Journal of Business and Information Systems
Vol. 4, No. 2, December (2022)
www.thejbis.org
DOI:10.36067/jbis.v4i2.141
ISSN:2685-2543

Accepted, November 2022
Revised, November 2022
Published, December 2022

Audit quality, audit opinion, and earnings management: Indonesian evidence

Krismiaji
Politeknik YKPN, Yogyakarta
xmiaji@gmail.com

Sumayyah
Universitas Jenderal Ahmad Yani, Yogyakarta
mayah1509@gmail.com

Abstract: *This research investigates the role of audit quality as moderation on the association between audit opinions and accrual earnings. The sample used in this study is Indonesian companies listed on the Indonesian Stock Exchange (IDX) during 2016 – 2020. The study uses Generalized Least Squares (GLS) regression models to process data. The results show that audit opinions are positively associated with earnings management. When audit quality is examined individually, it negatively affects earnings management. Moreover, when it interacted with audit opinions, the interaction variables negatively affect earnings management. This study contributes to the current literature about auditing and earnings management practices as well as the initial work to investigate the relationship between audit opinion and earnings management, by involving audit quality as a moderation. This study enriches the existing literature about audit opinion, audit quality, and earnings management, especially in the context of an emerging market.*

Keywords: *Accrual earnings management; Audit opinion; Audit quality; Moderation*.

1. Introduction

This research investigates the role of audit quality in moderating the relationship between audit opinion and accrual profit management. The audit opinion expressed in the audit report is an instrument for confirming the presence of high-quality financial information (Boolaky & Quick, 2016). Audit opinions are generated by the external audit process and this process serves as a control medium for tackling opportunistic management practices that tend to provide self-benefit oneself such as earnings management (Jensen & Meckling, 1976). Therefore, auditors' reports serve as a guarantee of the level of the information reported in financial statements (Watts & Zimmerman, 1983). Audit opinions are broadly classified into two types, namely *unqualified* opinion, and modified opinion.

An auditor's *unqualified* opinion can be used as a guarantee for users of financial information. On the other hand, auditor-modified opinions can produce information of a detrimental nature because such information can degrade the reputation and trust of auditors (Moalla, 2017). The auditor's report is an output of the auditing work carried out by the public accountant (auditor external) after the collection and evaluation of the audit evidence, and the formulation of the auditor's opinion in the audit report by stating whether the financial statements are audited under applicable accounting standards (Hsiao, Lin, & Hsu, 2010). Furthermore, the auditor's report is transmitted to the firm's financial statement users (Porter, Simon, & Hatherly, 2015). Two factors cause the client to receive a *qualified* opinion namely the possibility of a disclosure error in the financial statements (Lin, Jiang, & Xu, 2011) and financial difficulties (Agrawal & Chatterjee, 2015; Bisogno & Luca, 2015).

The audit opinion received by the company has a relation to the earnings management practice. Omid (2015) shows that qualified opinion is related to accrual earnings management. The higher the discretionary accrual rate, the more likely it is to receive a *qualified* opinion. Companies have a strong incentive to manage earnings to get a chance for equity funding or circumvent delisting rules. This incentive can be increased by the receipt of a modified audit opinion (Gajevszky, 2014). Auditors tend to issue "*going concern opinions*" when companies have below industry average returns as well as unstable returns (Carson et al., 2013). However, the opinion of auditors can be the cause of an increase in earnings management.

Previous research has shown that companies that received qualified audit opinions are likely to manage earnings more negatively and more significantly than companies with *unqualified* audit opinions (Gajevszky, 2014). However, previous research has generally only investigated the direct relationship between audit opinion and profit management. In addition, direct investigations between the two variables also produced inconsistent findings. The results of a study conducted by Tsipouridou & Spathis (2014) show that audit opinions are not related to earnings management. Hadriche (2015) also confirmed the findings of Gajevszky (2014) by proving the finding that a qualified audit opinion limits profit management to avoid losses or simply to meet or beat the previous year's profit in the bank. The fact that the results of research on the relationship between audit opinion and profit management are inconsistent, and the amount of research is also still limited provides an opportunity for further research to be carried out by involving audit quality variable as a moderation in the relationship between audit opinion and profit management.

