

AUDIT FEE, AUDITOR'S EXPERIENCE, AND EARNINGS MANAGEMENT: EVIDENCE FROM LISTED MANUFACTURING COMPANIES IN NIGERIA

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Abstract

Manipulation of financial statement has a great consequence on the economy as it could lead to the collapse of many manufacturing companies. This study examined the effects of audit fee and auditor's experience on earnings management of listed manufacturing companies in Nigeria. In order to achieve this, Ex-post facto research design was utilized with the population consisting of seventy-six (76) listed manufacturing companies. Sixty-four (64) companies were chosen as the sample size using Krejcie and Morgan (1970) sample size determination table. Descriptive and inferential statistics were employed in the analysis of the data collected from the annual reports and accounts of the chosen companies for the period of five years (2013-2017). The study found out that audit fee has a significant negative effect on the level of earnings management of listed manufacturing companies in Nigeria at 5% significant level (t-value of -0.3409 with p-value of 0.001). However, auditor's experience has no significant relationship with earnings management (t-value of -0.0021 with p-value 0.063). The study concluded that audit fee has a significant negative impact on earnings management of listed manufacturing companies in Nigeria, while auditor's experience has no significant effect. Therefore, the study recommended that management should not have a fixed remuneration for external auditors. Rather, it should be reviewed periodically and that separate audit firms should be employed to provide non-audit services to a client's firm.

Keywords: Audit fee, Audit Experience, Audit Attributes and Earnings Management

INTRODUCTION

In today's business world, stakeholders sometimes doubt the functions of auditors because of the failure to detect and report manipulations found in financial statements. This often leads to financial loss and damage of reputation of an organization as the quality of audit has been identified as topical and important (Kilgore, Harrison & Radich, 2014). Ordinarily, auditors are engaged primarily to increase confidence that financial statements fairly represent the financial position of a firm. However, earnings management may distort fair presentation and be a real concern to auditors. Moreover, auditors will become more worried when management uses questionable accounting practices (Jones 2011). An external auditor's role is important in relation to earnings management practices as a potential monitor that may reduce such practices (Libby, Rennekamp & Seyberts, 2015). Meanwhile, auditors are often seen as trying to balance the wish to satisfy their clients on one hand and to avoid litigation and regulatory consequences on the other hand, as well as being concerned about possible reputational damage.

In this century, there have been series of high profile of accounting scandals that has occurred across the world such as Rank Xerox (2000), Enron (2001), WorldCom (2002), Adelphia (2002), Global Crossing (2002), Waste Management Inc. (2002), Sunbeam (2002), American International Group (2005), Lehman Brothers (2010), Theranos Inc. (2018) in USA. In Europe, fraudulent financial scandals occurred from a number of companies such as, Ahold and Tyco International (2002), Parmalat (2003) and Adecco (2008) which left the economy with much of skepticism and a handful of globally known audit firms are available

to perform their audits on large complex institutions. All those cases were generally attributed to earnings management and clearly show the importance of audit quality in constraining accounts manipulation and accounting scandals (Demaki, 2011; Norwani, Mohamad & Chek, 2011).

In Nigeria, the presence and negative effects of earnings management on credibility of financial reporting and corporate failure has also been experienced. For example, a report of creative accounting scandal in 2006 was reported with Cadbury Plc and Akintola Williams Deloitte (AWD). Furthermore, in 2009, Nigerian banks like Afribank Nigeria Plc, Intercontinental Bank Plc, Finbank, UBA, Oceanic Bank and Skye Bank Plc. (2018) were also found in fraudulent financial reporting which also demonstrates the relationship between audit quality and accounting manipulation. However, the financial statements of African Petroleum Plc. (2010), Oando Plc. (2017), and Lever Brothers Nigeria Plc (2018) showed that the company did not fairly present their financial positions (Oyejide & Soyibo, 2001). In the above fraudulent cases, Administrative Proceedings Committee (APC) found the parties were guilty of preparation of fraudulent financial statements, outright fraud and gross negligence.

