International Journal of Business and Social Research
Volume 05, Issue 04, 2015

Audit Committee Attributes and Earnings Management: Evidence from Nigeria

Ibadin L. Ayemere Ph.D[1], Afensimi Elijah[2]

ABSTRACT

Using the agency theoretical framework, the study postulates that audit committee attributes can impact significantly, constraining accrual-based distortion of financial reporting credibility and thus improve the quality of financial reporting. To assess our arguments, audit committee size, audit committee financial literacy, audit committee attendance at meetings, audit committee independence and audit meetings frequency of meeting were regressed on financial reporting quality measured by discretionary accruals. The findings for the full sample and negative discretionary accruals sample confirm our expectation that audit committee characteristics have a constraining effect on earnings management. Specifically, audit committee financial expertise, audit committee size, audit committee independence and diligence showed an inverse and significant relationship with earnings management. This is in tandem with theoretical expectations and suggest that increases in these variables we exert a declining influence on earnings management. The study concludes that there is the need for companies to focus on attributes that strengthen the effectiveness of their audit committees.

Keywords: Audit committee financial expertise, audit committee independence, earnings management.
JEL Codes: G14, M4, M41.
Available Online: 1st May, 2015

1.0 INTRODUCTION

Financial reporting is a very fundamental corporate responsibility and a core element of the corporate system. This is because, the financial reporting serves as the major medium of communication between companies and stakeholders by reducing the level of information asymmetry between the directors, who have access to management information and other interested parties who are external to the company. Fama and Jensen (1983) have argued that the credibility and transparency of financial statement of a company depends on the effectiveness of the monitoring mechanism of the company and this has led researchers to examine corporate governance issues. Given these developments,

[1] Department Of Accounting, Ambrose Alli University, Ekpoma, Edo State.
[2] Department Of Accounting, University Of Benin, E-mail: princeafes@yahoo.com

several empirical researches (Fama and Jensen, 1983) have identified the role of the audit committee as being critical in ensuring credibility of the financial statement (Abbott, Park and Parker, 2000). An audit committee is a sub-committee of the board that specializes in, and is responsible for, ensuring the accuracy and reliability of the financial statements provided by management. The audit committee serves as a liaison between the external auditor and the board of directors, and facilitates the monitoring process by reducing information asymmetry between the external auditor and the board. In addition, Blue Ribbon Committee (1999) noted that the audit committee is the most important governance mechanism with respect to audit firm appointments because it is responsible for hiring the external auditor and for overseeing audit quality. Therefore, a properly functioning audit committee is critical in ensuring the independence of auditors and high quality financial reporting. Improving the quality of financial statements has been widely proposed as one of the major benefits of companies establishing audit committees (Blue Ribbon Committee 1999).

The problem however is that despite the presence of audit committees, there have been several cases of manipulation of financial statements which suggest that the mere presence of an audit committee is not sufficient enough to mitigate the tendencies for financial statement manipulation by management. Consequently, the concern and emphasis in recent times has not just been about the formation of audit committees but on the effectiveness of the audit committees in improving stakeholder's confidence in financial statements especially in light of recent accounting scandals. In this regards, several studies including Klein (2002) have recommended that a number of characteristics are important for an audit committee to effectively accomplish its objectives. These characteristics include: the overall independence and expertise of the audit committee; the level of its activity and its size, amongst others. For instance, audit committee expertise is highly associated with the effectiveness of financial reporting. Similarly, Goodwin (2003) supported the need for audit committee members to have accounting or finance background in addition to being independent of management. Independent non-executive directors and directors with financial expertise are more likely to be effective as members of audit committee. The broad objective of this study is to examine the impact of audit committee on financial statement quality. Specifically, the study will be interested in investigating how audit committee characteristics will influence the quality of financial statements of companies in Nigeria. The study is particularly timely as there is an increasing need for stakeholder's confidence to be assured in the credibility of financial statements of companies in Nigeria. The study is structured in the following form; section 2 examines the review of literature, section 3 covers the methodology and model specification, in section 4, the data analysis is examined while the conclusion and policy implication is presented in section 5.