Audit quality is essential thing since it exhibits the auditor's activity in collecting necessary audit evidence, finding counterfeit activities, decreasing accounting information falsification, and producing appropriate opinions on all material stuff in financial statements (Soliman & Ragab, 2014). Audit quality at a higher level can escalate the belief of financial information users about the audit process and financial reporting reliability mainly in terms of the auditor's integrity and independence (Hamid & Suzana, 2013). Thus, this study focuses on the moderation role of audit quality since this variable functions as a monitoring instrument which hopefully can reduce the opportunistic discretion of managers in financial statements and is considered applicable for the detection of earnings management practice (Astami, Rusmin, Hartadi, & Evans, 2017; Siala & Jarboui, 2019). Thus, the research problem can be formulated as follows: **what is the effect of moderating on the association between earnings management and audit opinion**? In other words, **how to protect the interests of outside investors through accurate audit opinions with high audit quality**? Based on the description above, the purpose of this research is to investigate the relationship between audit opinion and earnings management with auditor quality moderation. It expands on previous research, by analyzing the relationship between the two variables because previous research is still few if any, that takes-into-account other variable in the relationship between audit opinion and earnings management. This research expansion needs to be carried out because of the important role of audit quality in ensuring the quality of financial information.

2. Literature Review and Hypotheses Development

This research uses agency theory since the problem of manipulation and profit management is a problem that arises in the relationship between principals and agents. The issue can have an impact on the asymmetry between the two parties. One of the instruments to reduce information asymmetry due to earnings manipulation carried out by managers is the audit (Imen & Anis, 2021). Agency theory explains and predicts agency problems and their solutions (Jensen & Meckling, 1976). The simple agency model shows that principals tend to distrust agents due to information asymmetry and self-interest. Therefore, both parties will seek to resolve this issue by implementing mechanisms to align the interests of the agent with the principal and to reduce information asymmetry and opportunistic behavior. The audit independently checks the results of the agent's work and the information provided thus helping to maintain faith. The main role of audit opinions is to remind users of financial statements about the identification of the company's problems that may be faced. In addition to audit opinions, the quality of auditors is also instrumental in increasing trust in audited financial statements. Previous research has investigated the relationship between qualified auditor opinion and accrual earnings management. This research focuses on the manipulation of accrual profit since accrual earnings management has no direct cash flow consequences (Graham, Harvey, & Rajgopal, 2005).

2.1. Audit Opinion and Earnings Management

Agency theory states that audits are a means to increase the trust of users of financial statements, especially shareholders, in the financial information generated by companies because audits can reduce information asymmetry due to earnings management practices (Jensen & Meckling, 1976). Since the audit is conducted by an independent external auditor, whatever the nature of the opinion given by the auditor should be responded to positively by stakeholders. However, the response of management or agents often differs from expectations because their response is more oriented towards personal interests. Several studies have been conducted to investigate the relationship between audit opinion and earnings management.

One of the studies investigating the effect of auditor opinion on earnings management was conducted by Gajevszky (2014) on Romanian companies. The results found that companies that received qualified audit opinions are likely to manage earnings more negatively and more significantly than companies with *unqualified* audit opinions. Imen & Anis (2021) examined the impact of the nature of audit opinions on earnings management and they found that the tendency to conduct earnings management practices was influenced by the type of modified audit opinion and the existence of NonBig 4 Auditors. In the banking industry, Taktak & Mbarki (2014) show that modified audit opinions encourage managers to reduce earnings management, whereas Tsipouridou & Spathis (2014) obtains evidence that audit opinions are not related to earnings management, but on the other hand Hadriche (2015) finds evidence that auditors' high reputation and audit opinions are qualified limit earnings management to avoid losses or simply to meet target profit. Next, Tommasetti &

Santos (2018) report that profit management has a positive income with audit report qualifications, this means that a higher discretionary accrual rate triggers the issuance of a modified audit opinion. Finally, Lopes (2018) who conducted research in Portugal reported that audit opinions relate to real earnings management. Although the research results described above are inconsistent, the majority indicate a correlation. Therefore, the hypothesis formulated is as follows:

H_1: The audit opinion is positively related to earnings management.