Recently, the manipulation of financial statement may be due to the impairment of audit quality through audit fee. If the management pays additional fee apart from the required audit fee, it may influence the auditor's decision by being reluctant to bring out negative report when auditing the financial statement. Also, audit experience plays an important role as it is one of the attributes of an auditor that might affect the audit quality positively and increase the chances of discovering and reporting intentional errors and misstatements in the financial statements. When they are to audit a complex firm, the lack of experience may affect auditors' decision. For instance, Frierling and Horowitz, a little-known audit firm in New York was found guilty for the Madoff investment scandal. The company had to fold up due to the lack of experience of the auditors which made the scandal the largest accounting scandal ever uncovered (Steve, 2009). It is against the above background that this study investigates the impact of audit fee and audit experience on earnings management of listed manufacturing companies in Nigeria.

LITERATURE REVIEW

Conceptual Review

Historically, audit has been in existence since the medieval period. It was primarily a check of the accounting for stocks and revenues by authorized officers of the Exchequer of England into a sophisticated professional assurance service performed by independent accountants of the interests of their clients and other users of financial information (Mahdi, Abolfazl & Ali, 2010).

The word audit comes from the Latin word *audire* meaning "to hear". An audit is a simple form developed with the organized system of accounting (Mark, 2019). The International Audit and Assurance Standard Board (IAASB), a sub-committee of the International Federation of Accountants (IFAC) described an audit as an independent examination of, and expression of opinion on the financial statements of a business enterprise by an appointed auditor in accordance with his terms of appointment and in compliance with the relevant statutory and performance requirements.

An efficient auditor must possess some certain general qualities which include integrity and objectivity; that is, an auditor should be straightforward and honest in performing the professional services (Aeisha, 2017). More so, an auditor should have professional competence and due care. A professional auditor, in agreeing to provide professional services, implies that he is competent to perform the services.

Professional competence requires a high standard of general education followed by specific education, training, examination in relevant subjects, and work experience. (Aeisha, 2017). Furthermore, professional auditors have an obligation to respect the confidentiality of information about a client's (or employer's) affairs acquired in the course of professional services. In addition, an auditor must possess professional behavior, should act in a manner consistent with the good reputation of the profession, and should refrain from any conduct that might bring discredit to the profession regarding responsibilities to clients, third parties, other members of the auditing profession and the general public (Aeisha, 2017).

An audit is an independent examination of the financial statements of an enterprise as prepared by the management of that enterprise by an appointed person called the auditor in order to express a professional opinion whether or not those financial statements show a true and fair view of the position of the enterprise as at the financial period in accordance with the relevant statutory and professional regulations (Okolie *et al.*, 2000).

Audit attributes is often made use of to test whether a company's internal controls are being followed which is synonymous with audit quality. Hope and Langli (2008) view audit quality as when the auditor carries out his work with high degree of independence and objectivity on the one hand and define auditor independence as the auditor objectivity and ability to withstand client pressure on the other hand. This pressure according to them includes monetary and non-monetary issues that make an auditor comply with management desire rather than his/her professional judgment. Audit quality in this regard comprises the ability of an auditor to detect a breach (auditor competence) and the willingness to report such a breach (auditor independence). Lowe *et al.*, (1995) assert that lack of independence in audit engagement increases the perception that they are less objective and therefore less likely to report a discovered misstatement.

Earning is one of the major items of the financial statements that attract the attention of users of financial statements. Investors, creditors, analysts, governments and other users of financial statements use earning as a basis for investment decision making, lending, and performance evaluation, etc. (Mahdavi, Hosseini & Raiesi, 2013). The main objective of firms is to maximize shareholders' value by exploiting the assets that were acquired by equity capital and debt. To raise capital, shareholders should be incentivized to invest, which only occurs if they expect positive future firm performance. It is therefore in the firm's interest to report positive earnings, positive earnings growth and to meet analysts' forecasts in order to acquire capital (Degeorge, Patel & Zackhauser, 1999). However, it is unlikely that firms are able to meet these expectations all the time, though they are unwilling to suffer stock price decreases. As a result, firms might manage earnings in order to meet shareholders' expectations and to hold equity.

According to Healy and Wahlen (2011), earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers.

