http://journals.uonbi.ac.ke/index.php/adfj
ISSN 2522-3186

The Relationship between Audit Quality and Earnings Management among Companies Listed at the Nairobi Securities Exchange

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Abstract

This article documents the link amid audit quality and earnings manipulation among companies listed at the Nairobi Securities Exchange. Existing literature has shown that audit quality can influence earnings management though with inconsistent findings. We anchor this study on agency theory and use two measures to determine audit quality -audit fees and auditor industry specialization. We use discretionary accruals computed by the Modified Jones Model to quantify earnings manipulation. The study controlled for firm size and found out that audit fees have a negative but statistically significant effect on earnings manipulation while auditor industry specialization showed a positive but statistically insignificant influence on earnings manipulation. These findings align with those arguing that higher audit fees imply comprehensive audit work to minimize earnings manipulation. The study implies that regulators, audit committees, and managers ought to emphasize not only the lowest bidder for audit services but the auditor's technical competence.

Keywords: *Audit Quality, Earnings Management, Discretionary Accruals, Audit fees, Financial Reporting Quality*

Introduction

Financial statements provide information needed by diverse stakeholders to make informed decisions on their investment patterns. These stakeholders hope to get quality financial reporting in the form of credible financial reports to ascertain the accountability of the management in utilizing invested funds. The misalignment of interests and presence information asymmetry amid the external stakeholders and the management necessitates the need for an independent mediator. The auditor takes up this role to provide assurance to all interested parties as to whether the financial reports provide a truthful and fair representation of a company's affairs. These reports have to be prepared in accordance with established standards such as the generally accepted accounting principles (GAAPs) or the international financial reporting standards (IFRS).

According to DeAngelo (1981), audit quality is the capacity of an auditor to spot and report any material misstatements that may arise in an organization's accounting system. Defond and Zhang (2014) note that audit quality augments the quality of fiscal reporting by enhancing the integrity of the financial statements.

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These assertions imply that quality auditing practices would inhibit or detect earnings manipulation by firms. Past accounting scandals by firms such as Enron, Worldcom, and Sunbeam, among others provide a basis for conducting this study on the link between audit quality and earnings manipulation. In fact, the recent Wirecard Scandal, a German fintech company that allegedly manipulated their financial records that remained undetected until 2019 informs further research on what constitutes audit quality and how it can aid combat manipulation of earnings among listed firms (Puspaningsih & Syarifa, 2021).

Audit quality is influenced by factors such auditor tenure, audit committee, auditor industry specialization, audit fees, and auditor size among other factors (Habbash & Alghamdi, 2016). There are mixed findings on whether these aspects positively or negatively influence audit quality and ultimately the ability to identify and prevent earnings manipulation. Jackson and Pitman (2001) argued that manipulating financial statements waters down investors' assurance in financial reports' value and hampers the efficient allocation of capital in stock markets. As the audit market matures and the financial markets advance, audit quality becomes an imperative consideration for many stakeholders. Auditor specialization, for instance, ensures that audit firms provide superior and credible audit practices that facilitate detection and constraint of earnings manipulation (Rusmin, 2010).

Earnings management has resulted in multiple accounting scandals and led to numerous financial and governance legislations around globally (Sitanggang et al., 2020). These actions necessitate studies to shed additional insight on earnings management. Top executives, through earnings manipulation, expose shareholders to significant costs because managers with myopic conduct usually prefer short-term business choices over the long-term goals, which affects a firm's ability to earn income in the future. Investors perceive a firm's capability to generate income as vital. Thus, the quality of a company's earnings is usually used to ascertain audit quality's level and reputation. Despite this, top managers can understate the reported income through misusing their judgement on accruals to manipulate earnings or undertake business decisions that affect a company's operations through real earnings management (Gao, Gao & Wang, 2017).

