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AUDIT QUALITY AND EARNINGS MANAGEMENT IN QUOTED FINANCIAL COMPANIES IN NIGERIA

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Abstract

The objective of this study is to find out the extent to which audit quality affects earnings management among financial companies in Nigeria. The ex-post facto research design was adopted for this research based on the fact that the study relies on historic accounting data obtained from financial statements of the sampled companies. A sample of 13 commercial banks and 37 insurance companies making a total of 50 quoted financial companies were employed for the study. The random sampling technique was used for selecting these companies. The period under study is 2013-2017. Audit quality as the independent variable is measured as: length of audit tenure; audit firm size; audit committee independence; audit fee. Earnings management was measured first by estimating total accruals and then the Jones Modified Model was used to get the discretionary accruals. . Descriptive statistics, correlation matrix, ordinary least square regression using Stata 13 software were applied in the study. It was discovered that length of audit tenure, audit committee independence and audit fee were positively and significantly related to earnings management. It was therefore recommended that length of audit tenure should be at most 3 years and a client audit fee should not exceed 5% of total audit fee of an audit firm.

Keywords: Audit Quality, Earnings Management, Financial Companies, Nigeria
JEL Classifications:

Introduction

The extent to which earnings are manipulated has long been of interest to analysts, legislators, researchers, and other investment professionals. Finding earnings manipulation is no small task, but despite the difficulties, the body of academic literature on the topic is growing. According to Teoh, Welch and Wong (1998) companies are expected to manage earnings prior to its public offering and when it is in financial distress. According to Healy (1985), if a manager's compensation is strongly dependent on company's profitability, there might be suspicion about the quality of financial results, especially if they seem to be extremely favorable. When there are some doubts about the reliability of a company's qualitative financial disclosure, we may turn our attention to the auditor's report. In theory, the auditing process is supposed to serve as a monitoring device that reduces management propensity to manipulate reported earnings, as well as to detect earnings manipulation and misstatements (Amat, Oscar & Patya, 2014).

Enron Corporation is the most popular case of accounting disclosure failure in the world. Nigeria as a country has had its own share of fraudulent accounting disclosures with the problems in Cadbury Nigeria Plc. in 2006; Afribank Nigeria Plc and Intercontinental Bank Plc. faced problem of financial reporting manipulation in 2009. The case of Skye bank of Nigeria is a clear case of earnings manipulation such that despite the auditor's unqualified opinion, the Central bank of Nigeria declared that the bank was facing liquidity problem to the extent that the board of Syke bank was dissolved and asset management unit of CBN had to take over the management of the bank. Many studies have been done globally on earnings management such as Onalo, Mohd and Ahmad (2013) in Nigeria and Malaysia; Masoyi, Abubakar and Peter (2015) in Nigeria; Dechow, Sloan and

Sweeney (1996) in Pennyslyvia; Barbadillo and Aguilar (2008) in Spain. Their studies presented different impact of audit quality on earnings management.

The Financial industry in Nigeria has remained one of the hub of the economy because of its huge capital base and lending capacity, , in addition, aside the federal government, the financial sector has remained the highest employer of labor and therefore needs transparent, reliable and efficient audit to curb earnings manipulation. This is the motivating factor of this research as many studies done in Nigeria were carried out on banking sector without considering the exposure risk covered by the insurance companies. Therefore, based on the research of other scholars, this article analyses which and how factors of audit quality affect earnings management according to data set from the banking and insurance industry in Nigeria. The following research hypothesis will be tested:

H_1: There is no significant relationship between length of audit tenure and earnings management of quoted financial companies in Nigeria

H_2: There is no significant relationship between audit firm size and earnings management of quoted financial companies in Nigeria

H_3: There is no significant relationship between audit committee independence and earnings management of quoted financial companies in Nigeria

H_4: There is no significant relationship between audit fee and earnings management of quoted financial companies in Nigeria

The remaining part of this research is structured as follows: review of related literature; research methods; data presentation and results; conclusion and recommendations.

