International Journal of Economics and Financial Management (IJEFM)
E-ISSN 2545-5966 P-ISSN 2695-1932 Vol 11. No. 3 2026 www.iiardjournals.org online version

Effect of Audit Quality on Earnings Management of Listed Industrial Goods Companies in Nigeria

Akintaro, Henry
+234 803 206 3246
henrytee8@gmail.com

Danson, Noba Price
+2348063975348
dpricenoba@gmail.com

Akpegi, Patrick Onahi
+2348032916553
onahip@gmail.com

Ikagu Friday
+234 803 541 5056
fridayikagu@gmail.com

DOI: 10.56201/ijefm.v11.no3.2026.pg176.188

Abstract
This study examined the effect of audit quality on earnings management among listed industrial goods companies *in Nigeria. The study was motivated by persistent concerns about financial reporting credibility, audit governance effectiveness, and managerial opportunistic behaviour in emerging capital markets. The study adopted an ex-post facto research design because secondary historical data were utilized without manipulating study variables. The population of the study comprised 21 listed industrial goods companies listed on the Nigerian Exchange Group (NXG). Census sampling was employed due to the small population size. Data were collected from audited annual financial statements covering the period 2015 to 2024. Panel regression analysis was used for data estimation after conducting diagnostic tests such as multicollinearity, heteroskedasticity, and Hausman specification tests. The results revealed that auditor industry specialization, auditor independence, and audit tenure significantly reduce earnings management behaviour. Audit fee was not statistically significant, while audit size showed mixed influence on earnings management. The study concludes that audit quality attributes play important roles in improving financial reporting quality among consumer goods firms in Nigeria. The study recommends stronger audit independence enforcement, promotion of auditor specialization, and optimal audit tenure regulation to enhance transparency and accountability.*

Keywords: *Earnings Management, Audit Quality, Board Gender Diversity, Auditor Independence, Audit Tenure.*

Introduction

Financial statements are expected to faithfully represent the economic performance of firms, yet numerous cases of earnings manipulation and aggressive accounting practices have raised serious concerns among regulators, investors, and stakeholders. Earnings management—

defined as managers deliberate adjustment of accounting figures within the bounds of accounting standards to achieve desired outcomes—undermines the reliability and transparency of financial reports, thereby distorting stakeholders' decision-making processes (Dechow, Sloan & Sweeney, 1995; Jones, 1991). In emerging markets like Nigeria, such behaviour is particularly problematic because institutional enforcement mechanisms are relatively weaker compared to developed markets, which already struggle with similar issues (Chen, Kim & Nofsinger, 2021). Despite regulatory reforms and corporate governance codes, the credibility of financial reporting remains a major concern among listed firms in Nigeria, particularly in the consumer goods sector. Financial reports are expected to provide reliable information about firm performance, yet managerial discretion in accounting choices has continued to create opportunities for earnings manipulation. Earnings management undermines the transparency and integrity of financial statements because managers may exploit accounting flexibility to achieve targeted financial outcomes. Such practices distort the true economic condition of firms and reduce the confidence of investors and other stakeholders in capital market information.

Audit quality is widely recognized as an important corporate governance mechanism for reducing earnings management behaviour. High-quality auditing enhances the credibility of financial statements by ensuring that accounting estimates and disclosures comply with established standards. Empirical literature suggests that audit independence, audit tenure, audit fee structure, and audit firm characteristics influence the extent of managerial opportunistic reporting behaviour (Francis, Maydew & Sparks, 2020; DeFond & Zhang, 2020). However, findings from different studies remain inconsistent, particularly in emerging economies where institutional monitoring and enforcement mechanisms may be relatively weak. In Nigeria, corporate governance enforcement challenges may limit the effectiveness of audit oversight in controlling earnings manipulation.