The Nairobi Securities Exchange is an imperative context to ascertain the link between audit quality and earnings management. Current literature suggests that auditor tenure (Mugo & Makori 2018); and audit committees (Kamau, Banafa, & Kairuki, (2022); Kapkiyai, Komen, and Cheboi, 2020) are some of the practical determinants of audit quality. The authors argue that if audit quality is compromised, firms would

be susceptible to earnings management and this might portend a twilight phase of corporate decline and devastating events such as insolvency and bankruptcy. Kenya, being the financial hub of East Africa, with a GDP of more than $95.5 billion with the economy growing at an average annual rate of 4.5% implies that firms listed on its bourse are of great interest to investors, creditors, and other stakeholders (USAID, 2022).

Research Problem

The agency theory suggests that external auditing is a control mechanism that reduces or prevents managers' unscrupulous activities such as earnings manipulation. When auditors provide an unqualified audit opinion, they assure interested parties on the trustworthiness of the financial reports. On the contrary, qualified or modified audit opinions indicate adverse information that could destroy their confidence and reliance on the published financial reports. Existing studies have shown that earnings manipulation increases the likelihood of providing qualified or modified audit opinions (Bisogno & De Luca, 2015; Gajevszky, 2014). Liu and Xu (2021) note that auditor experience (years practicing) and audit fees are determinants of audit quality while Imen and Anis (2020) use an additive unweighted model that encompasses 8 audit features to determine audit quality. The divergence in the approaches used to measure audit quality has had mixed findings on the link between audit quality and earnings manipulation.

Studies conducted in the Kenyan context have assessed the dual association between audit quality and earnings manipulation but with varying findings. The methodologies adopted in analyzing these relationships vary especially with regard to proxies used for audit quality. In this context, this research focuses on how audit quality proxied by auditor industry specialization and auditor fees influence the extent of earnings manipulation at companies listed at the Nairobi Securities Exchange. Ararat et al. (2021) opine that inconsistencies in findings on the relationships between audit quality and earnings manipulation could be attributed to differences in regulations, economics, cultures, and politics. This aspect underpins the need for a specific study in the Kenyan context to aid in policy formulation, enrich existing knowledge in academia, and provide a springboard for subsequent studies on these concepts.

As a departure from previous studies where the assumption was that auditor size or brand name (Big 4 or non-Big 4) was the only measure for audit quality, this study empirically assesses the additive unweighted audit quality attributes and how they influence earnings management. This approach is similar to Imen and Anis (2020) that was conducted in a Tunisian context. Given the preceding assertions, this study's main

focus is investigating the influence of audit quality, operationalized by auditor's fees and auditor industry specialization, on earnings manipulation in companies listed at the NSE. The overarching research question is, "can investors' confidence in financial reports be maintained through audit quality vis-a-vis earnings management threat among firms listed at the Nairobi Securities Exchange?"

Research Objectives

This study's primary objective is to find out whether audit quality deters earnings manipulation. The specific objectives were to determine whether;

(a) Auditor's fees influence earnings management
(b) An industry specialist auditor influences earnings manipulation.

Literature Review

Theoretical Review

The interrelationships between audit quality and manipulation of firms' annual reports can be explained by multiple theories. For instance, the positive accounting, agency, and management entrenchment theories have been exhaustively applied when analyzing these concepts. Agency theory was proposed by Jensen and Meckling (1976) to explain principal-agent relationships and is anchored on divergent between these parties. The credibility and trustworthiness of financial reports depends on quality financial reporting. Quality auditing reports provide assurance to stakeholders regarding financial reporting quality and possibilities of limiting instances of earnings management. The principals, in this case the investors, seek to resolve agency conflicts and opportunistic behavior resulting from information asymmetry between them and the management through audit. The agency theory is relevant as it explains how audit quality can aid converge the interests of company executives and principals by facilitating the detection and deterrence of earnings manipulation.

