IOSR Journal of Economics and Finance (IOSR-JEF)
e-ISSN: 2321-5933, p-ISSN: 2321-5925.Volume 10, Issue 4 Ser. II (Jul. – Aug 2019), PP 75-83
www.iosrjournals.org

Moderating Effect of Auditors' Specialization and Earnings Management: The Case of Tunisia

Elaoud Assawer[1], Jarboui Anis[2],
[1]*Faculty of Economics and Management of Sfax, Tunisia.*
[2]*Universities Higher Institute of Business Administration (ISAAS).*
Corresponding Author: Elaoud Assawer

***Abstract**: The purpose of this paper is to examine the relationship between the auditors' specialization and loan loss provision over the period 2001-2011. Specifically, this paper examined the auditors' specialization impact on earnings management via discretionary provision. This study emphasizes the researching significance the interaction effect of the auditors' specialization and earnings before loan loss provisions on the discretionary provision.*
Multivariate regressions are employed to test the effect of auditors' specialization on discretionary provisions as a proxy for earnings management.
The results indicate that the relationship between loan loss provisions and earnings is positive, suggesting that managers use the loan loss provision to smooth earnings; this relationship is moderated by the auditors' specialization, which provides evidence that the auditors' specialization mitigates income smoothing. In addition, further analysis indicates that the discretionary provision can be understated to artificially manage earnings upwards; the moderating effect provides evidence that auditors' specialization reduces the discretionary provision.
This study contributes to the literature on specialist auditors and its impact on earnings management among Tunisian banks by introducing the moderating effect that reduces the discretionary provision.

***Keywords**: Loan loss provision, Discretionary provision, Auditors' specialization, Earnings management.*

Date of Submission: 25-07-2019 Date of Acceptance: 10-08-2019

I. Introduction

Several researchers have studied companies' use of discretionary accruals as a way to smooth income and affect the earnings (Jones, 1991; Aboody and Kasznik, 2000; Bartov and Mohanran, 2004; Geiger and North, 2006; Tucker and Zarowin, 2006; Mary, 2012).The company's auditor may influence the extent of earnings management. A higher auditquality may result in the company adopting a more conservative approach to financial reporting (McNichols and Stubben, 2008; Mary, 2012).
Several studies (Dechow, 1994; Dechow et al. 1998; Liu and Ryan. 2006; Dechow and Dichev 2002; Mary, 2012) stressed the accruals quality and found that observable firm characteristics, such as the operating cycle length, sales, cash flows, accruals and earnings, can be used as instruments for accrual quality.

The agency theory suggests that the separation of ownership and control creates incentives to management to maximize their own personal wealth and not act in the shareholders' interest. Indeed, Shareholders use accounting numbers to monitor management's performance, the manager can manipulate such numbers. According to Velury (2003) the higher audit quality is one of the tools available to shareholders to ensure the fairness of the reported numbers. The auditors are external, presumptively independent, parties charged with verifying that the information provided to shareholders by managers is reliable. A simple audit does not ensure that all material misstatements have been discovered, the likelihood that all material misstatements will be detected depends on the audit quality. Thereby, the higher audit quality entails a higher chance of detecting material misstatements.

Industry-specialists have not only expertise but incentives to perform high audit quality; the audit firms develop reputations from being industry specialists in which they invest resources Gramling et al. (2001). Therefore, an audit firm risks losing its reputation if it performs a low-quality audit.

A large body of literature has demonstrated that industry-specialist audit firms command higher fees (Craswel et al, 1995; DeFond et al, 2000; Velury, 2003).The higher fees earned by industry-specialist auditors are presumably for the high-quality audits they perform.This fee structure gives industry-specialists a natural incentive to guard their reputations by providing higher quality audits.

We examine the auditor's specialization effect on bank loan loss provision. Banks operate in a highly regulated environment in that they are monitored by Central Banks and other regulatory agencies. In our study, we established a negative association between auditors' specialization and income-increasing earnings management. To our knowledge,no other study has examined how auditors' specialization related to a discretionary provision in the banking industry.

Our main prediction is that auditor industry specialization is negatively related to earnings management in banks even after controlling for several previously identified institutional factors and bank monitoring factors. Negative relation evidence between auditors' specialization and earnings management may not be surprising because, in a high-litigation environment, high audit quality has an incentive to maintain a high earnings quality level to protect their reputation and legal exposure Francis and Wang (2008).

Several empirical literatures in banking have analyzed the loan loss provision, since banks have substantial latitude in determining the provisions amount. According toFonseca and Gonzales (2008),banks' high leverage makes them quite vulnerable to volatility in asset values, prompting adequate loan loss provision, which become banks' main accrual which results in important effects on bank stability. For this reason, we focus on bank manipulation by loan loss provision.