Another important issue is the variation in audit quality attributes across firms. Audit independence is expected to enhance objectivity and reduce managerial interference in financial reporting processes. However, in some cases, audit independence may exist structurally without corresponding behavioural independence due to economic dependence, client retention pressure, or regulatory enforcement limitations (Reynolds & Francis, 2021). Similarly, audit remuneration has been associated with audit effort intensity, where higher audit fees may encourage auditors to invest more time and resources in verifying financial records. Nevertheless, excessive reliance on audit fees may create client bonding risk, which could potentially weaken auditor scepticism.

Audit tenure and audit size also present mixed empirical evidence in the literature. Longer audit tenure may improve auditor understanding of client operations and enhance audit efficiency, but prolonged engagement may create familiarity risk that reduces professional scepticism (Hoitash, Hoitash & Bedard, 2020). Audit firm size is often expected to influence audit quality because large audit networks possess greater technical expertise, reputation incentives, and resource capabilities. However, research in emerging markets indicates that engagement of large audit firms does not always guarantee improved financial reporting quality due to market structure and institutional constraints (Singh & Gupta, 2025).

Audit quality is widely recognized as a key corporate governance mechanism designed to constrain earnings management by improving the objectivity and reliability of financial reporting. High-quality audits increase the likelihood that irregular accounting estimates and managerial opportunism are detected and reported, thereby reducing the extent of earnings manipulation (Francis, Maydew & Sparks, 2020). However, empirical evidence on the effectiveness of audit quality in emerging economies is mixed. Some studies find that stronger audit independence and greater audit effort significantly reduce earnings management (Zhou & Wang, 2023; Abdullahi & Mansor, 2022), while others show that audit quality attributes such as audit size and audit tenure may have limited or inconsistent effects because institutional enforcement and regulatory pressures are weaker in developing markets (Singh & Gupta, 2025; Okafor & Mohammed, 2026). This inconsistency suggests that audit quality alone may not be sufficient to curb earnings manipulation in Nigeria without complementary governance mechanisms.

In the Nigerian context, there is evidence that audit independence and audit remuneration can influence financial reporting outcomes, but the effectiveness of these mechanisms is influenced by regulatory enforcement, board governance structures, and market competition (Uwakwe, 2025). Audit failures and corporate reporting scandals in the past decade further illustrate that audit oversight mechanisms may not be fully effective in restraining managerial opportunism (Oladele & Ajibolade, 2022). In the consumer goods sector—an industry marked by intense competition, high inventory turnover, and complex cost allocation decisions—managers may be tempted to smooth earnings to meet market expectations or internal performance targets. This behaviour can compromise the perceived reliability of financial reports and erode investor confidence. Therefore, this study examined the effect of audit quality on earnings management in Nigerian consumer goods firms.

Hypotheses

The hypotheses are stated in null form in line with conventional econometric testing:

$H_0$1: Audit industry specialization has no significant effect on earnings management of listed industrial goods companies in Nigeria.

$H_0$2: Audit fees have no significant effect on earnings management of listed industrial goods companies in Nigeria.

$H_0$3: Audit independence has no significant effect on earnings management of listed industrial goods companies in Nigeria.

$H_0$4: Audit tenure has no significant effect on earnings management of listed industrial goods companies in Nigeria.

$H_0$5: Audit size has no significant effect on earnings management of listed industrial goods companies in Nigeria.

Literature Review

Concept of Earnings Management

Scott (2015) defines earnings management as the choice by a manager of accounting policies, or actions affecting earnings, so as to achieve specific reported earnings objectives. This definition underscores the role of managerial intent and the pursuit of earnings targets. Dechow et al. (2011) argue that while earnings management is not necessarily illegal, aggressive forms may increase the likelihood of fraud when governance and monitoring mechanisms are weak. Dechow and Skinner (2000) describe earnings management as managerial actions that influence reported earnings and potentially mislead some stakeholders about the firm's economic performance. Their definition focuses on the distortionary impact of accounting discretion on users of financial statements.