The positive accounting theory was postulated by Watts (1978) and later advanced by Zimmerman (1986). This theory entails incorporation of different accounting practices aimed at attaining opportunistic ends. This theory arose from the efficient market hypothesis (EMH) where firms react in an efficient and unprejudiced manner to public financial reports. For firms to be efficient, they need to minimize costs associated with contracts such as audit, financial ratios, and income. As such, a company (through its management) would choose accounting policies that minimize costs, including adoption of accounting

policies that exacerbate the problem of opportunistic behavior – earnings management. This theory is applicable to the current study as managers are rational decision-makers and would choose standards or accounting policies that augment their interests rather than the company's through earnings manipulation.

The entrenchment theory's proponents were DeAngelo and DeAngelo (1983) and later refined by Schleifer and Vishny (1989). These theorists argued that company executives can entrench themselves by focusing on manager-specific decisions and investments and it becomes difficult for owners to sack them. This is a corporate governance issue where managers become endeared to the investors with an aim of extracting high salaries and perquisites. This proposition means that managers can participate in both opportunistic and informational earnings management practices to increase their earnings (especially for pay-based compensation). The limitation of this theory is that manager-specific decisions have to be approved by the shareholders. Some scholars, Mahdi, Mahbubeh, and Mohamad (2018) argue that management entrenchment reduces chances of earnings manipulation and enhances innovation to increase firm value. Quality auditing practices reduces instances of creative, fraudulent, and earnings management by promoting quality financial reporting (Habib & Bhuyian, 2016).

Empirical Review

According to Gonthier-Besacier et al., (2012), audit quality is a function to two attributes; auditor competence and independence. Auditing decreases asymmetric information and provides assurance to the users of published financial reports that they are reliable and portray a true picture of a firm's affairs. Besides the informational role, auditors help decrease managerial opportunistic behavior by reducing agency conflicts between the agents/executives and owners. This aspect is a control tool that is gauged in multiple ways by scholars and policy makers. For instance, audit firm size, industry specialization, experience, audit fees, and tenure are among the most researched features of audit quality. For instance, audit firm size and industry specialization were considered as key constraints to earnings management (Caramanis & Lennox, 2008). These authors argued that audit quality impedes earnings manipulation and encourages pursuance of profitable investment opportunities and corporate governance leading to improved firm value.

DeAngelo (1981) and Chen et al. (2011) used auditor size as a measure for audit quality and noted that Big

4 audit firms and industry specialist auditors significantly and negatively influence earnings management. Lin and Hwang (2010) on the other hand noted that audit fees and audit tenure did not constraint earnings manipulation. However, Adegbite (2012) argued that institutional differences in terms of ownership structure and the market dynamics for their respective audit environmental regimes result in varied levels of audit quality. Reputational and litigation risk for large audit firms are some of the underlying reasons for them being considered as capable of providing high quality audits. Besides, these organizations have sufficient resources to invest in technology and training of their staff to guarantee quality audit practices unlike non-Big 4 auditors (Abughazaleh, O'Connell & Princen, 2015).

Auditor shopping, a situation where organizations switch or change auditors has also been noted to be an indicator of audit quality. For instance, Davidson III, Jiraporn & DaDalt (2006) opine that companies that change auditors, especially from a Big 4 auditor to a non-Big 4 auditor usually have high incidences of earnings management. However, there are incidences of auditor switching that result from end of contractual relations, when firms want lower audit quality for their opportunistic interests, or resulting from management entrenchment. As such audit shopping could be pegged on a continuum of factors whose end goals could either increase or decrease a firm's performance. Legitimate reasons for ending existing auditor's contract could be to reduce audit fees, improve company image, or even disagreements with the firm's management.

