

Audit Quality and Its Impact on the Degree of Earnings Management in the Post-COVID Era: Evidence from Sri Lanka

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The purpose of this study is to identify the impact of audit quality on the degree of earnings management in the post COVID era. The research makes use of a literature review that covers the time between 1981 and 2022, focusing on audit quality-related literature, earnings management literature such as using discretionary accruals and a reworked version of the Healy's Model, an analysis is carried out to determine the level of control that is exercised on earnings. The quality of the audit is determined by looking at two proxies: the size of the audit firm and the independence of the audit company. The study was conducted using the data collected from 92 non-financial listed companies that have a financial year that ends in March during the post-COVID research period of 2019/20 to 2021/22. Descriptive statistics, correlation analysis, and regression analysis were some of the methods that were utilized when doing an analysis of the data that had been acquired. Although there are inconclusive results, the results of the study provide proof that the level of earnings management that occurs in Sri Lanka is not significantly influenced by the quality of the audits that are carried out in the country. Hence, this study concludes that the audit quality has no significant impact on the degree of earnings management in the post-COVID era. This study also states that it could be due to the absence of an efficient system for monitoring and overseeing the auditors.

Keywords: Audit quality, Earnings management, Audit firm size, Auditor Independence, Healy's model