Finally, managerial manipulation can influence financial statements not only through accounting rules, but also by discretionary accruals. Accrual is recording of revenue at the time sales takes place not when earned or when revenue/expenses are recorded in the absence of an actual cash transaction which is meant to deceive the investors. Earnings manipulations can be introduced through the acceleration of sales as it can be achieved through the use of price discounts and lenient credit terms with the intension of persuading more customers. By introducing price discounts, firms can accelerate their sales from the next year to the

current year. (Rowchowdhury 2006). A firm can alter the level of accruals to obtain the desired level of earnings.

Theoretical Framework

Theory underpinning this study is agency theory which was propounded by Jensen and Meckling in 1976. It analyzes the relationship between two parties: investors (shareholders or owners) and managers. It tends to address the issue of information asymmetry which leads to conflicts and dissimilar interests between the principals (shareholders) and the agent (manager) which makes managers to take opportunistic behavior of manipulating the financial statement. Agency theory posits that to prevent the managers from manipulating the accounting figures in order to mislead the stakeholders, there is need for an independent party to attest to the financial statement prepared by the management.

Empirical Review and Hypotheses Development

Chan and Sun (2014) studied the effect of audit experience on audit fees and audit quality in China. The main objective of the study was to examine the effect of audit experience on audit fee and audit quality. The study made use of secondary data using regression analysis to test the hypotheses. It was found out that experience is positively associated with audit fees and negatively associated with absolute discretionary accruals. Audit experience was proxy using the incremental effects of gender, education, engagement tenure, industry specialization and client importance.

Okolie (2014) researched on audit quality and earnings response coefficient of quoted companies in Nigeria. Audit quality was estimated using audit firm size, audit fees, auditor tenure and auditor client importance. Earnings Response Coefficients model was applied to measure unexpected earnings (UE) as the actual earnings disclosed minus a measure of investors' prior expectation of earnings scaled by the market price. It concluded that audit quality exerts negative significant impact on the earning response coefficient of quoted companies in Nigeria.

Aliyu, Musa and Zachariah (2015) studied the impact of audit quality on earnings management of listed deposit money banks in Nigeria. The correlational research design was employed on a sample of ten (10) listed deposit money banks for a period of eight (8) years (2006-2013), using secondary data. The study used the Ordinary Least Squares (OLS) regression technique of data analysis. The study found that audit quality has significant impact on the earnings management of listed deposit money banks in Nigeria during the period of the study. The study found that audit firm size and joint audit services have significant negative impact on the earnings management of listed deposit money banks in Nigeria. Similarly, it found that auditor financial dependence has significant positive impact on earnings management of listed deposit money banks in Nigeria. It was recommended that listed deposit money banks should emphasize the use of big 4 audit firm and joint audit services. More so, the Central Bank of Nigeria (CBN) should increase its surveillance in the areas of auditor remunerations.

Xiaoke, Yanyan, Lisheng, Yuping and Zhenyu (2015) researched on engagement audit partner experience and audit quality in China. It was found that a negative association exists between absolute/income-increasing abnormal accruals and the audit partner experience. In addition, it was discovered that investors do care about the experience of the engagement audit partner. The earnings response coefficient was higher for firms audited by more experienced auditors. These results were robust even after controlling audit firm characteristics. The findings were consistent with the notion that audit partner experience increases audit quality.

Nawaiseh (2016) carried out a research on whether earnings management can be influenced by audit quality on Jordanian listed firms or not. In the course of the study, secondary data was obtained from the annual report of 13 banks listed on Amman Stock Exchange (ASE) over a period of years from 2006 to 2010 and was analyzed using regression analysis. The study revealed that there is a negative relationship between audit fee and discretionary earnings management; that is audit fee helps to reduce manipulation of accounting figures.

Steven and Mussie (2016) investigated the relationship between audit fees and earnings quality of financial institutions. The objective of the study was to examine the relation of audit fees and earnings quality. Literature on auditing has proposed that audit fees are a proxy for audit quality. Auditors who charge higher fees might provide a higher quality audit, either related to a fee premium for specialization or as compensation for providing a higher level of effort. A contrary view might be taken; auditors who charge higher fees might be economically reliant on those fees and allow clients more latitude in reporting earnings. Overall, the findings showed that bank firms that pay relatively higher audit fees have lower earnings quality in terms of discretionary accruals.

