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Integrated Effects of Audit Fees and Auditor Tenure on Upward Earnings Manipulation and Forecast Beating

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Abstract

This study investigates the joint influence of audit fees and auditor tenure on firms' propensity to meet or exceed analysts' earnings forecasts, which serve as a proxy for market expectations. Prior research provides evidence that non-audit fees compromise auditor independence when auditor tenure is short (Gul, Jaggi, and Krishnan 2007), and that under such circumstances, non-audit fees are positively associated with earnings management. Extending this line of inquiry, the present study examines whether the combined effects of audit fees and auditor tenure are associated with upward earnings manipulation. The findings indicate that managers are more likely to engage in earnings manipulation to meet or surpass market expectations when audit fees are high and auditor tenure is relatively short.

Keywords: Financial Analysts; Audit Fees; Auditor Tenure; Earnings Management