Previous studies have also analyzed earnings management in an international bank sample such as (Shen and Chich2005, Mary, 2012), their research is substantially different from ours in several ways. Indeed, these studies look at earnings management in general, while we focus on the loan loss provisionuse to smooth earnings, and we use a discretionary provision in earnings management. In addition, we include in the analysis the auditor industry specialization influence. We also analyze the moderating effect between the auditors' specialization and the earnings before taxes.

The paper remainder proceeds as follows. Section 2 presents our analytical framework and develops our testable hypotheses. Section 3 describes in detail the research design. Section 4 shows the empirical results and the final section presents conclusion and the various limitations in our study.

II. Previous Literature And Hypothses Developments

According to (Ahmed et al. 1999; Kanagaretnam et al. 2004; Baccouch et al. 2014)the loan loss provision is a relatively large accrual for banks and, therefore, has a significant impact on banks' earnings. Indeed, the target of loan loss provisions is to adjust banks' loan loss reserves to reflect expected future losses on their loan portfolios. Therefore, the bank manager also has incentives to use loan loss provisions to manage earnings and regulatory capital as well as to communicate private information about future prospects.

Several prior studies hypothesize a positive relation between loan loss provisions and income smoothing(Ahmed et al. 1999; Kanagaretnam et al, 2010, Balla and Rose, 2014).If the earnings are expected to be low, the loan loss provisions are deliberately understated to mitigate the adverse effects of other factors on earnings. In addition, in the old regime, earnings management was costly because understating loan loss provisions resulted in a regulatory capital reduction.

Anandarajan et al (2003) showed the importance of understanding whether banks use tools such as the loan loss provision to manage earnings and avoid minimum capital adequacy regulations. It is important for regulators understand if and how the loan loss provision is used to manage earnings to inflate stock prices, as a signaling device, and as a tool to manage earnings. Such knowledge can help regulators understand if the reported numbers are truly meaningful or are subject to manipulation.

Becker et al. (1998) studied the relationship between the audit quality and earnings management, they used the fact that a company employed at Big Six auditor as a proxy for audit quality, the results of their study indicated that clients of non-Big Six auditors reported discretionary accruals that were one-and-a-half to two percent of total assets higher than the discretionary accruals reported by clients of Big Six auditors. Krishnan and Schauer (2000) provide that audit size, client size, financial health, client wealth and auditor's participation in a peer review process on audit quality impact.(Knapp, 1991; Mary, 2012) sampled audit committee members' assessments of the audit quality and found that auditor size, as well as audit tenure, had a significant influence on audit quality.The quality perception was moderated by the types of audit firms to which audit committee members had been exposed.

Experimental evidence also reports beneficial effects of industry-specialist auditors, attributed to a comprehensive understanding of companies' error characteristics (Maletta and Wright, 1996, Hammersley, 2006,Sarwoko et al, 2014).

According to Velury (2003) the audit quality depends, in part, on whether the auditor is an industry specialist or not, the industry-specialist audit firms possess more experience and industry-specific knowledge than non-specialist audit firms. This experience and knowledge arguably helps industry-specialist auditors identify industry-specific issues and problems. Gramling and Stone, (2001) found that audit firms are also likely to make investments in the staff training and technologies in the industries in which they have extensive

experience. Beasley and Petroni (2001) provide that superior industry knowledge and better audit technologies help industry specialists perform better audits.

We analyse the auditors' specialization impact on the income smoothing, so our first hypothesis is as follows:

H1: The relationship between bank loan loss provision and earnings is positive for a bank in which auditor is an industry specialist.

The authors indicated that the bank managers use the provisions for bad loans to declare the increase of their future revenues(McNichols et Wilson, 1988; Sayd et al 2014). The endowment of provisions for bad loans includes two parts, a discretionary one and a non-discretionary one. In his research Wahlen (1994) found a positive relation between the discretionary provisions and the future non-discretionary result of the bank. He showed that the cash flow variation is subject to fluctuations of the loans endowment provision in banks which are deemed uncollectible and which are bad during a fiscal year.

(Jones, 1991; Balsam et al, 2003; Geiger and North, 2006; Tucker and Zarowin, 2006; Balla and Rose, 2014) analyzed the use of discretionary accruals to manage earnings and influence earnings, Jones (1991) found that firms that would benefit from import relief were more likely to decrease earnings through earnings management.(Aboody and Kasznik, 2000; Bartov and Mohnanran, 2004; Tucker and Zarowin, 2006) show that the timing of corporate disclosures and stock option compensation are related to the use of discretionary accruals.The variation in the current stock price of higher-smoothing firms contains more information about future earnings than does the variation in the stock price of lower-smoothing firms.

Kanagaretnam et al. (2003) studied the relationship between information signaling through the provisions of bad loans and bank characteristics such as: the manipulation level of results, investment opportunities, diversity of income and size.

In the previous section, we analyzed theauditors' specialization effect in absolute that is to say theauditors' specializationeffect on the level of income smoothing,regardless of the earnings management type applied.

In the context of this study, a related question is whether the auditors' specialization can mitigate earnings management and reduce discretionary provision.

