

**EARNINGS MANAGEMENT AND AUDIT QUALITY OF LISTED
MANUFACTURING COMPANIES IN NIGERIA**

**UWAJUONYE, CHINWE MIRACLE
MGS2206807COVER PAGE**

**DEPARTMENT OF ACCOUNTING
FACULTY OF MANAGEMENT SCIENCES
UNIVERSITY OF BENIN
BENIN CITY.**

JULY, 2026.

**EARNINGS MANAGEMENT AND AUDIT QUALITY OF LISTED
MANUFACTURING COMPANIES IN NIGERIA**

**UWAJUONYE, CHINWE MIRACLE
MGS2206807CTITLE PAGE**

**BEING A PROJECT WORK SUBMITTED TO THE DEPARTMENT OF
ACCOUNTING, FACULTY OF MANAGEMENT SCIENCES, UNIVERSITY OF
BENIN, BENIN CITY. IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE AWARD OF BARCHELOR OF SCIENCE (B.Sc)
DEGREE IN ACCOUNTING.**

JULY, 2026.

DECLARATION

I **UWAJUONYE, CHINWE MIRACLE** hereby declare that,

- i. This project report is based on a study undertaken by me, under the supervision of **DR. UMANAH SAMUEL** in the Department of Accounting, Faculty of Management Sciences, University of Benin, Benin City.
- ii. This work has not been submitted for the award of degree elsewhere.
- iii. Ideas and views are product of my personal research and where the view of others has been expressed, they have been duly acknowledged.
- iv. Any liability arising from this work is to be wholly borne by me alone.

UWAJUONYE, CHINWE MIRACLE
MGS2206807C

DATE

CERTIFICATION

We, certify that this research project was carried out by **UWAJUONYE, CHINWE MIRACLE** in the Department of Accounting, Faculty of Management Sciences, University of Benin, Benin City, Nigeria. It is adequate in scope and quality in partial fulfillment of the requirements for the award of Bachelor of Sciences (B.Sc) Degree in Accounting.

DR. UMANAH SAMUEL
(Project Supervisor)

Date

DR.GODSTIME IKHU-OMOREGBE
(Project Coordinator)

Date

PROF. OSASU OBARETIN
(Head of Department)

Date

DEDICATION

This project work is dedicated to God Almighty for His abundant grace in my life and for seeing me through my academic pursuit and aspirations.

ACKNOWLEDGEMENTS

My profound gratitude goes to Almighty God for His infinite mercy, grace, wisdom, strength and protection throughout my academic journey and during the completion of this research project. Without His guidance, this success would not have been possible.

My sincere gratitude goes to my supervisor, **Dr. Umanah Samuel**, for his patience, professional guidance, corrections, advice and encouragement throughout the course of this research work. Your contributions, constructive criticisms and support were invaluable to the success of this study. I also appreciate the project coordinator **Dr. Godstime Ikhu-Omoregbe**, the Head of Department, **Dr. Osasu Obaretin** of the Department of Accounting and a host of other lecturers. God bless you all.

I sincerely appreciate my beloved mom Mrs. **Uwajuonye Helen** for her unconditional love, sacrifices, prayers, care and endless support throughout my educational journey. Your encouragement, strength and belief in me have been my greatest source of inspiration and motivation. Also to my late Father, **Mr. Uwajuonye John**.

I specially acknowledge my sister, **Uwajuonye Precious** for her immense support, encouragement, prayers and unwavering belief in me throughout this academic pursuit.

Your love, care and constant motivation contributed greatly to the successful completion of this project. I deeply appreciate every effort you made and I remain forever grateful.

I also appreciate my sisters, **Uwajuonye Peace**, **Uwajuonye Ewere** and **Uwajuonye Prayer** for their support, understanding, encouragement and companionship which made my university journey memorable and worthwhile. Also to my friends, Felix, Abraham, Esohe, Glory, Ajoke, Kimberly, Celeb and Joyce, for standing by me throughout my stay in this institution.

Finally, I appreciate myself for the determination, resilience, hard work and commitment invested in achieving this academic milestone. To everyone who contributed directly or indirectly to the success of this project, may God richly bless you all.

TABLE OF CONTENTS

DECLARATION	iii
CERTIFICATION	iv
DEDICATION	v
ACKNOWLEDGEMENTS	vi
Abstract	xi
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background to the Study	1
1.2 Statement of the Problem	4
1.3 Research Questions	5
1.4 Objectives of the Study	5
1.5 Research Hypotheses	6
1.6 Scope of the Study	6
1.7 Significance of the Study	7
1.8 Limitations of the Study	8
1.9. Definition of Terms:	8
CHAPTER TWO	11
LITERATURE REVIEW	11
2.1 Conceptual Review	11
2.1.1 Earnings Management	11
2.1.2 Auditing and Audit Quality Process	17
2.1.3 Approaches to Measuring Audit Quality	20
2.2 Theoretical Review	32
2.2.1 Agency Theory	33
2.2.2 Theory of Inspired Confidence	35
2.2.3 Economic Bonding Theory	36

2.2.4	Lending Credibility Theory	37
2.2.5	Signaling Theory.....	38
2.3	Empirical Review.....	40
2.3.1	Audit Firm Size and Earnings Management	40
2.3.1.1	Empirical Studies in Developed Countries	40
2.3.1.2	Empirical Studies in Developing Countries.....	41
2.3.1.3	Empirical Studies in Nigeria.....	47
2.3.2	Audit Fee and Earnings Management.....	49
2.3.2.1	Empirical Studies in Developed Countries	49
2.3.2.2	Empirical Studies in Developing Countries.....	50
2.3.2.3	Empirical Studies in Nigeria.....	52
2.3.3	Audit Tenure and Earnings Management	53
2.3.3.1	Empirical Studies in Developed Countries	53
2.3.3.2	Empirical Studies in Developing Countries.....	54
2.3.3.3	Empirical Studies in Nigeria.....	59
2.4	Summary and Gap Identified in the Literature	63
2.5	Theoretical Framework.....	64
2.6	Conceptual Model.....	66
CHAPTER THREE		67
METHODOLOGY		67
3.1	Introduction.....	67
3.2	Research Design.....	67
3.3	Population of the Study.....	67
3.4	Sample Size and Sampling Technique.....	68
3.5	Sources of Data	68
3.6	Model Specification and Framework.....	69
3.7	Operationalization of Variables	70
3.8:	Operationalization of Variables	71

3.9	Method of Data Analysis	71
3.9.1	Diagnostic and Robustness Tests.....	72
CHAPTER FOUR.....		73
DATA PRESENTATION, ANALYSES AND INTERPRETATION		73
4.1	Data Presentation	73
4.2	Interpretation of Results.....	73
4.3.1	Analysis of Panel Least Squares Regression	83
4.4	Test of Hypotheses.....	86
4.4.1	Test of Hypothesis One.....	87
4.4.2	Test of Hypothesis Two	88
4.4.4	Test of Hypothesis Four.....	89
4.5	Discussion of Findings.....	89
CHAPTER FIVE		93
SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS		93
5.1	Introduction.....	93
5.2	Summary of Findings.....	93
5.3	Conclusion	94
5.4	Recommendations.....	95
REFERENCES		98

Abstract

The study examined the relationship between audit quality and earnings management in selected manufacturing firms in Nigeria. The study focus on four major indicators of audit quality, namely audit firm size, audit tenure, audit fee, and audit independence. Data used for the study were obtained from the published annual report of selected manufacturing firms, while regression analysis was used to test the hypotheses at 5% level of significance. The findings showed that audit firm size has a significant negative effect on earnings management, as indicated by a t-value of -2.240854 and a probability value of 0.0162. this implies that larger audit firms help in reducing earnings management manipulation because of their experience, competence, and reputation. The results also revealed that audit tenure has a significant negative relationship with earnings management with a t-value of -1.078057 and a p-value of 0.2828, suggesting that auditors who have spent more time with a client are better able to understand the firm operations and detect irregularities. In addition, audit fee was found to have a significant positive effect on earnings management, with a t-value of 2.44459 and a p-value of 0.0264. This suggests that high audit fees may affect auditor may affect auditor's objectivity and increase the tendency for earnings manipulations. Audit independence also showed a significant relationship with earnings management, with a t-value 2.1407 and a p-value of 0.0340, indicating that weak auditor independence may encourage earnings management practices. The study concluded by audit quality plays an important role in reducing earnings management among manufacturing firms in Nigeria. The study therefore recommended stronger regulatory monitoring, improved auditor independence, and the engagement of competent audit firms to improve the quality of financial reporting.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Earnings management has become a major concern in corporate financial reporting due to its ability to distort the true economic performance of firms (Akinleye, 2024). Earnings management refers to the deliberate use of accounting choices or operational decisions by management to influence reported earnings, either to mislead stakeholders or to achieve contractual or regulatory targets. It does not always imply outright fraud, but it reduces the quality and reliability of financial information provided to users of financial statements.

Earnings management generally occurs in two major forms: accrual-based earnings management and real activities earnings management (Abdullahi, 2024). Accrual-based earnings management involves the manipulation of accounting estimates and judgments, such as provisions, depreciation methods, and revenue recognition policies, without altering the firm's underlying business activities. Real activities earnings management, on the other hand, involves altering actual business operations—such as overproduction, reduction of discretionary expenses, or offering excessive sales discounts—to influence reported earnings (Amadi et al, 2024). Both forms undermine the credibility of financial reports and can mislead investors and other stakeholders.

Audit quality plays a critical role in constraining earnings management and enhancing the credibility of financial statements. Audit quality is commonly defined as the probability that an auditor will both detect material misstatements in financial statements and report them truthfully (Dare et al, 2022). High audit quality is expected to limit managers' opportunistic behavior and ensure compliance with accounting standards. In empirical literature, audit quality is often measured using several proxies, including audit firm size (Big Four versus non-Big Four auditors), audit fees, audit tenure, and auditor independence. Big Four audit firms are generally perceived to provide higher audit quality due to their technical expertise, stronger reputational concerns, and greater resources (Ejoh et al, 2025). Audit fees may reflect the level of audit effort and complexity, while audit tenure and auditor independence influence objectivity and professional skepticism.

In the Nigerian context, concerns about earnings management remain prominent, particularly among firms listed on the Nigerian Exchange Group (NGX), including manufacturing companies. The manufacturing sector is vital to Nigeria's economic development, employment generation, and industrialization. However, the sector operates in a challenging environment characterized by weak regulatory enforcement, economic volatility, inflationary pressures, foreign exchange instability, and governance weaknesses. These conditions may create incentives for managers to manipulate earnings to present a stable financial image.

Nigeria has witnessed several high-profile corporate scandals that have raised questions about the effectiveness of audits and financial reporting practices (Okolie & Izedonmi, 2014). Notable cases include the Cadbury Nigeria Plc accounting scandal and various failures in the banking sector, which exposed weaknesses in audit oversight and regulatory enforcement. In response, regulatory bodies such as the Financial Reporting Council of Nigeria (FRCN), the Securities and Exchange Commission (SEC), and the Central Bank of Nigeria (CBN) have introduced reforms aimed at improving financial reporting quality.

A significant milestone in Nigeria's financial reporting landscape was the adoption of the International Financial Reporting Standards (IFRS) in 2012 (FRCN, 2012). IFRS adoption was intended to improve transparency, comparability, and the quality of financial reports. While IFRS provides a principles-based framework that enhances reporting quality, it also allows managerial discretion, which may create opportunities for earnings management if not effectively monitored by high-quality audits. This underscores the importance of audit quality in ensuring that the objectives of IFRS adoption are fully realized.

Against this background, this study examines the relationship between audit quality and earnings management of listed manufacturing firms in Nigeria.

1.2 Statement of the Problem

Despite the existence of statutory audit requirements, corporate governance codes, and regulatory oversight, earnings manipulation remains a persistent problem among Nigerian firms. Several listed companies continue to present financial statements that may not faithfully represent their true financial performance, thereby misleading investors and other stakeholders.

Although audit quality is expected to serve as a deterrent to earnings management, questions remain as to whether auditors in Nigeria effectively constrain such practices, particularly in the manufacturing sector. Factors such as long auditor-client relationships, economic dependence arising from audit fees, and engagement of low-reputation audit firms may impair auditor independence and reduce audit effectiveness.

Empirical studies on audit quality and earnings management in Nigeria have produced mixed and inconclusive findings (Abdullahi,2024). While some studies report that high audit quality significantly reduces earnings management, others find weak or insignificant relationships. Moreover, many prior studies rely on outdated data and do not adequately capture recent developments, including post-COVID-19 economic disruptions, regulatory reforms, and changes in corporate reporting practices.

These gaps create uncertainty about the current effectiveness of audit quality in curbing earnings management among listed manufacturing firms in Nigeria. This study therefore seeks to provide updated empirical evidence on the effect of audit quality on earnings

management in the Nigerian manufacturing sector. To guide the study, the following research questions are hereby generated

1.3 Research Questions

1. Does audit firm size significantly affect earnings management of listed manufacturing companies in Nigeria?
2. What is the effect of audit tenure on earnings management of listed manufacturing companies in Nigeria?
3. What significant influence has audit fees on earnings management of listed manufacturing companies in Nigeria?
4. How does auditor independence influence earnings management of listed manufacturing companies in Nigeria?

1.4 Objectives of the Study

The main objective of this study is to examine the effect of audit quality on earnings management of listed manufacturing companies in Nigeria .The specific objectives are to :

1. determine the relationship between audit firm size and earnings management of listed manufacturing companies in Nigeria.
2. assess the impact of audit tenure on earnings management of listed manufacturing companies in Nigeria

3. evaluate the effect of audit fees on earnings management of listed manufacturing companies in Nigeria
4. ascertain the effect of audit independence on earnings management of listed manufacturing companies in Nigeria

1.5 Research Hypotheses

The following null hypotheses are formulated to guide the study.

1. Ho1 Audit firm size has no significant effect on earnings management of listed manufacturing companies in Nigeria
2. Ho2 Audit tenure has no significant effect on earnings management of listed manufacturing companies in Nigeria
3. Ho3 Audit fees has no significant effect on earnings management of listed manufacturing companies in Nigeria
4. Ho4 Audit independence has no significant effect on earnings management of listed manufacturing companies in Nigeria

1.6 Scope of the Study

This study focuses on manufacturing companies listed on the Nigerian Exchange Group (NGX). Samples of fifteen (15) listed manufacturing companies are examined over a ten (10) year period, covering 2015-2024. The choice of 2015 as a base year was simply a

matter of interest to the researchers as 2024 appears recent to reveal more about the explanatory variables. The study investigates earnings management and audit quality using selected proxies such as audit firm size, audit tenure, audit fees, and audit independence.

1.7 Significance of the Study

The findings of this research will be of significant benefit to various stakeholders. Regulators such as the financial reporting council of Nigeria (FRCN) and Security and Exchange Commission (SEC) will gain insights into the effectiveness of audit quality mechanisms and areas requiring policy intervention. Investors and financial analysts will benefit from improved understanding of the reliability of financial reports issued by manufacturing companies.

The study would advance knowledge to many as this area has scanty or little attention of empirical researchers in Nigeria as many of them are interested in the financial sector such as deposit money banks due to, perhaps, the non-availability of data in an organized form and in terms of proper econometrics modeling.

The findings in this study will equip policy makers with the relevant information on ways to take earnings management which would ensue higher and sustainable financial performance in the manufacturing sector. It would also be useful to financial analysts in analyzing the financial status of the company as well as company ratings. Students in

tertiary institutions will find it useful as facts can be extracted from it, carry out further studies to bridge the gap in literature or be used as reference materials.

The security and exchange commission will find their work useful service it shows a clear picture of what is going on in the manufacturing sector of the economy. The Nigerian Exchange Group and other users of financial statements will also find it useful. Above all, it will bridge the gap in the areas of limited studies on audit quality in an emerging markets like Nigeria and limited understanding of the impact of auditor rotation on audit quality in manufacturing sector of the economy in Nigeria.

1.8 Limitations of the Study

The study is subject to certain limitations. It relies solely on secondary data obtained from published annual reports, which may contain inherent measurement errors. The use of proxy variables to measure audit quality and earnings management may not fully capture all dimensions of the concepts. Despite these limitations, the study is expected to provide reliable and meaningful insights into the relationship between audit quality and earnings management in Nigeria.

1.9. Definition of Terms:

- (1) Earnings management: this is the practice of manipulating financial reports to achieve a desired outcome, such as increasing or decreasing reported earnings.

- (2) Audit Quality: This is the degree to which an audit is conducted in accordance with professional standards and provides assurance that the financial statements are presented fairly and accurately.
- (3) Listed Manufacturing Companies: These are companies listed on a stock exchange and engaged in the production and sale of manufactured goods.
- (4) Nigerian Exchange Group (NGX): This is in the primary stock Exchange in Nigeria where companies can raise capital and investors can buy and sell securities.
- (5) Financial Reporting: This is the process of presenting financial information about a company to stakeholders, including investors, creditors and regulatory bodies.
- (6) Audit Committee: This is a committee established by the company's board of directors to oversee the audit process and ensure the integrity of financial reporting.
- (7) Audit firm size: It can be considered as the size of an audit firm, which can be measured by factors such as the number of clients, revenue, or number of employees.
- (8) Earning Quality: The degree to which reported earnings accurately reflect a company's underlying financial performance.
- (9) Audit fees: The fees paid to auditors for conducting an audit of a company's financial statements.

- (10) Financial Statement: A formal report that presents a company's financial position, performance, and cash flows, typically including the statements of financial affairs, income statements, cash flows statements etc.

CHAPTER TWO

LITERATURE REVIEW

This chapter deals with the conceptual review (the concepts of the earnings management, audit quality concepts as well as the approaches to the measurement of audit quality), various theories in relation to the study and the previous empirical studies carried out on the topic.

