by gaining experience and better insights into the clients' business strategies and internal financial reporting process (Arens et al., 2005). Several studies show that a long audit relationship improves the conditions of the audit work result. Thus, they argue that the duration of the audit-client relationship can have a positive impact on the quality of the audit performed. Thus, we state the second hypotheses as:

$H0_2$: Audit firm tenure does not significantly determine income smoothing of listed deposit money banks in Nigeria

Audit Fee and Earnings Smoothing

In modern corporations characterized by the separation of ownership and control, auditors play an important monitoring role (Jensen & Meckling 1976) Stakeholders rely on financial information provided by management for investment, financing and other decisions. To assure users of the reliability of the financial statements, the board hires independent auditors to attest to the reliability of the statements. However, management (subject to ratification of the shareholders) controls the process of hiring and firing independent auditors and also pay quasi-rents associated with the audit contracts. In this situation, auditors may be incentivized to yield to management pressure which implies that the reliability of the information contained in audited financial statements depends upon the level of independence of the auditor (Becker et al. 1998). Extant literature confirm that Big 5 auditors are of higher quality and, thus, must be more independent (DeAngelo 1981a, 1981b; Francis et al. 1999). But others contend that high fees paid by the company to the auditor increase the economic bond between the auditor and the client, thus the fees may impair the auditor's independence (Li & Lin, 2005). Thus, we state the third and final hypotheses as:

$H0_3$: Audit fee ratio does not significantly determine income smoothing of listed deposit money banks in Nigeria

Empirical Review

The study of Enegbe and Atu (2016) aimed at examining the determinants of earnings management using 30 selected quoted companies from 2007-2014 in Nigeria. The study employed corporate governance, firm size, audit firm type and financial performance and made use of ordinary least squares (OLS) regression technique for data analysis. The result revealed the existence of a negative significant relationship between board size, audit firm type and earnings management. The result also showed a non-significant relationship between firm size, return on asset and earnings management and recommended that there is the need for companies to consider the need to increase their board independence. The authors further recommended that companies must ensure that the auditors' they engage are credible and have a track record of delivering reports that show the actual state of affairs of a company. Furthermore, Financial Reporting Council (FRC) should have stiffer penalty for companies caught engaging in the act of earnings management.

Hamm (2017) create a measure of earnings smoothing through research and development (R&D) expense adjustment and show that firms with stronger labor unions tend to smooth earnings to a greater extent using both discretionary accruals and R&D expenditure adjustment. While there is evidence suggesting that managers use real activities earnings management (RAM) to smooth earnings in addition to accrual management, there is no prior evidence on whether smoothing using RAM improves earnings informativeness.

Mokoaleli-Mokoteli and Latridis (2017) carried out a study on Big 4 auditing companies, earnings manipulation, and earnings conservatism among South African listed companies. The independent variables include discretionary accruals, conditional and unconditional conservatism while the independent variables include Audit big4, operating cash flow, firm size, market to book value ratio, net income, annual stock price, and firm leverage. Results obtained from the regression analysis shows that companies audited by a Big 4 auditor lead to a timelier recognition of large losses and to lower levels of earnings manipulation and higher conditional conservatism. The findings also show that the conditional form of conservatism is negatively related to unconditional conservatism.

Obaidat (2017) examines Income Smoothing Behavior at the Times of Political Crises of non-financial firms listed on the Amman Stock Exchange from 2006 to 2015. The study used Chi-square, Correlation, and Ordinary Least Square Regression for its analysis. The independent variable for the study is political crises while the dependent variable income smoothing was broken down into gross profit (GP), operating income (OI), income before tax (IT), and net income after tax (NI). The results of the study showed that there are no significant differences in net sales (NS), gross profit (GP), operating income (OI), and current liabilities (CL) before and during the crisis. For net income after tax (NI), the results show a significant difference for industrial firms before and during the crisis, as these firms realized losses during the crisis compared to profits before the crisis. On the contrary, service firms show an increase in NI during the crisis. In spite of the fact that NI for service firms increased during the crisis, the significant increase in total assets (TA) for these firms lead to a decrease in ROA.