2.0 LITERATURE REVIEW

2.01 CONCEPT OF EARNINGS MANAGEMENT

Bergstresser and Philippon (2006) defined earnings management as a management action taken in making profit and this tends to reflect the interests of management rather than an actual picture of company performance. This definition shows the existence of earnings management that may cause the performance of a company in which it is still not real. Cheng and Warfield (2010) opined that earnings management is of two aspects. First, managers see it as opportunistic behavior to maximize utility in dealing with compensation contracts, debt contracts and political cost (opportunistic earnings management). Secondly, earnings management is viewed as the perspective of efficient contracting (efficient earnings management), in which it provides managers with the flexibility to protect themselves and the company to anticipate the unexpected events to gain the parties involved in the contract.

According to Healy et al (1999), earnings management is more likely to occur when a company usually is unable to meet investors' expectations or in periods of volatile earnings, however, he indicate that even though the changes appear to follow all of the accounting standards and laws it is probable that they may go against the purported objectives of the standards. According to Kinnunen & Koskeka (2003), these recent accounting scandals shows that managers sometimes mislead stakeholders about the economic performance of their company by trying to produce financial statement which do not provide a time and fair representation of the company's value.

According to Iturriaga & Hoffmann (2005), earnings management may arise as a consequence of agency problem. Managers could manage earnings to window dress financial statements with the aim of improving their position, obscuring facts that stakeholders ought to know or influencing contractual outcomes that depend on reported accounting numbers. The underlying managerial incentives to manage earnings are various. These include instances when a firm reported a loss in the previous financial year; Influencing short-term stock prices and fulfilling capital market expectations amongst others.

2.02 AUDIT COMMITTEE ATTRIBUTES AND EARNINGS MANAGEMENT

2.2.1 SIZE OF AUDIT COMMITTEE (ACS)

The size of audit committee is referred to as the number of directors appointed to be members in the audit committee, in this regard there could be small, medium and large audit committees. In Nigeria, the Companies and Allied Matters Act, 1990 states that a public limited liability company should have an audit committee (maximum of six members of equal representation of three members each representing the management/ directors and shareholders) in place. The members are expected to be conversant with basic financial statements. The committee has the following objectives: (i) Increasing public confidence in the credibility and objectivity of published financial statements. (ii) Assisting the directors, especially the non- executive directors, in meeting their responsibilities of financial reporting. (iii) Strengthening the independent position of a firm's external auditors by providing an additional channel of communication. A large audit committee size may play a vital role in constraining the occurrence of earnings management. However, the empirical evidence appears to be inconclusive. A negative significant relationship was found between the size of audit committee and earnings management practice according to the findings of Yang and Krishnan (2005). By contrast, Xie, et al., (2003) found no significant relationship between audit committee size and discretionary current accruals as proxy for earnings management. Despite the conflict in the previous studies results, this study hypothesizes that a larger audit committee is likely to be more effective compared with the smaller audit committee; the intuition behind that is with a larger audit committee, the responsibilities, skills, background and power would be increased to enhance their oversight roles. Consequently, the study hypothesizes that;

H1: There a negative significant relationship between audit committee size and earnings management

2.2.2 AUDIT COMMITTEE INDEPENDENCE (ACI)

The independence of the audit committee has been widely researched in a variety of prior studies. It has been widely argued as being one of the key characteristics associated with the effectiveness of the audit committee. The notion of being an independent director according to the Listing Requirement of Malaysia is referred to as the directors who are free from any relationship and independent from the company's management or having no shares in the company and having no relationship with any major shareholders, officers and executive directors. A number of studies have documented evidence on the association between audit committee independence and earnings quality. Xie et al., (2003) mentioned that the more independent audit committee is argued to provide better governance compared to less independent audit committee. Similarly, Klein (2002) found a significant negative relationship between the percentage of number of independent director over the total number of directors in the audit committee and earnings management practice. In the Malaysian context, the study conducted by Saleh et al., (2007) provides evidence that the fully independent audit committee is a very active mechanism against opportunistic earnings management practice. Therefore, it is logical to anticipate that the independence of audit committee is associated negatively with the earnings management practice. Consequently, the hypothesized relationship between audit committee independence and earnings management is stated below;