Earnings management is a rampant aspect that top executives use as a strategy to ensure they meet the market's expectations (Roychudhury, 2005). Real activities-based earnings management, for instance, could involve overproduction to minimize the cost of goods sold or altering the projected income taxes as these tasks are within the purview of the management. When investors cannot trust the financial and audit reports, they will be less willing to invest and the resulting effect would be depressed stock prices and increased costs of capital for all firms (Ronen, 2010). To counter earnings management empirical literature points to strong, independent, and quality audits which has been elusive given the multiple accounting scandals such as Enron and WorldCom. A variety of measures have been used to measure audit quality though with varying difficulties.

The limitation of audit quality proxies used lies in their perceived binary application; that an audit is either "good" or "bad" – which is not always the case. Audit quality lies along a continuum and it would be

desirable to apply a multifaceted approach to get an average audit quality. The difficulty in pinpoint specific sets of factors to measure audit quality arise from interaction among multiple stakeholders: organization's management, watchdog agencies such as investors, government regulators, and the media (financial press). If a company's executives engage in aggressive earnings manipulation to beat or meet analysts' expectations, auditors may be unwilling to react to such events due to actions of the aforementioned stakeholders (Ronen, 2010). Managers have insider information regarding earnings and how meeting or not meeting analysts' expectations could influence market prices. As such, managements concerns about stock prices, bonuses, reputation, job security or uncertainty about the company's future prospects sparks the need to manipulate earnings (Athanasakou, Strong & Walker, 2011).

Conceptual Framework

Based on the literature reviewed and the conceptual framework, the resultant hypothesis for this study were:

H_1: Audit quality does not have a statistically significant influence on the earnings management among firms listed at the Nairobi Securities Exchange.

H_{1a}: Audit fees do not have a statistically significant effect on earnings management.

H_{1b}: Auditor industry specialization does not have a statistically significant influence on earnings management.

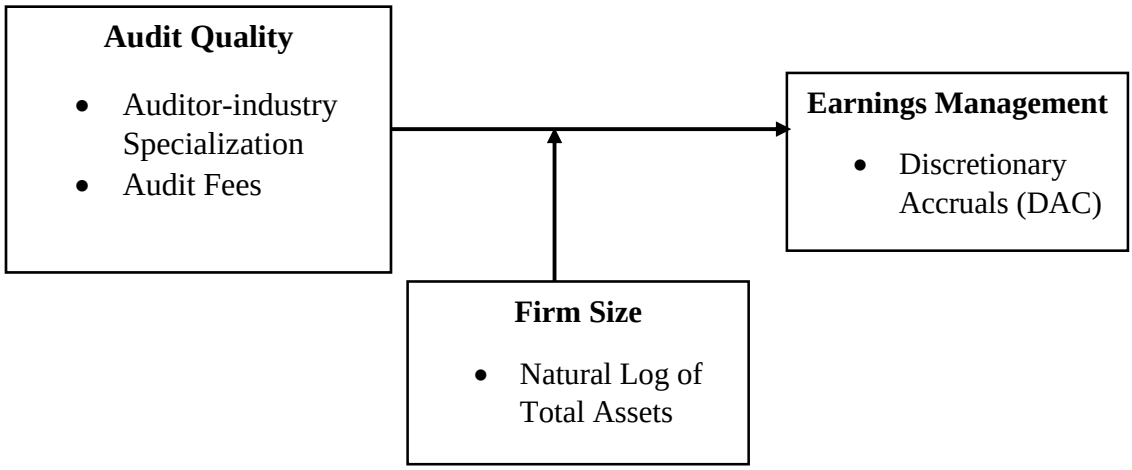

Fig. 1: Conceptual Framework

Methodology

Sample and Data Collection

This paper adopted a correlational research approach based on the positivist research approach. The rationale for this design is underpinned by its use in testing the expected relationships between independent

and dependent variables and making predictions regarding these relationships. The target population encompasses all the 65 listed firms on the Nairobi Securities Exchange (NSE) as at 31st December 2020. The choice of the target population was based on the accessibility of the published audited reports for the firms over a 10-year study period between 2011 and 2020. Companies that were delisted or whose financial reports had significant missing information were eliminated from the study. Thus, 46 companies were noted to have satisfied this filtering process and were used as the study sample based on the census approach.