The study of Donatella, Haraldsson and Tagesson (2018) tend to answer the question, do audit firm and audit costs/fees influence earnings management in Swedish municipalities? The aim of their study is to explore whether audit firms and audit costs/fees influence municipalities' probability of applying earnings management in their annual accounts. The independent variables of the study include Audit Firm Size, Audit Cost and Audit Fee while the dependent variable was proxy by earnings accruals. Both political and economic factors were employed as control variables. The result from the regression analysis reveals that the probability of earnings management increased if audit costs/fees increased. The study also indicates that different audit firms make different trade-offs between professional versus commercial logics and that this is reflected in the clients' propensity to engage in earnings management and recommended that in order to obtain de facto harmonization and implementation of common accrual-based accounting standards, it is also necessary to ensure that common rules for oversight and an independent high-quality audit are implemented.

The aim of the study conducted by Lopes (2018) is to examine if there is a relationship between the manipulation of results (discretionary accruals) and the quality of audit provided for Portuguese non-listed companies for the period 2013 to 2015. Multiple linear regression was employed in order to explain the relationship between discretionary accruals, firm size, debt, volume business, and profitability. The results suggest that there is a relationship between audit quality and earnings manipulation. It also reveals that the level of earnings management is significantly lower among companies contracting a Big 4 audit firm, as compared to companies using a non-Big 4 audit firm.

The study of Sumiadji, Chandrarin and Subiyantoro (2019) was conducted to test the effect of audit quality on earnings quality in Indonesia. The data set consists of 116 annual data of manufacturing companies listed in the Indonesia Stock Exchange within 2011-2014. The proxies of audit quality are auditor size, audit tenure, and audit specialization while earnings quality proxies include accrual quality, persistence, predictability, and income smoothing. Two analysis techniques include confirmatory factor analysis and multiple regression analysis to test the effect of auditor size, audit tenure, and audit specialization on earnings quality. The result reveals that earnings quality is formed by the attributes of persistence and predictability. Research results showed that auditor size and audit tenure have an effect on earning quality, but audit specialization do not.

4.0 Methodology

In relation with extant literature, we employed the firm-level approach based on an expo-facto and non-experimental research design. The study is longitudinal covering a period of ten (10) years. That is, from 2011 to 2020 employing listed deposit money banks on the floor of the Nigerian Exchange Group (NGX). The sampling technique employed is purposive since banks were included in the sample on certain selection criteria. These criteria were based on the view that the banks are listed on the Nigerian Exchange Group (NGX) market from 2011-2020; there were access to their annual financial reports within the period and they were not banks operating subsidiaries in Nigeria that are not listed in the Nigerian Exchange Group (NGX). Thus, only banks that had all relevant data due to continuous existence were included in the sample. Our final sample size consists of 12 listed deposit money banks that was arrived at based on the availability of data for ten years for all the research variables. We expressed our model as:

$$\boldsymbol{INSM_{it} = \beta_0 + \beta_1 AUFZ_{it} + \beta_2 AUFT_{it} + \beta_3 AUFR_{it} + \mu_{it}}$$

Where:

INSM	=	Income smoothing
AUFZ	=	Audit firm size
AUFT	=	Audit firm tenure
AUFR	=	Audit fee ratio
β_0	=	Constant
β_1- β_4	=	Slope Coefficient
μ	=	Stochastic disturbance
i	=	i^{th} firm
t	=	time-period

In this study, we measure the dependent variable of income smoothing as an indicator variable if the Return on Asset is less than 3% (Francis and Yu 2009). Specifically, income smoothing is measured in Dummy as '1' if the value of Return on Asset > 3% otherwise 0. We measure audit firm size as '1' if company is audited by a Big4, '0' otherwise. We measure audit firm tenure as the number of years the auditor is engaged to audit the firm's financial reports. Finally, we measure audit fee ratio as the ratio of auditor's remuneration to gross income.