2.1 Conceptual Review

2.1.1 Earnings Management

Financial statement prepared is expected to provide clear and detailed information about the economic performance, the financial position as well as the changes in the company's equity. This information is expected to be stated in both qualitative terms. The quantitative information reveals the financial performance in terms of profit made, financial position and the changes in the entity's equity as shown in the statement of comprehensive income, statement of financial position and statement of cash flows respectively while the qualitative information discloses the non-financial performance activities such as sustainability performance of the firm.

According to Healy and Wahlen (2024), 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 depends on reported accounting

practices. Therefore, managers employed earnings management as an opportunistic behavior in order to satisfy their personal objectives 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 compensation (Schipper, 2022). This also signifies that management have incentives to manipulate the earnings with the aim of either maximizing 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, 2022).

Dabor (2026) opined that earnings management is derived from the flexibility of accounting choices that are allowed with Generally Accepted Accounting Principles. The reporting procedures and to make estimations and assumptions that suite their business procedures that best suit him in order to maximize their wealth by exhibiting opportunistic behavior. As a result, accounting manipulation power may create 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.

Dechow and Skinner (2024) opined that earnings management is the use of accounting choices which are allowed by GAAP; conversely, fraudulent accounting is that which does not comply with GAAP. Managed earnings are earnings which do not result from a

neutral treatment but from the use of aggressive accounting or conservative accounting. In doing so, a management has to alter real events or to choose accounting choices. Adopting conservative or aggressive accounting practices through purposely selecting accounting estimations and assumptions is far preferable to structuring real transactions because, as remarked by Goncharov (2025), operating earnings management is more costly than accounting earnings management since it affects real cash flows.

Several researches found different reasons that managers engage in earnings management which may be internal or external. The internal reasons are personal incentives or management compensation and contract as well as preventing decreases in income or losses to avoid being sacked while the external reasons include debt covenants, stock market incentives, tax purpose, regulatory motivations and political costs (Rahman, Moniruzzaman & Sharif, 2023). DeFond and Jiambalvo (2024) asserted that firms accelerate earnings prior to lending covenants, and Holthausen, Larcker and Sloan (2022) observed that managers manipulate downwards when their bonuses are at their maximum. Healy (2020) also documented similar evidence. Another set of studies focused on top managers' job security and their incentives to manipulate earnings when the managers are faced with a possibility of losing their respective jobs. It was also suggested that certain factors such as debt covenant constraints, compensation plan provisions, and political costs, the need to issue equity capital, insider trading, etc. provide managers with incentives to manage earnings. Another reason for earnings

management practice among firms is compensating for regulatory or political costs (Jones 2024).

Earnings management techniques are divided into real operating decisions and pure financial reporting decisions (Schnipper, 2022; Peasnell, Pope & Young, 2024; Ewert & Wagenhofer, 2024). Schnipper (2022) pointed out that real earnings management is designed to manage the timing of decision-making on a company's investment and production while accounting earnings management is designed to select accounting techniques allowed by GAAP. Ewert and Wagenhofer (2024) explained that the management's interpretation of accounting standards with the intent to make existing standards apply to existing accounting events and transaction and/or with intent to shift partial earnings between periods is one form of earnings management. In terms of real earnings management, a manager is required to organize transactions or alter the timing of transactions to help him/her transform bad news into good news. Real earnings manipulation usually includes overstating earnings, recording unrealized gains and uncertain revenues, increasing inventory value or increasing capitalized expenditures. Furthermore, earnings can be smoothed through specific use of accounting techniques where managers defer revenue during a good year if the next year is anticipated to be a challenging one, or delay the recognition of expenses in a difficult year because profitability is expected to improve in the near future (Jubril, 2025).

According to GAAP, accrual method principle provides the rule that firms have to recognize expenses in the period in which they are incurred and not when they are paid

on a cash basis. Thus, managers can increase earnings not only when they are paid on a cash basis. Thus, managers can increase earnings not only through increasing sales and revenues, but via decreasing some of the expenditures, such as discretionary expenditures. For instance, it can be Research and Development costs which are capitalized instead of being expensed in a period. Hence, expenses are reduced and the statement of the financial position may include intangible assets, thereby, misleading the users. It was also proposed that managers are less willing to invest in profitable research and development projects when costs are expensed, because they must sacrifice certain current period cash flows for uncertain future cash flows (Umanah, 2023). According to International Financial Reporting Standards (IFRS), “IAS 38 Intangible Assets” provides that an intangible asset arising from (or from the research phase of an internal project) must not be recognized. Expenditure on research should be recognized as an expense when it is incurred.

Roychowdhury (2024) indicated 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 leads to increased production costs and costs of maintaining inventory (Roychowdury, 2024). 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.

Firms can adopt real earnings management through the acceleration of sales. The acceleration of sales can be achieved through the use of price discounts and lenient credit terms, with the intention to persuade more customers. By introducing price discounts, firms can accelerate their sales from the next year to the current year. The price discounts will boost total earnings in the current period but it will also lead to lower margins. This would subsequently lead to a situation where production costs relatively to sales will be abnormally high (Roychowdury, 2024). However, the increase in sales is a temporary situation. When the old prices are re-enacted, there would be lower sales and lower profit margin.

Moreover, firms can lower their costs of goods sold through an increase of their production. By increasing their production more than normal, firms can spread the fixed overhead costs over more units. This would subsequently decrease the fixed cost per unit. However, due to the overproduction, firms might contract additional holding costs and therefore cash flows from operations are lower than the normal sales level (Roychowdhury, 2024).

Finally, firms can decide to alter the levels of discretionary expenditures such as advertising, R&D and selling, general and administrative (SGA) expenses (Roychowdhury, 2024). By reducing these expenses firms can increase their current period earnings, which subsequently lead to an increase in the current period cash flows when these expenses are paid in cash. However, there is a risk that this may negatively affect the cash flows in the future (Roychowdhury, 2024).

2.1.2 Auditing and Audit Quality Process

The International Audit and Assurance Standard Board (2013) defined audit as “an independent examination of, and expression of opinion on the financial statements of a business enterprises by an appointed and independent auditor in accordance with his terms of appointment and in compliance with the relevant statutory and performance requirement. This shows that audit report is the end-product of every audit assignment which the auditor issues to his client firm expressing his opinion on the true and fair view of the clients firm’s financial statement.

Auditing and audit process provide an evaluation of the probability of material misstatement and reduce the possibility of undetected misstatement to a reasonable or appropriate assurance level (Knechel, 2025). Therefore, audit is expected to improve the value of information presented in the financial statement and as a result, audit quality has to do with a display of professionalism, diligence and due care by an auditor in the audit process which could lead to a true and fair of financial statement (Arrunada 2025).

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, because it may jeopardize the integrity of the auditor and in turn, impair their independent opinion as to the financial health of their client.

Auditor's independence is defined as an auditor's unbiased mental attitude in making decisions throughout the audit and financial reporting process (Babatou, Osasere & Emmanuel, 2025). An auditor's lack of independence increases the possibility of being perceived as not being objective and the probability of an auditor not likely to report a discovered breach (DeAngelo, 2025). The impaired independence of an auditor results in poor audit quality and allows for greater earnings management and lower earnings management quality (Okolie, 2025).

DeAngelo (2025) 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. The audit quality lies on the broad concept of an auditor's professional conduct which includes independence, confidentiality, integrity and technical competence (Hope and Langli, 2025) also viewed audit quality as when the auditor carries out his work with higher degree of independence and objectivity on one

hand and defined 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.

Adeniji (2025) suggested 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 (2025) 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).

Okoh (2023) in Wooten (2025) 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, non-audit service, do not only impair auditor's independence directly, but they also support auditor 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.

2.1.3 Approaches to Measuring Audit Quality

Measurement of audit quality has been a problematic and complex phenomenon in the audit quality research. However, the International Auditing and Assurance Standards Board (2013) and public Company Accounting Oversight Board (2008) identified several potential measures for audit quality in both practice and academic literatures. A large body of accounting researches had used various drivers and indicators of the audit quality. Some of these indicators have been expressed in qualitative and quantitative terms or in both. The commonly used proxies for audit quality are categorized into direct and indirect measures (DeFond & Zhang, 2024). These measures are associated with audit procedures, the documentation of audit evidence and compliance with auditing standards.

The direct measures cover financial reporting in compliance with Generally Accepted Accounting Principles (GAAP): issuing of going concern opinions; material restatement, review, desk review and SEC performance, financial reporting characteristics such as using signed or absolute discretionary accruals; and perception based measures such as the earnings response coefficient (ERC), stock price reactions to auditor's related events and cost of measures (IAASB, 2013).

Material restatements is a great proxy for measuring audit quality as it directly speaks about the quality of the audit process but these observations, while capturing egregious conduct, is almost, by definition, rare and also do not account for "within GAAP" manipulations of financial statements. Moreover, absence of a material restatement does

not automatically imply higher audit quality as even the most carefully audit cannot guarantee detection of fraud. Furthermore, managerial and auditor incentives can lead to non-disclosure of identified misstatements (Srinivasan et al 2024). Going concern opinions are also direct measures of the auditor's opinion about the financial statements but these are issued only in exceptional cases. While financial reporting characteristics are easy to compute and capture an element of audit quality since financial reporting and audit quality are inextricably intertwined, they are rife with measurement errors and biases (Kothari et al 2025).

Perception based measures such as Earnings Response Coefficient (ERC) can capture audit quality in more comprehensive and less error prone ways than financial reporting measures. However, direct measures of audit quality have posed empirical challenges due to difficulty in measuring and generalizing results, low occurrences and the proprietary nature of the data.

There are various indirect variables that affect the audit quality such as auditor's characteristics, independence, level of competition in the audit service market, non-audit services, etc. Auditor's characteristics include several factors such as auditor's size, audit fees (economic dependence), industry-based expertise/specialization, auditor skills, non-audit service, auditor tenure, reputation (Wooten, 2025). Audit quality proxies like audit firm size, audit fee, audit tenure and industry specialist auditor are mostly employed in researches to show the audit quality exhibited by audit firms. Studies such as Smii (2023), Ching et al (2022) etc. have employed different combinations of these proxies to

assess the relationship between audit quality and the level of earnings management practice in a client's firm.

One of the most commonly used indirect measures of audit quality is audit firm size. The theory advanced by DeAngelo (1981) proposes that the size of an audit firm is an indicator of audit quality. Because larger firms have more equipment, they have greater reputation at stake, more resources at their disposal, attract more highly skilled employees, have narrow tendency to compromise standards and avoid costly litigation from failed audits, thereby providing better audit service compared to small audit firms. Audit firms that are greater in size are considered to be more resistant from management pressures. The greater the size of the auditing company, the greater the possibilities that this auditing company will try to be as much professional as it can in order to protect its name and reputation by providing higher audit quality. The link between the request for audit services and audits to large-firms is based on the agency theory as well as the links between audit quality and the auditor size. Therefore, clients that intend to choose a high quality auditor to reach the best auditing results are more interested in demanding for large audit firms with higher reputation compared with small audit firms. The higher the reputation, the higher the incentives to issue clean and accurate audit report, because inaccurate audit reports can lead to decline in the reputation. The decline of reputation could result in attracting fewer clients and in the decrease of audit fees.

Large auditors with higher credible clients can suffer noticeable losses compared with small auditors if they issue inaccurate report. Therefore, the large audit firms have more

incentive to issue a reliable audit report with the purpose of maintaining their reputation (DeAngelo, 2025). He theorized that larger firms perform better audits because they have a greater reputation at stake. In addition, because larger firms have more resources at their disposal, they can attract more highly skilled employees. Others have theorized that large auditors attract a fee premium because their greater wealth reduces clients' exposures in litigation (the deep pockets theory). Others have theorized that there is no real audit quality difference, but the perception exists because large firms are well known and have gained a reputation for high quality. On the whole, the evidence is mixed, but it appears that there is a close relationship between audit firm size and earnings management. Based on DeAngelo's reports, many other studies use auditor size (specifically Big8, Big6, Big5 or Big4 Vs non-Big8, non-Big6, non-Big5, non-Big 4) to differentiate audit quality levels (Okolie, 2025). The big four auditors in the world are in Ernest and Young (EY); Akintola Williams Deloitte; Price Waterhouse Coopers (PwC); and KPMG (Wikipedia, 2017).

Audit firm tenure is the length that an audit firm is engaged to a client-firm for performing audit of the financial statement. Audit tenure reflects the relation between auditor and audited entity. Audit tenure is one of the most controversial issues in the study of earnings management. Audit tenure is defined as short when the same auditor has audited the financial statement of a company for two or more years. Audit tenure is defined as long when the same auditor has audited the financial statements of a company for nine or more years. One of the commonly used arguments in favor of audit firm

rotation is based upon the assumption that long auditor tenure may cause a relationship to be established between the auditor and the client, which in turn possibly may compromise the auditor's independence and objectivity. When the auditor's independence is compromised by a relationship between the auditor and the entity that is being audited, breaches discovered in financial statements may less likely be reported.

Another argument that is often used by supporters of audit firm rotation is that audit firm rotation avoids situations in which auditors are becoming too aligned with managers of the issuer, which in turn can compromise the auditor's independence (Okoh, 2023). In order to avoid such undesirable situations, it would be enhancing for the auditor's independence if there is a fixed maximum term on the period in which one auditor may be appointed to the same client. Supporting this claim on independence, Adeyemi and Okpala (2024) found evidence suggesting that a longer audit firm tenure can result in a compromised auditor's independence. Jones (2024) make a distinction between short, medium and long-audit firm tenure. A short tenure is between two and three years, a medium tenure is four to eight years and a long tenure is nine years or longer, suggested that tenure of 9years or longer did not have a negative effect on financial reporting quality. It was found that financial reporting fraud is more likely to take place within the first three years of the auditor-client relationship. Their results supported opponents of mandatory audit firm rotation who addressed the adverse effects on audit and financial reporting quality.

As a result of this, Sarbanes Oxley (2002) specified that an audit firm should not use more than five years with a client firm while section 33(2) of the Nigerian Code of Corporate Governance stipulated that external audit firms should be retained for no longer than ten (10) years continuously and could only be re-engaged after seven (7) years of their disengagement.

Another indirect measure is audit fee. Efentaki (2026), explained audit fee to be 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 view or position of the client's enterprise. Audit fee consists of the amount paid for the audit of financial statements 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 audit 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, merger 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 auditor (Osamuede, 2022). The Sarbanes-Oxley Act increased disclosure requirements 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' concern about audit 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 independence is assumed to result in poor earnings quality (Bakare, 2024). 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.

Audit Firm Size

The size of the audit firm is defined as the number of people comprising an audit firm. The size of audit firm is one of the principal determinants of the effectiveness of an ability to oversee the firm's financial reporting internal control systems, and the audit cycle. A common argument, is that larger audit firms mean more "expertise diversity", greater and less biased scrutiny of financial statements, and improved financial reporting quality as well as preventing income smothering or creative accounting. Additionally, larger firms tend to have more varied viewpoint, which can improve the quality of decisions made and increase the firm's ability to oversee (Ileagu & Orjinta, 2025)

Most of the time, agency theory is used to understand the relationship between size and the quality of financial reporting of audit firms. Agency theorists see size as a factor that can help to control the agency problem by decreasing the possibility of financial malfeasance. Thus, the perceived larger firms as being better as the "watchdogging"

required to improve the decision that managers make regarding the financial reports so that the reports are of higher quality. The financial reporting and audit firm size relationship is particularly important in developing countries, such as Nigeria, where financial reporting is not transparent (Horsfall et al, 2023).

Several studies indicate that sizeable audit firm tend to show improvement in the quality of financial reporting. Within Nigeria, research has found that audit firm with greater number of staff tend to show improvement in oversight. This, in turn, leads to improvements in the reporting of finances, accuracy, and reliability of reports. For example, the research study conducted by Sani et al. (2023) found that Nigerian deposit money banks that had larger-sized audit committees employed improved techniques in the detection of irregularities in financial statements. This showcases the real role of the size of the audit firm and audit committee as well in the improvement of governance and transparency (Ashtiani et al, 2024)

As much as larger-sized audit firms show improvement in oversight, some studies show that the benefits of having a larger size are not infinite or endless. This is referred to as the concept of diminishing returns. This means that once more members have been added to increase the size, it is possible for some members to be ineffective, leading to a reduction in the efficiency of the audit firm. This concept has been considered in several corporate environments outside Nigeria. In these environments, it is possible for the audit firms to be large in size or number and to experience ineffective decision-making, poor collaboration, earnings management, lack of cohesiveness, and to have the problems that

accompany large audit firm size. This signifies the non-linear relationship that exists and the essence of having an optimal size, or the right size (Jacob et al, 2025).

The size of an audit firm is a determinant of adequate governance and effective reporting of financial information. Studies have shown that audit firms of moderate size are most effective in providing oversight when compared to smaller and larger firms. The audit firm size that is most optimal is that which has adequate variation in competencies and is coupled with the ability to work together without straining in terms of their functions. With the changes in governance in Nigeria, the evolving nature of the role of audit firm size will be critical in enhancing financial accountability and transparency (Ileagu & Orjinta, 2025, Pratiwi, 2023).

Audit Tenure

Audit tenure refers to the length of time between when the auditor has served a client and the period of his initial engagement (Bakare, 2024). There are two opposing views on the effect of audit tenure on earnings management as well as audit quality. The first view is that a longer tenure enables the auditor to develop competence because decisions are based on extensive client knowledge developed overtime. Secondly, the opposing view, is that it hampers independence because it enables an auditor gain so much familiarity and therefore likely to act in favour of management (Kenchel & Vanstraelen, 2025)

Ewa (2022), described audit tenure as the length an audit firm has been engaged by a client. Research suggests that long audit tenure can lead to improved audit quality due to

increased knowledge and experience (Yahaya, 2024). Aliu et al (2024), opined that extended tenure can lead to complacency and reduced independence.