Managers may manage earnings downwards via overestimated loan loss provision to create more conservative accounting. Indeed, the loan loss provision can be understated, i.e., income increasing, to artificially manage earnings upwards. The loan loss provision can be understated by income increasing when earnings are expected to be low.

For the above reasons, we posit that the auditors' specialization impact differs across different types of provision estimation and auditors' specialization is more effective to constraining income-increasing and to decrease discretionary provision.

We analysethe auditors' specializationimpact on the loan loss provision component; as a result, our second hypothesis is as follows:

H2. The relationship between the discretionary component of the loan loss provisions and income increase is negative for the bank in which auditor is an industry specialist.

III. Research Design

After reviewing the relevant literature on loan loss provision and auditors' specialization in the previous sections, this present section is to be organized into three main parts: Sample selection, variable measures, model specification.

3.1 Sample selection

In our sample, this covers the years 2001–2011, to identify the variables selected in this study also checking the data for 2000. The sample includes the banks listed on the Tunisian Stock Exchange (BVMT) during 11 years, whereas firms related to finance are excluded from the sample. The information is manually collected from the banks' annual reports, downloaded from the Tunisia Stock Exchange website, the financial market Council. The first table presents some details about these banks.

Table 1: Categorybanks description

Banks	Agencies number	Creation date
Parastatals banks		
BH	78	1986
BS	191	1968
BNA	157	1959
STB	133	1957
UIB	97	1963
Private banks		

Amen Bank	93	1971
ATB	36	1982
BT	79	1884
BIAT	150	1976
UBCI	111	1961
BTE	19	1982

3.2 Variables measures

Before interpreting the results, it is necessary to present the instruments used to test the hypotheses of this study.

3.2.1. Discretionary loan loss provision measure

To examine the use of discretion by the managers of Tunisia banks, we use the discretionary accruals to measure the earnings management.

More specifically, we use the loan loss provision in the banking sector. Indeed, this proxy contains two components such asthe discretionary and non-discretionary part (Taktak and Mbarki, 2014).

Total LLP = NDLLP+ DLLP

→DLLP= Total LLP - NLLP

Where:

- LLP: Loan loss provision for bank i in the year
- DLLP: Discretionary component of loan loss provision for bank i in the year t.
- NDLLP: Non-discretionary component of loan loss provision for bank i in the year t

Cornett et al. (2007) developed a proxy to assess the discretionary component of the provisions for loan losses. Similar to Taktak and Mbarki (2014), the loan loss provision (LLP) is estimated using the following model:

$LLP_{i,t}$ = ß0 + ß1 $NPL_{i,t}$ + ß2 $LLA_{i,t-1}$ + ß3 COLL $_{i,t}$ + εit

Where:

$LLP_{i,t}$: the loan loss provisions of the bank i at date t;

$NPL_{i,t}$: the NPL of the bank i at time t;

LLA $_{i,t-1}$: the loan loss allowance of the bank i at date t_1;

$COLL_{i,t}$: the total collaterals received by the bank i at date t;

εit : the error term of the equation representing the discretionary portion of LLP of bank i in period t.

The estimated coefficients ß0, ß1, ß2 and ß3of this regression are used to calculate the predicted valuesof the non-discretionary component of loan loss provision(Cornett et al., 2007; Taktak and Mbarki, 2014). So we replace the results of these coefficients in the following model to obtain the discretionary component value of the loan loss provision:

$NDLLP_{i,t}$ = ß0 + ß1 $NPL_{i,t}$+ ß2 $LLA_{i,t-1}$ + ß3 COLL $_{i,t}$

3.2.2 Auditors' specialization measures

A large theoretical and empirical literature examines the audit specialization measure (Craswell et al., 1995; Gramling and Stone, 2001; Cahan et al., 2006, Ishak et al.,2013). Given the wide variation in auditors' specialization measures deployed in various studies such as the measures by audit fees, market shares, the clients number and according to a big 4, we choose to use client share to complement our market share analysis because client share captures a similar aspect of the client-auditor relationship as market share. Moreover, the client may be more likely to choose a specialist auditor who can audit many of the client's peer companies.

Balsam et al. (2003) justified this alternative measure as follows: Industry specialization may be better achieved by having a large number of clients in a particular industry to having a few large clients. In addition, Neal and Riley (2004) predict that in client decision settings, the market share measure of industry specialization would be more appropriate. They use the banking industry as an example of an industry where market share would make more sense.

3.3 model specification

To verify our research hypotheses we apply a statistical methodology implementing two linear panel regressions.