Leuz, Nanda, and Wysocki (2003) define earnings management as the alteration of firms' reported economic performance by insiders either to mislead stakeholders or to influence contractual outcomes. They emphasize the opportunistic behaviour of managers, particularly in environments with weak investor protection. Roychowdhury (2006) expands the concept beyond accrual manipulation and defines earnings management to include real activities manipulation, where managers alter actual business operations (such as production levels or discretionary expenditures) to meet earnings targets. This definition broadens the scope of earnings management beyond accounting estimates to operational decisions. Similarly, DeFond and Zhang (2020) argue that earnings management involves the strategic use of accounting discretion that reduces the transparency of financial reports and weakens the information content of earnings for capital market participants.

Concept of Audit quality

Francis (2004) expands the concept by explaining that audit quality is influenced by firm-level factors such as audit firm size, industry specialization, auditor tenure, and audit fees. He argues that audit quality is multi-dimensional and cannot be captured by a single measure. More recently, Knechel, Krishnan, and Pevzner (2013) emphasize that audit quality reflects the overall effectiveness of the audit process, including planning, evidence gathering, professional scepticism, and reporting standards. They highlight that audit quality is shaped by regulatory environment, market competition, and auditor incentives. The International regulatory perspective also defines audit quality broadly. The International Auditing and Assurance Standards Board (IAASB) states that audit quality is achieved when auditors comply with professional standards, exercise appropriate professional scepticism, and provide independent assurance that enhances stakeholder confidence in financial reporting.

Empirical Review

Amara (2025) investigated the relationship between audit quality and earnings management among listed firms in the United Kingdom. The study reported that audit quality has a significant negative relationship with earnings management, implying that firms audited by reputable audit firms tend to engage less in discretionary accrual manipulation. The author explained that high-quality auditors maintain stronger professional scepticism and apply more rigorous audit procedures, which improve financial statement reliability. Although the study provides strong evidence supporting the monitoring role of audit quality, its external validity may be limited when applied to developing economies such as Nigeria because the United Kingdom has stronger regulatory enforcement systems and higher investor protection standards. Institutional differences between developed and emerging markets may therefore influence audit effectiveness.

Togbolo and Orjinta (2025) investigated audit quality attributes and earnings management behaviour among Nigerian corporate firms. The study reported that audit fees significantly reduce real earnings management activities. The authors explained that higher audit compensation motivates audit firms to conduct more detailed financial and operational verification processes during audit engagement. Increased audit remuneration was associated with stronger audit testing procedures, improved detection of abnormal production decisions, and better assessment of managerial operational manipulation. The research suggested that audit fee intensity enhances audit monitoring effectiveness in environments with developing governance structures. However, the study did not analyse interaction effects between audit fees and internal governance variables such as board gender diversity. The absence of moderation analysis limits understanding of how combined governance mechanisms influence earnings management outcomes in Nigerian corporate firms.

Singh and Gupta (2025) investigated the role of audit independence in earnings management among listed firms in South Africa. Their research found that stronger audit independence measured by separation of audit and non-audit services, auditor rotation, and audit committee oversight was associated with lower discretionary accruals and reduced abnormal cash flow manipulation. The authors argued that when auditors are structurally independent and supported by empowered audit committees, they are better positioned to resist client pressure. The study contributed to emerging market literature by showing that audit independence effects on earnings management are robust across institutional contexts with varying regulatory enforcement levels.

Abdullahi and Mansor (2022) examined audit tenure and earnings management behaviour among Nigerian listed firms using discretionary accrual measures. The study found a statistically significant relationship between audit tenure and earnings manipulation practices. Moderate audit tenure was shown to improve audit quality because auditors gain deeper understanding of client financial reporting systems. The authors argued that audit experience accumulation enhances verification accuracy and reduces estimation bias in accounting reporting. However, the study highlighted that weak institutional enforcement and regulatory monitoring challenges in developing economies may reduce audit effectiveness. Another limitation is that the research did not distinguish between industry sectors, particularly consumer goods manufacturing firms.