Literature Review

Earnings management has remained a widely researched area in accounting for the last two decades. Earnings management is usually regarded as a negative factor affecting the quality of financial report. In the accounting literature a variety of terms are synonymous with earnings management: creative accounting, cooking the books, earnings manipulation, accounts manipulation, income smoothing etc. Apart from using accounting measures to manipulate earnings, managers also resort to real activities or transactions. While indicating that managers manipulate sales, overproduce inventory and reduce discretionary expenses to avoid incurring losses or missing analyst forecasts, Mande, File and Kwak (2000); Bens, Nagar and Skinner (2003); Pozza, Markarian and Principe (2007) conclude that firms also manipulate research and development expenditures to smooth reported earnings or avoid earnings per share dilution.

According to Dechow and Skinner (2000), one of the ways of managing earnings is through total accruals. Total accruals is closely related to earnings management, it is worthy of note that not all the portion of total accruals is related to earnings management. Total accrual is divided into two portions. The first portion is non-discretionary accrual, which is also known as normal accrual, which is based on the management estimation according to the economic performance of the companies (Rahman & Ali, 2006). While the other portion of total accrual according to Amman et al., (2006) is discretionary accruals which is that part of the total accruals that has been managed by the management, within the constraint of accounting principles and policies. The studies of Becker, Defond, Jiambalvo and Subramanyam (1998); Iskandar and Hassan (2005); Rahman and Ali (2006) are some examples of studies that have used discretionary accruals as a proxy for earnings management. In this study also we employ discretionary accrual as one of the models for earnings management.

Audit Quality

The International Audit and Assurance Standard Board (IAASB), defined 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. However, Section 359(3) of the Companies and Allied Matters Act (CAMA), 1990.Provided that, the auditor has a responsibility to issue a report to the members of the audit committee which must be statutorily set up by the company management

Wallace (1980) describes audit quality as being synonymous with auditor independence and as a measure of the auditor's ability to reduce noise and improve fitness in accounting data. An unqualified audit opinion suggests that a firm's financial accounting practices are such that investors can rely on the firm's financial statements to determine its economic position. DeAngelo (1981) defined audit quality as "the joint probability that an auditor will both discover and report a breach in the client's accounting system. The discovery of a misstatement measures quality in terms of auditor's knowledge and ability, while reporting the misstatement depends on the auditor's incentives to disclose"

Length of Audit Tenure

Auditor Tenure is defined in this study as the length of the auditor-client relationship. A rather too long association between the auditor and his client may constitute a threat to independence as personal ties and familiarity may develop between the parties, which may lead to less vigilance on the part of the auditor and even to an obliging attitude of the latter towards the top managers of the company. Aside from this threat to independence, the audit engagement may become routine over time, and if so, the auditor will devote less effort to identifying the weaknesses of internal control and risk sources. According to Adeniyi and Mieseigha (2013) defines length of audit tenure in terms of number of years spent as auditor

Audit Firm Size

Prior studies (DeAngelo, 1981; Palmrose, 1988; Deis & Giroux, 1992; Becker et al, 1998; Francis & Krishnan, 1999; Krishnan & Schauer, 2000; Kim, Chung & Firth, 2003 and Krishnan, 2003) employed size of audit firm to measure audit quality. Audit firm size signifies various types of qualities. It is assumed that size (Big 4 or Big 5, Big 6 … Big 8, etc.) of audit firms suggest reputation, international affiliation, and integrity which are reflected in the audit report on the accounts of their clients. This reflects the Limperg Institutes' (1985) theory of inspired confidence. It has severally been argued that the large audit firms significantly determine the disclosure of policies of the companies they audit.

Audit Committee Independence

Audit Independence may be defined as an auditor's unbiased mental attitude in making decisions throughout the audit and financial reporting process. Independence refers to the quality of being free from influence, persuasion or bias, the absence of which will greatly impair the value of the audit service and the audit report (Sweeney, 1994). An auditor's lack of independence increases the possibility of being perceived as not being objective. This means that the auditor will not likely report a discovered breach (Deangelo, 1981). The role of the audit committee is certifying the quality of financial reporting, and as such contributes minimize earnings manipulations. Corporate governance code 2011 imposes obligations on a fully independent audit committee to be in charge of observing the financial reports that the audit committee has prepared. The committee can conduct informal and private meetings without the presence of the company's management to encourage the external auditor to be transparent on material issues at an early stage. The purpose of establishing the audit committee is to ensure continuous communication between external auditors and the board, where the committee meets regularly with the auditors to review financial statements and audit processes and internal accounting systems and control.