From a first regression (1) we are going to test the variables effect of the auditors' specialization and earnings as well as the control variables on the bank loan loss provision for the whole sample. To check this, we include an interaction effect between the earnings and the auditors' specialization which takes the value 1 for

industry specialist with the largest market share and 0 otherwiseBalsam et al (2003). The model we propose to test the income smoothing is the following:

$$LLPi,t=\beta_0+\beta_1 EBTPi,t+\beta_2\ AS*EBTPi,t\ +\ \beta_3\ ASi,t+\ \beta_4\ Lnassetsi,t+\ \beta_5\ \Delta\ Assetsi,t+\ \beta_6\ Npli,t\ \ +\beta_7\ Agei,t+\varepsilon i,t \quad (1)$$

Where:
LLP: loan loss provision;
AS*EBTP: represent the auditors' specialization and earnings interaction effect;
AS: an indicator variable that equals one for industry specialist with the largest market share and zero otherwise;
EBTP: earnings before taxes and loan loss provision scaled by total assets;
Lnasset: the natural log of total assets;
Δ Asset: first difference in total assets scaled by total assets;
Npl: beginning of year non-performing loans scaled by total assets;
Age: is the difference between the first year when the bank appears and the current year.

As shown in the literature review section, the auditors' specialization can contribute to the alleviation of the earnings management problems (Mary, 2012; Yaghoobnezhada et al., 2014) and thus improve the earnings. After testing the auditors' specializationeffect on loan loss provision, we will extend the previous analysis to examine if this effect on the discretionary provision is increasing or decreasing with the presence of auditors' specialization. Therefore, in the second regressions (2) we are going to test the effect of the variables of the auditors' specialization and earnings as well as the control variables on the discretionary loan loss provision for the whole sample. The model we propose to test the earnings management is the following:
The model we propose to test the earning management the following:

$$DLLPi,t\ =\beta_0+\beta_1 EBTPi,t+\beta_2\ AS*EBTPi,t\ +\ \beta_3\ ASi,t+\ \beta_4\ Lnassetsi,t+\ \beta_5\ \Delta\ Assetsi,t+\ \beta_6\ Npli,t\ \ +\beta_7\ Agei,t+\varepsilon i,t \quad (2)$$

IV. Empirical Results

The objective in this section is to empirically test the theoretical proposal presented in the previous section, i.e., the auditors' specialization effect on earnings management.This overview is broken into three main sections: Descriptive statistics, correlation Matrix, statistics and discussion.

4.1. Descriptive statistics

The second table provides descriptive statistics for our measures of loan loss provision, discretionary loan loss provision, auditors' specialization, earnings before taxes and loan loss provision, as well as for our main control variables.

Table 2: Descriptive statistic

Variable	Mean	Std. Dev.	Min	Max
LLP	0.010	0.011	0.0005	0.083
DLLP	0.736	0.005	0.711	0.744
AS	0.781	0.416	0	1
EBTP	0.042	0.006	0.031	0.059
Lnassset	14.975	0.720	12.921	15.900
ΔAsset	0.008	0.007	-0.004	0.040
Npl	0.104	0.187	0.000	0.879
Age	44.363	27.173	16	128

The panel of table 1 presents the descriptive statistics, including observation number, mean, median, standard deviation, minimum and maximum, for the variables used in the analyses.
Variable definitions: LLP: loan loss provision scaled by total assets;
DLLP: discretionary loan loss provision scaled by total assets;
AS: an indicator variable that equals one if the auditor has the most clients in the industry;
EBTP: earnings before taxes and loan loss provision scaled by total assets;
Lnasset: the natural log of total assets;
Δ Asset: first difference in total assets scaled by total assets;
Npl: beginning of year non-performing loans scaled by total assets;
Age: is the difference between the first year when the bank appears and the current year;

Loan loss provision (LLP) in the sample has a mean value of 0.01 and a Std.Dev of 0.11, indicating that the loan loss provision for our sample of banks is fairly large and economically significant. The discretionary component mean of loan loss provision is zero by construction, while the median is 0.0001, suggesting that

more banks arereporting income-increase ofthe (LLP). These values are consistent with previous studies,Balla and Rose (2014).

Regarding the (AS) variable, industry-specialist clients report higher mean compared to client firms of non-specialists. Indeed, we observe that, on average, 78% of firms have an auditor is an industry specialist. This table shows that the mean of EBTP is 0.0429 and median 0.0067.

The bank size (the natural log of total assets) has a mean of 14.97, indicating our sample of banks is fairly large. Allother variables statistic, which is, is similar to the result reported in other research and seems to be reasonable.

4.2 Correlation Matrix

This test allows seeing if there are any multicollinearity problems and association among variables. Kervin (1992) indicate that the problem arises is when the correlation values exceed 0,7.Indeed, the independent variables are highly correlated with each other.Table 3 presentsthe correlation coefficients between the dependent, independent and control variables.