Audit Fees

Audit fees are the compensation paid to auditors for their services (Horsfall et al, 2023). The level of audit fees can influence auditor's independence, as high fees may create economic dependence on the client (DeAngelo, 2025). Extant literature suggests that higher audit fees are associated with lower audit quality, indicating a potential compromise on independence (DeAngelo, 2025).

According to Efentaki (2026}, higher audit fees are associated with lower earnings management. This is because higher fees reflects better audit quality and effort, deterring management manipulation of earnings.

A study on Nigerian non-financial listed firms found that a statistically significant negative relationship between normal audit fees and real earnings management (REM). This implies that higher audit fees lead to better audit quality, reducing earnings management (Peasnell et al, 2024)

Another study found an inverted U-shaped relationship between audit fees and earnings management, suggesting that moderate audit fees are associated with higher earnings management (Wooten, 2025). Audit quality is a critical factor in reducing earnings management. Long audit-client relationship enhances audit effectiveness and reduce earnings management. Big four audit firms are associated with lower earnings management due to their reputation and expertise. Audit committee independence and

expertise also reduce earnings management (Olajide, 2025). On audit pricing and earnings management in Nigeria, he opined that executive compensation structures can influence earnings management, financial distress can increase earnings management incentives while corporate governance mechanisms, such as board independence and ownership structure, affect earnings management (Olajide, 2025).

Audit Independence

Audit independence is a fundamental element of the audit process especially in the private sector where the integrity of financial management plays a crucial role in National development. In Nigeria, audit independence is vital for ensuring that financial audits are credible, unbiased, and free from undue influence. It serves as a mechanism to uphold transparency, accountability and trust in an establishment making it dispensable for audit quality. Independence is both a psychological state and a behavioral trait; auditors must not only act independently but must also be perceived by external stakeholders to be independent (Ewa, 2022).

Audit independence is not just an abstract principle, its materially influences the quality of audit conducted in Nigeria. Studies highlight that where auditors are free from external influence, especially political and executive interference- the accuracy, reliability, and objectivity of audit reports improve significantly. For example, auditor who are protected from political retaliation or interference are more likely to report misstatements and irregularities without fear, thereby enhancing the quality and effectiveness of audit process (Osamuede, 2022).

One of the enduring threats to audit independence in Nigeria is the political capture of audit institutions. Auditors often operate under substantial political constraints, as many high-profile audit findings implicate senior officers or politically connected persons. In such scenarios, the willingness of auditors to issue unfavourable reports or take corrective actions is greatly diminished. This limitation not only undermines audit independence but also contributes to a cycle of weak financial governance and compromised audit quality (Njoku, 2020)

Audit independence is referred to as auditor's ability to conduct an unbiased and objective audit (DeAngelo, 2023). Independence is critical to maintain the credibility of financial statements. The link between audit independence and audit quality has been reinforced through regulatory and policy recommendations. Nigerian audit institutions and professional bodies, such as the Institute of Chartered Accountants of Nigeria (ICAN), are frequently encouraged to build auditor independence into their training and ethics frameworks. These recommendations are based on evidence that enhancing auditor independence leads to better detection of errors and fraud, higher compliance with accounting standards, and more credible financial reports (Bakare, 2024). Audit independence is also influenced by the internal structures and culture within audit institutions. Organisational cultures that prioritise ethical standards, transparency, and professionalism tend to support stronger audit independence. In contrast, cultures where whistleblowing is discouraged or where audit findings are routinely suppressed contribute to a deterioration in audit quality, thereby, giving rise to manipulations such as earnings

management. Nigerian companies must therefore not only enforce formal rules but also cultivate internal cultures that value audit integrity and accountability (Nwafor & Amahalu, 2024)

2.2 Theoretical Review

Different theories have been formulated relating to audit quality on earnings management. These theories include the agency theory, theory of inspired confidence, economic dependence theory, lending credibility theory and signaling theory. The researcher examined the authors of these theories, the philosophy behind the theories and how they relate as well as their relevance to the concept being discussed.

2.2.1 Agency Theory

Agency theory was first propounded by Mitnick in 1973. He defined agency theory to be the study of the agency relationship and the issues that arise from this, particularly the dilemma that the principal and the agent, while working toward the same goal, may not always share the same interests. Jensen and Meckling (1976) explained further that the agency relationship is one in which one or more persons (the principals) engage another person (the agent) to perform some services on their behalf which involves delegating some decision making authority to the agent. Agency theory explains the agency problem which is due to the agent (management) acting in their own benefit and in an opportunistic manner on the expense of the principal (owners/shareholders) (Jensen & Meckling, 1976).

Conflicts and dissimilar interests lead to information asymmetries between the two parties. The existence of information asymmetries results in two major agency problems, namely, moral hazard and adverse selection problems (Okoh, 2015). Moral hazard problems are associated with the problem of hidden actions when agents have the incentive to pursue self-interested behaviour. They arise when principals are unable to observe actions that are undertaken by the agents. Formally, an agent is expected to maximize the principal's wealth through their actions and decisions. However, agents tend to pursue their own interests. By contrast, adverse selection problems are associated with hidden information, where the agent has more information than the principal. Both

problems may create the phenomenon of earnings management that, in turn, may cause shareholders, debt holders to be unable to distinguish the true economic value of a firm.

According to agency theory, since the managers or agents are inspired by extrinsic motivations (Sundaramurthy & Lewis, 2003), the principals had to identify ways to motivate the agents and to ensure that they act in the best interest of the principals. Jensen and Meckling (1976) suggested that agency cost can be an alternative way to reduce agency conflict and they define agency cost as consisting of monitoring cost, bonding cost and residual loss. Monitoring costs are the costs that are associated with the appointment of appropriate agents, such as external auditors, and with mechanisms that control the agents' behaviour, such as the roles played by the board. Bonding costs is the cost that is associated with contracting in order to ensure that agents always make decisions that support the principal's wealth. These costs include those that are related to the agent's compensation system. Residual loss is the agency loss that is associated with the imbalance between monitoring and bonding costs, or in other words, it is the reduction in principal's welfare that arises from an imperfect alignment of interest between agents and principals (Jensen & Meckling, 1976).

In this research work, the monitoring roles of auditors are studied as the mechanism that mitigates agency conflicts. Zahra and Pearce (1989) argued that agency theory is the most comprehensive theory that clarifies the auditors' functions and highlights the importance of their controlling role. Solomon (2007) claimed that the external audit represents a crucial element of a firm's internal control system and that it provides a check and

balance system that helps shareholders to monitor and control the management's activities. Given the separation of ownership from management, the directors are required to report on their stewardship by means of the annual reports and financial statements sent to the shareholders. The audit provides an external and objective check on the way in which the financial statements have been prepared and presented, and it is an essential part of the checks and balances required. Hence, it can be argued that agency theory is essential to this study since it recognizes the monitoring role of an external audit as mechanism to control management opportunistic behaviours.

2.2.2 Theory of Inspired Confidence

The theory of inspired confidence also known as theory of rational expectation was propounded by Limperg (1932) to address both the demand and the supply for audit services. The demand for audit services is the direct consequence of the participation of third parties (interested parties of a company) in the company. These parties demand accountability from the management, in return for their investments in the company. Accountability is realised through the issuance of periodic financial reports. However, since this information provided by the management may be biased, and outside parties have no direct means of monitoring, an audit is required to assure the reliability of this information. With regard to the supply of audit assurance, Limperg (1932) suggested that the auditor should always strive to meet the public expectations.

The auditors' theory of inspired confidence offers a linkage between the users' requirement for credible and reliable financial reports and the capacity of the audit processes to meet those needs. It sees through the development of these needs of the public (stakeholders) and the audit processes over time. Developed by the Limperg Institute in Netherlands in 1985 (Limperg, 1985), the theory of inspired confidence states that the auditor, as a confidential agent, derives his broad function in society from the need for expert and independent examination as well as the need for an expert and independent judgment supported by the examinations. Thus, accountants and auditors are expected to know and realise that the public continues to expect a high rate of audit failures. This requires that the auditors must plan and perform their audit in a manner that will minimize the risk of undetected material misstatements. The accountant is under a duty to conduct this work in a manner that does not betray the confidence which he commands (Limperg, 1985).

2.2.3 Economic Bonding Theory

Economic bonding theory is derived from the agency theory perspective. It argues that the strength of the audit firm's monetary dependence on the client or the economic bond consciously or unconsciously reduces the auditor's independence or the willingness to resist client-induced biases in the financial statements. This is also supported by the psychological belief that auditors are rational wealth maximizers who would be intentionally biased towards compromising audit quality (independence) in order to

generate wealth for themselves. 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 (Franke et al., 2002). In addition, Beattie et al., (1998) stated that self interest in terms of familiarity or tenure 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, they 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; that is, the state of being objective and just. Therefore, the higher the auditor's independence, the more they detect management's manipulations in the financial statements.

2.2.4 Lending Credibility Theory

The lending credibility theory suggests that the primary function of the audit is to add credibility to the financial statements. In this view, the service that the auditors are selling

to the clients is credibility. Audited financial statements are seen to have elements that increase the financial statement users' confidence in the figures presented by the management (in the financial statements). The users are perceived to gain benefits from the increased credibility. These benefits are typically considered to be that the quality of investment decisions when they are based on reliable information.

2.2.5 Signaling Theory

Wallace (1980) posited that signaling is a kind of implicit guarantee. The signaling theory offers an explanation for the demand for different levels of audit quality. Signaling through auditor choice stands on the agency theory, and is a manner by which managers and/or directors may impart to the market, additional information about their company and their own behaviour. Signaling theory suggests that companies with good performance use financial information disclosure to send signals to the market. Craven and Marston (1999) showed that firms will attempt to accept the same level of disclosure as similar firms operating in the same industry since if a firm does not keep up with the same level of disclosure as others, it may be perceived by stakeholders that it is hiding bad news or negative information. As the types of financial statements produced have become standardized, potential information differentiation that a company can use to send a signal to the market through its financial statements is reduced. Companies are thus provided an incentive to signal, other than through transparency in their notes to the accounts and other voluntary disclosures, through their choice of auditor. Moreover, even

voluntary disclosures that may be used as signals achieve enhanced credibility in the presence of a quality auditor.

A high quality audit sends a signal to the market that the financial statements are more credible than those audited by lower quality auditors. The market perceives audit firm size and specialist auditors to be of a higher quality than others and rewards (punishes) companies with larger improvements (or falls) in share prices accordingly (Teoh & Wong, 1993; Khurana & Raman, 2004; Menon & Williams, 1994).

Signaling theory does not actually require higher audit quality. It merely needs the market to believe that Top Tier firms are associated with higher audit quality because of the fee premiums they are able to command (Sweeney, 1994). It has been shown that the market's perception of the quality of the company's auditor influences that company's share price. As such, directors and management may want to signal to the stakeholders that their interest is being well monitored. Therefore, signaling should, theoretically, affect the demand for audit quality over and beyond the monitoring function alone. The positive signal of transparency and credibility it sends to the market and the assurance it provides to stakeholders about the quality of earnings performance disclosures suggest a positive association between market price per share and audit quality. The signaling theory has shown that high quality audit sends a signal to the market that financial reports audited by higher quality auditors are more credible than those audited by lower quality auditors.

The theoretical framework for this study is anchored on the agency theory.

2.3 Empirical Review

This sub-chapter covers the review of empirical studies on the relationship between earnings management and the various proxies of audit quality used in this study. The objective is to critically examine the contribution of earlier researchers on the subject matter.

2.3.1 Audit Firm Size and Earnings Management

2.3.1.1 Empirical Studies in Developed Countries

De-Angelo (2023) assessed earnings management, audit quality and legal environment: an international comparison. They used 1,507 firms' observations from listed companies in private firms across different eight (8) emerging countries. Using big four and non-big four to measure audit quality, the result of the regression analysis showed that big four auditors do not constrain the discretionary accruals earnings management incentives in every emerging country but legal system does.

Kenchel and Vanstraelen (2025) examined the impact of audit quality and PCAOB on real earnings management with evidence from NASDAQ and NYSE listed firms. The data was collected from the CSRP/COMPUSTAT or New York Exchange and NASDAQ for the periods 2020 to 2024 covering 109,826 firm-year observations. The result of the panel regression analysis indicated that big auditors do stimulate real earnings management, that is, the higher standard delivered by big auditors has an unintended consequence on more real earnings management.

Efentaki (2026) examined the impact of audit quality on earnings predictability for profitable and unprofitable firms in the United Kingdom. Data was sourced through the annual report of 631 listed firms in the United Kingdom and was analysed using multiple regression analysis. He used the returns earnings regression model developed and found that investors are able to better anticipate future earnings when financial statements are audited by the big four accounting firms.

Alhadab and Clacher (2017) assessed the impact of audit quality on real accrual earnings management activities of IPO firms in the United Kingdom. The data collected from the annual report of the United Kingdom IPO firms between 1998 and 2008 were analysed using regression analysis. The study showed that high audit quality through BIG 4 constrains the use of real activities manipulations that occur via the management of discretionary expenses.

2.3.1.2 Empirical Studies in Developing Countries

Olajide (2025) examined the effect of audit quality on earnings management in the Tunisian context for the periods 2015 to 2020 using 29 listed firms as sample, the result of the regression analysis shows that longer auditor tenure is not associated with greater real and accruals earnings management. They also found that big four auditors is associated with lower levels of accruals earnings management and enhances the extent of real earnings management, that is, there is significant negative relationship between audit firm size and earnings management.

In the study carried out by Lawrence (2024) on Big Four Auditors quality and earnings management: evidence from Turkish Stock Market, data was obtained from the annual report of sampled manufacturing industry firms for the period 2018-2023 and was analysed using univariate and multivariate regression analysis. The study showed that audit firm size does not have an impact on discretionary accruals. It also shows that there is no difference in audit quality between big four and non-big four audit firms for restriction of earnings management in Turkey.

Okoh (2023) assessed the relationship between auditor tenure and size of the audit firm with earnings management in Pharmaceutical companies listed on Tehran stock exchange. The data collected from the annual report of the twenty-five (25) pharmaceutical companies selected as sample for the periods 2017 to 2022 was analysed using multivariate regression analysis based on panel data method. The study revealed that audit firm size reduces management flexibility in the use of discretionary accruals for earnings management, that is, there is a significant negative correlation between audit firm size and earnings management.

Rahman et al (2023) investigate the effect of audit quality on earnings management with evidence from Iran. One hundred and forty (14) annual report of firms listed on the Tehran Stock Exchange were used for data collection and multivariate regression analysis was employed in testing the hypothesis. The study revealed that audit firm size has insignificant negative relationship with discretionary accruals (modified Jones Model) earnings management.

In the study of Rychowdhury (2024) on audit committee effectiveness, audit quality and earnings management of listed companies in Egypt, data was collected from annual report and accounts of fifty (50) Egyptian non-financial sector firms listed on the Egyptian Stock Exchange during the periods 2015 to 2020 and was analysed using univariate and multivariate analysis. The study indicates that audit firm size has significant negative relationship with the level of discretionary accruals.

Smii (2023) investigated the relationship between type of ownership, audit quality and earnings management of listed companies in Tehran Stock Exchange. Data collected through the financial statements of the companies under sample was analysed using panel regression method. The study revealed that there is significant negative relationship between audit firm size and earnings management meaning that earnings management would reduce if large audit firm is employed.

Goncharov (2025) investigates the relationship between earnings management audit quality with evidence from South-East Asia. Data was sourced through structured interviews and annual report of 2,148 listed firms in Indonesia, Malaysia, the Philippines, Singapore and Thailand for the periods 2017 to 2023. The results of the panel regression analysis showed that big four audit firms have significant negative effect on discretionary accruals.

Defond and Zhang (2024) 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 2015 to 2020 and was analysed using panel regression analysis. The result of their study showed that big four audit firms have no significant association with discretionary accruals.

Dechow and Skinner (2024) assessed the effect of over-valued equity on the relationship between audit quality and earnings quality with evidence from Iran. The sample of the study consists of 189 companies listed on Tehran stock exchange during the periods 2021 to 2023 and data was sourced from their annual report and accounts. The result from the ordinary least square regression showed that there is a reverse relationship between audit firm size and absolute accruals, indicating that high audit quality causes higher earnings quality.

Schipper (2022) assessed the relationship between audit quality and earnings quality of the listed firms in four (4) industrial groups in the stock exchange of Thailand for the periods of 2016 to 2021. The result of the panel regression analysis revealed that audit firm size has a negative correlation with the discretionary accruals. Srinivasan et al (2024) carried out their study on audit quality and earnings management in Indonesian Initial public offerings. Sample firms constitute 62 firms making Initial Public Offer (IPO) between 2017 to 2023 and the data collected was analysed using multiple regression analysis. The study revealed that big four audit firm constrains the extent of discretionary accruals earnings management for Indonesian IPO firms and provides more precise information that makes management have less incentive to manage earnings.

Wooten (2025) studied the relationship among audit quality, earnings management and financial performance of Malaysian public listed companies. Data was collected from the annual report of the one hundred (100) industrial products and consumer products industry listed on the main Board of Bursa Malaysia during the periods 2020 to 2024 and was analysed using multiple regression analysis. The result of the study revealed that there is no significant but positive relationship between audit firm size and discretionary accruals (modified Jones mmodel) earnings management.

Jacob et al (2025) determined whether big four audit fee premiums always related to superior audit quality with evidence from India's unique audit market. Using annual report and accounts of 50 firms chosen as sample for data collection, regression analysis was employed in analyzing the data collected. They discovered that there is no difference in the quality of audit provided by big four and non-big four and the quality of reported earnings.

Yahaya (2024) assessed the impact of the audit quality on the earnings management to Tunisian firms. They collected data from annual report and accounts of twenty (20) companies listed in the non-fictional sector for the periods 2020 to 2023 was analysed using panel regression analysis. The study found that there is a positive and significant relationship between big four auditors and the quality of accounting earnings.

Aliu et al (2024) argued whether earnings management can be influenced by audit quality using Jordanian listed firms. Using thirteen (13) annual reports of listed banks for the

periods 2018 to 2022, the result of the panel regression analysis revealed that big four audit firms have significant relationship with discretionary earnings management.