H2: There a negative significant relationship between audit committee independence and earnings management

2.2.3 AUDIT COMMITTEE FINANCIAL EXPERTISE (ACEX)

The experience and knowledge in accounting and auditing related issues is considered as an important dimension for an audit committee, this advantage can help the audit committee members to be more conversant with financial and operational reports that enable them to execute their oversight duties effectively. It is worldwide accepted that the key duty of the audit committee is to review the financial reporting process to ensure the best quality, thus the availability of an accounting and auditing expertise in the audit committee would increase the efficiency of the audit committee's performance. A number of studies have documented a negative association between the financial and accounting expertise in the audit committee and earnings management. Similarly, Xie et al., (2003) found that audit committee members with accounting and financial knowledge are associated with companies that have smaller discretionary current accruals as proxy for earnings management. This study proposes that the audit committee with accounting expertise would lead to less earnings management practice. Thus the following hypothesis;

H3: There a negative significant relationship between audit committee financial expertise and earnings management.

2.2.4 AUDIT COMMITTEE DILIGENCE

The diligence of the audit committee in carrying out its duties has also been linked to the audit committee's effectiveness. Several different proxies have been used in the literature for audit committee diligence. The most common proxy used has been the number of audit committee meetings per year. Studies that have examined the association between meeting frequency, earnings management and earnings quality include Bedard, Chtourou and Courteau (2004), Van der Zahn and Tower (2004), Vafeas (2005), etc. and the findings appear to be inconclusive. Consequently, the following hypothesis will be tested.

H4: There a positive significant relationship between audit committee diligence and earnings management

3.0 THEORETICAL FRAMEWORK

3.01 AGENCY THEORY

Theoretical support for the formation of audit committees can be found in agency theory. According to agency theory, shareholders and debt holders act as principals who seek to obtain maximum utility from management acting as their agent (Kalbers and Fogarty 1998). Assuming economic self-interest, there is the potential for opportunistic actions by the agent, which are to the detriment of the principal. Due to the separation between ownership and management, the shareholders are unable to directly observe the actions of management (Jensen and Meckling 1976). Therefore, a system of corporate governance controls is established on the shareholders' behalf to discourage managers from pursuing objectives that do not maximize shareholder wealth. These controls are aimed at either aligning managers' and shareholders' incentives or limiting the opportunistic activities of managers (Dellaportas et al. 2005). Audit committees are one example of such a corporate governance control. These committees are an important part of the decision control system for the internal monitoring by boards of directors (Kalbers and Fogarty 1998). Bradbury (1990) argued that audit committees will be voluntarily employed to improve the quality of information flows between principal and agent where there are high agency costs. Audit committees have been widely recommended an important means of improving the quality of corporate financial reporting practices.

4.0 METHODOLOGY

The study adopts the cross-sectional design. The population of the study comprises of all companies quoted on the stock exchange. In selecting the sample size, the simple random sampling method is 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 (Oaikhenan and Udegbunan, 2004). However, the final sample is based companies that have finished its obligation in delivering accessible annual report for the year ended 2006 to 2013. A sample of fifty (50) companies was used with annual reports covering 2006-2013. The fixed effects regression analysis is utilized for the study. 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.

4.01 MODEL SPECIFICATION

Following the literature and theoretical framework of this study, our models focus on identifying how Audit committee characteristics relate to earnings management. The study builds on those of Chtourou and Bedard (2001) developed and tested using U.S firms, Baxter (2002) model developed and tested using the Australian stock market and Murya (2010) model developed and tested using 350 firms in the U.K.

