INTERNATIONAL JOURNAL OF ECONOMICS AND FINANCE STUDIES
Vol: 17 **No:** 03 **Year:** 2025 **ISSN:** 1309-8055 (Online) (**pp.** 53-68) **Doi:** 10.34109/ijefs.202517303
Received: 11.06.2025 | **Accepted:** 20.08.2025 | **Published Online:** 30.10.2025

-RESEARCH ARTICLE-

THE EFFECT OF AUDIT QUALITY AND FINANCIAL LEVERAGE ON AEM

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─Abstract─

The current study aims to examine financial leverage and the role of audit quality in accrual-based earnings management in emerging firms. The case study involved firms that are traded on stock exchanges in Iraq and Oman. The systematic sampling technique involved a total of 31 samples from Iraq and 26 samples from Oman between the years 2009 and 2022. In evaluating this study's hypotheses regarding its variables, a multivariate regression analysis technique that is based on a total sample for all collected variables is used. The empirical findings of this study indicate that financial leverage has a total non-significant impact on earnings management in emerging firms. Furthermore, this study has a total significant and negative impact on earnings management. The findings indicate that financial leverage has a total non-

Citation (APA): Atufaili, S., Foroghi, D., Nafchi, H. F. (2025). The Effect of Audit Quality and Financial Leverage on AEM. *International Journal of Economics and Finance Studies*, 17(03), 53-68. doi: 10.34109/ijefs.202517303

Vol: 17 **No:** 03 **Year:** 2025 **ISSN:** 1309-8055 (Online) (**pp.** 53-68) **Doi:** 10.34109/ijefs.202517303

significant impact on earnings management. In relation to this finding, financial leverage is not directly related to earnings management in emerging firms. The finding has a total significant and negative impact on earnings management. In this context, financial leverage has a significant impact in restricting opportunities for financial misrepresentation in emerging firms. The study therefore makes a key addition to this topic in identifying some key factors. The study makes a key point that financial leverage is not directly related to earnings management in emerging firms. The finding has a total significant and negative impact on earnings management. The finding makes a key point that financial leverage has a significant impact in restricting opportunities for financial misrepresentation. The finding has a total total impact in improving financial transparency and reliability in emerging firms in Iraq and Oman. The finding has a total impact in offering key suggestions and guidance to auditors in restricting opportunities for financial misrepresentation in emerging firms.

Keywords: AEM, Audit Quality, Financial Leverage, Profitability, Stock Exchanges.

INTRODUCTION

Accounting earnings serve as a key benchmark for assessing corporate performance. In this regard, profit management is considered an integral element of financial reporting quality. Any distortion of reported earnings can therefore influence user decisions (Adejumo & Ogburie, 2025). Consequently, both the quantitative and qualitative aspects of earnings are of considerable significance to investors. However, managers are obligated to act in the best interests of stakeholders and contracting parties, while simultaneously pursuing their personal objectives (Peráček & Kassaj, 2023). Earnings management denotes behaviour that breaches established standards or diverges from accepted accounting norms, typically driven by the pursuit of profit maximisation, particularly among managers whose evaluation depends on financial results (Baskaran et al., 2020). It also functions as a mechanism that allows managers and firms to create protective buffers against uncertain events, thereby benefitting involved stakeholders (Xiao, 2024). As such, managers often exert deliberate efforts to manage earnings through various approaches.

In-accounting literature, earnings management has appeared as a noteworthy area of study. Earnings management is a process whereby a reporting entity intentionally manipulates financial reporting to achieve a targeted earnings figure. Thus, it can either raise earnings, lower earnings, and/or stabilize earnings depending on premeditated management goals (Arita et al., 2021). The auditing process is a key mediator that can discourage earnings management (EM) in its own right. In instances where a management adopts EM practices, it is assumed that auditors have a critical role in ensuring that a high level of audit quality is maintained (Greusard, 2022). High-quality audits promote the discovery of material misstatements and can restrict a manager's scope for manipulating recorded figures (Chen & Yang, 2025). Strict audits

improve the chances of detecting questionable accounting behavior and limiting exaggerated profits. In addition to this reason, high-quality audits can decrease abnormal accruals in economic organizations and hence promote opportunistic behavior within managerial ranks (Mnif & Ben Hamouda, 2021).