Audit Fees

Audit fee may be defined as the amount an auditor charges for an audit assignment done. That is, the amount the auditor charges in other to express an opinion as to the true and fairness of the financial statement. Audit fees are the fees paid to the auditors that reflect the cost of the effort conducted by the public editors and litigation risks. Iskak (1999) in Suharli and Nurlaelah, (2008) defined audit fee as the fee charged by a public accountant to the client for the financial audit services. This definition is in accordance with the opinion of the Securities and Exchange Commission, Yuniarti, (2011). The amount of audit fee can vary depending on the complexity of services, assignment risk, and the cost structure of Public Accountants Firm, the required level of expertise, and other professional considerations.

It is added by Jensen and Meckling (1976) that these contradictions are because of the inability of the shareholders to monitor the actions and the performance of the management. Moreover, Leuz et al (2003) state that the pursuit of self-interest by the managers, increases costs to the firm, like the costs of forming a contract, loss due to decisions being taken by the agents and the costs of observing and controlling the actions of the agents. Therefore the effects of such behavior are ultimately reflected in the company's' earnings. Earnings management practice might be an indicator of the existence of an agency problem. Ownership and management are normally separated in modern corporations as shareholders are not always involved in the management of their firms. And this sets the basis for the agency problem (Habbash, 2010). To reduce these agency problems therefore efforts must be made to ensure audit quality through an independent third party,

Theoretical Framework

Agency theory of earnings management

Agency theory is defined by Jensen and Meckling (1976) as the theory that addresses the relationship where in the principal engages another person called the agent to perform some service on their behalf which involves delegating some decision making authority to the agent. As explained by Eisenhardt (1989) Agency problem occurs when the objectives of the principal and agent contradict and it is difficult and costly for the principal to detect what the agent is actually doing. Also, due to this separation of ownership, managers usually focus on their own personal gains and interests and forget about the shareholder's interest which ultimately leads to the agency problem as well as incurring costs that the owners bare at the end, and this is referred to as agency cost.

external auditors. The external auditors are expected to reduce the occurrence of earnings manipulation by giving an independent opinion of the financial statement of the company or firm. This research work is hinged on this agency theory of earnings management

Empirical Literature

Amake and Okafor (2012) worked on auditors independence, auditors' tenure and audit firm size in Nigeria. They empirically examine the relationship between auditor's tenure and earnings management. Using binary logistic regression with a sample size of fifty (50) audit firms in Edo and Lagos States in Nigeria, they concluded that auditor's tenure does not compromise the independence of the auditors and recommended that the length of audit tenure should not exceed 5 years.

Nuraddeen and Hasnah (2015) examined the impact of audit committee and audit quality on preventing earnings management in the Pre- and Post- Nigerian Corporate Governance Code 2011. They employed multiple regressions as a tool to measure the relationship between audit tenure, audit quality and discretionary accruals in both periods. The study also employs T-test for independent sample to compare the results of the pre- and post- code 2011 periods. They used modified Jones by Dechow, Sloan and Sweeney (1995) to measure discretionary accruals and Auditor's tenure is measured as one if the auditor's tenure is greater than the sample average otherwise zero they concluded that there is a significant negative relationship between auditor's tenure and discretionary accruals in the pre- and post-code 2011.