The model is specified and discussed as follows:

$DACC_{it} = \partial_0 + \partial_1 AUDIND_t + \partial_{2\,it} + \partial_3 AUDDIL_{it} + \partial_4 AUDFL_{it} + \partial_5 AUDS + \partial_6 FSIZE_{it} + \partial_7 LEV + \mu_{it}$ --------------- (1)

Where; DAC= Modified Jones Discretionary accruals used as proxy for financial reporting quality.
AUDIND = Audit committee Independence, AUDDIL = Audit committee Diligence AUDCFL=Audit committee financial literacy, AUDS=Audit committee size, FSIZE=Firm size, LEV=Leverage, and ε_t = Stochastic term. i = number of sampled cross-sectional firms, t = time period of the sampled companies. The apriori signs are $\partial_{1<}$ 0, ∂_2 <0, ∂_3< 0, ∂_4<0 ∂_5< 0, ∂_6 <0 , $\partial_{7<}$ 0,

(A) Dependent variable

This study employs the modified – Jones (1991) model as used by Dechow *et al*, (1995). The modified – Jones model has been shown to perform better than other DAC models in detecting EM (Dechow *et al*, 1995).

(B)Independent variables

(i). **AUDIND** represents Audit committee independence often considered an essential characteristic influencing the committee's effectiveness in overseeing the financial reporting process. This is because of the effect of independence on the directors' ability to effectively monitor a company's financial reporting. In line with prior studies (Van der Zahn and Tower, 2004) we measure audit committee independence by the number of non-executive directors on the audit committee.

(ii) AUDCFL represents audit committee financial literacy**.** It has been argued that effective oversight by an audit committee requires that its members possess sufficient expertise in accounting and auditing to independently assess the matters that are presented to them. We measure the variable by the number of Audit committee members with a background in accounting or finance.

(iii) AUDDIL represents Audit committee diligence measured by the frequency of meeting. It has been suggested that the mere formation of an audit committee does not mean that the committee is actually relied on by the board of directors to enhance its monitoring ability. A more active audit committee, i.e., one that meets more frequently during the year, would provide its members with

greater opportunities for discussing and evaluating the issues that are placed before them concerning the company's financial reporting practices.
(iv) AUDS represents Audit committee size which is measured by the number of individuals on the audit committee. The size of an audit committee can have a positive impact on financial reporting quality.
Control variables
(x) FSIZE this represents firm size and it is measured as the log of total assets.
(xi) LEV this represents Leverage and it as measured as the debt-equity ratio

5.0 PRESENTATION AND ANALYSIS OF DATA

Table 01: Descriptive Statistics

	DISACC	ACFEX	ACSIZE	AUDIND	AUDDIL	FSIZE	LEV
Mean	2.45939	2.7064	5.4702	2.83	3.2737	17.226	0.6288
Median	-0.274	3	6	3	3	17.083	0.6054
Maximum	501.23	5	7	5	5	23.379	3.4131
Minimum	-325.19	1	2	1	1	13.835	-0.243
Std. Dev.	61.4593	0.7316	0.88103	0.7163	0.662	2.0739	0.3379
Jarque-Bera	5876.05	18.196	102.066	3.8967	8.2651	17.409	4589.7
Probability	0.00	0.00	0.00	0.042	0.016	0.00	0.00
Observations	453	453	453	453	453	453	453

Source: Researchers Compilation (2014)
Where: DISACC= Discretionary Accruals; ACFEX= Audit committee financial expertise-
ACSIZE= Audit committee size; AUDIND = Audit Committee Independence
AUDDIL = Audit committee Diligence; FSIZE = Firm size; LEV=Leverage.