Amoako and Gyanfi (2024) assessed the impact of audit quality on earnings management in Tehran listed companies. Data was sourced from the annual reports and accounts of ten (10) firms listed on the Tehran Stock Exchange. The results of the panel regression analysis showed that big N auditors have significant negative effect on real earnings management of companies listed on Tehran stock exchange.

Ewa (2022) investigated the relationship between board independence, audit quality and earnings management. Data extracted unique data set of EGX and the Capital Market Authority (CMA) of non-financial publicly listed companies in Egypt over the periods of 2017 to 2021 and was analysed using panel regression analysis. The study revealed that big four auditor has significant negative effect on earnings management of the sample firms.

In the study of Ewert and Wegenhofer (2024) on the impact of firm characteristics on earnings management: An empirical study on the listed firms in Egypt, data was sourced from the financial statements of fifty (50) most active firms in the Egyptian Stock Exchange for the periods 2017-2022. The data were analysed using random effect generalized least square regression model. Their research study shows that audit firm size has an insignificant relationship with earnings management.

2.3.1.3 Empirical Studies in Nigeria

Olajide (2025) carried out a study on the impact of audit quality on accrual-based earnings management of listed companies in Nigeria. Pooled and panel regression analysis was employed in analyzing the data collected from the financial statements of fifty-seven (57) sampled companies. The study revealed that there is significant negative relationship between audit firm size and earnings management.

Ajekwe and Ibiame (2024) assessed the audit quality and cash-based earnings management of listed companies in Nigeria. Data was sourced from the annual report of sample firms for the periods 2015 to 2019 and the data was analysed using multivariate analysis. The result of the study revealed that audit firm size has significant negative impact on real cash-based earnings management.

In the study of Njoku (2020) on the impact of audit committee and audit quality on preventing earnings in the pre and post Nigerian Corporate Governance Code, 2018, the result of the multiple regression revealed that audit firm size has significant negative impact on earnings management, that is, it will reduce manipulation of accounts through discretionary accruals.

Okolie (2025) examined the impact of audit quality on earnings management of listed oil marketing companies in Nigeria. Data was sourced from annual report and accounts of eight (8) listed oil marketing companies from 2014 to 2021 and was analysed using multiple regression analysis. The study found out that audit firm size has negative and insignificant impact on earnings management.

Okoh (2023) carried out a study on the impact of audit quality on earnings management of listed chemical and paint firms in Nigeria. Data was sourced from the financial statement of eight (8) listed chemical and paints firms chosen as sample and was analysed using generalized least square technique. The result of the study showed that there is significant negative impact of audit firm size and earnings management.

Babatolu et al (2025) investigated the impact of audit quality on earnings management of listed deposit money banks in Nigeria. Ordinary Least Square (OLS) regression technique was employed to analysed the data collected from the annual report and accounts of ten (10) listed deposit money banks taken as sample for the periods 2015-2023. The study found that audit firm size has significant negative impact on the earnings management of listed deposit money banks in Nigeria.

Uwalomwa, Uwuigbe and Okorie (2022) assessed the effects of firms' characteristics on earnings management of listed firms in Nigeria. Data obtained from the annual report and accounts of twenty (20) listed firms taken as sample for the periods 2016 to 2020 was analysed using pooled ordinary least square regression. Their study revealed that audit firm size has significant positive impact on earnings management (discretionary accruals).

In the study carried out by Atu, Atu, Enegebe and Atu (2022) on the determinants of earnings management in Nigerian listed companies, ordinary least square regression analysis was employed to analyse the data sourced from financial statements of listed

companies. The results of their study indicated that audit firm size has insignificant positive relationship with earnings management.

2.3.2 Audit Fee and Earnings Management

2.3.2.1 Empirical Studies in Developed Countries

Mohammed and Aliyu (2024) argued whether abnormal high audit fees impair audit quality and earnings management of listed companies in Singapore. They found that abnormal audit fees are negatively associated with audit quality and earnings management. They suggested that auditor's incentives to deter biased financial reporting differ systematically depending on whether their clients pay more than or less than the normal level of audit fees.

Kenchel and Vanstraelen (2025) examined the relationship between governance practice, audit quality and earnings management, UK evidence. Based on the data obtained from FTSE 350 between 2019 and 2024, the result showed that audit fees have significant relationship with earnings management, that is, higher audit fee is likely to reduce earnings manipulations between abnormal audit fee and discretionary accruals.

Healy and Wahlen (2024) investigated whether auditors were care about real earnings management in their audit fee decisions or not. Regression analysis was employed in analyzing the data collected from the financial statements of large US firms. The study found that there is significant positive relationship between real earnings management and audit fee of the sample firms.

2.3.2.2 Empirical Studies in Developing Countries

Jacob, Desai and Agarwalla (2025) determined whether Big four audit fee premiums are always related to superior audit quality with evidence from India's unique audit market. Using a sample of 500 firms which are part of the SandP BSE and was analysed using regression analysis, their study indicated that abnormal audit fee is not associated with reduction in the quality of audit and reported earnings.

In India, Abdullahi (2024) carried out a study on the effect of audit quality on earnings quality and cost of equity capital. Using a sample of fifty (50) companies covering ten (10) years from 2013 to 2022, the results of the regression analysis showed that audit fee has significant negative effect on earnings management of sample firms in India.

Arrunada (2025) studied the relationship among audit quality, earnings management and financial performance of Malaysian public listed companies. Data was collected from the annual report of the one hundred (100) industrial products and consumer products industries listed on the main Board of Bursa Malaysia during the periods 2016 to 2021 and was analysed using multiple regression analysis. The result of the study revealed that there is no significant but negative relationship between audit fees and earnings management.

Ashtiani et al. (2024) 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 2020 to 2023 and was analysed using panel regression analysis. The result of their

study showed that there is insignificant negative relationship between external audit fee and discretionary accruals (using modified Jones model).

Goncharov (2025) 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 2019 to 2023 and was analysed using regression analysis. The study revealed that there is negative relationship between audit fee and discretionary earnings management.

Jones (2024) investigated the impact of audit fees on earnings management in the Brazilian market. Regression analysis was employed to analyse the data obtained from the Eocnomatica 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.

Jubril (2025) examined the relationship between audit quality, debt financing and earnings management in Jordan. Generalised least square regression analysis was employed in analyzing the data collected from the annual report of seventy-two (72) industrial companies selected as sample for the periods 2014 to 2020. The result found that audit fee reduces the potential of earnings management and enhance the financial reporting quality.

2.3.2.3 Empirical Studies in Nigeria

Okolie, Izedonmi and Enofe (2013) examined the impact/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 and was analysed using pooled and panel regression. They found that audit fee has significant effect on earnings management.

In the study carried out by Amadi et al. (2024) on auditor's independence and earnings management of deposit money banks in Nigeria, ordinary least square techniques was used in analyzing the data sourced through annual report for the periods 2015-2021. The result of the study showed that audit fee has significant positive effect on the earnings management through discretionary accruals.

Okolie, Izedonmi and Enofe (2014) determined the impact of audit quality on real cash-based earnings management of listed companies in Nigeria. The data showed from annual report from the annual reports of fifty-seven (57) firms used as sample and was analysed using multivariate analysis. The study showed that there is significant negative impact on real cash-based earnings management.

In the study of Ejoh et al. (2025) on the impact of audit committee and audit quality on preventing earnings in the pre and post Nigerian Corporate Governance Code 2018, the result of the multiple regression revealed that audit fee has significant negative impact on earnings management, that is, it will reduce manipulation of accounts through discretionary accruals.

Akinleye and Odunlade (2024) 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 (2015-2022). The study revealed that auditor financial independence (audit fee) has significant positive impact on earnings management of listed deposit money banks in Nigeria.

Olajide (2025) 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 analysed using regression analysis. The study found that there is positive relationship between audit fee and earnings management, that is, high audit fee aggravates earnings management.

In the study of Horsfall et al. (2023) 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 analyzing the data collected from the audited report of four (4) sample companies for the periods of four (4) years (2019-2022). Findings from the study showed that audit fee has a significant positive impact on audit quality (earnings management).

2.3.3 Audit Tenure and Earnings Management

2.3.3.1 Empirical Studies in Developed Countries

Bakare (2024) determined the impact of audit firm tenure on earnings quality in Netherlands. The study used annual report and accounts of 38 listed firms for the periods

2013-2022 and employed regression analysis and descriptive statistics to analyse the data collected. The result of the study indicated that earnings quality does not change with firm tenure, that is, there is no relationship between audit firm tenure and earnings quality.

In the study, Dare et al. (2022) examined the impact of audit quality and ownership structure on earnings management of listed firms on Tehran Stock Exchange. Multiple linear regression model with panel data and fixed effect were used to analyse the data obtained from annual report and accounts of one hundred (100) firms listed on Tehran Stock Exchange for the periods of five years (2017-2022). The result of the study showed that auditor tenure has a significant and negative impact on earnings management.

2.3.3.2 Empirical Studies in Developing Countries

Jones (2024) assessed the relationship between auditor tenure and size of the audit firm with earnings management in Pharmaceutical companies listed on Tehran Stock Exchange. Data sourced from the annual report and accounts of twenty-five (25) pharmaceutical companies for the periods 2019 to 2023 was analysed using multivariate regression analysis based on panel data method. The study revealed that there is no significant relationships between auditor tenure and earnings management.

Defond (2024) examined the relationship between type of ownership, audit quality and earning management of listed companies in Tehran Stock Exchange, panel regression

analysis was employed to test the hypothesis on the data collected through financial statement of the sample firms. The result of the study showed that there is negative and significant relationship between audit tenure and earning management, that is, earning management is reduced with increased auditor tenure.

De-Angelo (2025) investigated the relationship between earnings management audit quality with evidence from South-East Asia. Data were sourced through structured interview and annual report of 2,148 firms' year observation of listed firms in Indonesia, Malaysia, the Philippines, Singapore and Thailand for the periods 2018-2023. The results of the panel regression analysis showed that audit firm tenure has significant negative effect on discretionary accruals.

Ching, The, 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 the one hundred (100) industrial products and consumer products industry listed on the main Board of 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 but positive relationship between audit partner tenure and earnings management.

Bamahros and Wan-Hussin (2015) investigated the association of non-audit services and audit firm tenure with earnings management in Malaysian public listed firms. The data collected through the annual report and accounts of 525 companies selected as sample for

financial year of 2009 was analysed using panel regression analysis. The study revealed that longer audit firm tenure reduces earnings.

Ebrahimie, Bahraminasab and Khorram (2015) assessed the effect of over-valued equity on the relationship between audit quality and earnings quality with evidence from Iran. The sample of the study consists of 189 companies listed on Tehran Stock Exchange during the periods 2008 to 2012. The result from the ordinary least square regression showed that there is a reverse relationship between audit tenure and absolute accruals indicating that high audit quality causes higher earnings quality.

Rad, Salehi and Valipour (2016) assessed the impact of audit quality and ownership structure on earnings management of listed firms on Tehran Stock Exchange. Questionnaires were administered to one hundred (100) listed firms in Tehran Stock Exchange for 5 years (2009-2013) and were analysed using multiple linear regression model with panel data and fixed effect. The result of the study showed that auditor tenure has a significant and negative impact on earnings management.

Ashtiani, Oskou and Takor (2016) assessed the impact of audit quality on earnings management in Tehran listed companies. The results of the panel regression analysis showed that audit tenure has significant negative effect on real earnings management of companies listed on Tehran Stock Exchange. Smii (2016) investigated the impact of the audit quality on that of the accounting profits using companies listed on the Tunisian Stock Exchange. The study covered the period 2005 to 2009 using a sample of twenty (20) non-financial companies listed on the Tunisian Stock Exchange (TSE). The data

collected from their annual report of the sample firms was analysed using panel regression analysis. The results of the study showed that auditor tenure has a positive and significant effect on the model of the relevance of the accounting profits, and a negative and significant effect on the results and accounting conservatism management.

Affess and Smii (2016) carried out their study on the impact of audit quality on earnings management of listed firms in Tunisia. Panel regression analysis was employed to analyse the data collected from the annual report of twenty (20) companies used as a sample for the period 2005 to 2009. The study revealed that audit tenure has a positive and significant effect on earnings management of the sample firms.

Barghathi, Collison and Crawford (2017) studied the relationship between audit quality and earnings management using stakeholders' perceptions. Data collected through questionnaire from one hundred and two (102) respondents was analysed using multiple regression analysis. The study found out that audit firm tenure/rotation deters and has significant impact on earnings management.

Habbash and Alghamdi (2017) assessed the association between audit quality and earnings management in less developed economies using Saudi Arabia as the case study. Data was sourced from the annual report of 337 non-financial listed firms for the periods 2006 to 2009 and was analysed using multiple regression analysis. The result of the study showed that auditor tenure/change has no significant effect on earnings management practice measured through 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 analyzing the data collected from the annual report of seventy-two (72) industrial companies selected as sample for the periods 2006 to 2012. The result found that auditor tenure diminishes the potential of earnings management and enhances the financial reporting quality.

Prayogo and Agoes (2017) assessed the role of audit regulation on the effect of corporate governance and audit quality on earnings management. Data was sourced from the annual report and accounts of sixty-nine (69) companies listed in Indonesia Stock Exchange with 480 firms' year observations for the periods 2008 to 2015 and was analysed using partial least squares (SEM-PLS) and one-way ANOVA. The result of the study showed that audit tenure has negative and significant influence on earnings management in the period 2008 to 2010 and the periods 2011 to 2014.

El-Guindy and Basuony (2018) investigate the association between audit firm tenure and earnings management. The sample of the study comprised the United Kingdom listed companies for five years and collected data through World Scope for financial and accounting standards data and FAME database. The result of the panel regression analysis revealed that negative association exists between audit firm tenure and earnings management of the pooled United Kingdom firms.

Saleem and Alzoubi (2018) examined the relationship between audit quality, debt financing and earnings management of firms in Jordan, Generalised Least Squares (GLS)

regression analysis was employed to analyse the data collected from the annual reports of seventy-two (72) listed industrial companies for the period of 2006 to 2016. The result of the study revealed that long term auditor tenure diminishes the potential of earnings management.

El-Guindy and Basuony (2019) investigated the association between audit firm tenure and earnings management and the impact of changing accounting standards in the United Kingdom. The data sourced from the World-Scope and FAME database of six hundred and eighty-eight (688) listed firms in the United Kingdom chosen as sample for the period of 2003 to 2007 was analysed using panel regression analysis. The result of the study revealed that there is a negative association between audit firm tenure and earnings management (using discretionary accruals).

2.3.3.3 Empirical Studies in Nigeria

Okolie, Izedonmi and Enofe (2013) investigate the relationship between audit quality and accrual based earning management of listed companies in Nigeria. Pooled and panel regression analysis was employed in analyzing the data collected through annual report for the period of 2006-2011. The study revealed a significant effect of audit tenure on the level of discretionary accrual.

Jubril (2025) carried out study on auditor's independence and earning management of deposit money banks in Nigeria. Ordinary Least Square (OLS) was used in the analysis of secondary data collected from annual report and accounts of fourteen (14) banks used

as sample for a period of seven years (2017 to 2023). The study found that audit tenure has significant positive effect on earning management, that is, lengthy audit tenure is a mechanism through which management influences auditors to compromise their independence.

Okolie, Izedonmi and Enofe (2014) examined the effect of audit quality and cash based earnings management of listed companies in Nigeria. Multivariate analysis was employed to analyse the data collected from the financial statement of the sample companies. The study revealed that audit tenure has positive but insignificant relationship/effect on real cash based earning management.

In the study carried out by Okoh (2023) on audits quality and earning management of listed chemicals and paints firms in Nigeria for period of seven years (2016 to 2022), generalized least square techniques was used to estimate the regression coefficients of the data obtained from the annual report of sample firms. He found there is insignificant negative relationship between auditor independence and earning management.

Tyokoso and Tsegba (2015) investigated the impact of audit quality on earning management of listed oil marketing companies in Nigeria. Data sourced through annual report and accounts for the periods 2009 and 2013 was analysed using multiple regression analysis. The study shows that audit tenure has significant negative impact on earning management of the sampled companies. Eriabie and Dabor (2015) examined the impact of audit quality and earning management in listed Nigerian banks. The data

sourced through annual report for the periods 2005 to 2010 was analysed using regression analysis. They found that change in audit tenure will aggravate earnings management.

In the study of Miko and Kamardin (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 tenure has significant negative impact on earnings management, that is, it will reduce manipulation of accounts through discretionary accruals.

Onaalapo et al. (2017) examined the effect of audit fees on audit quality, evidence from cement manufacturing companies in Nigeria. Data was sourced from the annual report of the four (4) sampled firms and was analysed using multiple regression (OLS). The study found out that audit tenure exhibits positive but insignificant relationship with audit quality.

Previous researchers (such as Miko & Nuraddin, 2015; Pouraghajan et al., 2013; Mehmet & Emin, 2012; Bassiouny et al., 2016) have employed different control variables which could also lead to increase in earnings management practice. Some of the control variables employed are company's size, leverage, cash flows from operations, growth of the firm, among others. Therefore, this study used company's size and leverage as the control variables.

Audit Independence and Earnings Management

Mohammed and Aliyu (2024) examined the impact of audit independence on financial reporting quality among 42 publicly listed Nigerian firms over the period 2016 to 2021.

Using panel data regression analysis, the study found that firms with higher proportion of independent directors were significantly less likely to engage in financial misreporting earnings manipulation. The author recommended strengthening the criteria for the appointment of independent directors to enhance their oversight role.

Amoako and Gyanfi (2024) conducted a study in Ghana to explore the effects of audit independence on the financial reporting quality of 25 manufacturing and financial firms between 2015 and 2020. Employing structural equation modeling, they found mixed results while independence reduced discretionary accruals in some firms, the effect was not statistically significant in others. The researchers suggested that cultural and regulatory contexts may influence effectiveness of audit independence.

