EFFECT OF AUDIT FEE ON REAL ACTIVITIES MANIPULATIONS OF LISTED MANUFACTURING FIRMS IN NIGERIA

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Abstract

The incessant reported cases of manipulations of accounting figures in the financial statement of companies globally have led to loss of stakeholders' confidence in the audited financial statements of firms as the auditors failed to alert the stakeholders in their reports. Therefore, this study examined the effect of audit fee on real activities manipulation of listed manufacturing companies in Nigeria. Ex-post facto research design was employed as the research design. The population of the study consisted of seventy-four (74) listed manufacturing firms in the Nigeria Stock Exchange. Forty-one (41) firms stratified and randomly selected as its sample size. Descriptive statistics, panel regression analysis technique and Analysis of Variance (ANOVA) were employed in the analysis of the secondary data collected from the annual reports and accounts of the chosen sample firms for the period of six years (2012-2017). The study found that audit fee had a significant negative effect on the real activities manipulations as shown by the p-value of 0.000. The result of the study also revealed that there was no significant difference in the level of earnings management practice in the sub-sectors of the listed manufacturing companies in Nigeria as shown by the p-value of 0.326. The study recommended that policy makers such as the Institute of Chartered Accountants of Nigeria should not reduce the current scale of professional fee set by it in a gazette in May, 2011, in order to prevent likely future impairment of auditor's independence.

Keywords: Earnings management, Real activities manipulations, Audit fee, Panel regression, Code of Corporate Governance

1.0 Introduction

The incessant reported cases of manipulations of accounting figures in the financial statement of firms globally in the last decade has led to several accounting scandals and failure of corporate organizations. This has put the auditing function into doubt as the auditors were not able to detect and report these manipulations. The increasing incidence of this has led to the loss of public confidence in the quality of reported accounting earnings and the audit function (Okolie, 2014). The collapse of many firms around the world such as Enron, Xerox, Adelphia, WorldCom and Global Crossing in the United States, and Adeco, Parmalat, Ahold and Tyco in Europe are typical examples (Fodio, Ibikunle & Oba, 2013). Nigeria has also had her own share of financial reporting failures with the cases of Cadbury Nigeria Plc. in 2006; Afribank Nigeria Plc faced the problem of financial reporting in 2009;

Intercontinental Bank Plc. in 2009 and Lever Brothers Nig. Plc (Egbunike, Ezelibe & Aroh, 2015).

These manipulations of financial statement have dire consequences on the economy of any nation and the victim organisations. Its effects include financial loss and dent on the reputation of the victim organisation (Yasar, 2013). The ugly practices, which were later discovered, had been on for sometimes and went undetected nor reported by auditors. The experience had since left its perils in the mind of shareholders, prospective investors, regulators and financial analysts (Lopes, 2017). Manipulations of accounting figures can be done through window dressing, creative accounting, fraud or earnings management (Kitiwong, 2014). It has been observed that the most harmful method is the application of earnings management which, most of the times, go undetected not to talk of reporting it by the external auditors. Earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial report either to mislead some stakeholders about the underlying economic performance of the company for bonus or compensation to the manager or to influence/mislead contractual outcomes that depend on reported accounting figures (Healy & Wahlen, 1999). This is achieved by exploring the loopholes in the accounting methods of preparing the financial statement.

In order to maintain high audit and earnings quality and to curb the spate of vicious corporate collapses that pervaded the globe in the past decade, audit quality standards and codes of best practices have been developed in different countries to restore confidence to investors. These codes constitute the bulk of the regulatory frameworks that are meant to guarantee integrity of auditors' reports in relation to corporate earnings and financial statements. For example, Sarbanes- Oxley Act Code 2000 was enacted in the US, code of Corporate Governance in South Africa, and in different countries of the world.

Regulatory authorities in Nigeria have responded to the quality issue with new initiatives. An example of such an initiative was the long overdue revision of the 2003 Code of Corporate Governance in 2011. The central objective of corporate governance code in Nigeria was to restore the reliability of financial statements by curbing earnings management and accounting fraud (Cohen, Dey, & Lys, 2008). Demaki (2011) opined that launching of governance mechanisms Code, 2003 in Nigeria is expected to mitigate corporate scandals and other related issues. However, corporate failures and scandals still persist.