Some audit firms have grown into large international audit firms, frequently called the big-four audit firms. These audit firms are linked world-wide. On the other hand, local audit firms, ranging from one to several partners still exist. Because of the different natures of local/small and large audit firms, the size of audit firms is perceived to be a factor that could affect earnings management (Shockley, 1981). The larger the audit firm, the smaller the contributions of certain clients' fees, therefore the larger audit firms are less dependent on individual clients (Mautz & Sharaf, 1961). This perception has led to several empirical researches. On the size of audit firm issue, previous examined studies have shown a conclusion that the larger the audit firm, the more independent their auditors (Shockley, 1981; Amernic & Aranya, 1981; Supriyono, 1988; Lindsay, 1989; Kleinman et al, 1998). In addition, Zuo and Guan (2014) examined the association of audit firm size and industry specialization on earnings management in China from 2008 to 2011 using ordinary least square regression analysis The results show that audit firm size is significantly and negatively related to earnings management, especially for firms with income-increasing abnormal accruals**.**

Husam, Rana and Abdullahi (2013) considered the factors affecting the quality of auditing using Jordan Commercial Banks they concluded that in cases where audit committee is independent it enhances the independence of external auditor, and provides that audit process is free from management influence. Park & Shin (2003) in Board composition and earnings management in Canada using ordinary least square to determine the relationship between audit committee independence and earnings management using modified jones model abnormal accrual as proxy for earnings management. They found a significant relationship between the audit committee independence and earning management. Fodio, Ibikunle and Oba (2013) in their study of corporate governance mechanisms and reported earnings quality in Nigeria insurance companies found a positive association between earnings management and audit committee independence.

The fees paid for audit services can be used as a proxy for the quality of the services provided by audit firms (Hallak & Silva, 2012). One of the ways to measure audit quality is permissiveness of the auditor with respect to earnings management. Regarding fees, researchers have been curious for some time regarding the effects of audit fees on the quality of the services rendered. The more independent audit firms tend to compete to offer personalized services that add value to the client, the more they can charge higher fees for better quality services (Francis, 1984). In short, audit fees can be used as a measure of the quality of the service hence, it is not enough for the auditor to have expertise; it must also be independent (Deangelos, 1981; Watts & Zimmerman, 1986). However, higher fees do not necessarily mean stronger scrutiny from the auditor, and hence better audit quality. While some studies have indicated that higher fees translate into stronger commitment and more competent services and that, on the other hand, lower fees mean poorer quality; other researchers have argued that higher fees can cause the auditor to lose independence, resulting in more biased audit findings (Eshleman & Guo, 2013). Evidence in this respect was found by (Kinney & Libby, 2002), indicating that higher (abnormal) audit fees could denote illicit acts by the company and inflated future earnings. Also, Okolie, Izedonmi and Enofe (2013) worked on Audit Quality and Accrual – Based Earnings Management of Quoted Companies in Nigeria with a sample of 57 quoted companies in Nigeria between 2006 and 2011. Using ordinary least square estimation technique with discretionary accrual as proxy for earnings management, they concluded a positive significant association between audit fee and the level of discretionary accruals.

Methodology

The research design adopted for this research is the *ex-post facto* research design. The adoption of the *ex-post facto* research design is hinged on the fact that the study relies on historic accounting data obtained from financial statements of the sampled companies. The panel data for the study were collected from secondary sources. These secondary sources include: Audited Annual Reports of the relevant listed firms, Nigerian Stock Exchange (NSE) Fact Book 2017.

A sample of 13 commercial banks and 37 insurance companies making a total of 50 quoted financial companies were employed for the study. The random sampling technique was used for selecting these companies. Furthermore, the availability of complete data in relation to the sampled companies for the period under consideration is another basis for selection. The method of data collection for this study involved handpicking the relevant data (figures) corresponding to the variables of interest of the study. This data set is then keyed into Microsoft excel data sheet for further computation and compilation. The entire dataset were collected from annual financial statements and the Nigerian stock exchange fact book 2017.

Operationalization of variables

EM = In measuring earnings management, this study employs Discretionary accrual and the modified Jones model is used to measure the discretionary accrual. ***Discretionary accrual is*** computed as Cash flow from operations minus profit after tax divided by log of total asset. This is the dependent variable.