Ashtiani, Oskou and Takor (2016) studied audit quality and earning management in Tehran stock exchange listed companies. The objective was to examine the effect of audit quality and earnings management. In the study, the relationship was examined by measuring variables such as audit fees and auditor's experience. Unit root test, Jargva test, heteroscedasticity was used. The tool used to test the hypothesis was regression analysis. The results showed there were negative relationships between auditor's experience and discretionary accruals items. Audit fee had no relationship with abnormal discretionary accrual. Finally, it was found that audit quality could affect earning management.

Tareq and Abdullah (2017) established a content analysis of the impact of audit quality on the earnings management of manufacturing firms listed in Amman stock exchange. The study aimed to investigate the audit quality on the earnings management of industrial companies listed on the Amman Stock Exchange (ASE). The study used the modified Jones model (1991) by Dechow, Saloan and Sweeny, (1995) for measuring the discretionary accruals as proxy of earnings Management. The study applied audit fees and audit firm size as proxies in measuring audit quality. A sample of (50) firms was selected, and data covering the period 2011-2015 was collected from these companies where (225) observations were used in the analysis. The study found that there was no significant relationship between audit fees and earnings management, but there was a significant association between big 4 audit firms and earnings management which approves that audit quality has a significant effect in interpreting earnings management.

Eriabie and Dabor (2017) researched audit quality and earnings management in quoted Nigerian banks with the objective to find out the impact of audit quality on earnings management. The study used a sample of all eighteen banks quoted on the stock exchange as at December 2010. Data was gathered for the period 2005 to 2010. The cross-sectional year by year regression analysis was performed. Audit quality was measured by using audit fees and auditor change, and abnormal loan loss provision was used to measure earnings management. Though the result was mixed, however, based on the frequency of results for the period of the study, both audit fee and auditor change were positively related to abnormal loan loss provision. It was suggested that high audit fee and change in auditor tenure will aggravate earnings management.

The findings on the impact of audit quality on earnings management revealed variety of results. On the institutional gap, most previous studies on audit quality and earnings management focused on the banking sector and insurance firms (Ilaboye *et al.*, 2014; Aliyu *et al.*, 2015 and Eriabie *et al.*, 2017), while a few

studies exist on manufacturing companies studied as single sector. In addition, to the best of the researchers' knowledge and to the extent of the literature searched, no researcher had considered data between 2013 and 2017. Conceptually, due to scanty literature available on the investigation of audit quality and earnings management, this study used audit experience as a proxy in determining audit quality on earnings management in Nigeria. Therefore, this research fills the identified gap. Following the submission of previous researchers on the relationship between audit fees, auditor's experience and earnings management, there exist mixed results as some of the researchers found a positive relationship while others reported a negative relationship. Based on the foregoing, the study developed the following null hypotheses:

- H₀₁*: Audit fee has no significant impact on the earnings management of listed manufacturing companies in Nigeria.
- H₀₂*: There is no significant impact between auditor's experience and earnings management of listed manufacturing companies in Nigeria.

METHODOLOGY

Ex-post facto research design was utilized to examine the relationship between audit attributes and earnings management of listed manufacturing companies in Nigeria. Ex-post facto research design was used because it deals with the data that are already in existence and which can neither be manipulated nor controlled by the researcher. The population of the study consists of all the one hundred and eighty-four (184) companies listed on the Nigerian Stock Exchange (NSE) as at 31st December 2017, while the target population is made up of all the seventy-six (76) listed manufacturing firms on the Nigeria Stock Exchange.

The sample size used in the study is sixty-four (64) listed manufacturing firms based on the Krejcie and Morgan (1970) sample table. With the help of stratified sampling method, data were extracted from annual reports and accounts of fifty-five (55) companies covering a period of five (5) years ranging from 2013 to 2017 as nine (9) companies were excluded due to the unavailability of data.

Preliminary tests such as normality test, multicollinearity test, heteroskedacity test were employed in order to know the best inferential statistics to be used. The study employed panel regression method to analyze the data and the techniques of estimation was random effect model with Ordinary Least Square (OLS) regression analysis of the secondary data collected from the annual financial reports as panel regression analysis combines both cross-sectional data and time series data.

