

## **The Impact of Audit Quality on Earnings Management : Evidence from Listed companies in Sri Lanka**

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### **Abstract**

Earnings Management (EM) is related to the manipulation of reported income through accounting practices and decisions. With the occurrence of numerous financial collapses and failures, those have been challenged to the reliability of the audit function, as auditors play a critical role in expressing an opinion on the financial statements. This study investigates the impact of Audit Quality on EM practices in Sri Lankan listed companies. This study employs Modified Jones model to examine the earnings management practices through Discretionary Accruals (DA). The selected proxies of audit quality which are Length of audit tenure, Audit firm size and Auditor Independence are the independent variables. The data is collected from annual reports for the financial periods 2015 to 2020 and audit reports for the financial period 2012 to 2020 of listed companies in the Colombo Stock Exchange (CSE). It is employed descriptive statistics, correlation analysis, and multivariate analysis to analyze the data. The findings of this study are useful to shareholders in appointing/reappointing auditors. Furthermore, this study enables the stakeholders including regulatory bodies to examine the presence of EM practices in listed companies of CSE.

**Key words:** *Earnings Management (EM), Audit Quality, Modified Jones model, Discretionary Accruals (DA)*