AUDTE = length of audit tenure as put forward by Adeniyi and Meiseigha (2013) who measured number of years spent as firms auditor if greater than 3 we assign 1 otherwise we assign 0. The apriori sign is $\beta_1<0$

AUDFS = Audit firm size as measured by Krishnan and Schauer, (2000), Behn et al. (2008), Jueming et al (2014) we assign 1 if financial statement is audited by any of the Big 4, otherwise 0. Apriori sign is $\beta_2>0$

AUCID= Audit committee independence following Omalo et al (2014) Audit Committee Independence is computed as the ratio of non-directors in audit committee to audit committee members size. Apriori sign $\beta_3<0$

AUDFE= Audit fees as measured by Cheong et al (2015) as Natural log of audit fees paid to an audit firm in a year. Apriori sign $\beta_5<0$

Method of Data Analysis

The panel data econometric techniques to be adopted in this study are the balanced panel data regression techniques. The goodness of fit of the model will be tested using the coefficient of determination (R-squared). Descriptive statistics, correlation matrix, ordinary least square regression using Stata 13 software.

Model Specification

In specifying our linear regression model for the effects on earnings management, our major variables are audit tenure (AUDTE), audit firm size (AUDFS), audit committee independence (AUCID) and Audit fees (AUDFE). Also included in the model are cross-section (banking and insurance companies) and years (2013–2017) in the panel regression. The panel multiple regression with an error term (µi) is expressed in equation:

$$\mathbf{EM_{it} = \beta_0 + \beta_1 AUDTE + \beta_2 AUDFS + \beta_3 AUCID + \beta 4AUDFE + \mu i} \text{ .... } \mathbf{(1)}$$

We also use the following models to test our dependent variable.

Audit Quality Vs Discretionary Accrual

To investigate earnings management, this study first estimate total accruals and subsequently modifies and employs the Jones modified model to investigate discretionary accruals. Thus, to estimate these variables, the following formula applies

$$\mathbf{DAC_{it} = f\,(AUDTE + AUDFS + AUCID + AUDFE)} \text{ .... } \mathbf{(2)}$$

However, the econometric form of the above is represented as:

$$\mathbf{DACit = \beta_0 + \beta_1 AUDTEit + \beta_2 AUDFS + \beta_3 AUCID + \beta_4 AUDFE + \mu i} \text{ .... } \mathbf{(3)}$$

Where:

β_0 = Constant/Model Intercept
DAC= Discretionary Accrual
AUDTE = Audit Tenure
AUDFS = Audit Firm Size
AUCID = Audit Committee Independence`
AUDFE = Audit Fees
µi = error term

Data Presentation and Results

Below is the descriptive statistics of the 13 quoted banks and 37 licensed insurance companies on earnings management over a five year period (2013 - 2017).

Table 1: Descriptive Statistics

	AUDTE	AUDFS	AUCID	AUDFE	MODIFIED JONES
Mean	0.31	0.63	0.68	170026	2.5771676
Minimum	1.00	1.00	1.00	14000	-2.90E+09
Maximum	5.00	1.00	1.00	680000	7.70E+10
Std. Dev.	0.46	0.48	0.46	874431.8	1.18E+10
Jarque-Bera	27.94	25.68	27.5	15423.39	3250.081
Probability	0.00	0.00	0.00	0.00	0.00
Observations	250	250	250	250	250

Source: Author (2018)

Table 1 shows the mean (average) for each of the variable, the minimum and maximum values and their standard deviation (degree of dispersion) and Jarque-Bera (JB) statistics (normality test). The results provided some insight into the nature of the selected banks and insurance companies that was used in the study. The Jarque-Bera (JB) that test the normality or existence of outliers shows that the values are normally distributed at 1% level of significance. Therefore, the overall descriptive statistics revealed that there is no sample selection bias or outlier in the data that would impair the generalization from this study.

Correlation Analysis

In examining the relationship among the variables, we employed the correlation coefficients (correlation matrix) and the result is presented in Table 2.