Lawrence and Egbadju (2024) carried out a study on audit quality and earnings management of listed manufacturing firms in Nigeria. The study investigated whether there was any relationship between audit quality and earnings management. Using secondary data over the period from 2009 to 2020 of 12 non-financial firms, the result of the Panel Estimated Generalised Lease Squares (PEGLS) revealed that audit firm size, audit tenure and firm age and joint audit were negatively and statistically significant with earnings management while audit independence had a positive and significant impact on earnings management, The overall results shown that audit quality significantly influenced earnings management and that helps in reducing managers tendencies to reduce the practices of managing earnings for whatever the reasons. The study concluded with some recommendations for better performance reporting.

Ajekwe and Ibiamke (2024) examined the association between audit quality and earnings management by listed firms in Nigeria. The study measures audit quality by audit firm size and earnings management by the absolute abnormal discretionary accruals using the modified Jones model. The study was carried out in two parts: firstly, the comparative study using independent sample t-test and the Wilcoxon signed ranked test. The second part is the multivariate analysis where the association between audit quality and earnings management was examined. Based on the analysis, it was found that auditor size has restrained earnings management but the decrease is not statistically significant. The implication of the findings is that users should not blindly assume that high audit quality proxy by the 4 auditor is a symbol of earnings quality.

2.4 Summary and Gap Identified in the Literature

This chapter provides review on conceptual, theoretical and empirical issues relating to the research area. The empirical review showed that previous studies have provided conflicting results. The review showed that there are still remained unanswered questions. Therefore, this study provides further evidence to fill the gaps identified in the literature. Consequently, the body of literature reviewed on the effect of audit quality on earnings management showed that the difference in the level of earnings management practice in each sub-sector of the Nigerian manufacturing industries has not been studied. The previous studies have largely focused on accrual-based (discretionary) earnings management in banking industry (Jubril, 2025; Babatolu et al., 2025 and Olajide, 2025)

while the few studies on manufacturing industry were based on single sector (Njoku, 2020). Therefore, based on the extant literatures reviewed and to the best of the researcher's knowledge, the past studies have not compared the level of earnings management practice in the various sub-sectors of the Nigerian manufacturing industries. Furthermore, it has been observed that most of the studies reviewed used discretionary accruals as determinant of earnings management (Jubril, 2025 and Babatolu et al., 2025). Thus, the present study measured earnings management through real earnings manipulations in order to capture the methods employed in manipulating earnings in the manufacturing industry. Moreso, none of the literatures reviewed (Jubril, 2025 and Babatolu et al., 2025) have studied the effect of audit quality on earnings management up to the period of 2026. Moreover, none of the literatures reviewed has studied the effect of audit quality on earnings management up to the period of 2026 (Jubril, 2025 and Babatolu, et al., 2025).

2.5 Theoretical Framework

This study was guided by the agency theory and the economic dependence theory. Agency theory tends to address the issue of information asymmetry which leads to conflicts and dissimilar interests between the principals (shareholders) and the agent (manager) which makes managers to take opportunistic behaviour of manipulating the financial statement. Agency theory posits that, to prevent the managers from manipulating the accounting figures in order to mislead the stakeholders, there is need for

an independent party to attest to the financial statement prepared by the management. To achieve this, high quality of audit service is required.

The agency theory perceives that audit firm size, audit fee and auditor tenure are associated with higher audit quality. The reason being that large audit firms have the necessary resources to identify and report any manipulations in the financial statement. This sends signal to the market that the financial statements prepared have credible and reliable information than those audited by the non-big four audit firms. Furthermore, large audit firms command higher audit fee in the audit market making them to be independent of their clients, thereby, providing higher audit service. Economic dependence theory which is also a form of agency theory states that for an auditor to provide high level audit service, he should be financially independent, that is, an auditor must not rely on his client in terms of monetary benefits. Therefore, when the remuneration is high, the auditor is expected to provide high audit service, thereby, reducing the level of earnings management. Therefore, the higher the auditor's quality and independence, the more they detect management's manipulations in the financial statements.

2.6 Conceptual Model

Audit Quality

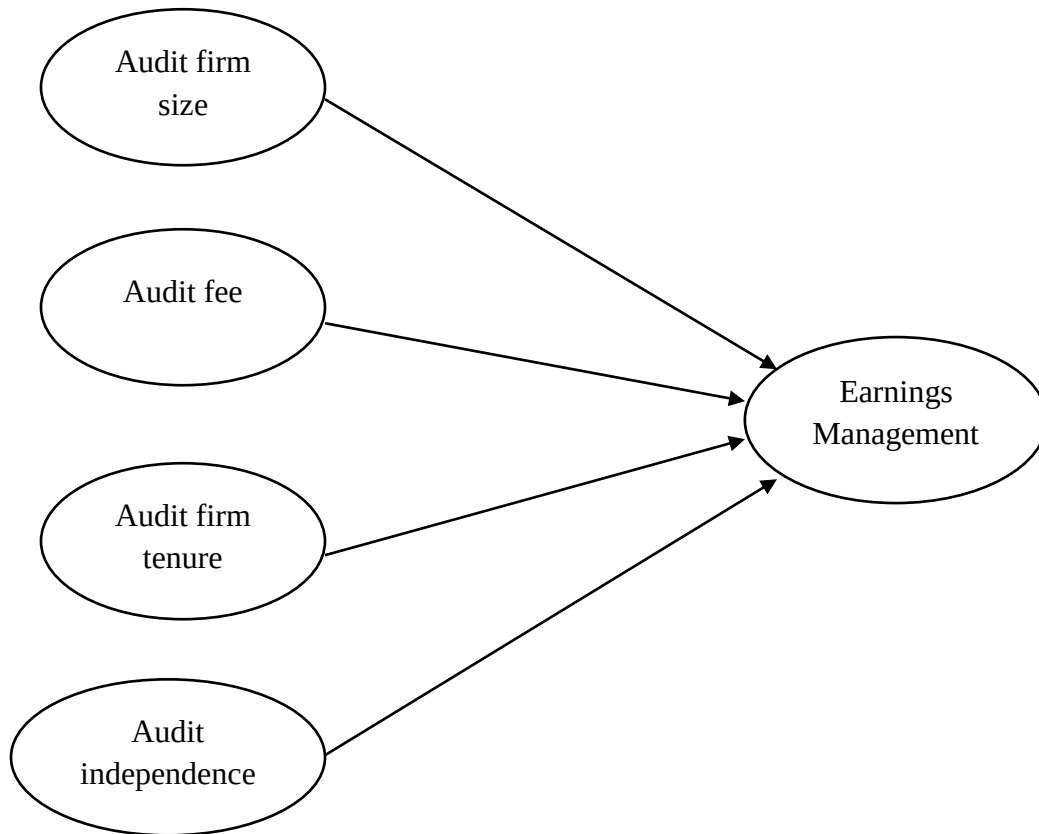


Fig. 1: Audit Quality

Source: Author's Survey (2026)

The figure 1 shows the conceptual model reflecting the effect of independent variables on the dependent variable. The dependent variable in this study is earnings management which was measured through the real earnings management. The independent variable is the audit quality proxy by audit firm size, audit fee and audit firm tenure.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter discusses the method employed in the study. It includes study design, population and sampling size, sampling strategy, data source, data collecting methodology, method of data analysis, model formulation, and variable operationalization.

3.2 Research Design

The research design employ in this study is ex-post facto. It employs a quantitative, explanatory, longitudinal design using panel data from financial statements of selected listed manufacturing firms.

3.3 Population of the Study

Fifteen (15) selected listed manufacturing companies that include cement, health, agriculture, conglomerates, flour brewery, mattress and cream companies operating in Nigeria make up the study population.

3.4 Sample Size and Sampling Technique

The manufacturing firms listed on the floor of the Nigerian Exchange Group (NGX) form the study's sample size. According to information collected from the NGX website, this comprises of a total of fourteen (15) manufacturing firms. The use of only listed manufacturing firms can be justified based on data accessibility and accuracy. Non-listed manufacturing firms were not considered due to insufficient regulatory/supervisory oversight, as well as issues about data accessibility/availability, reliability, and measurement. Purposive Sampling or Judgement Sampling is sampling instrument used for this inquiry. A purposive sampling or judgement sampling approach involves using selected samples based on one's judgement about which ones will be most representative of useful for the study. In this case, the research sample consisted of 15 manufacturing firms in Nigeria.

3.5 Sources of Data

The secondary data used were gotten from the audited financial reports of the selected manufacturing firm for the period of 2015-2024. This time period is chosen because this are the most recent years with recent available information.

3.6 Model Specification and Framework

The Modified Jones model (Dechow et al., 1995) employed for computation of earnings management is adopted for this study. To estimate earnings management by Modified Jones, is specified as:

$$TA_{it} = \Delta CurrentAsset_{it} - \Delta Cash_{it} - \Delta currentliabilities_{it} + \Delta STD_{it} - DAE_{it} .$$

Where:

TA_{it} = total accruals in year t for firm i;

$\Delta Current Assets_{it}$ = current assets in year t less current assets in year t – 1 for firm i;

$\Delta Cash_{it}$ = cash in year t less cash in year t – 1 for firm i;

$\Delta CurrentLiabilities_{it}$ = current liabilities in year t less current liabilities in year t – 1 for firm i;

ΔSTD_i = debt included in current liabilities in year t less debt included in current liabilities in year t – 1 for firm i; and

DAE_{it} = Depreciation and amortization expense in year t for firm i.

The model indicating the relationship between audit quality and earnings management is specified as:

$$'EARNMGT' = f('AUDFSIZ, AUDTENU, AUDFEES, AUDINDP')^2$$

$$EARNMGT = f(\beta_0 + \beta_1(\text{Audit Firm Size}) + \beta_2(\text{Audit Tenure}) + \beta_3(\text{Audit Fee}) + \beta_4(\text{Audit Independence}) + e$$

Where:

Dependent Variable

EARNMGT = Earnings Management of manufacturing firm i in year t

Independent Variables

AUDFSIZ = Audit firm size of manufacturing firm i in year t

AUDTENU = Audit tenure of manufacturing firm i in year t

AUDFEES = Audit fee, of manufacturing firm i in year t

AUDINDP = Auditor independence of manufacturing firm i in year t

‘e’ are parameters estimates intercept = Residuals

3.7 Operationalization of Variables

Operationalization is defining how to measure abstracts concepts (variables) in research.

It specifies procedure to quantify or categorize variables, making them observable and measurable, clearly describing what the variable represents. This technique ensures that theoretical, and conceptual factors of interest are transformed into a group of concentrated research variables.

3.8: Operationalization of Variables

Symbols	Variable name	Variable type	Measurement	Apriori expectation	Source
ERM	Earnings Management	Dependent	'The residuals of the performance-matched modified Jones (1991) discretionary accruals model are used to determine the inverse of earnings management (discretionary accruals)'		Ishaq and Che-Ahmad (2016)
AFS	Audit firm size	Independent	High audit quality and greater resources	+	DeAngelo, (1981)
AUT	Audit tenure	Independent	Auditors influence	+	Abraham et al. (2022)
AUF	Audit fee	Independent	Level of audit effort	+	Abraham et al. (2022)
AUI	Audit independence	Independent	The level of auditors objectivity	+	Penman (2019)

Source: Author's compilation (2026).

3.9 Method of Data Analysis

The data is examined with the application of panel least square (PLS) regression to justify the relationship between the variables. This method does not only focus on the relationship between the variables alone but also demonstrate the cause and effect and this was well recognized. Robustness tests, such as the multicollinearity test, Hausman

test, and heteroskedasticity test, was examined in other to ensure the dependability of the result.

3.9.1 Diagnostic and Robustness Tests

For reliability of findings, the following robustness tests is cultivated

- (i) **Multicollinearity Test:** Multicollinearity arises when the connection is strongly linked. The research checks for it in order to determine if it existed or not. This is accomplished with the use of the variance inflation factor (V1F) and also tolerance value.
- (ii) **Heteroskedasticity Test:** Heteroskedasticity usually occurs when there is variance in the size of the observation. The research had to do a heteroskedasticity test to determine whether or not it existed. For heteroskedasticity, the Breusch-pagan/Cookweisberg test is be used in this study
- (iii) **Hausman Test:** Both the fixed and random effect model is estimated. The Hausman test is used to determine which of the two results is more useful. As a result, help the researcher to know the best between fixed effect or random effect model.

CHAPTER FOUR

DATA PRESENTATION, ANALYSES AND INTERPRETATION

4.1 Data Presentation

4.2 Interpretation of Results

Results of the data estimated are interpreted in order of descriptive statistics, histogram normality test, correlation, diagnostics tests like variance inflation factor,

Table 4.1: Descriptive Statistics

Variables/ Statistics	EARNMGT	AUDFSIZ	AUDTENU	AUDFEES	AUDINDP
Mean	-0.000166	0.753333	6.146667	46338.15	0.813333
Maximum	0.246553	1.000000	14.00000	200000.0	1.000000
Minimum	-0.334305	0.000000	1.000000	4000.000	0.000000
Std. Dev.	0.099219	0.432515	3.398355	39414.29	0.390949
Skewness	-0.274347	-1.175367	0.074531	1.311829	-1.608307
Kurtosis	3.221613	2.381488	2.097778	4.270171	3.586651
Jarque-Bera	2.188606	36.92818	5.226396	53.10570	66.81727
Probability	0.334773	0.000000	0.073300	0.000000	0.000000
Observations	150	150	150	150	150

Source: Researcher's Computation (2026) (See appendix section for detailed results)

Table 4.1 presents the characteristics of the study variables, including the dependent variable, earnings management (EARNMGT), and the independent variables representing

audit firm size (AUDFSIZ), audit tenure (AUDTENU), audit fee (AUDFEES), and auditor's independence (AUDINDP). The total observation is 150.

Earnings management (EARNMGT), measured using discretionary accruals (DA), recorded a maximum value of 0.2466 (25%) and a minimum value of -0.3341 (-33%). The mean value stood at -0.000166 (-0.0167%), with a relatively high standard deviation of 0.099219 (10%). This suggests that, on average, discretionary accruals among the sampled manufacturing firms during study period were low, indicating modest variations in audit quality. The skewness value of -0.274347 indicates that the distribution is slightly negatively skewed, meaning the curve extends marginally towards the left-hand side. The kurtosis value of 3.221613, which is above the benchmark value of 3, suggests a leptokurtic distribution, indicating a more peaked distribution than normal. For a normal distribution, skewness should be close to 0 and kurtosis close to 3.

Furthermore, the Jarque-Bera statistic of 2.188606, with a probability value of 0.334773 (33%), which is greater than the 0.05 significance level, implies that discretionary accruals (DA), used as a proxy for earnings management (EARNMGT), are normal and properly distributed. for regression analysis purposes.

Audit firm size (AUDFSIZ) among the sampled manufacturing firms recorded a maximum value of 1.000000 units and a minimum value of 0.000000 units, indicating the presence of high earnings management. The mean value of 0.753333, (75%) when compared with the relatively moderate standard deviation of 0.432515, suggests big4/large firms dominate the audit market for these manufacturing firms in Nigeria.

The skewness value of -1.175367 is negative, showing that the distribution is skewed to the left-hand side. In addition, the kurtosis value of 2.381488 indicates a flatter than normal (Platykurtic) distribution, below the benchmark of 3 for normality. The Jarque-Bera statistic of 36.92818, with a probability value of 0.000000 (1%), which is below the 0.05 (5%) significance level, further suggest that audit firm size is not normally distributed, many firms use Big4.

Similarly, the audit tenure (AUDTENU) recorded a maximum value of 14.000000 units and a minimum value of 1.000000 units, suggesting a strong dominance of large audit firms within the selected manufacturing firms. Overall, the statistics reveals that the size of a firms plays a significant role in auditing, which may influence the quality of financial reporting and the level of earnings management in selected manufacturing firms in Nigeria. The mean value of 6.146667, alongside a comparatively high standard deviation of 3.398355, indicates an average auditor client relationship (moderate variation), some firms have longer/shorter relationships. This suggest that auditor experiences with client, but variability exist. (not skewed) The positive skewness value of 0.074531 showed that the distribution is approximately symmetric while the kurtosis value of 2.097778 reflects a flatter than normal (Platykurtic) distribution, significantly deviating from normality. The Jarque–Bera statistic of 5.226396, with a probability value of 0.0000 (1%), which is below the 0.05 (5%) threshold, confirms that audit tenure symmetric, but has a flatter shape with fewer extreme, the distribution is non-normal.

Audit fee (AUDFEES) among the sampled manufacturing firm recorded a maximum value of 200000.0 (indicating a wide variation in fees) and a minimum value of 4000.000 (suggests larger firms/audits likely pay more; smaller firms pay less in the audit report disclosure). The mean value of 46338.15, together with a complimentary high standard deviation of 39414.29, suggests that, on average, audit fee is N46,338 million, and fee vary widely around the mean. The skewness value of 1.311829 indicates that the distribution is positively skewed, with the curve extending towards the right-hand side. The kurtosis value of 4.270171 shows a leptokurtic distribution, meaning a peak with flatter tails. Furthermore, the Jarque–Bera statistic of 53.10570, with a probability value of 0.000000 (1%), which is below the 0.05 (5%) significance level, indicates that the panel data for this variable are not normally distributed. Audit fee are concentrated at lower values with some very high outliers.

With respect to that of audit independence (AUDINDP), the sampled manufacturing firm reported a maximum of 1.000000, highest audit independence is 1 and a minimum of 0.000000, lowest audit independence score is 0. The mean value of 0.813333 employees, alongside a standard deviation of 0.390949 suggests moderate variation across the manufacturing firms, indicates that most firms have high independence (skewed towards 1), but some have lower. The negative skewness value of -1.608307 shows that the distributions is negatively skewed with the left-tail longer. The kurtosis value of 3.586651 is slightly above 3, indicating a leptokurtic distribution that is close to normal but somewhat more peaked. However, the Jarque–Bera statistic of 66.81727, with a

probability value of 0.000000 (1%), which is below the 0.05 (5%) threshold, confirms that the panel data for number of audit independence are not normally distributed. Scores concentrated at high independence (1), with few low outliers.