2.2. Audit Opinion, Audit Quality, and Earnings Management

The results expected by agency theory from the audit process are often unable to degrade the asymmetry of information as demonstrated by the findings of previous research. Therefore, in conducting studies, it is necessary to consider other attributes such as audit quality. Audit services are needed as a monitoring tool due to potential conflicts of interest between owners and managers as well as among different classes of shareholders (Watts & Zimmerman, 1983).

Audit quality is the combined probability of market assessment that enables auditors to find violations in a client's accounting system, and then report those violations (DeAngelo, 1981). Audit literature generally attributes two roles of auditors, namely competence and independence in ensuring the financial reporting quality of a company (Kim, Simunic, Stein, & Yi, 2011; Cano Rodríguez & Sánchez Alegría, 2012). The information role of the audit is to help reduce the problem of information asymmetry and convince users that the information is under the information requirements in terms of reliability, integrity, and quality. The second role, monitoring roles, is that through the revision of accounting information, the auditor reduces the opportunistic behavior of managers and controls shareholders. Thus, the audit reduces agency conflicts between agents and principals. Other researchers adopted the concept as a basis for identifying other attributes of audit quality, such as the size of the audit firm, auditor tenure, and auditor specialization.

Previous studies had reported that audit quality, measured by audit firm size and industry specialization, can restrict earnings management practice (Caramanis & Lennox, 2008). Another study finds that the possibility of receiving a modified audit opinion increases if the auditing firm was a member of the big 4 (Lai, 2013) with a longer audit tenure (Reguera-Alvarado, de Fuentes, & Laffarga, 2019). Nevertheless, Gerayli & Yanesari (2011) report that auditor size affects negatively accrual earnings management. Companies which are audited by nonBig 4 auditors are more likely to be involved in the manipulation of earnings than companies that are audited by Big 4 auditors.

Johl, Jubb, & Houghton (2007) researched Malaysian companies and they found that Big 5 auditors issued modified opinions more than NonBig 5 auditors when the companies have high abnormal accrual. But Lopes (2018) and Boone, Khurana, & Raman (2010) report that in low fiscal alignment countries, companies that are audited by Big 4 auditors perform earnings manipulation practices more than companies audited by non-Big 4 auditors. Nevertheless, Johl et al. (2007) and Lopes (2018) also report that companies audited by Big 4 member auditors are less involved in earnings management practice than

companies audited by non-Big 4 auditors. A high-quality auditor limits earnings management practice. External supervision restricts management from using certain techniques in improving yields. This confirms the importance of using high-quality external auditors to safeguard their reputation and avoid litigation. Therefore, our developed hypothesis is:

H_2: The interaction between audit opinion and audit quality negatively affects profit management practices.

3. Method

3.1. Sample selection and data

The population of this study is public companies listed on the Indonesia Stock Exchange (IDX). The selection of samples was carried out using the following criteria: (1) the company is listed on the IDX for five years, (2) the company has complete data, and (3) the company is not a financial company. Data were obtained from the company's website and the Indonesia Stock Exchange database. This research intends to investigate the relationship between audit opinion and earnings management with audit quality moderation. In other words, this research wants to test whether the quality of audits affects the strength or direction of the relationship between audit opinion and earnings management. Therefore, the research hypothesis is tested using the model below. Hypothesis 1 was tested using Equation Model (1), while hypothesis 2 was tested using two stages, which are Equation Model 2a and Equation Model 2b. These models are estimated using the generalized least square as follows:

$$AEM_{it} = \beta_0 + \beta_1 AO_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + \beta_4 ROEit + \varepsilon_{it} \quad (1)$$

$$AEM_{it} = \beta_0 + \beta_1 AO_{it} + \beta_2 AUQ_{it} + \beta_3 SIZE_{it} + \beta_4 LEV_{it} + \beta_5 ROE_{it} + \varepsilon_{it} \quad (2a)$$

$$AEM_{it} = \beta_0 + \beta_1 AO_{it} + \beta_2 AUQ_{it} + \beta_3 (AUQ_{it} \times AO_{it}) + \beta_4 SIZE_{it} + \beta_5 LEV_{it} + \beta_6 ROE_{it} + \varepsilon_{it} \quad (2b)$$