The proxy used for independent variable (audit quality) are audit fee and auditor's experience which was measured with natural log total audit fees paid by a company and age of the audit firm that audited the financial statement. The proxy for dependent variable was discretionary accrual which was measured by modified Jones model. To achieve the objectives of the study, the model of Tareq and Abdullah (2017) was adopted and modified as presented below:

$$EM_{it} = \alpha + \beta_1 \text{Log A. } F_{it} + \beta_2 AE_{it} + \varepsilon_{it} \dots \dots \dots (1)$$

The abbreviations of the terms in the model are as follows:

EM_{it} = Earnings Management of firm i in year t

α = Constant term

$\text{Log } A. F_{i t}$ = Log of Audit Fee of firm i in year t

$AE_{i t}$ = Auditors Experience of firm i in year t

β_{1-2} = Slope value of independent variable

$\varepsilon_{i t}$ = error term

***a priori* expectation**

The *a priori* expectation of the study is that β_1 and $\beta_2 > 0$

RESULTS AND DISCUSSION

Preliminary Analyses

Table 1 Descriptive Statistics

| Variables | Mean | Standard deviation | Minimum Value | Maximum Value | Observation |
|-----------|---------|--------------------|---------------|---------------|-------------|
| Accrual | 0.4334 | 0.4247 | -1.6 | 4.88 | 275 |
| AF | 7.1770 | 0.6778 | 6 | 9 | 275 |
| AE | 46.1460 | 21.3092 | 7 | 67 | 275 |

Source: Authors' Computation (2020).

From table 4.1, discretionary accruals as a proxy for earnings management had a mean value of 0.4334 (in millions of naira), with minimum and maximum value of -1.6 and 4.88 respectively and a standard deviation of 0.4247 which is low and below the mean implies that data is widely dispersed from the mean value in the sampled firms.

Also, Audit fee (AF) has an average value of 7.1770 (in millions of naira), with the minimum and maximum of 6 and 9 respectively. The standard deviation of 0.6778 which is low and below the mean implies that data is widely dispersed from the mean value in the sampled firms. Similarly, auditor's experience (AE) had a mean of 46.1460 with minimum and maximum 7 and 67 respectively, and a standard deviation of 21.3092 which is lower than the mean, this suggests that the auditor's experience investigated exhibits a considerable clustering around the mean.

Table 2 Normality Distribution Table

| Variables | Accrual | AF | AE |
|-------------|----------|--------|--------|
| Skewness | 2.057 | 0.454 | -0.390 |
| Kurtosis | 1.910 | 0.068 | -1.400 |
| Jarque-Bera | 21793.92 | 194.61 | 270.06 |
| Probability | 0.0000 | 0.0000 | 0.0000 |

Source: Auditors' Computation (2020)

The skewness and Kurtosis test in table 4.2 below shows the extent of departure from normality in the series. The recommended skewness and kurtosis value for a normal distribution in a series is between 0 and 3 respectively. (Wooldridge, 2000). The rule of thumb is that any value of skewness and kurtosis that falls outside ± 3 has normality distribution problem (Peck & Order, 2015). Table 4.2 showed the Kurtosis of all the variables (AF, AE) which did not exceed three, an indication of thin-tailed (playkurtic) distribution. However, Skewness for AF showed it was positively skewed, while AE was negatively skewed.

Table 3 Test for Multicollinearity

| Variable | VIF | (1/VIF) |
|----------|------|----------|
| AF | 1.15 | 0.869565 |
| AE | 1.04 | 0.961538 |

Source: Authors' Computation, 2020

The Variance Inflation Factor (VIF) test was used to test for multicollinearity in the variables used in the models. The multicollinearity test shows the relationship between two or more independent variables. The presence of multicollinearity among the exogenous variables tend to increase the size of standard errors which often leads to confusing and misleading results as it distorts the estimates of regression coefficients as well as their statistical significance test (Hair, Black, Babin & Anderson, 2010).

From the Table 4.3, the Variance Inflation Factor (VIF) indicates the impact of other independent variables on the standard error of the regression coefficient. The result showed that there is absence of multicollinearity problem because it was revealed by the VIF as all values were less than the threshold of 10, and the average VIF also exceeds the value of 0.05. This follows the assumptions that there exists absence of multicollinearity problem when VIF is less than 10 (Studenmund, 2000) as multicollinearity problem arises when VIF is greater than 10 (Woodridge, 2004). The table for multicollinearity is shown in the Table 4.3 below.