Adegboye and Agbulu (2024) examined the influence of audit firm size on earnings management among firms listed on the Nigerian Stock Exchange. The authors operationalized audit size through classification of firms audited by large audit networks (locally and internationally affiliated) versus smaller audit practices. The study found that companies audited by larger audit firms exhibited significantly lower levels of discretionary accrual manipulation compared to those audited by smaller firms. Adegboye and Agbulu attributed this finding to the stronger professional scepticism and audit specialization associated with large firms, which enhances the ability to detect financial statement irregularities. Importantly, the study also found that large audit firms were more likely to issue qualified opinions when accounting estimates appeared aggressive, suggesting a higher threshold for reporting conservatism. However, the authors acknowledged that regulatory enforcement inconsistencies in Nigeria may moderate the audit size effect, as weaker regulatory sanctions reduce external pressure on auditors to strictly enforce standards. A key limitation is the heavy reliance on discretionary accrual models without examining real earnings management proxies, which may underestimate overall manipulation behaviour.

Theoretical Framework

There are several theories upon which research on this subject matter can be underpinned. The following are the theories and their extensive considerations:

Agency Theory

Agency Theory remains one of the most influential theoretical frameworks in accounting, auditing, and corporate governance research. The theory was formally propounded by Jensen and Meckling (1976) in their seminal work on the theory of the firm. They conceptualized the firm as a nexus of contracts in which shareholders (principals) delegate decision-making authority to managers (agents). The central argument of the theory is that because ownership and control are separated in modern corporations, managers may pursue personal interests that conflict with the wealth-maximization objectives of shareholders. This divergence of interest creates what is known as agency conflict. A fundamental assumption of Agency Theory is the existence of information asymmetry. Managers typically possess superior knowledge about the firm's operations and financial position compared to shareholders. This informational advantage creates opportunities for managers to manipulate accounting numbers to achieve personal objectives, such as maximizing performance-based compensation, maintaining job security, or influencing stock prices. Earnings management therefore becomes a natural outcome of agency conflict, as managers may exploit accounting discretion to present a more favourable financial position than actually exists. To mitigate this problem, shareholders incur agency costs by instituting monitoring mechanisms such as external audits, independent boards, and internal control systems.

The relevance of Agency Theory to the study of audit quality and earnings management is therefore direct and compelling. External auditing serves as a monitoring mechanism designed to reduce information asymmetry between managers and shareholders. High audit quality increases the probability that material misstatements will be detected and reported, thereby constraining managerial opportunism. Audit characteristics such as independence, audit tenure, audit specialization, and audit fees influence the effectiveness of this monitoring function. When auditors are independent and adequately resourced, they are more likely to challenge aggressive accounting practices and enforce compliance with reporting standards. In contrast, weak audit structures may fail to deter earnings manipulation, allowing agency conflicts to persist.

Contemporary empirical studies continue to support the explanatory power of Agency Theory. For instance, research by DeFond and Zhang (2020) demonstrates that stronger auditor independence reduces discretionary accruals and improves earnings quality. Similarly, Zhou and Wang (2023) found that audit tenure and industry specialization significantly influence earnings management in emerging markets, reinforcing the idea that monitoring effectiveness determines the extent of managerial opportunism. Studies within the Nigerian context also align with agency-theoretic predictions. Abdullahi and Mansor (2022) report that higher audit independence is associated with lower earnings manipulation among Nigerian listed firms, suggesting that effective monitoring mechanisms reduce agency conflict. More recent evidence from Soyemi (2024) further shows that governance attributes such as board composition strengthen oversight capacity, indirectly supporting the agency framework that multiple monitoring mechanisms can jointly mitigate managerial opportunism.

Methodology

This study adopted an ex-post facto research design to examine relationships among variables without manipulating the independent variables. The population comprised 21 listed industrial goods companies listed on the Nigerian Exchange Group in Nigeria. The study covered a ten-year period from 2015 to 2024, generating panel data suitable for longitudinal analysis. Panel regression analysis was employed to test the hypotheses by combining cross-sectional and time-series observations.