Consequently, the remuneration of the auditor is a cause for concern. When an auditor receives huge amount for audit service, the independence of the auditor is compromised as he would not want to provide negative reports against the client as it is believed that he has created economic bond with the client. In addition, the way in which earnings are managed in each sub-sector of the manufacturing industries are different and has been observed that some sectors managed earnings more than the other sectors due to complexity of business operations, thereby engaging in more earnings management than the others. Academic researchers (such as Tyokoso and Tsegba, 2015; Masoyi, Aliu & Zachariah, 2015; Uwalomwa, Uwuigbe & Okorie, 2015; etc.) have focused on accrual manipulations (discretionary accruals). These studies have provided conflicting results. To the best of this researcher's knowledge, no study in Nigeria has examined the difference in the level of earnings management practice among various sub-sectors of the manufacturing industries in Nigeria. This study, therefore, examined the impact of audit fee on

earnings management of listed manufacturing companies in Nigeria. Based on this objective, the following hypotheses were formulated and tested:

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

H_{02}: There is no significant difference in the level of earnings management practice among the various sub-sectors of the manufacturing companies in Nigeria.

2.0 LITERATURE REVIEW

Conceptual Review: Earnings Management, Audit Quality and Audit Fee

According to Healy and Wahlen (1999), 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 practices. Therefore, managers employed earnings management as an opportunistic behaviour in order to satisfy their personal objective or to place the firm in a better economic performance. It represents an intentional intervention in the external reporting process with the aim of obtaining some private gains or compensations (Schipper, 1989). This also signifies that management have incentives to manipulate the earnings with the aim of either maximising the wealth of the company or as a bonus or compensation to the manager. This may encourage fraud and material misstatement by the reporting companies as the financial result and position of the business might not be presented accurately (Ching, Teh, San & Hoe, 2015).

Watt and Zimmerman (1990) opined that earnings management is derived from the flexibility of accounting choices that are allowed within Generally Accepted Accounting Principles. The Generally Accepted Accounting Principles allow managers to choose the appropriate reporting procedures and to make estimations and assumptions that suit their business environment. Hence, as an alternative on offer, the manager may choose the reporting procedures that best suit him in order to maximise his wealth by exhibiting opportunistic behaviour (Watt & Zimmerman, 1990). As a result, accounting manipulation power usually creates the problem of management manipulating earnings. Therefore, this makes shareholders, investors and creditors to be unable to distinguish the true net worth and economic value of a firm because the reports presented do not accurately reflect the actual performance of the firm.

Roychowdhury (2006) indicates that managerial manipulation can influence financial statements not only via the use of accounting rules, but also by operational decisions. For instance, it can be achieved through acceleration of sales, alterations in shipment schedules, and delaying of research and development (R&D) and maintenance expenditures as earnings management methods available to managers. Another way of manipulating earnings is through overproduction of goods which leads to decreased cost of goods as long as fixed overheads are absorbed by larger number of products. As a result, fixed cost per unit is reduced and hence, manager report better gross profit ratio and operating margins. On the other hand, excessive production leads to increased production costs and costs of maintaining inventory (Roychowdhury, 2006). Moreover, mainly in the manufacturing industry, firms' management may make overproduction of goods in order to decrease reported cost of goods sold to receive higher gross profit.

Auditor's independence has been of serious concern not only to the end users of financial information but to the whole

society in general. This is to ensure dependable and high quality audit work which largely focuses on auditor's independence in order to ensure that an auditor is not too familiar or dependent on his client as this may jeopardize the integrity of the auditor and, in turn, impair their independent opinion as to the financial health of their client. DeAngelo (1981) defined audit quality as the probability that an auditor will both discover and truthfully report material errors, misrepresentation and omissions detected in a client's accounting system. This means that an auditor should be able to detect errors or manipulation of accounting figures and must report this to the shareholders as well as other stakeholders in their audit report. Hope and Langli (2007) also viewed audit quality as "when the auditor carries out his work with higher degree of independence and objectivity on one the hand and define auditor's independence as the auditor's objectivity and ability to withstand client's pressure on the other hand. This pressure may include monetary and non-monetary issues that make the auditor comply with management desire rather than his professional judgment.