Table 3: Pearson correlation matrix of model 1

	LLP	EBTP	AS	Δasset	Lnassset	Npl	Age
LLP	1.0000						
EBTP	-0.0926	1.0000					
AS	0.0443	-0.1996	1.0000				
Δasset	-0.2722**	-0.1727	0.0760	1.0000			
Lnassset	0.0605	-0.2344*	-0.1994	-0.1216	1.0000		
Npl	-0.1297	0.0240	0.1733	0.0991	-0.7713***	1.0000	
Age	-0.0586	0.2816**	0.0443	-0.0715	0.0469	-0.2536*	1.0000

Table 4 presents Pearson correlations for these variables. The dependent variable is a measure of (LLP) : loan loss provision scaled by total assets; AS: an indicator variable that equals one if the auditor has the most clients in the industry; EBTP: earnings before taxes and loan loss provision scaled by total assets; lnasset: the natural log of total assets; Δ asset: first difference in total assets scaled by total assets; Npl: beginning of year non-performing loans; Age: is the difference between the first year when the bank appears and the current year; ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

The (LLP)measure shows significant correlations with the (Δ asset), indicating that a higher level of (LLP) is associated with a lower level of asset variation. Likewise, earnings before taxes and loan loss provision (EBTP) present significant negative correlation with (lnasset), and show that higher earnings are also associated with lower assets, a result which is also consistent with previous studies. Correlations between independent variables are not high therefore multicollinearity is not likely to be a problem in our study.

4.3. Result and discussion

In this section, we perform our examination on the loan loss provision, by distinguishing the absolute level of income smoothing from the discretionary component. Table 4 reports the results of two models.

Table 4: Regressionmodels

Variables	Variables	predicted	Model 1 LLP	Model 2 DLLP
EBTP		(+)	0.051	-0.689***
AS		(+)	0.062*	-0.019*
EBTP*AS		(+)	-1.284*	0.456*
lnassset		(+)	-0.069*	0.004
Δasset		(+)	-0.180	-0.005
Npl		(+)	-0.040	-0.019*
age		(+)	0.005*	-0.001
R-sq			0.351	0.569
F			2.870*	6.990***
Hausman Test			11.50	14.95

This table presents results from linear regressions of two models: loan loss provision and discretionary loan loss provision. LLP: loan loss provision scaled by total assets; DLLP: discretionary component of loan loss provision scaled by total assets ; AS : an indicator variable that equals one if the auditor has the most clients in the industry; EBTP: earnings before taxes and loan loss provision scaled by total assets; lnasset: the natural log of total assets; Δ asset: first difference in total assets scaled by total assets;Npl: beginning by year non-performing loans scaled by total assets; Age: is the difference between the first year when the bank appears and the current year.
***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Our main objective is to determine the auditor's specialization impact on earnings management based the loan loss provision.We will empirically and statistically analyze and interpretour variables effect on earnings management.

In model 1, the result shows that the estimated coefficient of the (EBTP) is positive. Therefore, the earnings before provisionis compatible with bank managers to manage earnings using LLP. Income smoothing is assumed to occur when the earnings are positively associated with the loan loss provision.

Scheiner (1981) rejected the position that commercial banks used loan loss provisions to smooth or manage income, and found a positive correlation between operating income and loan loss provision and acknowledged that loan loss provisions provided a source of flexibility to adjust reported earnings.He attributed lower provisions to lower business failures and to more aggressive policies of bank managers.

Regarding the (AS) variable, the estimated coefficient is positive and significant. Indeed, (LLP) is significantly higher for banks verified by a specialist auditor. So, our result in this study is consistent with previous results.(Balsam et al, 2003) provide a positive and significant relationship between auditor industry specialization and the accounting profit quality disclosed by the companies. Jenkins et al (2006) studied the auditors specialization impact on the accounting income quality over a period marked by an extraordinary stock market activity and decreased earnings quality reported by companies.Therefore, the results obtained in this study are consistent with previous results such as those of(Greenwalt and Sinkey, 1988; Wahlen, 1994; Gramling and Stone, 2001; Balsam et al., 2003; Krishnan, 2003; Liu et al, 2006) whosuggest that auditors specialization is more likely a thorough understanding of the business characteristics and improved method to detect error, which can contribute to improve audit efficiency (thus supporting H1).

We turn to the interaction term of the auditors' specialization measure and (LLP) to offer us evidence as to whether the specialist auditors' presence has a moderating effect between (EBTP) and (LLP).The multivariate analysis results, we show that the interaction coefficient is negative and significant, which weakens the negative relationship between (LLP) and (EBTP) as an indicator of earnings management. The negative and significant coefficient on the interaction variable indicates that investment efficiency is significantly higher for firms audited by specialists. The auditors' specialization reduces the income smoothing via the provision for loan loss.This hypothesis is accepted by our empirical results.

Next, we investigate the differential roleof auditors' specialization in constraining directional earnings management (model 2).

If earnings are expected to be low, the discretionary provision can be understated to artificially manage earnings upwards,i.e., income increasing, and if earnings are expected to be high, the discretionary provision may be overestimated to create more conservative accounting, i.e., income decreasing.

We expected that the (EBTP)coefficient is negative. There is a negative relationship between (EBTP) and discretionary provision, which indicates that the higher (EBTP)is the lower discretionary provision. According to of the regression analysisresults, (EBTP) has a negative sign and the profit before tax strongly influences the discretionary portion of the provision for loan loss.