Model specification

$EM = \beta_{0it} + \beta_1 AIS_{it} + \beta_2 AF_{it} + \beta_3 AI_{it} + \beta_4 AT_{it} + \beta_5 AS + \beta_6 BGD + e_{it}$

EM =Earnings Management
AIS= Auditor Industry Specialization
AF= Audit Fees
AI= Audit Independence
AT= Audit Tenure
AS= Auditor Size
BGD= Board Gender Diversity
$\beta 1$-$\beta 5$, are parameters estimates.
ε = Residuals
$\beta 0$ = Constant
i = firm
t = time

Table 1 Variable Measurement

Variables	Measurement	Sources
Earnings Management	Measured using discretionary accruals estimated through the Modified Jones Model (1995) where higher absolute discretionary accrual values indicate higher earnings management.	Dechow, Sloan & Sweeney (1995); Beneish (2001); Aladejebi et al. (2023)
Auditor Industry Specialization	Measured as a dummy variable, where 1 = industry specialist auditor and 0 = otherwise, often determined by market share within the consumer goods sector.	Balsam, Krishnan & Yang (2003); Hassan & Marimuthu (2021)
Audit Fees	Measured as the natural logarithm of total audit fees paid annually to control for scale effects.	Francis (2004); Olowookere & Aladejebi (2024)
Audit Independence	Measured using audit committee independence ratio, calculated as the proportion of independent non-executive members on the audit committee.	DeAngelo (1981); Adeyemi & Fagbemi (2010)
Audit Tenure	Measured as the number of consecutive years an audit firm has audited a company.	Johnson, Khurana & Reynolds (2002); Aladejebi et al. (2023)
Auditor Size	Measured as a dummy variable, where 1 = Big-4 audit firm and 0 = otherwise.	DeAngelo (1981); Becker et al. (1998)
Board Gender Diversity	Measured as the ratio of female directors to total board members.	Gul, Srinidhi & Ng (2011); Olatunji (2025)

Source: Researcher Computation, 2026

Results and Discussion of Findings

Table 2 Descriptive Statistics

	Mean	Maxi	Mini	Std.Dev.	Skew	Kurt	Obs
EM	-0.01018	0.050400	-0.09518	0.021738	-0.62769	4.989988	210
AIS	0.480952	1.000000	0.000000	0.500831	0.076246	1.005813	210
AF	17.90198	18.82580	15.47230	0.785789	-1.00939	3.369629	210
AI	0.005253	0.009900	0.000500	0.002866	-0.05601	1.730655	210
AS	0.447619	1.000000	0.000000	0.498437	0.210683	1.044387	210
AT	7.452381	13.00000	1.000000	3.095006	-0.03421	2.065819	210

Source: Eviews Output, 2026

The descriptive statistics in Table 2 provide preliminary insight into the distribution and behaviour of the study variables across the 210 firm-year observations. Earnings management (EM) has a mean value of –0.01018, indicating that, on average, firms exhibit a slight income-decreasing discretionary accrual pattern, while the standard deviation of 0.021738 suggests moderate variability in reporting behaviour. The minimum and maximum values further show the presence of both aggressive income-increasing and income-decreasing practices within the sample.

Auditor industry specialization (AIS) has a mean of 0.480952, implying that approximately 48% of the firms are audited by industry-specialized auditors, with a relatively high standard deviation reflecting variation across firms. Audit fee (AF) shows a mean of 17.90198 with moderate dispersion, suggesting relative consistency in audit remuneration among the sampled firms. Auditor independence (AI) records a low mean value of 0.005253, indicating limited variability in independence structure across firms during the period.

Audit size (AS) presents a mean of 0.447619, showing that nearly 45% of the firms are audited by large audit firms, while audit tenure (AT) averages 7.45 years, indicating moderately long auditor-client relationships. The skewness and kurtosis statistics reveal that most variables approximate normal distribution, although EM and AF exhibit slight negative skewness and leptokurtic tendencies, suggesting mild deviations from symmetry.