Where:

AO = Audit opinions, worth 0 if the company's financial statements receive a qualified opinion and disclaimer (modified opinion); and worth 1 if the company accepts an unqualified opinion.
AEM = Accrual Profit Management, Measured by Absolute Value of Discretionary Accruals
AUQ = quality audit, which is worth 1 if the company is audited by a Big 4 auditor and is worth 0 if the company is audited by a non-Big 4 auditor.
SIZE = firm size, measured by log natural of total assets
LEV = leverage, which is total debt divided by total assets
ROE = The company's financial performance, measured by dividing net profit by total equity.

3.2. Variable definition and measurement

Earnings management is proxied by discretionary accrual estimates (Cohen & Zarowin, 2010; Higgins, 2013). This research also uses Modified Jones Model (Jones, 1991) to calculate discretionary accruals as follows:

$$TA_{it} /A_{it-1} = \beta_0(1/A_{it-1}) + \beta1[(DRev_{it} – DRec_{it})/A_{it-1}] + \beta2\ (PPE_{it}/A_{it-1}) + \varepsilon_{it} \quad (3)$$

where:
TA_{it} = total accruals of firm i in year t.
A_{it-1} = total assets of firm i in year t-1.
$DRev_{it}$ = change in revenues of firm i in year t.
$DRec_{it}$ = change in net account receivables of firm i in year t.
PPE_{it} = gross value of property, plant, and equipment of firm i in year t.

From equation (3) a normal accrual can be generated so that discretionary accruals or abnormal accruals can be calculated by subtracting the total accruals from normal accruals by the following equation (4).

$$DA_{it}/A_{it-1} = TA_{it}/A_{it-1} - [\beta_0(1/A_{it-1}) + \beta1((DREV – DRECit)/A_{it-1}) +\beta2(PPE_{it}/A_{it-1}) \quad (4)$$

where:
DA_{it}/A_{it-1} = Discretionary accruals (DA)
TA_{it}/A_{it-1} = Total accruals (TA)
$[\beta_0(1/A_{it-1}) + \beta1((DRev – DRecit)/A_{it-1}) +\beta2(PPE_{it}/A_{it-1})$ = Normal accruals (NA)

The audit opinion is a dummy variable that is worth 0 if the company's financial statements receive a qualified opinion and disclaimer (modified opinion) and is worth 1 if the company accepts an unqualified opinion. Similarly, audit quality is also a dummy variable that is worth 1 if the company is audited by a Big 4 auditor and is worth 0 if the company is audited by a nonBig 4 auditor. According to DeAngelo (1981), Big 4 audit firms are more likely to conduct higher-quality audits because they are interested in maintaining a good reputation in the market. Tendeloo & Vanstraelen (2008) also proved this argument, stating that companies audited by the Big 4 have a lower rate of earnings manipulation compared to companies audited by non-Big 4 auditors. According to Becker, Defond, & California (1998), the variable "Big 4" is expected to present a negative signal. In this study, several control variables were used, that as company size (SIZE), which is calculated by natural log (ln) of total assets, debt level or leverage (LEV), which is calculated by dividing total debt by total assets, and financial performance (ROE), which is calculated by dividing net profit by total equity.

4. Analysis dan Discussion

4.1. Univariate Analysis

Based on the sampling process described above, this study obtained data from 119 companies for the period 2016 to 2020, so 595 company-year observations were obtained. Table 1 presents descriptive statistics of sample data. The results show that all variables used in the scoring model have a reasonable degree of variation. For accrual earnings management (AEM), Table 1 reports the mean of AEM is 0.74 while the median of this variable is 0.12.