Table 1 shows the descriptive statistics for the variables. As observed, Discretionary accruals scaled by total assets show the following statistics; Mean= 2.459, STD= 61.459 which indicates the extent to which discretionary accruals for the distribution exhibits considerable clustering around the average, Max= 501.23 and Min= -325.19. ACFEX show the following statistics; Mean= 2.7064 which suggest that the average number of audit committee with accounting knowledge which measures financial expertise of the audit committee is approximately three for the distribution within the study period. STD= 0.7316, Max= 5 and Min= 1. For ACSIZE, Mean= 5.47 which suggest that the average size of audit committee is approximately six for the distribution within the study period. STD= 0.88, Max= 6 members and Min =2 members. For AUD, Mean= 0.7351 which indicates that about 73.51% of the sample companies in the distribution and over the study period are audited by the BIG 4 audit firms. STD = 0.44. For COMP measured as the ratio of male to female members in the audit committee, Mean= 1.375 STD= 2.121, Max= 6 and Min= 0. For AUDIND, measured as the number of non-executive directors in the audit committee, Mean= 2.83, which suggest that the average number of non-executive members on the audit committee is approximately three for the distribution within the study period. For AUDDIL Mean= 3.2737 which suggest that the average number of times the audit committee meets is about three times a year for the distribution within the study period. STD= 0.662, Max= 5 and Min= 1. For FSIZE measured as the log of total assets, Mean= 17.226, STD= 0.662, Max= 23.379 and Min= 13.835. For LEV, Mean= 0.629, STD= 0.3379, Max= 3.4131 and Min= -0.243.

From table 2 below, the correlation coefficients of the variables are examined. However of particular interest to the study is the correlation between; financial reporting quality measured by discretionary accruals and audit committee characteristics. As observed, DISACC is negatively correlated with ACFEX (r=-0.0491), ACS(r=-0.0491), AUDIND(r=-0.0295), AUDDIL = (r=-0.0381), FSIZE (r=-0.0484) and LEV(r=-0.0285). DISACC is positively correlated with AUD (r=0.0108). The negative correlations indicates that increases in these variables will be associated with reductions in size of Discretionary accruals and this increases in financial reporting quality and the reverse holds for variables with positive correlations. We proceed to conduct the regression analysis as correlation analysis is not best suited for estimating causality between variables. However, the regression assumptions test is first conducted.

Table 02: Pearson Correlation Result

	DISACC	ACFEX	ACS	AUDIND	FACM	FSIZE	LEV
DISACC	1						
ACFEX	-0.0482	1					
ACS	-0.0491	0.52697	1				
AUDIND	-0.0295	0.25073	0.5161	1			
AUDDIL	-0.0381	0.10235	0.4085	0.2523236	1		
FSIZE	-0.0484	0.00723	-0.066	-0.047649	-0.06	1	
LEV	-0.0285	-0.0347	0.0203	-0.077222	-0.024	0.0593	1

Source: Researchers Compilation (2015)

5.01 REGRESSION RESULT

The regression result examines the impact of audit committee characteristics on earnings management. The Fixed effects Panel estimation is used in the estimation based on the Hausman statistics. The Results are presented and analyzed below;

Table 03: Panel Regression Result

Dependent variable	Full sample	Sample with Positive DACC	Sample with Negative DACC
C	12.712**	258.2925*	-65.7036*
	{6.482}	{37.817}	{11.734}
	(0.0511)	(0.000)	(0.000)
ACFEXP	-2.5732*	4.835	-4.739*
	{1.342}	{3.5430}	{1.764}
	(0.0463)	(0.1757)	(0.008)
ACS	-3.7917*	4.495	0.662*
	{1.971}	{4.514}	{2.441}
	(0.045)	(0.3219)	(0.002)
AUDIND	-2.724*	-2.216	0.2920*
	{0.485}	{3.234}	{1.9331}
	(0.000)	(0.4951)	(0.021)
AUDDIL	-0.8063	0.43503	6.663*
	{1.397}	{3.465}	{1.442}
	(0.004)	(0.9004)	(0.00)
FSIZE	-0.014	-15.1961*	5.088*
	{0.102}	{1.884}	{0.716}
	(-0.142)	(0.000)	(0.000)
LEV	-3.934*	-18.2647	-0.9005
	{0.628}	{17.358}	{1.010}
	(0.000)	(0.295)	(0.374)
AR(1)	-0.1130*	-0.15439*	-0.100*
	{0.053}	{0.037}	{0.029}
	(-0.035)	(0.0001)	(0.000)
AR(2)	-0.042*		-0.047*
	{0.012}		{0.007}
	(0.000)		(0.00)
R^2	0.564	0.536	0.553
ADJ R^2	0.449	0.395	0.427
F-Stat	4.887	3.807	4.406
P(f-stat)	0.00	0.000	0.000
D.W	2.2	1.94	2.04
Hausman test: 0.002			