4.0 RESULTS AND DISCUSSION OF FINDINGS

We examine audit quality determinants of income smoothing drawing samples from listed deposit money banks in Nigeria. While income smoothing proxied is the dependent variable, the independent variables adopted for this study includes audit firm size, audit tenure and audit fee ratio. Data set employed in this study spans through the periods between 2011 and 2020. Table 4.1 below describes the data in terms of the companies which they belong. Overall, the descriptive statistics provides some insight into the nature of the selected Nigerian listed non-finance companies that were employed in this study.

Descriptive Analysis

In this section, we examine the descriptive statistics for both the explanatory and dependent variables of interest. Each variable is examined based on the mean, standard deviation, maximum and minimum. Table 1 below displays the descriptive statistics for the study.

Table 1: Descriptive Statistics

VARIABLES	MEAN	SD	MIN	MAX	NO OBS
INSM	0.04	0.20	0	1	120
AUFZ	0.93	0.25	0	1	120
AUFT	5.43	2.88	1	11	120
AUFR	0.00	0.00	0.00	0.00	120

Source: Author (2021)

The table above shows the summary of the descriptive statistics of the study. From the table it is observed that income smoothing (INSM) had a mean of 0.04 with a standard deviation of 0.20. Audit firm size (AUFZ) had a mean of 0.93 with a standard deviation of 0.25. We also find that Audit firm tenure (AUFT) had a mean of 5.43 with a standard deviation of 2.88. We find that Audit fee ratio (AUFR) had a mean of 0.00 with a standard deviation of 0.00.

Correlation Analysis

In examining the association among the variables, we employed the Pearson correlation coefficient (correlation matrix), and the results are presented in the table below.

Table 2: Correlation analysis

	INSM	AUFZ	AUFT	AUFR
INSM	1.00			
AUFZ	-0.28	1.00		
AUFT	-0.18	0.09	1.00	
AUFR	0.06	0.20	0.00	1.00

Author's computation (2021)

In the case of the correlation between the variables of interest, the above results show that there exists a negative and moderate association between audit firm size and income smoothing (-0.28). There exists a negative and weak association between audit firm tenure and income smoothing (-0.18). There exists a positive and weak association between audit fee ratio and income smoothing (0.06). To test our hypotheses a regression results will be needed since correlation test does not capture cause-effect relationship.

Regression Results

Specifically, to examine the independent variable determinant of the dependent variable as well as to test the formulated hypotheses, we present a Robust Logistic regression in the table below.

Table 4.3 Robust Logistic Regression Estimates

Variables	Audit firm Size	Audit firm Tenure	Audit fee ratio
Income smoothing Model			
Coefficient **z_ Statistics** **Probability_z**	-3.356 (-2.85) {0.004} **	-0.359 (1.80) {0.072}	1779.066 (2.07) {0.039) **
No. of Obs = 120 **Prob. > chi2 = 0.0050** **Pseudo R-Square = 0.2870**			

Note: t-statistics and respective probabilities are represented in () and {}
Where: ** represents 5% & * represent 1% level of significance**
Source: Authors' Computations (2021)

The table above shows the result obtained from the robust logistic regression employed to examine audit quality and income smoothing likelihood. The result above reveals a **Pseudo** R^2 value of 0.29 which indicates that about 29% of the variation in the dependent variable is explained by all the independent variables in the model. This also means that about 71% of the variation in the dependent variable is left unexplained but have been captured in the error term. The model goodness of fit as captured by the Wald Statistics (12.85) with the corresponding probability value 0.0050 which shows a 5% statistically significant level reveals that the entire model is fit and can be employed for discussion and policy recommendation. The model goodness of fit is justified by the result obtained from the Pearson goodness of fit value of 44.24 with probability value of 1.0000 also indicate that the logistic model of income smoothing is fit. Particularly, the classification table show that out of 1 case that fell into the group of smoothing, 1 case was predicted correctly with 0.00% sensitivity accuracy while 114 out of 119 cases that fell into the group of no smoothing were predicted correctly and with 99.13% specificity accuracy. However, we find that the overall accuracy rate is seen to be roughly 95% which suggest that the model is free from any significant bias hence can be employed for interpretation and policy recommendation.