The audit opinion (AO) has a mean (median) value of 0.99 (1.00) whereas AQ has a mean (median) value of 0.41 and 0.00 respectively.

Table 1. Descriptive Statistics

	Min	Max	Mean	Median	Std.Dev
AEM	0.00	106.48	0.74	0.12	5.38
AO	0.00	1.00	0.99	1.00	0.09
AUQ	0.00	1.00	0.41	0.00	0.49
ROE	-136.44	128.63	0.35	0.06	9.36
LEV	0.04	7.65	0.62	0.52	0.63
SIZE	4.02	8.66	6.18	6.08	0.73

4.2. Bivariate Analysis

Pearson correlations between variables are calculated and presented in Table 2. Testing of the correlation matrix for independent variables in Table 2 shows the absence of a correlation coefficient above 0.8 (except between interaction variables and non-interaction variables because in interaction variables there are elements of non-interaction variables). This shows that there is no problem with multicollinearity. In Table 2, it can also be seen that the correlation between audit opinion (AO) and AEM is positive whereas the correlation between AQ and AOxAQ with AEM is negative. Such correlations are an early indication of an association between variables. However, more comprehensive testing will be carried out through regression analysis.

Table 2. Bivariate Correlation

	AEM	AO	AQ	AOxAUQ	ROE	LEV
AO	0.010					
AQ	-0.052	-0.036				
AOxAUQ	-0.051	0.076	0.990**			
ROE	-0.003	0.010	0.001	0.003		
LEV	0.062	0.012	-0.137**	-0.136**	-0.030	
SIZE	0.039	0.003	0.419**	0.420**	-0.019	-0.038

** Sig < 1%

4.3. Multivariate Analysis

Hypothesis testing is performed using Generalized Least Squares (GLS) regressions. Before testing, the researchers tested the classical assumptions first. From the test results, it is proven that the data is normally distributed and there are no problems with multicollinearity, heteroscedasticity, and autocorrelation and there are no outliers in the data.

To test the hypothesis, regression model (1) and regression model (2) are used. The results of the regression test are presented in the Model 1 column of Table 3. In the column, it is shown that the coefficient value of the audit opinion variable (AO) is 0.474 and it is significant at the level of 1%. With these results, then Hypothesis 1 which states that audit opinion is positively related to earnings management is supported by empirical data. These results confirm previous research conducted by Gajevszky (2014), which found that

companies whose audit opinions are qualified to manage discretionary accruals more negatively than companies with unqualified audit opinions. This means that the results of the research state that the lower the type of audit opinion, the more the company seeks to reduce the amount of earnings management or discretionary accruals. The results of this research show that audit opinions have a positive effect on profit management. This means that the better the audit opinion, the greater the amount of profit management. These results are also consistent with the agency theory which states that managers or agents are opportunistic. By obtaining a good opinion, it is as if managers get an incentive to manage or manipulate profits to meet personal targets. This is also confirmed by Taktak & Mbarki (2014) who report that a modified audit opinion or an audit opinion other than unqualified encourages managers to reduce earnings management practices because without lowering earnings management practices, the company's financial statements have the potential to obtain a modified audit opinion again in the coming years.

Table 3. Regression Analysis

$$AEM_{it} = \beta_0 + \beta_1 AO_{it} + \beta_2 SIZE_{it} + \beta_3 LEV_{it} + \beta_4 ROEit + \varepsilon_{it} \quad (1)$$

$$AEM_{it} = \beta_0 + \beta_1 AO_{it} + \beta_2 AUQ_{it} + \beta_3 SIZE_{it} + \beta_4 LEV_{it} + \beta_5 ROE_{it} + \varepsilon_{it} \quad (2a)$$

$$AEM_{it} = \beta_0 + \beta_1 AO_{it} + \beta_2 AUQ_{it} + \beta_3 (AUQ_{it} \text{ x } AO_{it}) + \beta_4 SIZE_{it} + \beta_5 LEV_{it} + \beta_6 ROE_{it} + \varepsilon_{it} \quad (2b)$$