The growing number of joint-stock companies and development of financial markets in recent years has given rise to an increased number of shareholders, reducing their ability to adequately monitor management. The increased disparity in the number of shareholders makes their power diminished. As a consequence, their strength to affect financial reporting is reduced. In this scenario, managers increasingly depend on creditors and external sources of funds. Consequently, this shifts capital structure and financial leverage in corporations. Thus, a significant relationship between financial leverage and earnings manipulation is hypothesized in this study (Martins & Júnior, 2020). Earnings manipulation is conceptualized in agency theory as occurring when officers pursue a different path in financial reporting that is contrary to shareholder interests in pursuit of officers' self-interested financial gains and when officers mislead creditors during evaluation for credits (Ustadza, 2023). In this context, officers are less dependable for making financial statements that are more trustworthy. Financial statements have posed a risk for stakeholders to make decisions in pursuit of their objectives through statements. Identifying EM has emerged as an important concern in current studies. The current study will impact specialists in CPA and associated stakeholders to provide information and context through which audited financial information and financial structure affect EM. In this context, identifying a question for this research study seeks to assess how financial reporting and financial structure affect EM.

THEORETICAL PRINCIPLES AND HYPOTHESIS DEVELOPMENT

Every business entity sets its own goals and works to achieve those goals in its duration as a business. Among those goals is making a profit. Profit-making is a significant goal. Profit is a fundamental factor that influences earnings and is considered a vital factor in financial statements as a determinant of return on equity (Tykkyläinen & Ritala, 2021)(. The financial statemets are essentially the basis for information used in a business to give a true and fair view of its financial position and performance (Agrawal, 2023). However, there are many opportunities for earnings management in financial statements through different methods that impact financial statements and therefore affect earnings (Strakova, 2020).

In financial decision-making, managers adopt strategies to achieve maximum gains to the organization. Conversely, this activity can positively influence earnings management as well as earnings manipulation practices to affect profits. Earnings management has continued to pose a threat to regulating bodies and practitioners in financial reporting due to its negative impact on financial reporting information.

Professionals have emphasized that EM studies are important for all parties involved (Bansal, 2024). There are various definitions addressing EM issues in financial reporting in different papers. Nonetheless, a common thread in all definitions is that they are essentially based on financial reporting that enables managers to manipulate earnings to achieve determined targets (Bisogno & Donatella, 2022). Zhang (2024) argue that according to agency theory, earnings management is a fundamental assertion that refers to decisions made and pursued by managers against shareholders' interests and creditors in credit-related decisions. Managers' deceptive behavior significantly hampers investors' trust in financial information. Therefore, identifying determinants of EM is one of the critical approaches in contemporary studies in accounting. The eventual bankruptcy of giants like WorldCom and Enron critically injured trust in financial reporting. Later financial occurrences have significantly increased concerns for intensive auditing. The significance of audit quality has come to play a critical role in making financial information trustworthy. Evidence has shown that enhanced audited reporting significantly inhibits EM through regulations of discretionary accruals (Toumeh et al., 2021).

Expertise of auditors is another important factor that represents an important determinant of audit effectiveness. Their industry experience and profound technological capabilities ensure that auditors are in a better position to provide superior services to their clients. Industry specialists outshine others in limiting manager discretion and reporting financial statements more accurately. As claimed by (Gal-Or & Gal-Or, 2022), industry-specialised auditors are more qualified in financial reporting than industry nonspecialists. Hsu and Liao (2023) supported this claim and demonstrated that companies auditing financial statement through industry specialists have better earnings and audit quality. Industry specialists are well-versed in identifying anomalies as they have in-depth knowledge of a client's industry dynamics. Buchanan et al. (2021) suggested that auditors perform a role that ensures coordination between manager and shareholders' interests and deters opportunistic financial reporting. On a signalling theory basis, better-quality audits symbolise a trustworthy reporting system in financial matters (Darmawan, 2023).