Source: Researchers Compilation (2015)

Table 3 shows the regression result examining the impact of audit committee characteristics on financial reporting quality. The regression analysis is conducted in three stages. Firstly, we examined all companies in the sample which is the baseline estimation for the study. However, to check the robustness of our estimates, we divided the sample into two sub-groups; sample with positive DACC and sample with negative DACC. The R^2 for the full sample estimation shows a value of 0.564 which indicates that the model explains about 56.4% of the systematic variations in financial reporting quality over the study period. The F-stat is 4.887 with p-value = 0.00 which is significant at 5% and suggest that the hypothesis of a significant linear relationship between the dependent and independent variables cannot be rejected. It is also indicative of the joint statistical significant of the model. The D. W statistics of 2.2 indicates the presence of serial correlation in the residuals is unlikely. Commenting on the performance of the audit committee variables, we observe that for Audit committee financial expertise (ACFEXP) is negative (-2.5732) and statistically significant (p= 0.045). Audit committee size (ACS) has a negative (-3.7917) effect and also statistically significant (p=0.045) Audit committee independence (AUDIND) has a negative (-2.724) effect and also statistically significant (p= 0.00.). Frequency of Audit committee meetings used as a proxy for audit committee diligence has a negative (-0.8063) effect and statistically significant (p= 0.004). An evaluation of the control variables reveals that Firm size (FSIZE) has a negative (-0.014) effect though not statistically significant (p= 0.142). Leverage (LEV) has a negative (-3.934) effect which is statistically significant (p= 0.00). The inverse and significant relationship between earnings management and audit committee financial expertise, audit committee size, audit committee independence and diligence is in tandem with theoretical expectations and suggest that increases in these variables we exert a declining influence on earnings management.

The R^2 for the Sub-sample estimation for companies with positive DACC shows a value of 53.6 which indicates that for companies with positive DACC, the model explains about 53.6% of the systematic variations in earnings management. The F-stat is 3.807 with p value =0.00 which is significant at 5% and suggest that the hypothesis of a significant linear relationship between the dependent and independent variables cannot be rejected. It is also indicative of the joint statistical significant of the model. The D. W statistics of 1.94 indicates the presence of serial correlation in the residuals is unlikely. Commenting on the performance of the audit committee variables, we observe that Audit committee financial expertise (ACFEXP) is positive (4.835), Audit committee size (ACS) has a positive effect (4.495) effect, Audit committee independence (AUDIND) has a negative (-2.216) effect, Frequency of Audit committee meetings (FACM) has a negative (0.435) effect. However none of the variables appear significant for the sub-sample with positive DACC and this is also in tandem with theoretical expectations as increasing discretionary accruals is expected to be constrained by the presence of audit committee financial expertise, audit committee size, audit committee independence and diligence. The R^2 for Sub-sample estimation for companies with negative DACC shows a value of 0.553 which indicates that the model explains about 55.3% of the systematic variations in financial reporting quality over the study period. The F-stat is 4.406 with p value =0.00 which is significant at 5% and suggest that the hypothesis of a significant linear relationship between the dependent and independent variables cannot be rejected. It is also indicative of the joint statistical significant of the model. The D. W statistics of 2.01 indicates the presence of serial correlation in the residuals is unlikely. Commenting on the performance of the audit committee variables, we observe that the coefficient for Audit committee financial expertise (ACFEXP) is positive (4.739) and statistically significant, Audit committee size (ACS) is positive (0.662) and significant, Audit committee independence (AUDIND) has a positive (0.292) effect and is also statistically significant, Audit committee diligence (AUDDIL) is positive (6.663) and also significant. An evaluation of the control variables reveals that the coefficient for Firm size (FSIZE) is positive (5.088), Leverage (LEV) has a negative (-0.9005). In conclusion, the findings for the full sample and negative DACC sample confirm our expectation that audit committee characteristics have a constraining effect on earnings management. Hence we accept the hypotheses (H1-H4). The study findings is in tandem with Klein (2002), Bedard, Chtourou and Courteau (2004).