Histogram-Normality Diagnostic Test

The result of the histogram chart as overall diagnostic test for normality indicated mean value of -0.000166 (near zero mean) and high standard deviation of 0.099219 , indicating standardized residuals (standard deviation close to 1).

The negative skewness value of -0.274347 which implied that the graph moves left ward direction, (slightly left skewed) while the positive kurtosis value of 3.221613 suggested that the curve is tail is heavier than normal, peaked at approximately (4) leptokurtic position indicating movement slightly above normal distribution. The overall high Jarque-Bera test value of 2.188606 at associated probability value of 0.0334773 (5%) which equates critical value at 0.05 (5%) significance level), suggested that in overall, the result of data employed is non-normal, slightly above normally distributed as illustrated in figure 4.1.

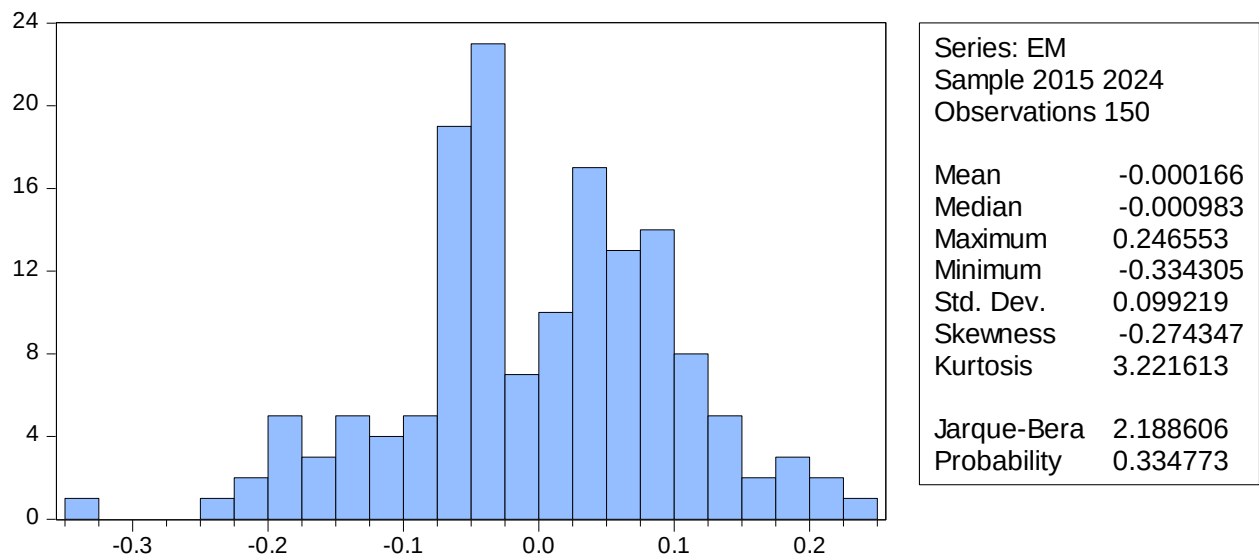


Figure 3.1: Histogram diagnostic normality test

Since the overall histogram diagnostic normality test indicated that the data are not normally distributed, we proceed to correlations matrix to examine associations among variables and check if there is presence of multi-collinearity problem (high correlation between predictors) in the data results for the purpose of regression.

Table 3: Correlation Matrix

	EARNMGT	AUDFSIZ	AUDTENU	AUDFEES	AUDINDP
EARNMGT	1.000000				
AUDFSIZ	-0.009172	1.000000			
AUDTENU	-0.036482	-0.139600	1.000000		
AUDFEES	0.171140	0.443658	0.058205	1.000000	
AUDINDP	0.138567	0.718143	0.005590	0.416984	1.000000

Source: Researchers computation (E-VIEWS 9) 2026

Table 3.2 presents the relationships among the variables employed in the study. Earnings management (EARNMGT), measured using discretionary accruals (DA), serves as the dependent variable and is represented by a benchmark value of 1. At this level, both the independent and control variables display either positive or negative correlations with earnings management.

Specifically, audit firm size (AUDFSIZ) shows a negative correlation with earnings management (EARNMGT) ($r = -0.0092$), while audit tenure (AUDTENU) also records a negative relationship ($r = -0.0365$). In contrast, audit fee (AUDFEES) demonstrates a positive correlation ($r = 0.171140$), and auditor independence (AUDINDP) likewise indicates a positive association ($r = 0.138567$).

From the correlation matrix, the strongest association is observed between number of employees and age of the bank (AUDINDP and AUDFSIZ), with a correlation coefficient of 0.718143. As none of the correlation coefficients exceeds the 0.900 (90%) threshold, this suggests that multicollinearity is not a concern for the regression analysis, consistent with the recommendation of Meyers et al. (2006). Consequently, the Variance Inflation Factor (VIF) test in Table 4.3 is considered to further assess the strength of the correlation matrix.

Table 4.3: Variance Inflation Factors

Variable	Coefficient Variance	Centered VIF
C	0.000569	NA
AUDFSIZ	0.000768	2.296278
AUDTENU AUT	5.73E-06	1.058251
AUDFEES	5.21E-14	1.293626
AUDINDP	0.000883	2.157058

Source: Researchers computation (E-VIEWS 9) 2026

Table 4.3 presents the coefficient diagnostics test using variance inflation factor (VIF) values for the independent variables, which were used to assess the strength of the correlation matrix and to determine whether multicollinearity is present in the model. The results show that audit firm size (AUDFSIZ) recorded a VIF of 2.2962, audit tenure (AUDTENU) had a value of 1.0582, audit fee (AUDFEES) stood at 1.2936, and audit independence (AUDINDP) recorded 2.1570. The highest VIF value was observed for audit firm size (AUDFSIZ) at 2.7956, whereas the lowest was for audit tenure (AUDTENU) at 1.0122. Since none of the independent or control variables exceeds the threshold value of 10, it can be concluded that multicollinearity is not a concern in the model, in line with the threshold proposed by Hair et al. (2010).

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.767251	Prob. F(6,145)	0.5482
Obs*R-squared	3.109028	Prob. Chi-Square(4)	0.5397
Scaled explained SS	3.585264	Prob. Chi-Square(4)	0.4650

Source: Researcher's computation (2026) (*E-View 10*) (*See appendix for detailed results*)

Table 4.4 highlights the result of residual diagnostic test to check for presence of heteroskedasticity test conducted using the Breusch-Pagan-Godfrey diagnostic test. The test indicated F-statistic value of 0.7672 at a probability value of 0.5482 (54%) higher than its critical probability value of 0.05 (5%) significance level (statistically insignificant), The result implied that there is no presence of heteroskedasticity in the variables data.

Table4.5: Breusch-Godfrey Serial Correlation LM Test:

F-statistic	1.969373	Prob. F(2,143)	0.1433
Obs*R-squared	4.020804	Prob. Chi-Square(2)	0.1339

Source: Researcher's computation (2026) (*E-View 10*) (*See appendix for detailed results*)

Table 4.5 examined residual diagnostic test conducted for serial correlation using the Breusch-Godfrey diagnostic test. The test indicated F-statistic value of 1.9693 at a probability value of 0.1433 which is higher than its critical probability value of 0.05 (5%) significance level, implied there is no presence of serial correlation in the variables data results.

Table 4.6: Ramsey RESET

	Value	Df	Probability
t-statistic	0.218879	144	0.8271
F-statistic	0.047908	(1, 144)	0.8271
Likelihood ratio	0.049896	1	0.8232

Source: Researcher's computation (2026) (*See appendix for detailed results*)

Table 4.6 highlights results of stability test known as Ramsey Reset test, conducted to check for appropriateness of the model specification adapted to test the accuracy of the regression model. The stability test indicated a t-statistic value of 0.2188 at probability value of 0.8271 (82%) which is greater than its critical probability value of 0.05(5%) significance level, implied that the linear model is appropriate (the model is well specified). Hence, we proceed to examine analyses of the Hausman test to determine the appropriate panel least squares regression whether to choose fixed or random effect panel least squares regression for the purpose of analyses and hypotheses testing.

Table 4.7: Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	1.40152	4	0.8440

Source: Researcher's computation (2026) (*E-View 10*) (*See appendix for detailed results*)

Table 4.7 showed the Hausman diagnostic test on whether to choose fixed effect panel least squares regression or random effect panel least squares regression for the purpose of analyses and test of hypotheses. The decision rule is to choose fixed effect panel least squares regression if the Hausman test result is statistically significant (when calculated

Hausman test probability value is less than its critical probability value of 0.05 (5% significance level). Otherwise, to choose random effect panel least squares regression if the Hausman test result is statistically insignificant. The value of the calculated Hausman test indicated chi-squares value of 1.4010 at a probability value of 0.8440 is greater than its critical probability value of 0.05 (5% significance level) implying that the result is statistically insignificant. The outcome of the Hausman test suggested that the random effect panel least squares regression is chosen and appropriate for analyses and test of hypotheses. Hence, we proceed to the estimation of the panel least squares regressions in Table 4.8.

4.3.1 Analysis of Panel Least Squares Regression

Having examined various diagnostics tests to verify the strength of the variables data employed and the Hausman test for appropriate panel least squares regression for analyses, this section examines results of the panel least squares regressions of the dependent variable which is the earnings management (EM) and the independent variables (Audit Quality) that consist of audit firm size, audit tenure, audit fee, and audit independence as highlighted in Table 4.8. The Table 4.8 showcases the outcomes of two (2) panel least squares models (fixed effect and random effects panel least squares regression). But based on the Hausman test decision, the random effect model is considered for interpretation for fundamental decision and predictions.

Table 4.8: Panel Least Squares Regression Estimation (Dependent Variable: Financial Reporting Quality)

Variables	Fixed Effect Model Coefficient t-stat (PV)	Random Effect Model Coefficient t-stat (PV)
C	-0.0117 -0.2846 0.7763	-0.0116 -0.4326 0.6659
AUDFSIZ	-0.0996 -1.9516 0.0531	-0.0758 -2.4208 0.0167
AUDTENU	-0.00243 -0.8618 0.3903	-0.0026 -1.0781 0.2828
AUDFEES	6.81E-07 2.1143 0.0364**	5.48E-07 2.2445 0.0263**
AUDINDP	0.0860 1.3464 0.1805	0.0732 2.1407 0.0340**
R-Squared (R^2)	0.5186	0.6709
Adjusted R-squared ($\tilde{R}^2$)	0.5074	0.6304
Standard Error of regression	0.0954*	0.0945*
F-statistic	1.6711	3.1346
Prob(F-statistic)	0.0523**	0.0165***
Durbin-Watson statistic	2.4007	2.2054
Hausman Test (sig, level)		1.401052(0.8440)
Observations	150	150

Source: Researcher's computation (2026) (*E-view 10*) (*See appendix for detailed results*)
(Significant at probability values of: ***for 1%, ** for 5% and * for 10% significance level)

The Table 4.8 presents the results of the random effect and fixed effect panel least squares regression coefficients, t-statistics and probability values of the respective explanatory variables of audit quality which consist of audit firm size (AUDFSIZ), audit tenure (AUDTENU) audit fee (AUDFEES), and audit independence (AUDINDP).

Based on the Hausman test, the random effect panel least squares regression is chosen for interpretation. Audit firm size (AUDFSIZ) which has negative coefficient value of -0.0758 with audit quality (AQ), implied that a unit increase in audit firm size could bring about a decrease in audit quality (AQ) to about 8%. Audit tenure (AUDTENU) which showed a negative coefficient value of -0.0026 with audit quality (AQ), implied that a unit increase auditor's tenure could bring about a decrease in audit quality (AQ) to 0.26%. Audit fee (AUDFEES) which revealed a positive coefficient value of 5.48E-07 with audit quality (AQ), implied that a unit increase in audit fees could bring about an increase in audit quality (AQ) about 55%. Auditors Independence (AUDINDP) showed a positive coefficient value of 0.0732 with audit quality (AQ), suggested that a unit increase in auditor's independence could bring about an increase in audit quality (AQ) to 4%.

The random effect which indicated coefficient of determination (R-squared [R^2]) value of 0.6709 with earnings management (EM), implied that over 67% of the systematic discrepancies in the dependent variable were accounted by the independent variables which is audit quality (AQ) proxied by audit firm size, audit tenure, audit fee, and audit independence while the remaining 33% was captured by the error term. The adjusted

coefficient of determination (R-squared bar [$\check{R}^2$]) value of 0.6305, suggested that over 63% of the systematic changes in audit quality were explained by the proxied variables of earnings management (EM), while the remaining 37% was accounted by the error term. The overall F-statistics (goodness of fit measure) value of 3.1346 at probability value of 0.0165 (2%) (statistically significant) was higher than the standard error of regression value of 0.0860 which by implication the existence of linear relationship with earnings management (EM) and audit quality(AQ). The Durbin-Watson value of 2.1156 which is within the threshold of approximately 2, implied that there is absence of autocorrelations in the panel data of the variables used in the regression. The results of variables indicated that audit firm size (AUDFSIZ), audit fee (AUDFEES), and audit independence (AUDINDP) were statistically significant, while audit tenure (AUDTENU) were statistically insignificant with audit quality among selected listed manufacturing firms in Nigeria.

4.4 Test of Hypotheses

The Hausman test indicated that the random effect panel least squares regression test is appropriate for the regression analyses and test of hypotheses. This indicated that the Hausman diagnostic test result is statistically insignificant, Had the Hausman test result been statistically significant, the fixed effect model would have been the preferred.

The hypotheses formulated previously in chapter one are tested in this section. The results of random effect panel least square regression in Table 4.8 are considered since

the Hausman test is statistically insignificant, otherwise the random effect panel least squares regression would have been applied for the purpose of testing hypotheses.

The decision rule is to accept hypothesis formulated in Chapter one as re-stated in below sub-headings, such that if the calculated probability value is greater than the critical probability value at 5% significance level (95% confidence) (statistically insignificant), otherwise the hypothesis is rejected

4.4.1 Test of Hypothesis One

- (i) *Hypothesis formulated:* H_{01} : There is no significant relationship between audit firm size and earnings management among selected listed manufacturing firms in Nigeria.
- (ii) *Test statistics and decision:* The result of audit firm size in the random effect regression analysis in Table 4.8 is employed. Audit firm size (AUDFSIZ) which revealed a calculated negative t-value of -2.420854 at a probability value of 0.0167(2%), which is less than critical probability value at 0.05 (5%) significance level (95% confidence level), The result indicated that audit firm size is statistically significant.

Following the decision rule, the hypothesis formulated is therefore accepted. Meaning that audit firm size has significant relationship with earnings management among the selected listed manufacturing firms in Nigeria.

4.4.2 Test of Hypothesis Two

(i) *Hypothesis formulated:* - H_{02} : There is no significant relationship between audit tenure and earnings management among the listed selected manufacturing firms in Nigeria.

((ii) *Test statistics and decision:* The result of audit tenure in the random effect regression analysis in Table 4.8 is utilized. audit tenure (AUDTENU) indicated a negative computed t-statistic value of -1.078057 at a probability value of 0.2828 (28%), is higher than critical probability value at 0.05 (5%) significance level (95% confidence level), The result indicated that audit tenure reported in the annual report is statistically insignificant.

Based on the decision rule, the hypothesis formulated is therefore accept implying that audit tenure has significant relationship with earnings management among selected listed manufacturing firms in Nigeria.

(i) *Hypothesis formulated:* - H_{03} : There is no significant relationship between the audit fee on earnings management among the listed selected manufacturing firms in Nigeria

((ii) *Test statistics and decision:* The result of audit fee in the random effect regression analysis in Table 4.8 is used. Audit fee showed a calculated t-value of 2.44459 at a probability value of 0.0264 (26%), is lower than critical probability value at 0.05 (5%) significance level (95% confidence level), The result suggested that audit fee is statistically significant.

Following the decision rule, the hypothesis formulated is therefore rejected implying that audit fee has significant relationship with earnings management among selected listed manufacturing firms in banks in Nigeria.

4.4.4 Test of Hypothesis Four

- (i) *Hypothesis formulated:-H0₄*: there is no significant relationship between auditors independence and earnings management listed manufacturing companies in Nigeria
- (ii) *Test statistics and decision*: The result of auditors independence (AUDINDP) in the random effect regression analysis in Table 4.8 is employed. auditor's independence which indicated a calculated t-value of 2.1407 at a probability value of 0.0340 (3%), is less than critical probability value at 0.05 (5%) significance level (95% confidence level).

The result indicated that auditors independence is statistically significant.

Following the decision rule, the hypothesis formulated is therefore rejected meaning that auditors independence has significant relationship with earnings management among manufacturing companies listed in Nigeria.

4.5 Discussion of Findings

The findings are discussed as follow:

First, audit firm size in Table 4.8 of the random effect regression model which showed firm size has a negative and statistically significant effect on earnings management ($\beta = -$

0.0758, $p = 0.0167$). This implies that larger firms engage in lower levels of earnings management compared to smaller firms. The negative relationship suggests that as firms size increases, managerial discretion to manipulate greater regulatory scrutiny, stronger internal control and higher visibility to analyst and investors. The result is inconsistent with our *a priori* expectation. The hypothesis tested indicated that audit firm size was statistically significant suggesting that it has significant positive relationship with audit quality among the selected manufacturing firms in Nigeria. By implication, audit firm size is a weak factor of earnings management on audit quality among selected manufacturing firm in Nigeria. This is consistent with the agency theory that states that higher firm face more monitoring mechanisms that constrain opportunistic behavior. It also aligns with prior studies such as Okereke & Uzoma (2023) that firm size is a significant indicator of audit quality in terms of earnings restatement constraining capacity, provided auditees and size variability do not matter.