The study relied on secondary data published in the companies' annual statements and panel multiple regression analysis was used. Data collected related to auditor industry specialization and audit fees, as measures for audit quality. On the other hand, earnings manipulation (the dependent factor) was proxied by discretionary accruals determined by the modified Jones Model of determining discretionary accruals. To test the hypotheses and estimate the influence of audit quality on earnings manipulation, the study relied on OLS regression.

Variables Operationalization and Measurement

The independent variable in this research is audit quality. This variable is proxied by two audit quality indicators:

Audit fees: Existing literature on audit fees has primarily been linked to Big 4 auditors' reputational premium. Ahmad, Suhara, and Ilyas (2016) note that Big-4 auditors have more resources and expertise implying that their audit quality is enhanced compared to the non-Big 4 auditors hence the higher audit fees charged. Audit fees were measured using natural log of the total audit fees (disclosed on the firms' financial reports). Large audit companies have a superior reputation to maintain and are thus, incentivized to offer high quality auditing services (Simunic & Stein, 1987).

Auditor industry specialization: The rationale for this variable is that industry specialist audit firms invest profoundly in technology, infrastructural facilities, people and organizational control mechanisms to facilitate the identification and deterrence of earnings manipulations easily. Chen, Lin and Zhou (2005) note that an auditor is considered a market specialist if they attain 10% market share in terms of the total audit fees. Sun and Liu (2012) consider audit firms as specialist auditors in a particular industry where they have put immense resources to improve their industry-specific knowledge. The authors used the square root of the total assets of clients of an auditor in a specific industry to the sum of the square root of the total assets of all clients of the auditor (Behn et al., 2008). Palmtose (1986) and Moizer (2003) empirically assert

that there is a positive link between audit fees and audit quality explained by audit effort and use of more expertise. This assertion means that additional effort results in more hours invested in analyzing books of account and providing assurance to the owners.

The measure for auditor's industry specialist status entails multiple proxies because quality is not directly observed. Auditor industry specialization is presumed to develop by an auditor's continued practice in similar settings and thus, a large proportion of businesses in an economic sector indicates auditor's proficiency. Nevertheless, there have been critiques from scholars as to whether industry expertise arises from auditing many companies or from a few large companies (Balsam, Krishnan & Yang, 2003). The auditor's industry share in this paper entails the number of companies audited, whose shares are listed on the Nairobi Securities Exchange. By using the number of clients or companies audited, this proxy circumvents the bias towards big clients that arises from using total sales of clients audited as the basis for industry expertise.

The dependent variable, earnings management, will be determined using Modified Jones Model of discretionary accruals as shown below;
The intervening variable, earnings management, will be operationalized using discretionary accruals. The Modified Jones Model for discretionary accruals is as follows:

$NDAt = \alpha1\ (1 / At\text{-}1) + \alpha2\ (\Delta REVt - \Delta RECt) + \alpha3\ (PPEt)$

Where

$\Delta REVt$: revenues in year t less revenues in year t-1 scaled by total assets at t-1;

$\Delta RECt$: net receivables in year t less net receivables in year t -1 scaled by total assets at t-1;

PPEt : gross property, plant, and equipment in year t scaled by total assets at t-1;

At-1 : total assets at t -1 for;

$\alpha1, \alpha2, \alpha3$: firm specific parameters.

Total accruals are calculated as;

$TA_t = (\Delta CA_t - \Delta CL_t - \Delta Cash_t + \Delta STD_t - Dep_t)/(A_{t-1})$

Where;

TAt : total accruals in year t

ΔCA_t : change in current assets

ΔCL_t : Change in current liabilities

$\Delta Cash_t$: Change in cash and cash equivalents.

ΔSTD_t : Change in debt included in current liabilities.

Dep_t : Depreciation and amortization expense.