Table 4 Test for Heteroscedasticity

| Variable | <i>Chi</i> ² | P-value |
|----------|-------------------------|---------|
| Model | 18.35 | 0.7600 |

Source: Authors' Computation, 2020

Table 4.4 shows the constant residual error test (heteroscedasticity test). The study employed the Breusch-Pagan-Godfrey. The result in Table 4.4 revealed the absence of heteroscedasticity in all models of the study. The result shows that the p-value (0.7600) is greater than 5% significant level, the null hypothesis was rejected. Therefore, this model does not face any heteroscedasticity problem.

Table 5 Hausman Test

| Variable | <i>Chi</i> ² | P-value |
|----------|-------------------------|---------|
| Model | 5.71 | 0.0603 |

Source: Authors' Computation, 2020

The Hausman test is a test for model specification. In panel data analysis, the Hausman test helps to choose between fixed effect model or a random effect model with the level of 5% significant. If less than 5%, the researcher rejects the null hypothesis and accepts the alternative hypothesis, while if it is greater than 5% the researcher accepts the null hypothesis and rejects the alternative hypothesis. The null hypothesis means that the preferred model is random effect while the alternative hypothesis means that the model is fixed effect.

From the result of Hausman test shown in table 4.5, the p-value (0.0603) is greater than 5%, therefore, the null hypothesis will be accepted which means that the random effect model is most appropriate.

Regression Analysis Result

Table 6 Random-Effects Regression Table

| Variables | Coefficient | Std error | t-value | p-value |
|--------------------------------|-------------|-----------|---------|---------|
| AF | -0.3409 | 0.0539 | -6.33 | 0.001 |
| AE | -0.0021 | 0.0015 | -1.40 | 0.063 |
| Cons | -0.5337 | 0.1788 | -2.98 | 0.000 |
| F-stat | 5.81 | | | 0.0032 |
| <i>R</i> ² | 0.4095 | | | |
| Adjusted <i>R</i> ² | 0.321 | | | |

() : denotes P-value, while the value denotes Coefficients

Source: Authors' Computation, (2020).

The result in table 4.6 shows the linear relationship between audit fees, auditor's experience and earnings management (proxied by discretionary accrual) of the listed manufacturing firms in Nigeria for the periods of 2013 to 2017 with the use of panel regression analysis. Based on the result of Hausman test, the test of hypotheses was based on random effect model. The table 4.6 shows that the model is fitted as evidenced by the F-Statistics of 5.81 which is significant at 1% level of significance as indicated by p-value of 0.0032. The results also reveal that the independent variables of the model explained about 41% of the variations in the dependent variable of listed manufacturing companies in Nigeria, from the coefficient of determinations (R^2 value of 0.4095) while the remaining 59% are caused by other independent variable not included in the model. Also, the adjusted R^2 depicts 32.1% variation explained by the independent variable used in the study.

Restatement and Test of Hypotheses

Restatement and Test of Hypothesis one

H_{01} : Audit fee has no significant impact on the earnings management of the listed manufacturing companies in Nigeria.

The result in the Table 4.6 indicate that audit fee (AF) has a negative effect on earnings management of listed manufacturing companies in Nigeria as indicated by the coefficient of -0.3409 with the p-value (0.001) at 5% level of significant which shows that the p-value is less than the 5% level of significant. This leads to the rejection of null hypothesis which states that auditor fee has no significant impact on the earnings management of the listed manufacturing companies in Nigeria and then accepts the alternative hypothesis which also states that auditor financial dependence has significant impact on the earnings management of the listed manufacturing companies in Nigeria. This also implies that every N1 (1 Naira) increase in audit fee will lead to 34% reductions in earnings manipulation practice of the manufacturing firms in Nigeria.

Restatement and Test of Hypothesis two

H_{02} : There is no significant relationship between auditor's experience and earnings management of the listed manufacturing companies in Nigeria.

The result of the random effect model regression in Table 4.6 above shows that auditor experience has an insignificant negative influence on earnings management among the listed manufacturing companies in Nigeria. This was indicated by the coefficient of -0.0021 with a p-value of 0.063 at 5% level of significant, which implies that the null hypothesis which states that there is no significant relationship between auditor experience and earnings management of the listed manufacturing companies in Nigeria will be accepted due to the fact that the p-value is greater than the 5% level of significant and then the alternative hypothesis which states that there is significant relationship between auditor experience and earnings management of the listed manufacturing companies in Nigeria will be rejected. This implies that the auditors age of establishment does not affect the level of earnings management of the listed manufacturing companies in Nigeria.