Firms audited by reputable entities—such as the Big Four—are perceived as less inclined to engage in EM, given these auditors' substantial reputational capital and resource capacity. However, in some cases, high audit credibility may unintentionally facilitate real EM, as managers exploit the perceived reliability of audited statements to pursue alternative forms of manipulation (Baskaran et al., 2020). Auditors with industry-specific expertise are particularly capable of identifying abnormal accruals due to their advanced knowledge of sectoral accounting norms. Empirical studies suggest that such auditors are negatively correlated with accrual-based EM, although evidence regarding their effect on real EM remains mixed (Arianpoor & Farzaneh, 2023). For instance, research in Bangladesh found no significant relationship between industry-specialised auditors and real EM, underscoring the role of contextual

variation (Debnath et al., 2022). A substantial body of research has also investigated the role of leverage in aligning managerial behaviour with shareholder interests while mitigating agency costs arising from informational asymmetries.

Jensen and Meckling (1976) propose that financial leverage serves as a disciplinary mechanism, constraining managerial discretion through the obligation to service debt, thereby reducing access to free cash flow. In this context, leverage functions as a governance tool that curtails opportunistic actions by management. This financial discipline limits opportunities for earnings manipulation by restricting discretionary resources. Brauer and Vandepoele (2024) concluded that greater leverage constrains managerial opportunism and contributes to corporate downsizing decisions. Essentially, leverage commits a firm's available cash flow to debt servicing, thereby minimising excess liquidity. While leverage helps to reduce agency costs between managers and shareholders and narrows information asymmetry, it can also introduce conflicts between shareholders and bondholders. Excessive free cash flow enables managers to pursue risky or low-yield investments, increasing profit volatility and, in turn, EM tendencies. Conversely, rising leverage progressively diminishes available free cash flow, encouraging managers to adopt more conservative accounting practices (Odhiambo et al., 2025). Highly leveraged entities experience limited cash flow flexibility, as much of their liquidity is consumed by interest payments. Consequently, managers must avoid low-value investment projects, acting as a restraint on accrual-based manipulations. In addition, heightened creditor scrutiny further reduces managerial incentives for earnings distortion. Hence, an increase in leverage is generally associated with lower accrual-based EM (Awuye & Aubert, 2022). Dyreng et al. (2022), however, found that managers sometimes engage in EM to avert breaches of debt covenants.

In some literature circles, debt is considered to have a positive relation to EM as a consequence of limitations in debt contracts. Financial leverage is directly related to financial distress. In this situation, when a company is exposed to financial distress due to financial leverage, it resort to EM to display financial health. In addition, when financial leverage is high in an organization, top management is known to overstate earnings to give a better bargaining position while searching for financial aid under reduced costs (Li et al., 2020). Hussain et al. (2022) have demonstrated that as financial leverage increases in companies, EM activity is more vigorously pursued. Financial leverage and EM have different impacts in different scenarios. Financial leverage and rising debt are some factors that encourage top officers to resort to EM as a strategy to overstate earnings and lure investors. As a direct consequence of this theory, financial leverage has a positively impacting factor on EM (Ghofir & Yusuf, 2020). In according to theory and context for this study, researchers present this below-mentioned hypothesis for proposed tests in this chapter:

Hypothesis1: *Audit quality negatively affects AEM.*

Hypothesis2: *Financial leverage positively affects AEM.*

Chi and Gooda (2024) explored how internal control systems, debt levels, and CEO power affect earnings management, reporting that all three variables have a significant statistical impact. Kalembe et al. (2024) used a cross-sectional correlational design with 136 regulated Ugandan firms, collecting data from chief financial and audit executives through structured questionnaires. Using partial least squares structural equation modelling, they found that CEO influence intensifies earnings management tendencies, while effective audit committees mitigate such practices. Cheung and Adelopo (2022), studying 391 Malaysian listed firms engaged in share buybacks between 2014 and 2019, identified a negative relationship between audit committee financial expertise and incremental buybacks, moderated adversely by CEO dominance. El-Deeb et al. (2024) examined audit quality's impact on real earnings management, moderated by corporate governance, finding that firms in developed economies with stronger governance structures favour accrual-based over real earnings management practices. Tulcanaza-Prieto (2022) analysed the effect of financial leverage on real EM among non-financial companies over the period 2010–2018, revealing a positive association between leverage levels and EM. Consistent with earlier evidence, the results also showed that superior audit quality curbs discretionary accrual manipulation. {Tulcanaza-Prieto, 2022 #40@@author-year} found that in firms characterised by minimal government involvement, weak corporate governance, and high financial leverage, real activity-based EM tends to increase. Conversely, in entities operating under more lenient regulatory regimes and experiencing rapid growth, accrual-based EM becomes more prevalent.

RESEARCH METHODOLOGY

The statistical population of this study is all companies that were traded in the Iraq and Oman Stock Exchanges between 2009 and 2022. The sample will include those companies that met all of the given criteria:

1. Availability of all information needed for doing the research.
2. A financial year ending in either March or December to ensure comparability across time.
3. Persons carrying out banking, investment, and/or financial leasing activities.
4. The same fiscal year is to be maintained consistently.

On this basis, 31 companies from Iraq Stock Exchange and 26 companies from Oman Stock Exchange were selected. The gathered information has subsequently undergone refinement and processing in Excel. The next chapter discusses classification of variables in a study and how variables are differentiated as independent variables, dependent variables, and control variables. The dependent variable in this study is AEM.

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AEM: In this study, AEM is assessed using discretionary accruals, where greater discretionary accruals reflect a higher extent of earnings manipulation, and lower values indicate reduced manipulation. The measurement of discretionary accruals follows the adjusted Jones model, as outlined in equation (1), based on the framework proposed by Decho and Decho (2002).

$$\left(\frac{\mathrm{TA_{it}}}{\mathrm{A_{it-1}}}\right) = \alpha_1 \left(\frac{1}{\mathrm{A_{it-1}}}\right) + \alpha_2 \left(\frac{(\Delta \mathrm{REV} - \Delta \mathrm{REC})}{\mathrm{A_{it-1}}}\right) + \alpha_3 \left(\frac{\mathrm{PPE_{it}}}{\mathrm{A_{it-1}}}\right) + \alpha_4 \mathrm{ROA_{it}} + \varepsilon_{it} \quad (1)$$

Where,

TA: TA represents the total accruals of firm i in year t, calculated as the difference between net profit and operating cash flow.

A_{it-1}: The total assets at the beginning.
REV :Variations in company income.
ΔREC :Changes in accounts receivable.
PPE: The property, machinery, and equipment.
ROA: The net earnings ratio to total assets of the company.

In the model, discretionary accruals are represented by the error term (ε).

This study includes two independent variables, defined as follows:

Audit Quality

In this study, audit quality is measured using the auditor's industry expertise index, market share serves as an indicator of an auditor's industry expertise and is computed by dividing the square root of the total book value of clients served by the audit firm by the total book value of all firms within the industry.

Financial Leverage

Financial leverage is defined as the ratio of the book value of total liabilities to the book value of total assets.

Control Variables

Company Size: Measured as the natural logarithm of the company's total assets.

Institutional Shareholders (Ins): Represent the total percentage of shares owned by banks, insurance companies, financial institutions, government agencies, and other organisations.

Growth Opportunity (Go): Calculated as the ratio of the market value to the book value of equity.

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Sales Growth (SaleG): Defined as the ratio of the change in sales in the current year relative to the previous year.

Operating Cash Flow (CFO): Measured as the ratio of operating cash flow to the book value of total assets.

For testing the first hypothesis, a multivariate regression model proposed by Gao et al. (2017) was employed, as expressed in equation (2).

$$EMi,t = \beta 0 + \beta 1AQi,t + \beta 2Sizei,t + \beta 3Insit + \beta 4Goit + \beta 5SaleGit + \beta 6Cfoit + \varepsilon it \qquad (2)$$

Where,

EM: AEM of company i in year t.
AQ: Audit quality i in year t.
Size: The company i size in year t.
Ins: Institutional shareholders i in year t.
Go: Growth opportunity i in year t.
SaleG: Sales growth i in year t.
CFO: Operating cash flow of firm i in year t.