At-1 : total assets in year t -1

Discretionary Accruals (DA) are thus determined as;

DA = TAt – NDAt

The study included firm size as the control variable because prior studies show that company size influences the extent of earnings management. Also, audit fees paid to auditors are influenced by the size of the company being audited (Cahan & Sun, 2015).

Estimation Results and Discussion of Findings

Descriptive Results

Table 1 shows descriptive statistics for the whole sample of 46 firms trading shares at the Nairobi Securities Exchange. The mean value of earnings management is 0.2493 with a standard deviation of 1.1073 suggesting that there was positive earnings manipulation over the 10-year study period. Regarding auditor quality as proxied by auditor industry specialization and audit fees, the mean values for each of them were 0.3913 and 0.00542 respectively.

Table 1: Descriptive Statistics

Descriptive Statistics									
	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
ErngMgt	460	-5.0017	1.3304	.249292	1.1072993	-1.627	.114	2.974	.227
Industry Specialist	460	.00	1.00	.3913	.48857	.447	.114	-1.808	.227
AuditFee	460	.0000	.2447	.005424	.0245774	6.890	.114	51.418	.227
FirmSize	459	5.25	16.04	10.4098	2.04684	-.043	.114	-.505	.227
Valid N (listwise)	459								

The standard deviations were 0.48857 and 0.0245774 respectively. These results imply that there was a considerable variation in audit quality among the companies analyzed in terms of auditor industry specialization and audit fees – with auditor industry specialization indicating a higher variance (implying there were many companies audited by industry experts than non-industry experts). Firm size was the control variable and its descriptive results indicate that mean value for firm size was 10.4098 with a standard deviation of 2.04684; suggesting that there were diverse companies in terms of size that were analyzed in the sample.

Correlation Results

In Table 2, the correlation between earnings manipulation and the two predictors of audit quality (auditor-industry specialization and audit fees) portray partial significance. While auditor industry specialization has a negative and insignificant association with earnings management (r = -0.014 and p-value > 0.05), audit fees show a negative but significant correlation with earnings management (r = - 0.115; p-value = 0.014). These findings are consistent with those of Gandia and Huguet (2021). Firm size on the other hand, yielded a negative and insignificant correlation with earnings management (r = -0.023; p-value = 0.630).

Table 2: Correlation Analysis

		Erng Mgt	Industry Specialist	Audit Fee	Firm Size
Erng Mgt	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	460			
Industry Specialist	Pearson Correlation	-.014	1		
	Sig. (2-tailed)	.772			
	N	460	460		
Audit Fee	Pearson Correlation	-.115*	.180**	1	
	Sig. (2-tailed)	.014	.000		
	N	460	460	460	
Firm Size	Pearson Correlation	-.023	.130**	.069	1
	Sig. (2-tailed)	.630	.005	.142	
	N	459	459	459	459

The correlations among the independent variables are reasonable; with the highest one being 0.18 and the VIF values < 5, indicating that there is no multicollinearity that can significantly affect the study's findings.

Regression Results

Table 3 shows regression outcome using two audit quality measures (industry specialist and audit fees) against earnings management as the dependent factor and company size as the control variable.

Table 3 Regression Analysis

Model Summary[c]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.115[a]	.013	.009	1.1027184	.013	3.037	2	456	.049	
2	.116[b]	.013	.007	1.1037967	.000	.109	1	455	.741	.031

a. Predictors: (Constant), Audit Fee, Industry Specialist

b. Predictors: (Constant), Audit Fee, Industry Specialist, Firm Size

c. Dependent Variable: Erng Mgt

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.387	2	3.694	3.037	.049[b]
	Residual	554.490	456	1.216		
	Total	561.877	458			
2	Regression	7.520	3	2.507	2.058	.105[c]
	Residual	554.357	455	1.218		
	Total	561.877	458			