6.0 CONCLUSION AND POLICY RECOMMENDATION

Using the agency theoretical framework, the study postulates in line with prior studies that audit committees can impact significantly, constraining accrual-based distortion of financial reporting credibility and thus improve the quality of financial reporting. To assess our arguments, audit committee size, audit committee financial literacy, audit committee attendance at meetings, audit committee independence and audit meetings frequency of meeting were regressed on earnings management measured by discretionary accruals. The studying findings suggest that audit committee characteristics are important in improving the level of financial reporting quality in Nigeria.

In the light of the research work, the following policy recommendations are suggested. Firstly, with the current policy of six member audit committee size for quoted companies, it is expected that the audit committee will be effective in monitoring the corporate reporting process to ensure quality. However, the study recommends that companies should be made to adhere strictly to these rules. Though a one size fits all approach may not be without its inadequacies because firm specific dynamics exist and are different across firms and across industries. Secondly, the study recommends that there is the need for regulation that establishes an allowable threshold for audit committee attendance at meetings. A situation where less than 50% of the audit committee members attend audit committee meeting will definitely impact on the effectiveness of the committee. Finally, the study recommends that there is the need for companies to ensure that they include a sufficient number of independent directors as part of the audit committee.

REFERENCES

Abbott, L., Park, Y. & Parker, S. (2000). The effects of audit committee activity and independence on corporate fraud. *Managerial Finance, 26 (11),* 55-67.

Abbott, L., S. Parker, & G. Peters. (2004) .Audit committee characteristics and restatements. *Auditing: A Journal of Practice and Theory* 23 (1): 69-87.

Abbott, L.J., Parker, S, Peters, G.F. & Raghunandan, K. (2003). The association between audit committee characteristics and audit fees. *A Journal of Practice and Theory, 22 (2),* 17-32.

Baxter (2002). Audit committees and financial reporting quality. Unpublished Ph.D thesis, University of Southern Queensland,

Beasley, M. S. (1996). An empirical analysis of the relation between the board of director composition and financial statement fraud. *Accounting Review, 71(4),* 443-465.

Bedard, J., S. M. Chtourou, & L. Courtean (2004). The effect of audit committee expertise, independence, and activity on aggressive earnings management. *Auditing: A Journal of Practice and Theory* 23 (September): 13-35.

Bergstresser, D., & Philippon, T. (2006). CEO incentives and earnings management. *Journal of Financial Economics, 80(4)* 511–529.

Birkett, L., (1986). The provision of other services by auditors: Independence and pricing issues, *Accounting and Business Research,* 24(94) 99-108.

Blue Ribbon Committee (BRC), (1999), *Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees.* Stamford, CT: BRC.

Bradbury, M (1990). The Incentives for voluntary audit committee formation. *Journal of Accounting and Public Policy, 9 (1),* 13-36.

Cheng, H. & S. Warfield (2010). Client importance, non-audit services, and abnormal accruals. *The Accounting Review.* 78(4) 931-955.

Choi, J. J., Jeon, S. W., & Park, S. S. (2007). The value of outside directors: Evidence from corporate governance reform from Korea. *Journal of Financial and Quantitative Analysis,* 42(4), 941–962

Dechow, P., Sloan, R., & A. Sweeney. (1995). Causes and consequences of earnings manipulation: an analysis of firms subject to enforcement actions by the SEC. *Contemporary Accounting Research* 13:1-36.

Dellaportas, S., Gibson, K., Alagiah, R., Hutchinson, M., Leung, P., & Van Homrigh, D. (2005), *Ethics, Governance & Accountability, a Professional Perspective*, JohnWiley & Sons Australia Ltd, Milton, Qld.