Duff (2004) suggests that audit quality is made up of both technical quality and service quality (the level of client's satisfaction and expectations). Technical qualities (such as an auditor's ability to detect and report errors) have been established to be the defining aspect of audit quality. Okoh (2015) stated that technical quality consists of reputation, cost of capital, capability, expertise, experience and independence scales while service quality includes responsiveness, empathy and the provision of non-audit services (NAS).

Citing Wooten (2003), Okoh (2015) explained that audit firm's characteristics, audit teams and professional judgment or auditor independence serve as the principal contributors to audit quality. Audit team and audit firm's characteristics (such as human resources, industry expertise, audit processes, audit planning, supervision and professionalism) directly contribute to the skill and competence of auditors in detecting errors and misstatements. Factors such as audit tenure, audit fees, and non-audit service, do not only impair auditors' independence directly, but they also support auditors' effectiveness. Therefore, audit quality is seen as the ability of an auditor to provide an independent audit service and assurance that the audited financial statement is free from material errors, misstatement and manipulation of figures.

Onaolapo, Ajulo and Onifade (2017) defined audit fee as the amount charged by the auditor for an audit assignment carried out, that is, amount charged by the auditor for any work done in order to express opinions on the true and fair state of affairs or position of the client's enterprise. Audit fee consists of the amount paid for the audit of financial statement and the amount paid for other non-audit services provided by the audit firm to the client's firm. Non-audit services are the services that the auditor can provide apart from normal auditing procedures, by offering different services to the clients from which he can earn extra revenues. Recently, the demand for business expert services has increased and expanded in different range of services which include: training, risk management advice, mergers and acquisition, taxation, portfolio monitoring, recruitment and human resources, and corporate governance. An auditor needs to pay much attention when both audit and non-audit services are provided to the same client, because these non-audit services may threaten the independence of the auditor (Marsel& Ali, 2015). The Sarbanes–Oxley Act enacted in the United States increased disclosure requirement for auditor compensation by requiring a clear breakdown of audit, audit-related, and non-audit fees, and restricted

non-audit services that audit firms can provide to audit clients.

The regulators' concerns about auditor independence is underlined by the economic bonding hypothesis that argues that the strength of the audit firm's economic dependence on the client or the economic bond, consciously or otherwise, reduces the auditor's independence, or the willingness to resist client-induced biases in the reporting process. Thus, the lack of auditor's independence is assumed to result in poor earnings quality (Koh, Rajgopal & Srinivasan, 2013). It is based on this that different measures are used to proxy economic bonding (such as audit fee, non-audit fee, audit fee to non-audit fee ratio, etc.) so as to draw inferences on auditor independence.

Theoretical Framework

This study was anchored on the economic bonding theory. This theory is derived from the agency theory perspective. It was propounded by Kinney and Libby (2002). It argued that the strength of the audit firm's monetary depends on the client or the economic bond which consciously or unconsciously reduces the auditor's independence or the willingness to resist client-induced biases in the financial statements. It is believed that auditors are rational wealth maximizers who would be intentionally biased towards compromising audit quality in order to generate wealth for themselves (Kinney & Libby, 2002). Therefore, economic bonding theory maintains that auditors are more likely to comply to client pressures, including pressure to allow earnings management, when the provision of non-audit services or abnormal fees generate economic rents to auditor (Jibril, 2002). In addition, Beattie *et al.*, (1998) stated that self-interest in terms of familiarity compromises auditor independence where audit partner's income depends on the retention of a specific audit client. That is, auditors compromise their independence for the fear of losing a key client, thus increasing the tenure with the key client.

Similarly, Kinney and Libby (2002) provided a framework based on the economic bonding that link auditor with economic benefit derivable from audit. They maintained that more insidious effects on the economic bond may result from unexpected non-audit and audit fees that may more accurately be likened to attempted bribes and other unethical acts. Thus, Kinney and Libby (2002) concluded that the audit quality is decreasing by economic bond, through earnings management by the client. For auditors to successfully discharge this responsibility, they need to be independent; in terms of being objective and just. Therefore, the higher the auditor's independence, the more they detect management's manipulations in the financial statements.