Table 2: Matrix Of Correlation Coeffients

	AUDTE	AUDFS	AUCID	AUDFE	MODIFIEDJON
AUDTE	1.00				
AUDFS	-0.10	1.00			
AUCID	0.06	0.10	1.00		
AUDFE	0.13	0.07	0.10	1.00	
MODIFIED JONES	-0.03	-0.01	0.08	-0.03	0.00

Source: Author (2018)

In Table 2, we focus on the correlation matrix of modified jones (MODIFIEDJON) model and the four independent variables. The result shows that audit tenure (AUDTE) was weakly and negatively associated with audit firm size (-0.10). This implies that audit firm size is positively associated with audit fee (0.07). In the case of audit committee independence (AUCID/AUDTE=0.06/AUDFS=0.10) we observed audit committee independence was positive and weakly associated with audit tenure at 0.06 and audit firm size at 0.10. Fourthly, (MODIFIEDJONAUDTE = -0.03, AUDFS= -0.01 AUDFE = -0.03). This implies that modified jones model of discretionary accrual is negatively and weakly associated with audit tenure and also negatively and weakly associated with audit firm size and audit fee.

Regression Results

However, to examine the impact relationships between the dependent variable of earnings management and audit quality and to also test our formulated hypotheses, we used a panel data regression analysis since the data had both time series (2013 to 2017) and cross-sectional properties (50 companies). The panel data regression results are presented and discussed below.

Table 3: Panel Regression Results

	Aprior Sign	Modified Jones Model (OLS Pooled)	Modified Jones Model (Fixed Effect)	Modified Jones Model (Random Effect)
C		-1.79 (0.45) [0.06]***	-1.79 (-0.15) [0.08]***	-2.8 (-2.5) [0.09]***
AUDTE	-	-3.81 (-0.45) [0.08]***	2.32 (0.36) [0.07]***	1.18 (0.19) [0.06]***
AUDFS	+	-3.98 (-0.45) [0.06]***	-2.29 (-0.01) [0.90]***	-9608 (-0.0) [0.9]
AUCID	-	1.62 (1.91) [0.0]*	6.89 (0.08) [0.01]**	4.77 (0.64) [0.02]**
AUDFE	-	-236 (-0.5) [0.04]**	60.50 0.09 [0.0]*	-44.89 -0.08 [0.9]***
R-Squared		0.02	0.67	0.00
Adj-R-Squared		-0.001	0.54	-0.03
F-Statistic		0.79(0.04)**	5.36 (0.00)*	0.09(0.9)***
Hausman Test				3.19(0.00)*
N		250	250	250

Source: Author 2018

Note: (1) Parentheses ( ) are t-statistic while bracket [ ] are p-values
(2) * 1%, ** 5% and *** 10% level of significance

Discussion of Findings

In testing for the cause-effect between the dependent and independent variables in earnings management, we reported pooled and panel analysis. The study adopted the three widely used pooled and panel data regression models (fixed effect and panel data estimation techniques). The difference in these models is based on the assumptions made about the explanatory variables and cross sectional error term.

In Table 3, we presented an OLS pooled regression and two panel data estimation techniques (fixed effect and panel data estimator). The three results revealed difference in their coefficients magnitude, signs and number of significant variables. This clearly shows that pooled OLS regression does not reflect the heterogeneity in the sampled companies. Hausman test was conducted and the result shows that we should accept Ho (adopt fixed effect model and reject random effect model). This means that we adopt, interpret and draw policy recommendations from the fixed effect panel data regression results.

Following the above, we will therefore discuss the fixed effect panel regression result from Table 3. In Table 3, the R-squared and adjusted R-squared values were (0.67) and (0.54). These indicate that all independent variables jointly explain about 54% of the systematic variations in earnings management of our sampled companies over the five year period (2013 – 2017). The above average R-squared value is realistic as it clearly shows earnings management and its interaction with audit quality. The F-statistics (5.36) and its p-value (0.0) show that the earning management fixed effect regression model is generally significant and well specified. The F-statistic also shows that the overall earnings management fixed effect regression model is significant at 1% level.