Auditor's specialization (AS) is a binary variable that takes the value 1 if the auditor is an industry specialist in banking and 0 if not. We have planned a negative relationship between the auditors' specialization and the management practice results. We turn to the interaction term measurement of (EBTP)and auditors' specialization to provide evidence as to whether the auditor presence in a moderating effect on the relationship between (DLLP) and (EBTP). The results of the regression analysis, indicate that the interaction coefficient is positive and significant, which weakens relationship between (DLLP) and (EBTP).This assumption is accepted by our empirical results. This means that the specialist auditor can limit the manager discretionary behavior. This can be explained by the fact that the existence of a skilled auditor, whose training and experience are largely concentrated in a particular sector can offer a better audit quality because his specific knowledge allows a greater capacity to detect material misstatements. The regression analysis results verified the variables importance in the second model; in fact the variable (AS) is significant. For this reason, we confirm the second hypotheses made in this study that the auditors' specialization is more effective to mitigate the earnings management via discretionary provision.

So, our result shows that (Lnasset)and (Δ asset)variables are not significant and have no importance in our regression model and therefore no effect on the bank loan loss provision. This allows us to say that all banks are subject to the same review of financial analysts and investors regardless of their size.

Empirical estimates show that the non-performing loan is negative and not significant. Therefore, any increase in the size of the loans will decrease (DLLP).We can explain the negative doubtful loans effect on the loan loss provision by the fact that for some years, despite the increase in the volume of loans granted to customers, bad debts do not mark a proportional change. This can be realized by the application of a good strategy covering the part of the credit institution and the efficiency of the lending process by specifying sufficient conditions guaranteeing the debtrecovery.

Finally, we note that the R-sqcoefficient equal to 0.56 let's say 56 % therefore the independent variables used in this model are successful in explaining the dependent variable.

V. Conclusions

The depository institutions consist of commercial and savings banks,Managers of such banks may have an incentive to use tools to manipulate numbers in their favor especially after the deregulation, the lower monitoring as a consequence of deregulation may act as an incentive to banks to use the tools at their disposal to manage earnings.

Although made in accordance with the accounting principles, earnings management can be aggressive so that it obscures the true and actual performance of the bank (Elanahass et al, 2013) improper earnings management. Therefore,if it is not detected, it can shake the investors' confidence.

The objective of this research is to examine the relationship between the auditors' specializations as a control mechanism and earnings management such results measured by the bank loan loss provision; we tried to see if the auditors' specialization is an obstacle to such opportunistic behavior of the manager that can reach the accounting quality.

In light of these statistical analyses,we'll conclude on the auditor's specialization effect on earnings management via the bank loan loss provision.The first hypothesis shows the importance of the auditors' specialization to reduce and reverse the income smoothing through loan loss provision, the specialist auditor is more effective to detect and correct biased estimates of the loan losses provision made by bank managers.

According to a sample of eleven Tunisian banks, we started by estimating the discretionary provision to check the validity of our hypothesis regarding the relationship between the auditor and specialized discretionary provision of the bank executive. Therefore,after determining our dependent variable (DLLP), we examine the hypothesison the ability of the auditor to limit the discretionary provision of the manager.

This research has some limits either in the form or in the content, which are related to the methodology, the representativeness of the sample.

Our choice could be justified mainly by the limited number of companies listed on the stock exchange. Then, the content analysis method can analyze large volumes of data, but it suffers from a lack of standardization due to the subjectivity of the measurement process.

References

[1]. Abdin, S., Nurwati, A and Zaluki,A.(2012)'Auditor Industry Specialism and Reporting Timeliness' ,*Social and Behavioral Sciences*, Vol.65,pp. 873-878.

[2]. Aboody, D andKasznik,R.(2000) 'CEO stock option awards and the timing of corporate voluntary disclosures' ,*Journal of Accounting and Economics*,Vol.29, pp. 73-100.

[3]. Ahmed, A.S., Takeda,C.B and Thomas , S.(1999) 'Bank loan loss provisions: a reexamination of capital management, earnings management and signaling effect' ,*Journal of Accounting and Economics*,Vol.28, pp. 1-25.

[4]. Anandarajan, A., Hasan, I and Lozano-Vivas,A. (2003) 'The role of loan loss provision in earnings management, capital management,and signaling: The Spanish experience' ,*Advances in International Accounting*, Vol.16,pp.45-65.

[5]. Balla, E and Rose J.M. (2014) 'Loan Loss Provisions, Accounting Constraints, and Bank Ownership Structure',*Journal of Economics and Business*, available in press http://www.sciencedirect.com/science/article/pii/S0148619514000794

[6]. Balsam, S., Krishnan, J and Yang, J.S. (2003) 'Auditor industry specialization and earnings quality' ,*Auditing: A Journal of Practice & Theory*,Vol. 22, pp.71-97.