Table 3 Correlation Matrix

Correlation Probability	EM	AIS	AF	AI	AS
AIS	-0.236083				
	0.0006				
AF	0.072096	0.062517			
	0.2984	0.3674			
AI	-0.387771	0.067056	-0.022459		
	0.0000	0.3335	0.7463		
AS	0.109304	-0.004016	-0.089975	0.084374	
	0.1143	0.9539	0.1940	0.2234	
AT	-0.170430	-0.029912	0.000551	-0.091642	0.057305
	0.0134	0.6665	0.9937	0.1859	0.4087

Source: Eviews Output, 2026

The correlation matrix in Table 3 presents the pairwise relationships among earnings management (EM) and the audit quality variables. The results show that auditor industry specialization (AIS) has a negative and statistically significant relationship with EM (r = –0.236083; p = 0.0006), suggesting that firms audited by industry specialists are associated with lower levels of earnings management. Similarly, auditor independence (AI) exhibits a stronger negative and significant correlation with EM (r = –0.387771; p = 0.0000), indicating that greater independence is linked to reduced discretionary accruals.

Audit tenure (AT) also shows a negative and significant relationship with EM (r = –0.170430; p = 0.0134), implying that longer auditor-client relationships may be associated with lower earnings manipulation within the sample period. In contrast, audit fee (AF) and audit size (AS) display positive but statistically insignificant correlations with EM, suggesting that, at the bivariate level, these variables do not show strong direct linear associations with earnings management.

The correlations among the independent variables are generally low and statistically insignificant, indicating the absence of serious multicollinearity concerns. Overall, the correlation results provide preliminary evidence that audit specialization, auditor independence, and audit tenure may play important roles in constraining earnings management, thereby justifying further multivariate regression analysis.

Table 4 Variance Inflation Factors

Variable	Coefficient Variance	Centered VIF
AIS	6.4006	1.009269
AF	2.6106	1.015802
AI	0.1999	1.033083
AS	6.5306	1.021158
AT	1.6907	1.021298

Source: Eviews Output, 2026

Table 4 presents the Variance Inflation Factor (VIF) results used to assess the presence of multicollinearity among the independent variables. Multicollinearity occurs when independent variables are highly correlated with one another, potentially distorting regression estimates and weakening statistical reliability. The centered VIF values for all variables—AIS (1.009269), AF (1.015802), AI (1.033083), AS (1.021158), and AT (1.021298)—are substantially below the commonly accepted threshold of 10, and even well below the more conservative benchmark of 5.

These results indicate that there is no serious multicollinearity problem among the explanatory variables included in the model. The low VIF values suggest that each audit quality variable contributes unique explanatory information without excessive overlap with other predictors. Consequently, the regression coefficients can be interpreted with confidence, as the estimates are unlikely to be inflated or biased due to intercorrelation among the independent variables.

Table 5 Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	9.353626	5	0.0058

Source: Eviews Output, 2026

Table 5 reports the Hausman specification test conducted to determine the appropriate panel estimation technique between the fixed effects and random effects models. The Hausman test examines whether the unique errors are correlated with the regressors; where such correlation exists, the fixed effects model is preferred because it provides consistent and unbiased estimates. The result shows a Chi-square statistic of 9.353626 with 5 degrees of freedom and a probability value of 0.0058. Since the p-value is less than the conventional 5 percent level of significance ($p < 0.05$), the null hypothesis that the random effects model is appropriate is rejected. This implies that there is a systematic difference between the fixed and random effects estimators, indicating that the individual firm-specific effects are correlated with the explanatory variables.

Consequently, the fixed effects model is considered more suitable for estimating the relationship between audit quality variables and earnings management in this study. The adoption of the fixed effects approach ensures that unobserved heterogeneity across firms—such as managerial style, internal control environment, or corporate culture—is adequately controlled for, thereby enhancing the reliability and validity of the regression results.