	Model 1		**Model 2a**		**Model 2b**	
Variable	Coefficient		Coefficient		Coefficient	
Intercept	-12.685	***	-15.963	***	5.540	***
AO	0.474	***	1.220	***	0.139	**
AUQ			-0.305	***	0.189	***
AO*AUQ					-0.196	***
SIZE	2.094	***	2.530	**	-0.037	***
LEV	0.003		-0.046		0.028	
ROE	0.004		0.002	***	0.909	
Adj. R^2	0.790		0.221		0.340	
F-statistic	19.420	***	2.377	***	4.544	***

*** Sig < 1%, ** Sig < 5%

Hypothesis 2 testing is carried out through two stages. The first stage is carried out using equation (2a) to determine the individual influence of audit quality on earnings management practices. The 3-column table of Model 2a presents the regression results of equation 2a. The column shows that the audit quality variable (AUQ) is statistically significant for explaining discretionary accrual behavior (p-value = 0.000) with its coefficient of -0.305, meaning that the quality of the audit measured by Big 4 auditor serves as an obstacle to profit manipulation or to limit discretionary accruals. These results show that individual audit quality is capable of limiting or degrading profit management practices. The second stage in testing hypothesis 2 is to perform a regression test by interacting the audit opinion variable (AO) and the audit quality variable (AUQ). The results are presented in the Model 2b column in Table 3. In the column, the result shows that the interaction variable between audit opinion and auditor quality (AO*AUQ) has a negative regression

coefficient (-1.196) and a significant level of 1%. These results indicate that the quality of audits that are interpreted with audit opinions degrades the practice of accrual earnings management. The higher the quality of the audit and the better the audit opinion, the lower the accrual earnings management. Thus, the increasing incentives owned by management as described in the results of hypothesis test 1 can be controlled by including audit quality variables. These results are consistent with research conducted by Lopes (2018) which found that earnings management levels were significantly lower in companies that contracted Big 4 audit firms, compared to companies that used nonBig 4 audit firms.

5. Conclusion

This paper outlines the results of research that investigates the relationship between audit opinion and earnings management and the role of audit quality as a moderator of the relationship between audit opinion and earnings management. Using a sample of companies listed on the Indonesia Stock Exchange in 2016-2020, this research found that audit opinions are positively related to profit management. That is, by obtaining a good or unqualified opinion, the company gains an incentive to continue the practice of earnings management. In addition, individually, audit quality negatively affects earnings management practices, meaning that audit quality is a constraint on earnings management practices. When audit quality has interacted with audit opinions, it turns out that interaction variables are also a constraint for earnings management practices.

The results of this research have implications, especially in Indonesia and in other countries that have the same characteristics as Indonesia. The findings of this research help interested parties formulate regulations and insight practices that can reduce earnings management practices. For the audit profession, the findings of this research are also useful for always maintaining audit quality because it turns out that audit quality can be a constraint for earnings management practices. However, this research has limitations, especially in the amount of data, which involved only 119 companies, and the span of the research year, which only used five years of data. Therefore, further research in the future can be carried out by involving more samples from all existing sectors or industries, so that the increase in the number of samples can increase the generalization of research results.

References

Agrawal, K., & Chatterjee, C. (2015). Earnings management and financial distress: evidence from India. *Global Business Review*, *16*, 140–154. https://doi.org/10.1177/0972150915601928

Astami, E. W., Rusmin, R., Hartadi, B., & Evans, J. (2017). The role of audit quality and culture influence on earnings management in companies with excessive free cash flow : Evidence from the Asia-Pacific region. *International Journal of Accounting and Information Management*, *25*(1), 21–42.