Fama, E. (1980). Agency problems and the theory of the firm. Journal of Political Economy 88(2): 288-307.

Fama, E. F., & Jensen, M. C. (1983). Separation of ownership and control. *Journal of Law and Economics,* 26(2), 301-325.

Goodwin, J. (2003). The relationship between the audit committee and the internal audit function: evidence from Australia and New Zealand. *International Journal ofAuditing, 7,*263-278.

Greene, W. (2003). Econometric analysis, 5th edition, New York: McGraw-Hill

Healy, P.M. & J.M. Wahlen (1999). A review of the earnings management literature and its implications for standard setting. *Accounting Horizons*. 13, (4) 365-383

Ittonen, K, Miettinen, J & Vähämaa S. (2007). Does female representation in audit committees affect audit fees? Department of Accounting and Finance University of Vaasa, Finland

Iturriaga, F. J. L. & P. S. Hoffiman (2005). Managers discretionary behavior, earnings management and internal mechanisms of corporate governance: Empirical evidence from Chilean firm. *Corporate Ownership and Control,* 3,(1) 17-29

Jensen, M & Meckling, W. (1976). Theory of the firm: Managerial behavior, agency costs, and ownership structure. *Journal of Financial Economics*, 3,(6) 305-360.

Jones, J. J. (1991). Earnings management during import relief investigations, Journal of *Accounting Research* 29, 193-228.

Kalbers, LP & Fogarty, T. J. (1998). Organizational and economic explanations of audit Committee Oversight. *Journal of Managerial Issues*, 10 (2), 129-150.

Klein, A., (2002a). Audit committee, board of director characteristics, and earnings management. *Journal of Accounting and Economics, 33 (3),* 375–400.

Klein, A., (1998): Firm performance and board committee structure. *Journal of Law and Economics, Vol. 41*, (1) 275-303.

Lin, P., and li, H., & Yang E (2006). The auditor's going-concern decision: Some UK evidence concerning independence and competence, *Journal of Business Finance & Accounting, 20(2)*,213-228.

Murya, G. (2010).Audit committee characteristics and restatements. *A Journal of Practice and Theory* 23 (1): 69-87.

Oaikhenan, H. E & Udegbunam, R. I. (2004). *Modern Statistics for economics and business*, Benin City: Henans Publishers.

Rahman, R. & Ali, F. (2006). Board, audit committee, culture and earnings management: Malaysian evidence. *Managerial Auditing Journal*, vol. 21, no. 7, pp. 783-804.

Saleh, E. Iskandar . S & Rahmat A. (2007). Audit committee characteristics and earnings management: evidence from Malaysia, *The Asian Review of Accounting, 15* (2): 147-163.

Thinggaard, F. and Kiertzner, K. (2008). Determinants of audit fees: Evidence from a small capital market with a joint audit requirement. *International Journal of Auditing*, 12, 141 – 158.

Uwuigbe, O. (2011). Corporate governance and financial performance of banks: a study of listed banks in Nigeria. A Thesis In The Department Of Accounting, Submitted to the School of Postgraduate Studies Covenant University, Ota, Ogun State.

Vafeas, N. (2005) Board meeting frequency and firm performance, *Journal of Financial Economics,* **53**, 113-142.

Van der Zahn, M. and Tower, G. (2004). Audit committee features and earnings management: further evidence from Singapore. *International Journal of Business Governance and Ethics, 1(2)* 233-257.

Xie, B., Davidson, W., & DaDalt, P.J., (2003). Earnings management and corporate governance: the role of the board and the audit committee. *Journal of Corporate Finance,* 9, 295-316.

Yang, J. S., & Krishnan, J., (2005). Audit committees and quarterly earnings management. *International Journal of Auditing,* 9, 201-209. 70

Zain, M. (2005). The impact of audit committee and internal audit attributes on internal audit contribution to financial statement audit and audit fees: Perceptions of Malaysian Internal auditors. Unpublished thesis.