Empirical Review

Okolie, Izedonmi and Enofe (2013) examined the relationship between audit quality and accrual-based earnings management of listed companies in Nigeria. Secondary data was obtained from the annual report and accounts for the periods 2006 to 2011. This was analyzed using pooled and panel regression. They found that audit fee had a significant effect on earnings management.

In the study carried out by Jubril (2014) on auditor's independence and earnings management of deposit money banks in Nigeria, ordinary least square technique was used in analysing the data sourced through annual report for the periods 2006-2012. The result of the study shows that audit fee had a significant positive effect on the earnings management.

Okolie, Izedonmi and Enofe (2014) determined the impact of audit quality on real cash-based earnings management of

listed companies in Nigeria. The data sourced from annual report from the annual reports of fifty-seven (57) firms used as sample and was analyzed using multivariate analysis. The study shows that there was a significant negative impact on real cash-based earnings management. In the study of Miko andKamardin (2015) on the impact of audit committee and audit quality on preventing earnings in the pre and post Nigerian Corporate Governance Code (2011), the result of the multiple regression revealed that audit fee had a significant negative impact on earnings management, that is, it will reduce manipulation of accounts through discretionary accruals.

Ching, Teh, San and Hoe (2015) studied the relationship among audit quality, earnings management and financial performance of Malaysian public listed companies. Data was collected from the annual report of one hundred (100) industrial products and consumer products industries listed on the main Board of Bursa Malaysia during the periods 2008 to 2013 and was analysed using multiple regression analysis. The result of the study revealed that there is no significant relationship between audit fees and earnings management.

Al-Rasas and Kamardin (2015) examined the association between internal external audit attributes, audit committee characteristics, ownership concentration and discretionary accruals. Data was sourced from the annual report of 508 firms listed on the Malaysian main market from 2009 to 2012 and was analyzed using panel regression analysis. The result of their study shows that there is insignificant negative relationship between external audit fee and discretionary accruals (using modified Jones model).

Masoyi, Aliyu and Zachariah (2015) examined the impact of audit quality on earnings management of listed deposit money banks in Nigeria. Ordinary Least Square (OLS) regression technique was employed to test the data sourced from the annual report and accounts of ten (10) listed deposit money banks for a period of eight (8) years (2006-2013). The study revealed that auditor financial independence (audit fee) has significant positive impact on earnings management of listed deposit money banks in Nigeria. Eriabie and Dabor (2015) carried out a study on audit quality and earnings management in listed Nigerian banks. Data was gathered through annual report and accounts of sample firms and was analyzed using regression analysis. The study found a positive relationship between audit fee and earnings management, that is, high audit fee aggravates earnings management.

Nawaiseh (2016) carried out his study on whether earnings management can be influenced by audit quality of Jordanian listed firms. Secondary historical 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 analysed using regression analysis. The study revealed that there is a negative relationship between audit fee and discretionary earnings management.

Martinez and Moraes (2017) investigated the impact of audit fees on earnings management in the Brazilian market. Regression analysis was employed to analyse the data obtained from the Economatica Database and the website of the Brazilian Securities Commission of 300 firms listed on the BM and Bovespa. The study found that there is no significant positive relationship between audit fee and discretionary accruals.

Alzoubi (2017) examined the relationship between audit quality, debt financing and earnings management in Jordan. Generalised least square regression analysis was employed in analysing the data collected from the annual report of seventy-two (72) industrial companies selected as

sample for the periods 2006 to 2012. The result revealed that audit fee reduces the potential of earnings management and enhance the financial reporting quality.

In the study of Onaolapo, Ajulo and Onifade (2017) on the effect of audit fee on audit quality of cement manufacturing companies in Nigeria, multiple regression using ordinary least square model estimation technique was employed in analysing the data collected from the audited report of four (4) sample companies for the periods of six (6) years (2010-2015). Findings from the study showed that audit fee had a significant positive impact on audit quality.