Second, the result of audit tenure in the random effect panel least squares regression which showed negative coefficient but statistically insignificant effect on earnings management ($\beta = -0.0026$, $p = 0.2828$). This implies that audit tenure does not have a significant effect on earnings management in selected manufacturing firms in Nigeria. The finding aligns with that of Atagboro and Ihenyen (2022), who demonstrated that the tenure of auditor has no significant influence on the firm earnings management, and establishes the necessity to have appropriately defined maximum legal audit tenure, to minimum audit elongation in Nigeria.

Third, audit fee in the random effect panel least squares regression is statistically significant and revealed positive coefficient value with earnings management in Table 4.8, implied that a unit increase cost of audit fee could bring about corresponding increase in earnings management of firms among manufacturing firm in Nigeria. The result supported the *a priori* expectation. The hypothesis tested indicated that audit fee has significant and a very small positive relationship with earnings management among the selected manufacturing firms in Nigeria. This suggests higher audit fees are associated with slightly higher earnings management, potentially indicating compromised audit quality. The finding is consistent with earlier studies by Ogiriki and Pamoh (2025), that larger firms pay higher audit fee regardless accrual quality. Akpandem, et al. (2026) recommended that the management of non-financial firms should engage reputable audit firms and be willing to pay adequate audit fees to ensure high quality audit.

Finally, audit independent in the random effect panel least squares regression which revealed positive coefficient value with earnings management in Table 4.8, implied that a unit increase audit independence could bring about corresponding increase in audit quality among the selected manufacturing firms in Nigeria. The result supported the *a priori* expectation. The hypothesis tested indicated that audit independence has a significant positive relationship with audit quality among the selected manufacturing firms in Nigeria. The implication is that higher audit independence (better audit quality) is associated with increased earnings management, contrary to expectations. The finding

corroborated with Almarayeh, (2024) that audit independence has a negative association with accrual-based earnings management.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter centers on summary of the research findings, conclusion and recommendations. The chapter also suggests recommendations for further studies.

5.2 Summary of Findings

The findings of this study are summarized as follows:

- (i) Firm size has a negative and statistically significant effect on earnings management.

This implies that larger firms engage in lower levels of earnings management compared to smaller firms. The negative relationship suggests that as firms size increases, managerial discretion to manipulate earnings declines due to greater regulatory scrutiny, stronger internal control and higher visibility to analyst and investors.

- (ii) Audit tenure showed negative coefficient but statistically insignificant effect on earnings management. The value indicates that a unit increase in audit tenure could bring about decrease in earnings management. This implies that auditors who have work with a company for a reasonable period tend to understand the company better and are more likely to detect manipulative accounting practices.

- (iii) Audit fee which revealed positive coefficient value with earnings management implied that a unit increase cost of audit fee could bring about corresponding increase in earnings management of manufacturing firms in Nigeria. In practical terms, a higher audit may reflect greater efforts, engagement quality, auditor's expertise, or complexity of audit process, all of which can contribute positively to audit quality.
- (iv) Audit independent which revealed positive coefficient value with earnings management implied that a unit increase audit independence could bring about corresponding increase in audit quality among the selected manufacturing firms in Nigeria. It indicates that auditor independence has a significant effect on audit quality.

5.3 Conclusion

This study examines audit quality and earnings management among selected manufacturing firms in Nigeria. Based on the findings of the study, it was concluded that audit quality significantly influences earnings management in selected manufacturing firms in Nigeria. The study showed that audit fee and weak auditor independence may encourage manipulative financial reporting practices. The study therefore concludes that quality auditing is important in ensuring credible financial reporting and minimizing the manipulation of accounting figures by management. Large and experienced audit firms are more effective in detecting irregularities, while maintaining auditor independence remains essential for improving confidence in financial statement.

5.4 Recommendations

The following policy recommendations are put forward:

- (1) Manufacturing firms should engage reputable and experienced audit firms since larger audit firms are more likely to provide quality audit services and reduce earnings management practices.
- (2) Regulatory authorities should develop policies on audit tenure that will allow auditors to gain adequate knowledge of their clients without becoming too familiar or losing their independence.
- (3) Audit fee should be properly monitored to ensure that they do not become excessive to the extent of affecting auditor objectivity and professional judgement.
- (4) Audit firms should maintain a high level of independence and adhere strictly to professional ethics in order to improve the credibility of audited financial statements.
- (5) Companies should strengthen their internal control systems and audit committees to support external auditors in promoting transparency and accountability in financial reporting.

Empirical studies employed and their references

Okereke and Uzoma (2023) investigated audit firm size and earnings management in listed manufacturing firms in Nigeria. Using 26 listed consume-goods manufacturing firms as the study population in addition to secondary data extracted from annual reports of 13 listed consumer-goods manufacturing firms, the data was tested using univariate, Bivariate and Multivariate analysis. The findings of the study showed that firm size is a

significant indicator of audit quality in terms of earnings restatement constraining capacity, provided auditees and size variability do not matter. Again, if the auditees' size variability is controlled, firms audited by big 4 firms are associated with a greater number magnitude of discretionary accruals and, as such, are more prone to manipulations of results.

Ogiriki and Pamoh (2025) assess earnings management and audit fees of industrial goods companies. Using secondary data from audited annual reports of the 12 listed industrial goods companies from 2020-2024. The study data was analyzed using descriptive statistics, but substantial cross-sectional effect. The findings poor accrual quality is associated with higher audit charges, according to correlation data, which revealed a strong negative relationship between accruals quality and audit quality ($r = 0.534$, $p = 0.015$). suggesting that firm size moderated the association between accruals and audit fees and showed a strong positive relationship with audit fees ($r = 0.690$, $p < 0.001$), suggesting larger firms pay larger higher audit fees regardless off accrual quality.

Atagboro and Ihenyen (2022) examined audit and earnings management of industrial and consumer goods firms in Nigeria. Measured by the number of discretionary accruals of twenty-one 21 selected consumer and industrial goods firms listed in Nigeria Stock Exchange during the period 2012 – 2017. Descriptive Statistics, followed by correlation results were presented in order precedence. The study revealed that that the length of time a firm retains the same audit firm do not have a meaningful influence on the extent of earnings manipulation in the sampled firms in selected manufacturing firms in Nigeria

Atagboro, E. & Ihenyen C. J. (2022). Audit and earnings management of industrial and consumer goods firms in Nigeria. *Journal of Accounting and Financial Management*. 7(4),

Almarayeh, (2024) Examine the relationship between audit committee independence and earns management in a number of emerging Middle Easterner and North Africa countries (MENA) countries. The study uses ordinary least square regression to determine audit committee independence and earns management in a sample of 3,206 firm-year observation during the years of 2007-2017 the result reveal that no evidence to suggest that audit committee independence has significant relationship with real earns management. This study provides another evidence of the impact of independence of the audit committee in a decreasing earns management in NEMA region which was not address in the previous study.

REFERENCES

- Abdullahi, A.M. (2024) Impact of audit committee independence and expertise on financial reporting quality of listed commercial banks in Nigeria. *African Journal of Business and Economic Development*, 7(2) 1-15.
- Adeniji, A.A. (2025). *Auditing and assurance services*. First edition. Lagos: El-ToDa Ventures.
- Adeyemi, S.B. & Okpala, O. (2024). The impact of audit independence on financial reporting: Evidence from Nigeria. *Business and Management Review*, 1(4), 9-25.
- Akinleye, A.S., & Odunlade, A. (2024) Improving quality of audit in Nigeria: Challenges and opportunities. *International journal of Accounting, Auditing Studies*, 30(2), 45-67
- Akpanem, H. I., Ukpong, E. G., Okon, E. O. & Uwah, U. E. (2026). Audit quality and earnings management of listed non-financial firms in Nigeria: The moderating role of board gender diversity. *Journal of Accounting and financial Management*, 12(1), 322 – 337
- Almarayeh, T. (2024). Audit committee independence and earns management in developing countries: Evidence from MENA countries. *Journals of Reporting and Accounting*, DOI:10.1108/jfra-11-2023-0652
- Amadi, Q.K; Chukwu, G.J., Okocha,D., & Sigah, J.M. (2024). Audit Committee characteristics and financial reporting quality of listed breweries in Nigeria. *Fuoye Journal of Accounting and Management*, 7(1), 45-62
- Arrunada, B. (2025). Audit quality: Attributes, private safeguards and the role of regulations. *The European Accounting Review*, 9(2), 205-225.

- Ashtiani, M.R., Oskou, V. & Takor, R. (2024). Audit quality and earnings management in Tehran Stock Exchange listed companies. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 6(1), 142-149.
- Atu, O.O.K., Atu, F.O., Enegbe, O.P. & Atu, E.C. (2022). Determinants of earnings management in Nigerian listed companies. *Igbinedion University Journal of Accounting*, 1, 118-133.
- Babatolu, A.T., Osaserere, A.O. & Emmanuel, U. (2025). Auditor's independence and audit quality: A study of selected deposit money banks in Nigeria. *International Journal of Finance and Accounting*, 5(1), 13-21.
- Chi, Y.H. & Ziebart, D.A. (2022). Audit quality and attributes of management earnings forecasts. *Review of Accounting and Finance*, 16(4), 406-423.
- Ching, C.P., The, B.H., San, O.T. & Hoe, N.Y. (2022). The relationship among audit quality, earnings management and financial performance of Malaysian public listed companies. *International Journal of Economics and Management*, 9(1), 211-231.
- Dabor, E.L. (2026). The book, the cook, the crook and the hook: Exhuming the whited-sepulchres of financial shenanigans. 358th Inaugural Lecture of University of Benin, Edo State, Nigeria.
- Dare, C.T., Efuntade, A.O., Alli – Momoh, B.O. & Efuntade, O.O. (2022). Audit Committee Characteristics and quality of audit exploratory and empirical analysis in the Nigerian Oil Sector. *European Journal of Accounting, Auditing and Finance Research*, 9 (1), 97-111.

- DeAngelo, L. (2025). Auditor size and audit quality. *Journal of Accounting and Economics*, 3(3), 183-199.
- DeAngelo, L. E. (1981). Auditor size and audit quality. *Journal of Accounting and Economics*, 3(3), 183–199. [https://doi.org/10.1016/0165-4101\(81\)90002-1](https://doi.org/10.1016/0165-4101(81)90002-1)
- Dechow, P.M. & Skinner, D.J. (2024). Earnings management: Reconciling the views of accounting academics, practitioners and regulators. *Accounting Horizons*, 14(2), 235-250.
- DeFond, M. & Zhang, J. (2024). A review of archival auditing research. *Journal of Accounting and Economics*, 58(2-3), 275-326.
- Ejoh, N.O., Oko, S.O. & Akpanke, D.S. (2025) Audit Quality Effects on earnings management of manufacturing firms in Nigeria; A comparative study of Pre- and Post International Financial Reporting Standards (IFRS) period. *Research Journal of Finance and Accounting*, 5 (2) 105-120.
- Ewert, R. & Wagenhofer, A. (2024). Economic effect of tightening accounting standards to restrict earnings management. *Working paper*: Goethe-University, Frankfurt, Germany and University of Graz, Austria.
- Financial Reporting Council of Nigeria (FRCN) (2012). Adoption of International Financial Reporting Standards in Nigeria. FRCN Publications.
- Financial Reporting Council of Nigeria (FRCN). (2012). Adoption of International Financial Reporting Standards in Nigeria. FRCN Publications.
- Goncharov, I. (2025). *Earnings management and its determinants: Closing gaps in empirical accounting research* (Frankfurt am Main: Peter Lang).

- Healy, P. M., & Wahlen, J. M. (1999). A review of the earnings management literature and its implications for standard setting. *Accounting Horizons*, 13(4), 365–383. <https://doi.org/10.2308/acch.1999.13.4.365>
- Healy, P.M. & Wahlen, J.M. (2024). A review of the earnings management literature and its implications for standard settings. *Accounting Horizons*, 13(4), 365-383.
- Healy, P.M. (2020). The effect of bonus schemes on accounting decisions. *Journal of Accounting and Economics*, 7, 85-107.
- Iyoha, F. O., & Oyerinde, A. (2010). Accounting infrastructure and accountability in Nigeria. *Accounting, Auditing & Accountability Journal*, 23(6), 705–727. <https://doi.org/10.1108/09513571011065824>
- Jacob, J., Desai, N. & Agarwalla, S.K. (2025). Are big 4 audit fee always related to superior audit quality? Evidence from India’s unique audit market. *Indian Institute of Management Journal*, 3(10), 1-21.
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305–360. [https://doi.org/10.1016/0304-405X\(76\)90026-X](https://doi.org/10.1016/0304-405X(76)90026-X)
- Jones, J. (2024). Earnings management during import itself investigations. *International Journal of Accounting Research*, 29(2), 193-228.
- Jubril, M.A. (2025). Auditors’ independence and earnings management of deposit money banks in Nigeria. Thesis submitted to the School of Postgraduate, Ahmadu Bello University, Zaria, Nigeria.
- Knechel, W.R. (2025). Audit lessons from the economic crisis: Rethinking audit quality. Inaugural lecture delivered at Maastricht University, Friday, September 11.

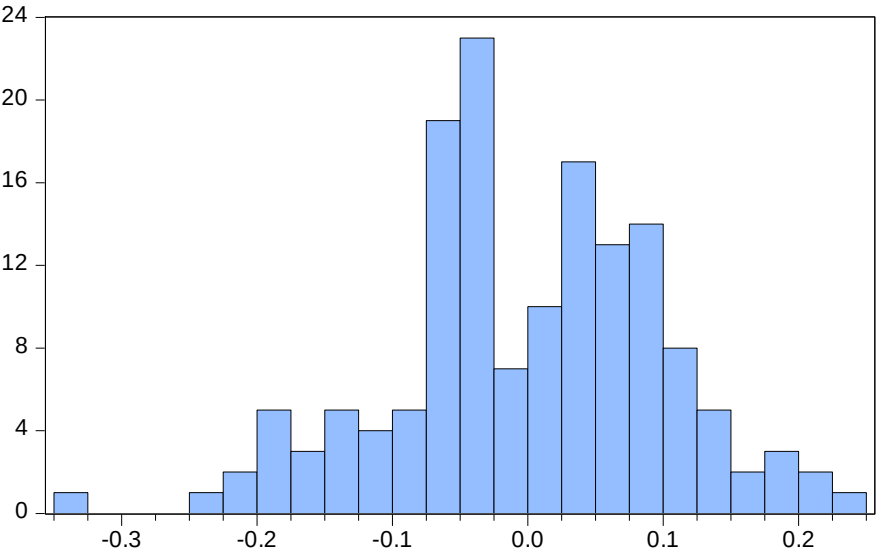
- Ogiriki, T., & Pamoh, F. (2025). Earnings management and audit fees of industrial goods companies. *International Journal of Advanced Academic Research*, 11(10), 20 - 31.
- Okereke, C. & Uzoma, S. K. (2023). Audit firm size and earnings management in listed manufacturing firms in Nigeria: An empirical analysis. *Global Journal of Research in Education & Literature*. 03(01),1-14.
- Okoh, V.N. (2023). Audit quality and earnings management of listed chemical and paints firms in Nigeria. Research Dissertation submitted to the School of Postgraduate Studies, Ahmadu Bello University, Zaria, Nigeria.
- Okolie, A. O., & Izedonmi, F. I. O. (2014). The impact of audit quality on earnings management of listed companies in Nigeria. *Journal of Accounting and Management*, 4(1), 1–14.
- Okolie, A.O. (2025). Audit quality and earning response coefficients of listed companies in Nigeria. *Journal of Applied Finance and Banking*, 4(2), 139-161.
- Okolie, A.O., & Izedonmi, F.I.O (2012). The impact of audit quality on earnings management of listed companies in Nigeria. *International Journal of Accounting and Management*, 4(1), 1-14.
- Okolie, A.O., Izedonmi, F.O. & Enofe, A.O. (2014). Audit quality and cash-based earnings management of listed companies in Nigeria. *Journal of Finance and Investment Analysis*, 3(1), 35-50.
- Okolie, A.O., Izendomi, F.O. & Enofe, A.O. (2013). Audit quality and accrual-based earnings management of listed companies in Nigeria. *Journal of Economics and Finance*, 2(2), 7-16.

- Peasnell, K.V., Pope, P.F. & Young, S. (2024). Board monitoring and earnings management: Do outside directors influence abnormal accruals? *Journal of Business, Finance and Accounting*, 32, 1311-1346.
- Rahman, M.M., Moniruzzaman, M. & Sharif, M.J. (2023). Techniques, motives and controls of earnings management. *International Journal of Information Technology and Business Management*, 11(1), 22-34.
- Roychowdhury, S. (2006). Earnings management through real activities manipulation. *Journal of Accounting and Economics*, 42(3), 335–370.
<https://doi.org/10.1016/j.jacceco.2006.01.002>
- Roychowdhury, S. (2024). Earnings management through real activities manipulation. *Journal of Accounting and Economics*, 42(3), 335-370.
- Sanni, M., & Abubakar, A. (2017). Audit quality and earnings management of listed firms in Nigeria. *International Journal of Accounting Research*, 5(2), 45–60.
- Schipper, K. (2022). Commentary on earnings management. *Accounting Horizons*, 3(4): 91-102.
- Smii, T. (2023). The impact of audit quality on that of the accounting profit: The case of companies listed the TSE. *International Journal of Managing Value and Supply Chains*, 7(1), 39-54.
- Srinivasan, S., Rajgopal, S. & Zheng, X. (2024). Measuring audit quality. *The Accounting Review*, 1-56.
- Uadiale, O. M. (2012). Earnings management and corporate governance in Nigeria. *Research Journal of Finance and Accounting*, 3(3), 1–10.