In equation (2), a significant and negative coefficient (β1) supports the acceptance of the first hypothesis. To evaluate the second hypothesis, the multivariate regression model developed by Gao et al. (2017) was applied, as shown in equation (3).

$$EMi,t = \beta 0 + \beta 1Levi,t + \beta 2Sizei,t + \beta 3Insi,t + \beta 4MtBi,t + \beta 5SaleGi,t + \beta 6Cfoi,t + \varepsilon i,t \qquad (3)$$

Where, Lev denotes the financial leverage of firm i in year t. Moreover, In equation (3), a positive and β1 indicates acceptance of the second hypothesis.

RESEARCH FINDINGS

Descriptive Statistics

Table (1) below shows the descriptive statistics for variables related to Iraq and constitutes 402 observations for each of the variables. The Mean and Median regarding AEM are -0.0246 and -0.0444 respectively. On average, institutional investors make up 40 percent of total ownership in the sample companies. The Mean (Median) growth opportunity is 4.729 (2.314), with a maximum of 56.81 and a minimum of -541.53. The Standard deviation of Audit Quality is 0.1582 and that of Growth Opportunity is 8.967. The above results indicate that Audit Quality has minimum variability while Growth Opportunity has maximum variability. In addition. The descriptive statistics for variables relating to Oman are given in Table (2) below

and include 390 observations for each of the variables. The Mean and Median for AEM are -0.031 and -0.050 respectively. The Mean corresponding to institutional shareholders shows that on average about 30 percent of total ownership in the sample firms is held by institutional investors. The Mean (Median) growth opportunity is 2.775 (2.027) and has a maximum of 823.56 and a minimum of -0.55.

Table 1: Descriptive Statistics (DS) for Iraq

Variable (V)	Mean (M)	Median (Md)	Maximum (Ma)	Minimum (Mi)	SD
EM	-0.0246	-0.0444	0.9984	-0.9627	0.2835
AQ	0.1577	0.1136	0.8632	0.0007	0.1582
Lev	0.4537	0.3059	2.8332	0.0019	0.5434
Size	22.441	22.443	27.049	19.245	1.390
INS	0.4051	0.4400	0.7900	0.000	0.2263
Go	4.729	2.314	56.181	-53.541	8.967
SaleG	0.0117	0.0080	2.899	-3.873	0.436
Cfo	0.084	0.063	0.858	-0.835	0.2240

The Standard deviation (SD) for institutional shareholders is 0.1154 and that for growth opportunity is 255.8. The above shows that institutional shareholders have minimum variability while growth opportunity have maximum variability.

Table 2: The Oman (DS)

(V)	(M)	(Md)	(Ma)	(Mi)	SD
EM	-0.031	-0.050	6.690	-1.897	0.484
AQ	0.1924	0.167	0.7741	0.0003	0.1388
Lev	0.542	0.503	1.967	0.053	0.295
Size	17.980	17.663	23.579	12.161	2.162
INS	0.306	0.308	0.661	0.000	0.1154
Go	2.775	2.027	56.823	-55.039	0.255
SaleG	0.398	0.308	3.901	-0.890	0.606
Cfo	0.2628	0.066	0.499	-0.728	0.1469

The First Hypothesis Test

As hypothesized in the first hypothesis, a negative relationship between audit quality and AEM is expected and demonstrated in Table 3. In order to conclude which estimation technique is to be used in this study, F-Limer Test is employed to distinguish between Pooled and Panel Data Models. Then, to distinguish between Fixed and Random Effects Models, Hausman Test is used. The result of both tests shows that Fixed Effects Model is more suitable for this study.