[7]. Bartov, E and Mohnanram, P. (2004) 'Private information, earnings manipulations, and executive stock-option exercises' ,*The Accounting Review*, Vol.79, pp.889-920.

[8]. Baccouch C., Mouelhi R and Ben Ghodbane, S.(2014) 'The impact of loan loss provisions on the firm valorisation: the case of the Tunisian banking sector' ,*African Journal of Accounting, Auditing and Finance*, Vol.3, pp.130- 142.

[9]. Benghodbane, S., (2009) 'L'impact des provisions pour créances douteuses sur la valorisation de l'entreprise : application au secteur bancaire Tunisien' ,Communiqué de presse, sixième *Colloque international* ASECTU. PS2D

[10]. Becker, C., DeFond, M., Jiambalvo, J and Subramanyam, K.(1998) 'The effect of audit quality on earnings management' ,*Contemporary Accounting Research*, Vol.15, pp.1-24.

[11]. Beasley, M and Petroni, K.(2001) 'Board independence and audit firm type' ,*Auditing: AJournal of Practice and Theory*Spring, Vol.20, pp. 97-114.

[12]. Cahan, S., Godfrey, J andM.Hamilton, J.(2006) 'Auditor Specialization: The Influence of Investment Opportunities' ,*Available at SSRN*.

[13]. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=920490

[14]. Craswell, A., Craswell, J and Francis, S.(1995) 'Auditor brand name reputations and industry specializations' .*Journal of Accounting and Economics*, Vol.20, pp.297-322.

[15]. Dechow, P. (1994) 'Accounting earnings and cash flows as measures of firm performance: The role of accounting accruals' ,*Journal of Accounting and Economics*, Vol.18, pp.3-42.

[16]. Dechow, P.M., Kothari, S.P and Watts, R.L.(1998)'The relation between earnings and cash flows' ,*Journal of Accounting and Economics*, Vol.25,pp.133-168.

[17]. Dechow, P andDichew, D.(2002) 'The quality of accruals and earnings: The role of accrual estimation errors' ,*The Accounting Review*, Vol.77, pp.35-59.

[18]. DeFond, M. L., Francis, J. R and Wong, T. J.(2000) 'Auditor industry specialization and market segmentation: Evidence from HongKong' ,*Auditing: A Journal of Practice and Theory*, Vol.19, pp.49-66.

[19]. Cornett, M., Marcus, A.J., Saunders, A. and Tehranian, H. (2007), "The impact of institutional ownership on corporate operating performance", Journal of Banking and Finance, Vol. 31,No. 6, pp. 1771-1794.

[20]. Elnahassa,M., Izzeldinb,M andAbdelsalam., A.(2013) 'Loan loss provisions, bank valuations and discretion: Acomparative study between conventional and Islamic banks' ,*Journal of Economic Behavior & Organizatio*n, Vol.103,pp.160-173.

[21]. Fonseca, A.R and Gonzales, F. (2008)'Cross-country determinants of bank income smoothing by managing loan-loss provisions' ,*Journal of Banking and Finance*, Vol. 32,pp. 217–228.

[22]. Francis, J., LaFond, R., Olsson, P and Schipper, K.(2005) 'The market pricing of accruals quality' ,*Journal of Accounting and Economics*,Vol .39, pp. 295-327.

[23]. Francis, J and Wang, D.(2008) 'The Joint Effect of Investor Protection and Big 4 Audits on Earnings Quality around the World' ,*Contemporary Accounting Research*, Vol.25, pp.157-199.

[24]. Gramling, A.A and Stone, D.N.(2001) 'Audit firm industry expertise: A review and synthesis of the archival literature' ,*Journal of Accounting Literature*,Vol.20, pp.1-29.

[25]. Greenwalt, M and Sinkey, J.J.(1988) 'Bank loan loss provisions and the income smoothing hypothesis: an empirical analysis, 1976–1984' ,*Journal of Financial Services Research*,Vol.1, pp.301–318.

[26]. Geiger, M.A and North, D.S.(2006) 'Does hiring a new CFO change things? An investigation of changes in discretionary accruals' ,*The Accounting Review*, Vol.81, pp.781-809.

[27]. Hammersley, J.S. (2006) 'Pattern identification and industry specialist auditors' ,*The Accounting Review*. Vol.81, pp. 309-336.

[28]. Ishak, M., Mansorb,N andMaruhun, E.N.S. (2013) 'Audit market concentration and auditor's industry specialization' ,*Social and Behavioral Sciences*, Vol.91, pp.48-56.

[29]. Jenkins,D., Kane,G andVelury.U., (2006) 'Earnings quality decline and the effect of industry specialist auditors: An analysis of the late 1990s' ,*Journal of Accounting and Public Policy*, Vol. 25, pp.71-90.

[30]. Jones, J.(1991) 'Earnings management during import relief investigations' ,*Journal of Accounting Research*, Vol.29, pp.193-228.