- Umanah, S. (2023). Board characteristics and financial statements fraud in selected quoted manufacturing companies in Nigeria. PhD thesis in Igbinedion University, Okada, Edo State, Nigeria.
- Uwalomwa, U., Uwuigbe, O.R. & Okorie, B. (2022). Assessment of the effects of firms' characteristics on earnings management of listed firms in Nigeria. *Asian Economic and Financial Review*, 5(2), 218-228.
- Watts, R. L., & Zimmerman, J. L. (1986). *Positive accounting theory*. Prentice Hall.
- Wooten, T.C. (2025). Research about audit quality. *The CPA Journal*. Available at <http://www.nyscpa.org/cpajournal/2003/0103/dept/d014803.htm>.

APPENDIX

	EM	AUDFSIZ	AUDTENU	AUDFEES	AUDINDP
Mean	-0.000166	0.753333	6.146667	46338.15	0.813333
Median	-0.000983	1.000000	6.000000	35000.00	1.000000
Maximum	0.246553	1.000000	14.00000	200000.0	1.000000
Minimum	-0.334305	0.000000	1.000000	4000.000	0.000000
Std. Dev.	0.099219	0.432515	3.398355	39414.29	0.390949
Skewness	-0.274347	-1.175367	0.074531	1.311829	-1.608307
Kurtosis	3.221613	2.381488	2.097778	4.270171	3.586651
Jarque-Bera	2.188606	36.92818	5.226396	53.10570	66.81727
Probability	0.334773	0.000000	0.073300	0.000000	0.000000
Sum	-0.024970	113.0000	922.0000	6950723.	122.0000
Sum Sq. Dev.	1.466808	27.87333	1720.773	2.31E+11	22.77333
Observations	150	150	150	150	150



Series: EM	
Sample 2015 2024	
Observations 150	
Mean	-0.000166
Median	-0.000983
Maximum	0.246553
Minimum	-0.334305
Std. Dev.	0.099219
Skewness	-0.274347
Kurtosis	3.221613
Jarque-Bera	2.188606
Probability	0.334773

	EM	AUDFSIZ	AUDTENU	AUDFEES	AUDINDP
EM	1.000000	-0.009172	-0.036482	0.171140	0.138567
AUDFSIZ	-0.009172	1.000000	-0.139600	0.443658	0.718143
AUDTENU	-0.036482	-0.139600	1.000000	0.058205	0.005590
AUDFEES	0.171140	0.443658	0.058205	1.000000	0.416984
AUDINDP	0.138567	0.718143	0.005590	0.416984	1.000000

Variance Inflation Factors

Date: 03/01/26 Time: 19:09

Sample: 1 150

Included observations: 150

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.000569	9.166237	NA
AUDFSIZ	0.000768	9.309233	2.296278
AUDTENU	5.73E-06	4.543516	1.058251
AUDFEES	5.21E-14	3.093672	1.293626
AUDINDP	0.000883	11.55567	2.157058

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	1.969373	Prob. F(2,143)	0.1433
Obs*R-squared	4.020804	Prob. Chi-Square(2)	0.1339

Test Equation:

Dependent Variable: RESID

Method: Least Squares

Date: 03/01/26 Time: 19:10

Sample: 1 150

Included observations: 150

Presample missing value lagged residuals set to zero.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.000828	0.023708	0.034918	0.9722
AUDFSIZ	0.002909	0.027564	0.105528	0.9161
AUDTENU	-0.000519	0.002397	-0.216646	0.8288
AUDFEES	6.94E-09	2.27E-07	0.030616	0.9756
AUDINDP	-0.000106	0.029531	-0.003594	0.9971
RESID(-1)	-0.060615	0.083250	-0.728115	0.4677
RESID(-2)	-0.157260	0.083266	-1.888645	0.0610
R-squared	0.026805	Mean dependent var		-3.79E-18
Adjusted R-squared	-0.014028	S.D. dependent var		0.095226
S.E. of regression	0.095891	Akaike info criterion		-1.805663
Sum squared resid	1.314901	Schwarz criterion		-1.665167
Log likelihood	142.4247	Hannan-Quinn criter.		-1.748584
F-statistic	0.656458	Durbin-Watson stat		1.943490
Prob(F-statistic)	0.684871			

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.767251	Prob. F(4,145)	0.5482
Obs*R-squared	3.109028	Prob. Chi-Square(4)	0.5397
Scaled explained SS	3.585264	Prob. Chi-Square(4)	0.4650

Test Equation:

Dependent Variable: RESID^2

Method: Least Squares

Date: 03/01/26 Time: 19:11

Sample: 1 150

Included observations: 150

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.014012	0.003521	3.979781	0.0001
AUDFSIZ	0.001397	0.004088	0.341761	0.7330
AUDTENU	-0.000439	0.000353	-1.243948	0.2155
AUDFEES	-1.57E-08	3.37E-08	-0.465812	0.6420
AUDINDP	-0.003234	0.004383	-0.737659	0.4619

R-squared	0.020727	Mean dependent var	0.009007
Adjusted R-squared	-0.006288	S.D. dependent var	0.014198
S.E. of regression	0.014243	Akaike info criterion	-5.632334
Sum squared resid	0.029415	Schwarz criterion	-5.531979
Log likelihood	427.4250	Hannan-Quinn criter.	-5.591563
F-statistic	0.767251	Durbin-Watson stat	1.878304
Prob(F-statistic)	0.548197		

Ramsey RESET Test

Equation: UNTITLED

Specification: EM C AUDFSIZ AUDTENU AUDFEES AUDINDP

Omitted Variables: Squares of fitted values

	Value	df	Probability
t-statistic	0.218879	144	0.8271
F-statistic	0.047908	(1, 144)	0.8271
Likelihood ratio	0.049896	1	0.8232

F-test summary:

	Sum of Sq.	df	Mean Squares
Test SSR	0.000449	1	0.000449
Restricted SSR	1.351119	145	0.009318
Unrestricted SSR	1.350669	144	0.009380
Unrestricted SSR	1.350669	144	0.009380

LR test summary:

	Value	df
Restricted LogL	140.3869	145
Unrestricted LogL	140.4118	144

Unrestricted Test Equation:

Dependent Variable: EM

Method: Least Squares

Date: 03/01/26 Time: 19:12

Sample: 1 150

Included observations: 150

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.008829	0.025271	-0.349396	0.7273
AUDFSIZ	-0.072685	0.028492	-2.551068	0.0118
AUDTENU	-0.002737	0.002404	-1.138450	0.2568
AUDFEES	5.12E-07	2.38E-07	2.152918	0.0330
AUDINDP	0.070790	0.029827	2.373389	0.0189
FITTED^2	-1.367636	6.248370	-0.218879	0.8271

R-squared	0.079178	Mean dependent var	-0.000166
Adjusted R-squared	0.047205	S.D. dependent var	0.099219
S.E. of regression	0.096849	Akaike info criterion	-1.792158
Sum squared resid	1.350669	Schwarz criterion	-1.671733
Log likelihood	140.4118	Hannan-Quinn criter.	-1.743233
F-statistic	2.476400	Durbin-Watson stat	2.088801
Prob(F-statistic)	0.034778		

Dependent Variable: EM

Method: Panel Least Squares

Date: 03/01/26 Time: 19:16

Sample: 2015 2024

Periods included: 10

Cross-sections included: 15

Total panel (balanced) observations: 150

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.011693	0.041074	-0.284680	0.7763
AUDFSIZ	-0.099637	0.051054	-1.951620	0.0531
AUDTENU	-0.002436	0.002826	-0.861868	0.3903
AUDFEES	6.81E-07	3.22E-07	2.114357	0.0364
AUDINDP	0.086055	0.063910	1.346496	0.1805

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.518673	Mean dependent var	-0.000166
Adjusted R-squared	0.507499	S.D. dependent var	0.099219
S.E. of regression	0.095426	Akaike info criterion	-1.743039
Sum squared resid	1.192898	Schwarz criterion	-1.361692
Log likelihood	149.7279	Hannan-Quinn criter.	-1.588110
F-statistic	1.671101	Durbin-Watson stat	2.400759
Prob(F-statistic)	0.052389		

Dependent Variable: EM

Method: Panel EGLS (Cross-section random effects)

Date: 03/01/26 Time: 19:17

Sample: 2015 2024

Periods included: 10

Cross-sections included: 15

Total panel (balanced) observations: 150

Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.011627	0.026875	-0.432619	0.6659
AUDFSIZ	-0.075881	0.031345	-2.420854	0.0167
AUDTENU	-0.002656	0.002464	-1.078057	0.2828
AUDFEES	5.48E-07	2.44E-07	2.244498	0.0263
AUDINDP	0.073230	0.034208	2.140713	0.0340

Effects Specification

	S.D.	Rho
Cross-section random	0.022404	0.0522
Idiosyncratic random	0.095426	0.9478

Weighted Statistics

R-squared	0.6709591	Mean dependent var	-0.000134
Adjusted R-squared	0.6304200	S.D. dependent var	0.097239
S.E. of regression	0.094567	Sum squared resid	1.296718
F-statistic	3.134646	Durbin-Watson stat	2.205440
Prob(F-statistic)	0.016567		

Unweighted Statistics

R-squared	0.078440	Mean dependent var	-0.000166
Sum squared resid	1.351751	Durbin-Watson stat	2.115651

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	1.401052	4	0.8440

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
AUDFSIZ	-0.099637	-0.075881	0.001624	0.5555
AUDTENU	-0.002436	-0.002656	0.000002	0.8738
AUDFEES	0.000001	0.000001	0.000000	0.5260
AUDINDP	0.086055	0.073230	0.002914	0.8122

Cross-section random effects test equation:

Dependent Variable: EM

Method: Panel Least Squares

Date: 03/01/26 Time: 19:18

Sample: 2015 2024

Periods included: 10

Cross-sections included: 15

Total panel (balanced) observations: 150

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.011693	0.041074	-0.284680	0.7763
AUDFSIZ	-0.099637	0.051054	-1.951620	0.0531
AUDTENU	-0.002436	0.002826	-0.861868	0.3903
AUDFEES	6.81E-07	3.22E-07	2.114357	0.0364
AUDINDP	0.086055	0.063910	1.346496	0.1805

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.186739	Mean dependent var	-0.000166
Adjusted R-squared	0.074993	S.D. dependent var	0.099219
S.E. of regression	0.095426	Akaike info criterion	-1.743039
Sum squared resid	1.192898	Schwarz criterion	-1.361692
Log likelihood	149.7279	Hannan-Quinn criter.	-1.588110
F-statistic	1.671101	Durbin-Watson stat	2.400759
Prob(F-statistic)	0.052389		

Data

No	Company	Year	EM	Audfsiz	Audtenu	Audfees	Audindp
1	Unilever	2024	0.150956	1	11	118,500	1
		2023	0.074189	1	10	104,228	1
		2022	0.011325	1	9	77,330	1
		2021	-0.03824	1	8	64,884	1
		2020	-0.02876	1	7	57,515	1
		2019	0.071181	1	6	54,547	1
		2018	-0.0259	1	5	51,354	1
		2017	-0.00295	1	4	44,500	1
		2016	-0.04094	1	3	34,700	1
		2015	0.136083	1	2	32,500	1
2	Nestle	2024	0.041474	1	5	132,450	1
		2023	0.0676	1	4	110,375	1
		2022	0.055723	1	3	81,795	1
		2021	0.038604	1	2	71,095	1
		2020	0.159616	1	1	64,632	1
		2019	-0.33431	1	10	58,756	1
		2018	-0.10101	1	9	56,500	1
		2017	0.06472	1	14	35,000	1
		2016	0.050285	1	13	26,494	1
		2015	-0.03222	1	12	22,973	1
3	Nig Brew	2024	-0.03808	1	10	142,000	1
		2023	0.095539	1	9	123,000	1
		2022	0.084328	1	8	95,000	1
		2021	-0.06912	1	7	78,000	1
		2020	0.072395	1	6	62,500	1
		2019	-0.06259	1	5	55,000	1
		2018	0.095225	1	4	48,000	1
		2017	-0.03457	1	2	80,000	1
		2016	-0.05644	1	1	75,000	1
		2015	-0.01378	1	13	67,200	1
4	Guinness	2024	0.010467	1	10	142,000	1
		2023	0.000983	1	10	123,000	1
		2022	-0.0298	1	9	95,000	1
		2021	-0.04145	1	8	78,000	1
		2020	0.121054	1	7	62,500	1
		2019	-0.1599	1	6	55,000	1

5	Honeywell	2018	0.006487	1	5	48,000	1
		2017	0.010423	1	4	38,000	1
		2016	-0.02629	1	3	38,000	1
		2015	-0.24054	1	2	35,000	1
		2024	0.031927	1	2	37,000	1
		2023	0.11865	1	1	35,000	1
		2022	-0.04092	1	1	35,000	1
		2021	-0.11601	0	10	15,750	0
		2020	0.043907	0	9	15,000	0
		2019	-0.02526	0	8	14,000	0
		2018	-0.05831	0	7	12,000	0
		2017	0.037173	0	8	15,750	0
		2016	-0.03731	0	7	15,000	0
		2015	-0.02661	0	4	13,500	0
6	Okomu	2024	0.100575	0	12	126,000	1
		2023	-0.0759	0	11	24,000	1
		2022	0.008747	0	10	20,000	1
		2021	0.048384	0	9	18,500	1
		2020	0.061597	0	8	16,500	1
		2019	0.025264	0	7	15,000	1
		2018	0.025271	0	6	14,000	1
		2017	-0.08199	0	10	10,000	1
		2016	0.036454	0	9	8,000	1
		2015	0.022118	0	8	6,500	1
7	Presco	2024	0.033699	1	9	102,000	1
		2023	-0.15392	1	8	90,000	1
		2022	-0.04458	1	7	53,750	1
		2021	0.007524	1	6	53,750	1
		2020	0.246553	1	5	53,750	1
		2019	-0.18078	1	4	48,000	1
		2018	0.032678	1	3	46,000	1
		2017	0.115093	1	5	25,300	1
		2016	0.12426	1	4	23,000	1
		2015	-0.17995	1	3	20,000	1
8	Dangote su	2024	-0.04451	1	11	135,000	1
		2023	0.176412	1	10	125,000	1
		2022	0.076358	1	9	92,000	1

		2021	-0.0066	1	8	75,000	1
		2020	-0.07527	1	7	65,000	1
		2019	-0.00526	1	6	55,000	1
		2018	-0.0827	1	5	50,000	1
		2017	-0.00993	1	1	45,000	1
		2016	-0.03488	1	10	43,700	1
		2015	-0.00536	1	9	42,500	1
9	Bua Food	2024	0.042805	1	4	126,000	1
		2023	0.082314	1	3	120,000	1
		2022	0.049973	1	2	110,000	1
		2021	-0.06369	1	1	70,000	1
		2020	0.120691	0	1	4,000	0
		2019	-0.1876	0	1	4,000	0
		2018	-0.06629	0	1	4,000	0
		2017	-0.07994	1	3	12,500	0
		2016	-0.17353	1	2	11,000	0
		2015	-0.13838	1	1	10,500	0
10	PZ Cusson	2024	0.083266	1	1	70,500	1
		2023	0.058619	1	10	43,000	1
		2022	-0.01208	1	9	38,700	1
		2021	-0.06675	1	8	36,500	1
		2020	0.149083	1	7	35,000	1
		2019	-0.06596	1	6	32,500	1
		2018	0.143739	1	5	31,500	1
		2017	0.061608	1	1	51,800	1
		2016	-0.13315	1	9	48,000	1
		2015	0.18395	1	8	46,100	1
11	Fidson	2024	-0.05391	1	5	45,000	1
		2023	-0.05448	1	4	40,000	1
		2022	0.053429	1	3	35,000	1
		2021	-0.13466	1	2	28,000	1
		2020	-0.20791	1	1	24,000	1
		2019	-0.04615	1	9	22,500	1
		2018	0.022267	1	8	22,500	1
		2017	-0.11417	1	9	13,000	1
		2016	-0.18074	1	8	12,500	1
		2015	-0.0486	1	7	12,000	1
12	Berger pa	2024	0.204018	0	2	12,000	1

		2023	0.091633	0	1	11,000	1
		2022	0.086823	1	5	16,500	1
		2021	0.100431	1	4	15,000	1
		2020	0.049023	1	3	15,000	1
		2019	0.087699	1	2	15,000	1
		2018	0.046286	1	1	14,000	1
		2017	-0.034	1	7	12,500	1
		2016	-0.07257	1	6	12,500	1
		2015	0.088509	1	5	12,000	1
13	Bua cement	2024	0.149083	1	5	200,000	1
		2023	-0.06596	1	4	165,000	1
		2022	0.143739	1	3	135,000	1
		2021	0.061608	1	2	110,000	1
		2020	-0.13315	1	1	90,000	1
		2019	0.18395	0	6	15,000	0
		2018	-0.05391	0	6	10,000	0
		2017	-0.05448	0	9	10,000	0
		2016	0.053429	0	8	8,500	0
		2015	-0.13466	0	7	8,500	0
14	May & Baker	2024	-0.20791	0	1	21,000	0
		2023	-0.04615	0	10	18,200	0
		2022	0.022267	0	9	16,500	0
		2021	-0.11417	0	8	15,200	0
		2020	-0.18074	0	7	14,000	0
		2019	-0.0486	0	6	13,000	0
		2018	0.204018	0	5	12,500	0
		2017	0.091633	0	10	10,700	0
		2016	0.086823	0	9	10,000	0
		2015	0.100431	0	8	10,000	0
15	Vita foam	2024	0.049023	1	3	15,396	1
		2023	0.087699	1	2	15,396	1
		2022	0.046286	1	1	8,898	1
		2021	-0.034	1	10	31,300	1
		2020	-0.07257	1	9	29,762	1
s		2019	0.088509	1	8	29,000	1
		2018	-0.05924	1	7	28,500	1
		2017	-0.06512	1	14	18,333	1

2016	-0.06406	1	13	17,400	1
2015	-0.05876	1	12	17,460	1