Table 3: The First Research Hypothesis of Iraq

$EM_{i,t} = \beta_0 + \beta_1 AQ_{i,t} + \beta_2 Size_{i,t} + \beta_3 Ins_{i,t} + \beta_4 Go_{i,t} + \beta_5 SaleG_{i,t} + \beta_6 Cfo_{i,t} + \varepsilon_{i,t}$				
(V)	**Coefficients (Co)**	**Standard Error (SE)**	**T-Statistic (TS)**	**P-Value**

				(PV)
AQ	-0.181	0.048	-3.754	0.0002
Size	-0.0819	0.0147	-5.560	0.0000
Ins	0.0559	0.0513	1.0911	0.2759
Go	-0.0005	0.0009	-0.5727	0.5672
SaleG	0.0009	0.0252	0.0383	0.9695
Cfo	0.8388	0.0378	22.135	0/0000
Constant	1.695	0.330	5.124	0.0000
F-Statistic Test (FST)		36.408		0.000
F-limer (FL)		4.939		0.0002
Hausman (H)		95.314		0.0000
Likelihood Ratio (LR)		278.694		0.0000
Durbin-Watson Statistic (DWS)		1.632		
Adjusted R-Squared (AR^2)		0.7821		

The audit quality variable exhibits a negative impact on AEM. Specifically, a one-unit increase in audit quality corresponds to a 1.18 percentage point reduction in AEM, indicating improved earnings quality. Consequently, the first hypothesis is supported at the 5% significance level in Iraq.

Table 4: The First Research Hypothesis in Oman

$EM_{i,t} = \beta_0 + \beta_1 AQ_{i,t} + \beta_2 Size_{i,t} + \beta_3 Ins_{i,t} + \beta_4 Go_{i,t} + \beta_5 SaleG_{i,t} + \beta_6 Cfo_{i,t} + \varepsilon_{i,t}$				
(V)	**Coefficients (Co)**	**Standard Error (SE)**	**T-Statistic (TS)**	**P-Value (PV)**
AQ	-0.8069	0.0390	-20.678	0.0000
Size	0.1251	0.0154	8.092	0.0000
Ins	0.1057	0.1369	0.7722	0.4405
Go	0.2592	0.039	6.583	0.4405
SaleG	0.0264	0.0241	1.094	0.2746
Cfo	-0.1279	0.1107	-1.1554	0.2487
Constant	-0.0055	0.1591	-0.0347	0.9723
(FST)		78.338		0.0000
(FL)		2.254		0.0045
(H)		12.314		0.0444
(LR)		454.896		0.0000
(DWS)		1.869		
(AR^2)		0.484		

In the Iraqi sample, the significance of the F-statistic confirms the validity of the relationship in equation (2). The Durbin–Watson statistic indicates no presence of serial autocorrelation, while heteroscedasticity is detected across the model. This issue was addressed using the generalized least squares (GLS) method.

Table (4) shows the results of the first hypothesis test for Oman. F-Limer and Hausman tests indicate that a fixed-effects panel model is suitable. Audit quality has a coefficient of -0.8069 and is significant at the 5% level, demonstrating a negative

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impact on AEM. Hence, the first hypothesis is also supported in Oman at the 5% significance threshold. For the Omani sample, the F-statistic confirms the significance of the relationship in equation (2). The Durbin–Watson statistic shows no evidence of serial autocorrelation. Heteroscedasticity was addressed using the likelihood ratio test and corrected through the GLS technique.

The Second Hypothesis Test

In line with the second hypothesis, financial leverage is hypothesized to positively affect AEM. The respective findings for Iraq are highlighted in Table (5). The F-Limer and Hausman tests revealed that the fixed effect panel model is more suitable. In addition to that, financial leverage is not a significant factor in positively influencing AEM. The significance level of financial leverage is above 5%, indicating that financial leverage has not contributed to increased earnings management. As a result, the second hypothesis is rejected at a significance level of 5% for Iraq.