[31]. Kanagaretnam, C.Y and Lim, G.J., (2010) 'Auditor reputation and earnings management: international evidence from the banking industry' ,*Journal of Banking and Finance*,Vol.34 , pp.2318–232.

[32]. Kanagaretnam, K., Lobo, G.J and Yang, D.,(2004)'Joint tests of signaling and income smoothing through bank loan loss provisions' ,*Contemporary Accounting Research*,Vol.21, pp.843-884.

[33]. Kanagaretnam, K., Lobo, G.J and Mathieu, R.(2003) 'Managerial incentives for income smoothing through loan loss provisions' ,*Review of Quantitative Finance and Accounting*, Vol.20, pp.63-80.

[34]. Kervin, J.B. (1992). *Methods for business research*, New York, Harpercollins.

[35]. Krishnan, G.V.(2003) 'Does Big 6 auditor industry expertise constrain earnings management?'*Accounting Horizons*, Vol.17, pp.1-16.

[36]. Krishnan, J andSchauer, P.C., (2000) 'The differentiation of quality among auditors: Evidence from the not-for-profit sector' ,*Auditing: A Journal of Practice & Theory*,Vol.19, pp. 9-25.

[37]. Knapp, M.C. (1991) 'Factors that audit committee members use as surrogates for audit quality' ,*Auditing: A Journal of Practice & Theory*, Vol. 1 , pp. 35-52.

[38]. Liu, C., Ryan, S.(2006). Income smoothing over the business cycle: changes in banks'coordinated management of provisions for loan losses and loan charge-offsfrom the pre-1990 bust to the 1990s boom. *The Accounting Review*.Vol. 81, pp. 421–441.

[39]. Lee, P.J and Taylor, S.J. (2006) ' Auditor conservatism and audit quality: Evidence from IPO earningsforecasts. *International Journal of Auditing*, Vol.10, pp.183-199.

[40]. Mary, J. L and Bing Y. (2012) ' Do Earnings Management and Audit Quality Influence Over-Investment by Chinese Companies? *International Journal of Economics and Finance*, vol.4, pp.21-30.

[41]. Maletta, M. and Wright, A. (1996) ' Audit evidence planning: an examination of industryerror characteristics. Auditing: *A Journal of Practice and Theory*, Vol.15, pp.71–86.

[42]. McNichols, M.R andStubben, S.R. (2008) ' Does earnings management affect firms'investment decisions? *The Accounting Review*,Vol.83, pp.1571-1603.

[43]. McNichols, M. and Wilson, P. (1988) 'Evidence of earnings management from the provision forbad debts.*Journal of Accounting Research*, Vol. 26, pp.1–31.

[44]. Neal, T.L and Riley, R.R. (2004) ' Auditor industry specialist research design',*Auditing: AJournal of Practice & Theory*, Vol.23, pp.169–177.

[45]. Sarwoko, I and Agoes. S. (2014) 'An Empirical Analysis of Auditor's Industry Specialization, Auditor's Independence and Audit Procedures on Audit Quality: Evidence from Indonesia',Procedia - Social and Behavioral Sciences,Vol.164, pp. 271–281.

[46]. Sayd, F.,Kabir, H.andGregory, C. (2014) 'Islamic bank incentives and discretionary loan loss provisions', Pacific-Basin Finance Journal, Vol.28, pp 152-174.

[47]. Scheiner, J.H. (1981) 'Income smoothing: An analysis in the banking industry',*Journal of Bank Research*, Vol. 12, pp.1919–2123.

[48]. Sun,J and Liu, G. (2013) 'Industry specialist auditors, outsider directors,and financial analysts',*Journal Account. Public* Policy. Vol. 30, pp.367–382.

[49]. Shen, C andChich, H. (2005) 'La protection des Investisseurs, La Théorie des perspectives, et la gestion des Résultats: une comparaison internationale de l'industrie bancaire' ,*Journal of Banking and Finance*.Vol. 29, pp.2675-2697.

[50]. Taktak, N and Mbarki,I. (2014) "Board characteristics, external auditing quality and earnings management ", *Journal of Accounting in Emerging Economies*. Vol. 4 Iss 1 pp. 79 - 96

[51]. Tucker, J.W andZarowin, P.A. (2006) 'Does income smoothing improve earnings informativeness?',*The Accounting Review*.Vol.81, pp.251-270.

[52]. Velury, V. (2003) 'The association between auditor industry specialization and earnings management' ,*Research in Accounting Regulation*, Vol.16, pp.171-184.

[53]. Wahlen, J. (1994) ' The nature of information in commercial bank loan lossdisclosures' ,*The Accounting Review*.Vol. 69, pp.455–478.

Elaoud Assawer. " Moderating Effect of Auditors' Specialization and Earnings Management: The Case of Tunisia." IOSR Journal of Economics and Finance (IOSR-JEF) , vol. 10, no. 4, 2019, pp. 75-83.