Methodology

The study adopted ex-post facto research design. The population of the study comprised all manufacturing companies listed on the Nigeria Stock Exchange as at 31st December, 2017. The Nigerian manufacturing industry were stratified into five (5) sub-sectors which included consumer goods sector; conglomerate sector; industrial and domestic goods sector; health and pharmaceutical sector; and, natural resources sector (NSE Fact book, 2017). In selecting the sample size, stratified and simple random sampling methods were chosen to eliminate biases in the choice of any company selected as a constituent of the sample and to give the same opportunity to every component of the population selected (Ijaiya, 2013). A sample of forty-one (41) companies was used with annual reports covering 2012-2017. Panel regression analysis and Analysis of Variance (ANOVA) were the methods of analysis adopted. The choice of the technique results from the suspicion of the existence of firm specific heterogeneity. The fixed effect estimation assumes correlation between the independent variables in each model and their panel error terms.

The dependent variable for this study was real activities manipulation measured with addition of abnormal cash flows, abnormal production cost and abnormal discretionary expenses. The independent variable used was audit fee measured with natural logarithm of audit fee paid by the company to the auditor. Leverage was used as the control variable. It was measured with total liabilities divided by total equity of firms.

Consequent upon the aforementioned, the model of this study was written as:

$RAM_{it} = \beta_0 + \beta_1 AUDFEE_{it} + \beta_2 LEV_{it} + \varepsilon_{it}$

Where:

RAM = Real Activities manipulation of ith firm

AUDFEE = Audit Fees of ith firm

LEV = Leverage of the ithfirm

β_0 = intercept or constant of the coefficient

β_1 = the parameter of the estimate

β_2 = the control variable

ε = error term

a priori expectation

The a priori expectation of the study was that $\beta_1<0$ and $\beta_2>0$. This implies that β_1 (audit fee) was expected to reduce real activities manipulations while β_2 (leverage) could lead to increase in real activities manipulations by the management.

RESULTS AND DISUCUSSION

The result in Table 1.1 resents the descriptive statistics of the variables such as mean, standard deviation, maximum value, minimum value and the descriptive analysis of the normality distribution test (skewness and kurtosis and Jarque-Bera) between the dependent and the independent variables.

Table 4.1: Descriptive statistics

Variables	Mean	S.D	Min	Max	Skewness	Kurtosis	JB	N
RAM	3.7576	0.7793	0.0341	190.54	1.9856	0.9938	0.000	246
AUDFEE (₦ million)	3.3537	0.7734	1.0000	5.5000	1.9467	2.5112	0.000	246
LEV	1.0461	0.9246	0.0000	6.6200	2.1745	1.0425	0.000	246

Source: Researchers' Computation, 2019

The result in Table 1.1 shows that real activities manipulation had an average value of 3.7576, with a standard deviation of 0.7793, and minimum and maximum value of 0.0341 and 190.54 respectively. The standard deviation of 0.7793 implies that there is a wide dispersion of the data from the mean value. The result in Table 4.1 also shows that audit fee has an average value of 3.3537 (in millions naira) with standard deviation of 0.7734, while the minimum and maximum values are 1.0000 and 5.5000, respectively. The standard deviation of 0.7734 implies that data is widely dispersed from the mean value in the sample firms.

The result in Table 4.1 depicts the results of the normality distribution of the data. Skewness and Kurtosis are the widely used in testing the normality distribution of data set. The rule of thumb is that any value of skewness and kurtosis that falls outside +/-3 has problem of normality distribution (Peck & order, 2015). It could be deduced from the result in Table 4.1 that all variables do not have normality distribution problems as none of the variable has values that falls outside the range of -3 to +3.

4.2 Multi-collinearityTest - Variance Inflation Factors

Variable	VIF	1/VIF
AUDFEE	1.90	0.526
LEV	2.01	0.498

Source: Researchers' Computation, 2019

The result in Table 4.2 shows that there is absence of multicollinearity problem among the variables as indicated by VIF for each variable which is less than 10, and the average VIF also exceeds the value of 0.05. The decision criterion for the Variance Inflation Factor is that a value of 10 and above implies the presence of perfect multicollinearity. This implies that the two variables are independent of each other.