Becker, C. L., Defond, M. L., Jiambalvo, J., & Subramanyam, K. R. (1998). The effect of audit quality on earnings management. *Contemporary Accounting Research*, *15*(1), 1–24. https://doi.org/10.1111/j.1911-3846.1998.tb00547.x

Bisogno, M., & Luca, D. R. (2015). Financial distress and earnings manipulation: Evidence from Italian SMEs. *Journal of Accounting and Finance*, *4*(1), 42–51. Retrieved from http://www.bioinfopublication.org/jouarchive.php?opt=&jouid=BPJ0000233

Boolaky, P. K., & Quick, R. (2016). Bank directors' perceptions of expanded auditor's reports. *International Journal of Auditing*, *20*(2), 158–174. https://doi.org/10.1111/ijau.12063

Boone, J. P., Khurana, I. K., & Raman, K. K. (2010). Do the Big 4 and the Second-tier firms provide audits of similar quality ? *Journal of Accounting and Public Policy*, *29*(4), 330–352. https://doi.org/10.1016/j.jaccpubpol.2010.06.007

Cano Rodríguez, M., & Sánchez Alegría, S. (2012). The value of audit quality in public and private companies: Evidence from Spain. *Journal of Management and Governance*, *16*(4), 683–706. https://doi.org/10.1007/s10997-011-9183-4

Caramanis, C., & Lennox, C. (2008). Audit effort and earnings management. *Journal of Accounting and Economics*, *45*(1), 116–138. https://doi.org/10.1016/j.jacceco.2007.05.002

Carson, E., Fargher, N., Geiger, M., Lennox, C., Raghunandan, K., & Willekens, M. (2013). Auditor reporting on going-concern uncertainty: A Research Synthesis. *Auditing: A Journal of Practice & Theory*, *32*(Supplement I), 353–384. https://doi.org/10.2308/ajpt-50324

Cohen, D. A., & Zarowin, P. (2010). Accrual-based and real earnings management activities around seasoned equity offerings. *Journal of Accounting and Economics*, *50*(1), 2–19. https://doi.org/10.1016/j.jacceco.2010.01.002

DeAngelo, L. E. (1981). Auditor size and audit fees. *Journal of Accounting and Economics*, *3*(May), 183–199.

Gajevszky, A. (2014). The impact of auditor`s opinion on earnings management: evidence from Romania. *Network Intelligence Studies*, *II*(1 (3)), 61–73.

Gerayli, M. S., & Yanesari, A. M. (2011). Impact of audit quality on earnings management: Evidence from Iran. *International Research Journal of Finance and Economics*, *66*((2011)), 77–84.

Graham, J. R., Harvey, C. R., & Rajgopal, S. (2005). The economic implications of corporate financial reporting. *Journal of Accounting and Economics*, *40*(1–3), 3–73. https://doi.org/10.1016/j.jacceco.2005.01.002

Hadriche, M. S. (2015). Auditor reputation, audit opinion, and earnings management: evidence from French Banking Industry. *Journal of Modern Accounting and Auditing*, *11*(October), 1–13. https://doi.org/10.17265/1548-6583/2015.xx.00x

Hamid, A., & Suzana, S. (2013). The impact of audit quality on accounting conservatism in financial reporting of Malaysian Listed Companies. *4 Th International Conferences on Business and Economic Research Proceeding*, 1345–1361.

Higgins, H. N. (2013). Do stock-for-stock merger acquirers manage earnings ? Evidence from Japan. *Journal of Accounting and Public Policy*, *32*(1), 44–70. https://doi.org/10.1016/j.jaccpubpol.2012.10.001

Hsiao, H.-F., Lin, S.-H., & Hsu, A.-C. (2010). Earnings management, corporate governance, and auditor's opinions: a financial distress prediction model. In *Investment Management and Financial Innovations* (Vol. 7).

Imen, F., & Anis, J. (2021). The moderating role of audit quality on the relationship between auditor reporting and earnings management: empirical evidence from Tunisia. *EuroMed Journal of Business*, *16*(4), 416–430. https://doi.org/10.1108/EMJB-03-2020-0024

Jensen, M. C., & Meckling, W. H. (1976). Theory of the Firm: Managerial behavior, agency costs, and ownership structure. *Journal of Financial Economics*, *3*(4), 305–360.

