

## **Audit Quality and Earnings Management: Evidence from Food & Beverage and Hotel Sectors of Sri Lanka**

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The company's earnings are crucial for investors' decision-making since they provide emblems about value-creating ability. However, with the possibility of manipulating earnings, the whole purpose of financial reporting becomes valueless. External auditing can be identified as one of the control mechanisms that minimizes earnings management. This study examines the impact of audit quality on earnings management in the food and beverage sector and hotel companies in the Colombo Stock Exchange from 2013 to 2019. The real earnings management approach and total accruals are used to measure the earnings quality, while audit firm size, presence of the audit committee, frequency of the audit committee meetings and audit timeliness are the audit quality proxies. The study used regression analysis as the main analysis tool, and the findings reveal the existence of earnings management in the food and beverage and hotel sectors. Interestingly, audit quality does not significantly impact earnings management in the food and beverage sector, while it can be identified as impacting earnings management in the hotel sector. Moreover, the size of a company and its leverage also significantly impact earnings management in both sectors. These findings suggest that effective regulation and monitoring are necessary to improve audit quality for both sectors, especially in the hotel sector companies in Sri Lanka. Hence, enhancing audit quality would minimize earnings management and improve earnings quality, which is instrumental to the decision-makers, especially investors and creditors. Henceforth, we suggest improving the audit quality in the food and beverage and hotel sectors and enhancing disclosure requirements such as research and development expenses, audit time, and non-audit service.

***Keywords:*** *Audit Size, Real Earnings Management, Total Accruals*

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