Table 4.3 Breusch-Pagan/ Cook-Weisberg Test for Heteroskedasticity

Variable	Chi^2	P-value
Model	1.27	0.6901

Source: Researchers' Computation, 2019

The result in Table 4.3 shows Breusch-pagan test to check if there is problem of heteroskedasticity. The result shows that since the p-value (0.6901) is greater than 5% significance level, the null hypothesis was rejected. Therefore, this model does not face any heteroskedasticity problem.

Table 4.4 Hausman test

Variable	Chi2	p-value
Model	22.06	0.0005

Source: Researchers' Computation, 2019

The result in Table 4.4 shows the result of the hausman test which was computed to choose between fixed-effects and random-effects regression results. The result shows that fixed-effects model is more appropriate as indicated by the P-value (0.0005) which is less than 5% level of significance.

Table 4.5: Regression Result on Audit fee and Real Activities Manipulations

Variables	**Fixed-effects Model**
Constant	24.775*** (0.000)
AUDFEE	-22.718*** (0.000)
LEV	0.3545 (0.652)
F-stat	21.191*** (0.0000)
Wald X^2	19.910 (0.0000)
R^2	0.3695 (0.0000)

*, **, *** : denotes Significant at 10%, 5% and 1% level, respectively.
() : denotes P-value, while the value denotes Coefficients
Source: Researchers' Computation, (2019)

Table 4.5 shows the linear relationship between real activities manipulation and audit fee of selected manufacturing firms in Nigeria, with the use of panel regression analysis. Table 4.5 shows the result of fixed-effect model based on the result of Hausman test in 4.4. The results from Table 4.5 indicates that the independent variables of the model explained around 36.95% of the variations in the dependent variables (real activities manipulations) of listed manufacturing companies in Nigeria, from the coefficient of determinations (R^2 value of 0.3695). The remaining 63.05% represents the other independent variables not included in the model. The table also shows that the model is fitted as evidenced by the F-Statistic of 21.191 which is significant at 1% alpha level as indicated by the P-value of 0.0000.

Restatement and Test of Hypothesis one

H_{01}: Audit fee has no significant impact on real activities manipulations of listed manufacturing companies in Nigeria.

The result in Table 4.5 indicates that audit fee (AUDFEE) has a significant negative impact on real activities manipulation (RAM) of selected manufacturing firms in Nigeria as indicated by coefficient (-22.718) with P-value (0.000) at 5% level of significance. The null hypothesis which states that: There is no significant relationship between audit fee and real activities manipulation of Nigeria listed manufacturing firms was rejected. Therefore, alternative hypothesis which states that there is a significant relationship between audit fee and earnings management was accepted. This implies that ₦1 increase in audit fee will induce 22.7% reductions in real activities manipulation practice in the Nigerian manufacturing firms. This implies that adequate audit fee paid by the client firm does not impair the auditor's independence and objectivity which results

in detecting and discovery of earnings management practised by the manager during the period under review.

Restatement and Test of Hypothesis two

H_{02}: There is no significant difference in the level of earnings management practice among the various sub-sectors of the manufacturing company in Nigeria.

The result in Table 4.6 shows the differences between the levels of earnings management practice in the sub-sectors of the listed manufacturing firms in Nigeria with the use of Analysis of Variance (ANOVA).

Table 4.6 ANOVA

	Sum of Squares	Df	Mean Square	F	Sig.
RAM Between Groups	1466.335	4	366.584	1.168	.326
Within Groups	63082.148	242	313.842		
Total	64548.483	246			

Source: Researchers' Computation, (2019)

The result as presented in Table 4.6 shows that real activities manipulation practice is not significantly different within the sub-sectors of manufacturing industries in Nigeria as indicated by F-stat of 1.168 with prob. of 0.326 at 5% level of significance. This implies that there is no significant difference in the level of real activities manipulations practised among the sub-sectors of the Nigerian manufacturing industries.