Johl, S., Jubb, C. A., & Houghton, K. A. (2007). Earnings management and the audit opinion: Evidence from Malaysia. *Managerial Auditing Journal*, *22*(7), 688–715.

https://doi.org/10.1108/02686900710772591
Jones, J. J. (1991). Earnings management during import relief investigations. In *Source: Journal of Accounting Research* (Vol. 29).
Kim, J. B., Simunic, D. A., Stein, M. T., & Yi, C. H. (2011). Voluntary audits and the cost of debt capital for privately held firms: Korean evidence. *Contemporary Accounting Research*, *28*(2), 585–615. https://doi.org/10.1111/j.1911-3846.2010.01054.x
Lai, K. W. (2013). Audit reporting of big 4 versus non-big 4 auditors: The case of ex-Andersen clients. *International Journal of Accounting*, *48*(4), 495–524. https://doi.org/10.1016/j.intacc.2013.10.001
Lin, Z., Jiang, Y., & Xu, Y. (2011). Do modified audit opinions have economic consequences? Empirical evidence based on financial constraints. *China Journal of Accounting Research*, *4*(3), 135–154. https://doi.org/10.1016/j.cjar.2011.06.004
Lopes, A. P. (2018). Audit quality and earnings management: Evidence from Portugal. *Athens Journal of Business & Economics*, *4*(2), 179–192. https://doi.org/10.30958/ajbe/v4i2
Moalla, H. (2017). Audit report qualification/modification: Impact of financial variables in Tunisia. *Journal of Accounting in Emerging Economies*, *7*(4), 468–485. https://doi.org/10.1108/JAEE-10-2016-0092
Omid, A. M. (2015). Qualified audit opinion, accounting earnings management, and real earnings management: Evidence from Iran. *Asian Economic and Financial Review*, *5*(1), 46–57. https://doi.org/10.18488/journal.aefr/2015.5.1/102.1.46.57
Porter, B., Simon, J., & Hatherly, D. (2015). *Principle of External Auditing* (4th Editio). Chichester, West Sussex: John Wiley & Sons. Ltd.
Reguera-Alvarado, N., de Fuentes, P., & Laffarga, J. (2019). Do auditors mitigate earnings management during an economic crisis? *Revista de Contabilidad-Spanish Accounting Review*, Vol. 22, pp. 6–20. https://doi.org/10.6018/rcsar.22.1.354271
Siala, S. B., & Jarboui, A. (2019). The moderating effect of audit quality on the relation between shareholder activism and earnings management: Evidence from France. *Contemporary Economics*, *13*(1), 63–78. https://doi.org/10.5709/ce.1897-9254.299
Soliman, M. M., & Ragab, A. A. (2014). Audit committee effectiveness, audit quality, and earnings management: an empirical study of the listed companies in Egypt. *Research Journal of Finance and Accounting*, *5*(2), 1292–1297. Retrieved from http://ssrn.com/abstract=2257815
Taktak, N. B., & Mbarki, I. (2014). Board characteristics, external auditing quality, and earnings management. *Journal of Accounting in Emerging Economies*, *4*(1), 79–96. https://doi.org/10.1108/jaee-10-2011-0046
Tommasetti, R., & Santos, N. (2018). *Relationship between Modified Audit Opinion, Earnings Management and*. (August 2021).
Tsipouridou, M., & Spathis, C. (2014). Audit opinion and earnings management: Evidence from Greece. *Accounting Forum*, *38*(1), 38–54. https://doi.org/10.1016/j.accfor.2013.09.002
Van Tendeloo, B., & Vanstraelen, A. (2008). Earnings management and audit quality in Europe: Evidence from the private client segment market. *European Accounting Review*, *17*(3), 447–469. https://doi.org/10.1080/09638180802016684
Watts, R., & Zimmerman, J. (1983). Agency problems, auditing, and the theory of the firm: Some evidence. *Journal of Law and Economics*, *26*(3), 613–633. https://doi.org/10.1086/467051