Table 5: The Second Hypothesis of Iraq

$EM_{i,t} = \beta_0 + \beta_1 Lev_{i,t} + \beta_2 Size_{i,t} + \beta_3 Ins_{i,t} + \beta_4 Go_{i,t} + \beta_5 SaleG_{i,t} + \beta_6 Cfo_{i,t} + \varepsilon_{i,t}$				
(V)	**Coefficients (Co)**	**Standard Error (SE)**	**T-Statistic (TS)**	**P-Value (PV)**
Lev	-0.0155	0.0300	-0.5168	0.6056
Size	-0.0936	0.0147	-6.356	0.0000
Ins	0.069	0.0554	1.248	0.2127
Go	-0.0008	0.0010	-0.7657	0.4443
SaleG	-0.0022	0.0245	-0.0910	0.9275
Cfo	0.9416	0.0304	30.952	0.0000
Constant	1.981	0.3323	5.961	0.0000
		29.605		0.0000
(FST)		4.5100		0.0000
(H)		87.715		0.0000
(LR)		293.575		0.0000
(DWS)		1.6832		
(AR^2)		0.7197		

The value of the F-statistic proves the significance of the relationship in equation (3). The value of the Durbin-Watson statistic shows that there is no serial correlation. The presence of heteroscedasticity in the model is determined through the likelihood ratio test and then corrected for through the GLS technique. The second result for Oman is shown in Table (6). The F-Limer test is applied to identify a suitable model between the pooled and panel data model. Financial leverage is not a significant factor that positively influences the value of AEM in Oman. As its significance level is above 5%, it can be ascertained that financial leverage is not a reason for a boost in the value of AEM. Therefore, the second hypothesis can be rejected in Oman under a significance level of 5%. The Durbin-Watson statistic shows that there is no serial

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correlation. The presence of heteroscedasticity in the model is determined through the likelihood ratio test and is then corrected for through the GLS technique.

Table 6: The Second Research Hypothesis of Oman

$EM_{i,t} = \beta_0 + \beta_1 Lev_{i,t} + \beta_2 Size_{i,t} + \beta_3 Ins_{i,t} + \beta_4 Go_{i,t} + \beta_5 SaleG_{i,t} + \beta_6 Cfo_{i,t} + \varepsilon_{i,t}$				
Variables	**Coefficients**	**Standard Error**	**T-Statistic**	**P-Value**
Lev	-0.0583	0.0675	-0.8636	0.3884
Size	-0.0029	0.0086	-0.3351	0.7377
Ins	0.1016	0.1363	0.7459	0.4562
Go	-0.0001	0.0019	-0.0550	0.9561
SaleG	0.0243	0.0237	1.0267	0.3053
Cfo	-0.1551	0.1128	-1.3749	0.1700
Constant	0.0537	0.1670	0.3182	0.7505
(FST)		32.814		0.0000
(FL)		2.098		0.0021
(H)		34.495		0.0000
(LR)		455.174		0.0000
(DWS)		2.079		
(AR^2)		0.4688		

CONCLUSION

Earnings in an accounting context are a vital figure for financial information users. The reporting unit is for a business entity's financial and non-financial performance. Managers normally achieve this through making discretionary choices that affect earnings without altering cash flows. The underlying presumption for interest in accounting earnings is its management. EAM is a technique whereby earnings are systematically manipulated through discretionary earnings. Managers normally accomplish this through discretionary choices regarding revenues and expenses. The study will examine how financial leverage and Audit Quality affect EAM. The study will adopt a sample of 31 companies from Iraq Stock Exchange and 26 from Oman Stock Exchange. The findings for the first hypothesis indicate a significant negative effect between Audit Quality and EAM. As a governance tool to constrain EM incentives, auditing is a vital platform. It is advisable for EM to manipulate financial information. The higher the Audit Quality, the greater are possibilities of detecting distortions in financial statements. The study's findings for its first hypothesis therefore indicate that a greater Audit Quality will have a negative effect on EAM. Therefore, limiting EM in its manipulated earnings is advisable. The opposite is supported for its second hypothesis. The findings for its second hypothesis find no significance between financial leverage and EAM. The underlying assumption for its interest in EAM suggests that financial leverage positively affects EAM. In this regard, for a more effective study in its subsequent similar investigations in this field, it is recommended that researchers concern themselves with examining its effect on EAM through different life cycle phases. The underlying assumption suggests an

expansive examination within its monetary and financial for a better study in its future undertakings.

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