Consequently, to further make comparison between the sub-sectors selected, post-hoc test using Tukey HSD multiple comparison was carried out as shown in Table 4.7

Table 4.7: Tukey HSD Multiple Comparisons

Sectors	**Real activities manipulation**
Earnings management in the consumer goods sector companies	5.0887 (0.421)
Earnings management in the Industrial and Domestic goods sector companies	5.9262 (0.554)
Earnings management in the Pharmaceutical sector companies	0.8375 (0.999)
Earnings management in the Natural Resources sector companies	1.8030 (0.996)
Earnings management in the Conglomerate goods sector companies	1.4757 (0.998)

(): denotes Prob. while the value denotes mean difference

Source: Researchers' Computation, 2019

The result of the Tukey HSD post-hoc test as presented in Table 4.7 shows that real activities manipulations of the overall manufacturing industries is not significantly different from the level of real activities

manipulations practice in the consumer goods sector producing firms; industrial and domestic goods sector companies; pharmaceutical sector; natural resources sector; and conglomerate goods producing companies as indicated by mean difference of (5.0887, 5.9262, 0.8375, 1.8030 and 1.4757) with p-value of (0.421, 0.554, 0.999, 0.996 and 0.998) respectively at 5% significant level. The result from table 4.6 as supported by the result in table 4.7 shows that there is no significant differences in the level of earnings management practice in the sub-sector of the Nigeria manufacturing industry. Therefore, this leads to the rejection of the alternative hypothesis, thereby leading to the acceptance of the null hypothesis.

Table 4.7 also shows that the Industrial and Domestic goods sector companies is the sub-sector that has the highest level of earnings management, that is, it is the sector that managed earnings most with a figure of 5.9262. The level of earnings management practice in the pharmaceutical sector, natural resources sector and the conglomerates goods sectors is low compared to the consumer goods sector and industrial and domestic goods sectors as shown by the average values of 0.8375, 1.8030 and 1.4757, respectively.

The reason for the high level of earnings management practice of the listed Nigerian manufacturing sector may be as a result of the lack of specific regulatory guidelines by the industry in preparing the financial statement of the industry, unlike the banking industry that has different frameworks or guidelines such as Banks and other financial Institutions Act (BOFIA) (1991), Central Bank of Nigeria Act (2007) and the Prudential Guidelines.

Discussion of Findings

From the empirical analysis and hypotheses tested, the study found that audit fee significantly impact real activities manipulations negatively. This is confirmed by the argument of the economic dependence theory which stipulates that auditors should not be financially dependent on the fees (audit and non-audit service fee) from any client, thereby making him less likely to bow to pressure from clients in the event of discovering accounting irregularities. This implies 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 that they would still have better profit at the end of the audit assignment; this therefore, leads to higher chances of detecting and reporting earnings management. The result also implies that lower audit fee paid to external auditors gives high chances to managers engaging in earnings management due to low audit services rendered. The result also supports the argument of economic dependence theory which assumes that for auditors to successfully discharge his responsibility, they need to be independent in terms of being objective and just. This result corroborates the results of Ching, *et al.*, (2015), Miko & Kamarddin (2015), Masoyi, *et al.*, (2015); and Nawaiseh (2016) as they found that audit fee has negative impact on earnings management. In contrast, Eriabie & Dabor (2015), Onaolapo, *et al.*, (2017), and Martinez & Moraes (2017) found that audit fee aggravate earnings management of firms.

CONCLUSION AND RECOMMENDATIONS

This study examined the effect of audit fee on real activities manipulations of listed manufacturing companies in Nigeria. The empirical result of the study revealed that audit fee has significant negative effect on the level of real activities manipulations. This study, thus, concluded that adequate auditor remuneration for audit service

improves auditor's independence, thereby reducing the level of real activities manipulations. Therefore, this study recommended that policy maker such as the Institute of Chartered Accountants of Nigeria should not reduce the current scale of professional fee set by Institute of Chartered Accountant of Nigeria in a gazette issued in May, 2011, in order to prevent likely future impairment of auditor's independence. The study also recommended that there should be specific regulatory framework guiding the preparation of the financial statement of manufacturing firms in Nigeria aside the International Financial Reporting Standards (IFRS).

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