Discussion of Findings

From the empirical test and the result in Table 4.6, the study revealed that there is significant negative relationship between audit fee and earnings management of listed manufacturing companies in Nigeria as indicated by coefficient (-0.3409) with p-value (0.001). This implies that as a company increases the auditor's remuneration by N1 (1 Naira), the earnings management reduces by 34%. This conforms to the argument of the agency theory which stipulates that auditors should not be financially dependent on the fees (audit and non-audit service fee) from any client. Auditors should only rely on the monitoring fee, if not, it makes the auditor less likely to bow to pressure from clients in the event of discovering accounting irregularities. The result reveals that when auditors are adequately remunerated, they would use quality and more experienced staff, employ high technology and increase the number of hours of audit work since they know they will still have better profit at the end of the audit assignment, thereby, leading to higher chances of detecting and reporting earnings management. The result also implies that lower audit fee paid to the auditors increases the chances to which managers engage in earnings management due to low audit services rendered. This corroborates the researchers' *a-priori* expectation, the researcher is expecting audit fee to reduce the level of earnings manipulation practice of listed manufacturing companies in Nigeria. Also, the result also goes in line with the findings of Okolie, 2015; Nawaiseh 2016 and Steven *et al.*, 2016 as they found out that audit fee has a negative influence on earnings management of listed manufacturing companies. In contrast, Eriable *et al.*, (2015) and Aliyu *et al.*, (2015) found that audit fee aggregate earnings management.

Furthermore, the Table 4.6 revealed an insignificant negative effect between auditors' experience and earnings management practice, which means auditor's experience has no relationship with the level of earnings management practice in the manufacturing companies. However, this is not in line with the *a-priori* expectation which is auditor experience is expected to reduce the level of earnings management practice. Some prior studies such as Xiaoke *et al.*, (2014); Herda and Martins (2016) also found no significant relationship between auditor experience and earnings management of manufacturing companies in Nigeria. In addition, previous researches such as Cahan *et al.*, (2014); Ashiani *et al.*, (2016) contradict the result of this study where they reveal that auditor experience has a significant negative effect on earnings management of a manufacturing company, that is, the more the age of an audit firm the less the chance of engaging in earnings management practice.

CONCLUSION AND RECOMMENDATIONS

Following the empirical results from the analyses, the study concluded that audit fee has a significant negative influence on earnings management practice which means the more audit fee is increased, the more the chance of discovering earnings management practice is reduced by the management. This assures the stakeholders that the financial statements can be relied upon due to the fact that they are free from manipulation of figures. Finally, auditor's experience has no significant relationship with earnings management. That is the age of an audit firm does not have any relationship with earnings management.

Based on the findings, the study recommends that for a financial statement to be free from financial misrepresentation, management should not have a fixed remuneration for external auditors; it should be reviewed continually. In addition, it is also recommended that separate audit firms should be employed to provide non-audit services to a client's firm and that audit firms should not be engaged in statutory audit of same client in the future.

The study was confronted with the challenge of lack of availability of data which led to dropping of some companies from the study because of the omission of some years in the data base. The lack of literature on auditor's experience on earnings management in Nigeria made the study to focus on literature relating to auditor's experience in foreign countries for the study. However, in spite of these limitations, the objectives of the study were actualized and the findings of the study are useful for future research.

In order to improve on the study based on the limitation and delimitations identified in the study, the findings suggest that future research could consider other audit quality proxies rather than those used in this study, that might have a greater impact on audit quality and consequently on earnings management like auditor's opinion in its audit report. Audit quality proxies used in this research explain a small percentage of the variations in earnings management. Also considering the sample size used in the study, the sample size could therefore be increased, where both manufacturing and non-manufacturing companies could be captured.

Furthermore, the study made use of modified Jones model to calculate discretionary accrual and other researchers can make use of other models. Lastly, further studies should consider making use of primary data such as questionnaires and interviews as research methods.

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