In addition to the above, the specific finding for each explanatory variable from fixed effect regression model is provided as follows:

Length of Audit Firm Tenure: based on the coefficient of 2.32 and p-value 0.07 appears to have a positive influence on our sampled listed financial institutions, earning management and was statistically significant at 10% since its p-value was greater than 0.05. This result, therefore, suggest that we should reject the null hypothesis (H_{01}), which states that length of audit tenure does not significantly affect earnings management. This means that length of audit tenure has the effect of increasing earnings management and also does not conform to apriori expectation. Therefore, we ignore our apriori sign and accept similar findings like that of Geiger and Raghunandan (2002), whose study showed a positive effect, between audit tenure and earnings management and long audit tenure impair auditors independence and Ghosh and Mood (2005) who found a positive association between audit tenure and earnings management and concluded that, long-served auditors may surrender their independence to keep close relationship with their clients. However, our study do not agree with the findings of Cheong, Boon, Ong and Hong (2015) who concluded an insignificant positive effect of length of audit tenure on earnings management.

Audit Firm Size: based on the coefficient of -2.29 and p-value 0.90 appears to have a negative effect on earnings management. It was also statistically insignificant since its p-value was greater than 10%. This result therefore, suggest that we should accept hypothesis two (H_2), which states that audit firm size does not significantly affects earning management. This finding does not agree with the findings from similar studies of Inaam et al (2012) Zuo and Guan (2014) Nuraddeen and Hasnah (2015) who concluded a negative effect between audit firm size and earnings management.

Audit Committee Independence: based on the coefficient of 6.89 and p-value 0.01 appears to have a positive influence on earnings management among listed financial companies during the period under consideration. The finding shows that this relationship is statistically significant at 5% level and do not agree with apriori expectation. This result therefore, suggest that we should reject hypothesis (H_3), which states that audit committee independence does not significantly affect earnings management. This means that audit committee independence have increasing effect on earnings management. That is 1% level of increased independence in the audit committee will increase earnings management by 6.89 units. Therefore, we accept similar findings like that of Klein (2002) Fodio et al (2013) Dechow (1996) who concluded that as more executive directors are added as members of the audit committee there will be increased financial statement fraud.

Audit fees: Based on the coefficient of 60.58 and p-value 0.0 appears to have a positive influence on our sampled listed financial institutions, audit fees was also statistically significant at 1% since it p-value is less than 5%. This result therefore, suggest that we should reject hypothesis four (H_4), which states that audit fees does not significantly affect earnings management. This means that fees paid to the auditors by financial institutions goes a long way in affecting the report given by the auditor by either increasing or decreasing earnings management. That is, for every extra ordinary audit fees, there is 60% chance that the auditor's judgement will be impaired, we therefore reject our apriori sign which suggest a negative relationship and accept similar findings such as, that of Nam, Le Hoai (2014), Gul, Chen and Tsui, (2003), Healy (1985), Caitlin, Kate and Stephen (2014), Abbott, Parker and Peters (2006), Famous and Enofe (2013), Santanu, Donald and Mahmud (2009) whose conclusions aligns with the findings from this study.

Conclusion and Recommendations

The result from our study indicates a significant positive effect of audit quality on earnings management. This finding is consistent with the findings of Tendeloo and Vanstraelen (2005) who concluded that, audit quality and a strong investor protection are substitutes in constraining earnings management in private firms, in the sense that the quality has a positive significant effect on earnings management. We therefore recommend that:

1. the length of audit tenure should be not be more than one tenure of 3 years so that auditors can combat and prevent fraud which will altogether improve financial reporting quality. The law and enforcement agency should back the maximum of three years professional requirement for an auditor in Nigeria, since our study reported a positive relationship between audit tenure and earnings management. The Nigerian financial reporting council and other regulatory bodies in line with best practices to look critically into this crucial issue;
2. regulatory bodies should ensure that audit committee independence is sustained by ensuring that the characteristics of these committees should be of high quality since it has proven to produce quality audit reports through minimized earnings management;
3. that audit fees should be monitored to ensure that no audit firm has a client whose audit fee exceeds more than five per cent of total audit fee as suggested by the Institute of Chartered Accountants of Nigerian code of conduct for professional accountants. Significantly high audit fees from an audit client will result in economic bonding which will jeopardize auditor independence and audit quality.

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