a. Dependent Variable: Erng Mgt

b. Predictors: (Constant), Audit Fee, Industry Specialist

c. Predictors: (Constant), Audit Fee, Industry Specialist, Firm Size

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.271	.066		4.105	.000		
	Industry Specialist	.011	.107	.005	.106	.916	.967	1.034
	Audit Fee	-5.198	2.129	-.115	-2.441	.015	.967	1.034
2	(Constant)	.357	.268		1.334	.183		
	Industry Specialist	.016	.108	.007	.144	.885	.953	1.049
	Audit Fee	-5.165	2.134	-.115	-2.421	.016	.965	1.036
	Firm Size	-.008	.025	-.016	-.331	.741	.981	1.019

a. Dependent Variable: Erng Mgt

Hierarchical linear regression analysis was used to control for the effects of firm size on the link between audit quality and earnings manipulation. Consistent with existing literature, the results show a significant negative link between audit fees and earnings manipulation. The negative association between audit fees and earnings manipulation may indicate that high audit quality impedes upward earnings management. Thus, we reject hypothesis H_{1a} and conclude that audit fees have a statistically significant influence on earnings manipulation.

However, audit industry specialization yielded positive but statistically insignificant relationship with earnings management. Thus, we fail to reject the second sub-hypothesis H_{1b} and infer that auditor industry specialization does not significantly influence earnings management. Firm size too, indicated a negative but insignificant relationship with earnings management. This could imply that sampled companies had strong control systems and differences in size did not significantly impact on the quality of the audit processes and ultimately the possibility of manipulating earnings. This finding contradicts Ali and Zhang (2015) assertion that more developed control systems in bigger firms deter earnings management.

The R-squared value from the regression model shows a modest value of 1.3% which is consistent with prior studies on the link amid audit quality and earnings manipulation. The R-square change when company size, the control variable is introduced, is 0.00 – pointing to the re-affirmation that firm size has an insignificant effect on earnings management. The regression results indicate that audit quality factors (audit fees and auditor industry specialization) collectively predict the extent of earnings manipulation. A unit change in audit quality predicts 1.3% variation in earnings management.

Conclusions and Recommendations

This research is anchored on the assumptions of the agency theory in which conflicts amid shareholders and managers arise due to information asymmetry. Where there is substantial information asymmetry and divergence of interests between shareholders and management, high earnings manipulation is inevitable to meet short-term earnings targets. While earnings manipulation falls outside the scope of auditor's control, strong audit procedures can aid detect manipulation of earnings and improve the quality of financial reports by the companies in question. Thus, this paper investigated the link between audit quality (proxied by audit fees and auditor industry specialization) and earnings manipulation (measured by discretionary accruals using Modified Jones Model).

The findings indicate that audit fees negatively but significantly influence earnings management while auditor industry specialization positively but statistically insignificantly influences earnings management. These results imply that huge auditors' fees are linked with low or value-decreasing earnings management while auditor industry specialization is related to an insignificant increase in earnings manipulation. These findings corroborate those of Sitanggang, et al. (2020) who found out that high audit quality (measured by audit fees), may lead to a perceived reduction in firm value and jeopardize managements' employment. Auditor industry specialization's effect on earnings management is dependent on the client's bargaining power – especially in the auditor-client relationship when pricing audit services. Thus, auditor's industry specialization does not necessarily translate to higher audit fees, hence the insignificant findings of industry specialist auditors' effect on earnings management (Casterella, et al., 2004).

This study had limitations as it focused on proxies for measuring earnings management – and the complexities associated with audit quality have not yet been resolved. Besides, the interpretation of these results should be done with caution as the paper focuses on a sample of firms listed at Nairobi Securities Exchange alone. However, these findings are vital for industry players – regulators, management, and investors. To ensure compliance and reduction of violations of general auditing and assurance standards, emphasis should be placed on the auditor's competence and not merely one with the lowest bid. This way, all stakeholders get credible financial reports regarding the performance of the firms in question.

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