Discussion of Findings

Since, the study is an extension of existing studies, only few findings in literature are not in agreement with the current positions of this study. Specifically, we find that audit firm size (Robust Logistic regression = -3.356 (0.004)) as an independent variable to income smoothing appears to be a negative and significant determinants of income smoothing. This therefore means we should reject the null hypothesis {$H0_1$: audit firm size is not a significant determinant of income smoothing of listed deposit money banks in Nigeria}. Our results suggests that the engagement of big4 audit firms by listed deposit money banks in Nigeria significantly decreases income smoothing. This result agrees with prior empirical results which show that audit firms' size significantly decreases income smoothing (Bedard, Johnstone and Smith, 2010; Defond and Zhang, 2014; Francis, 2011; Knechel et al, 2013). However, we fail to agree with the studies of Li and Lin, 2006; Rockness, 2005; Knechel, 2016 who concluded that audit firm size significantly increase income smoothing. Our results also shows that audit firm tenure (Robust Logistic regression = -0.359 (0.072)) as an independent variable to income smoothing appears to be a negative and insignificant determinants of income smoothing. This therefore means we should accept the null hypothesis {$H0_2$: audit firm tenure is not a significant determinant of income smoothing of listed deposit money banks in Nigeria}. Our results suggests that income smoothing insignificantly decreases as the auditor stays longer. This result agrees with prior empirical results which show that audit firm tenure insignificantly decreases income smoothing (Geiger and North, 2006; Jiang et al., 2008; Matsunaga and Yeung, 2008; Peni and Vähämaa, 2010). However, we fail to agree with the studies of Li and Lin, 2006; Rockness, 2005; Knechel, 2016 who concluded that audit firm tenure significantly increase income smoothing. Furthermore, we document that audit fee ratio (Robust Logistic regression = 1779.066 (0.039)) as an independent variable to income smoothing appears to be a positive and significant determinants of income smoothing. This therefore means we should reject the null hypothesis {$H0_3$: audit fee ratio is not a significant determinant of income smoothing of listed deposit money banks in Nigeria}. Surprisingly, our results shows that increased audit fees increases income smoothing among listed deposit money banks in Nigeria. This result agrees with prior empirical results which show that audit fee ratio significantly increases income smoothing (Bedard, Johnstone and Smith, 2010; Defond and Zhang, 2014; Francis, 2011; Knechel et al, 2013). However, we fail to agree with the studies of Barber and Odean (2001) and Nelson (2012) who concluded that audit fee ratio significantly decrease income smoothing.

5.0 CONCLUSION AND RECOMMENDATION

Managers are well-known for attempting to influence stakeholders' perceptions on company's financial situation. This have prompted scholars such as Dechow & Skinner (2000) to propose that managers manipulate the figures "down" to minimize the amount of taxes owed, or "upward" to smooth earnings to meet financial analyst standards. Managers are forced to manage the results to prove good performance records to shareholders and other financial statement users. Hence curbing income smoothing behaviour cannot be effectively executed without putting into consideration the need for audit quality. Earnings quality, which is essentially a product of audit quality, is critical for investors decisions making. Audit quality will reduce uncertainty in financial statements, which is essential in reducing earnings management. In addition, audit efficiency refers to how well an audit identifies and records material financial statement misstatements. Little wonder why Broberg, Noland and Winters (2017) noted that high audit quality should be associated with high information quality of financial statements because financial statements audited by high-quality auditors should be less likely to contain material misstatements and consequently reduce earnings management. In the light of this, the empirical result of this study leads to the conclusion that the engagement of big4 audit firms by listed deposit money banks in Nigeria significantly decreases income smoothing. Furthermore, we concluded that increased audit fees increase income smoothing among listed deposit money banks in Nigeria. Therefore, we recommend that regulators should advocate for the employment of big4 auditors by listed deposit money banks to curb income smoothing.

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