Table 6 Correlated Random Effects - Hausman Test

Dependent Variable: EM

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AIS	-0.009756	0.002661	-3.666979	0.0003
AF	0.002286	0.001762	1.297833	0.1960
AI	-3.525219	0.497195	-7.090215	0.0000
AS	0.008804	0.002734	3.220385	0.0015
AT	-0.001588	0.000456	-3.480568	0.0006
R-squared	0.338736			
Adjusted R-squared	0.248891			
F-statistic	3.770203	Durbin-Watson stat		2.350602
Prob(F-statistic)	0.000000			

Source: Eviews Output, 2026

The results in Table 6, based on the correlated random effects (also known as fixed effects) Hausman test specification, provide important insights into how key audit quality variables influence earnings management (EM) among listed industrial goods companies in Nigeria. The model explains approximately 33.87% of the variation in earnings management behaviour, as indicated by the R-squared value, while the adjusted R-squared value of 24.89% reflects the explanatory power after accounting for the number of predictors. The F-statistic of 3.770203 with a probability value of 0.000000 shows that the overall model is statistically significant, indicating that the included audit quality variables jointly influence earnings management. The Durbin-Watson statistic of 2.350602 suggests that autocorrelation is not a serious concern in the model residuals.

Examining individual determinants, auditor industry specialization (AIS) exhibits a negative and statistically significant coefficient (–0.009756; p = 0.0003), implying that firms audited by industry-specialized auditors tend to engage in lower levels of earnings management. This aligns with empirical evidence suggesting that auditors with greater industry knowledge and expertise can better detect and constrain opportunistic reporting behaviour (Zhou & Wang, 2023). The result supports the assertion that higher audit quality arising from specialization enhances the reliability of financial reporting.

Audit fee (AF), while positive in sign (0.002286), is not statistically significant (p = 0.1960), indicating that audit remuneration alone does not demonstrate a clear linear relationship with earnings management in this sample. This finding is consistent with some studies in emerging markets where audit fees may reflect factors other than monitoring intensity, such as client size or complexity, and thus do not necessarily translate into improved audit quality (Reynolds & Francis, 2021). In contexts with regulatory enforcement challenges like Nigeria, higher audit fees may not automatically imply stronger audit effort or reduced managerial opportunism.

Auditor independence (AI) shows a significant negative effect on earnings management (–3.525219; p = 0.0000), indicating that greater auditor independence is associated with reduced earnings manipulation. This result corroborates the agency theory perspective, which posits that independent auditors act as effective monitoring agents to reduce information asymmetry and managerial opportunism (Jensen & Meckling, 1976; DeFond & Zhang, 2020). Empirical studies have similarly found that audit independence enhances the credibility of financial reports by limiting discretionary reporting practices (Abdullahi & Mansor, 2022).

Audit size (AS) reveals a positive and statistically significant coefficient (0.008804; p = 0.0015), suggesting that engagement of larger audit firms is associated with higher levels of earnings management in this sample. While conventional wisdom often links large audit firms with better monitoring quality due to superior resources and technical expertise, evidence from emerging markets indicates that this relationship can be complex. Large audit firms may be engaged by firms with inherently higher reporting complexity or performance pressure, which could contribute to persistent earnings management behaviour (Singh & Gupta, 2025). Thus, audit firm size alone may not guarantee superior earnings quality without supportive governance mechanisms.

The coefficient for audit tenure (AT) is negative and statistically significant (–0.001588; p = 0.0006), indicating that longer auditor-client relationships are associated with lower levels of earnings management. This supports the knowledge accumulation hypothesis, which suggests that auditors with extended engagement duration develop deeper understanding of client operations and risk profiles, enabling them to more effectively constrain discretionary reporting practices (Zhou & Wang, 2023). At the same time, caution is warranted as excessively long tenure could create familiarity threats that undermine independence, a dynamic noted in another empirical research (Hoitash, Hoitash & Bedard, 2020).

Conclusion and Recommendations

This study examined the effect of audit quality characteristics on earnings management behaviour among listed industrial goods companies in Nigeria. The empirical evidence reveals that audit quality variables, particularly auditor industry specialization, auditor independence, and audit tenure, play significant roles in reducing earnings management practices. The study also found that audit fee did not significantly influence earnings management, suggesting that audit remuneration alone may not guarantee improved audit monitoring effectiveness in emerging market environments. In addition, audit firm size showed a positive relationship with earnings management, indicating that engagement of large audit firms does not automatically translate into superior reporting quality.

Based on the findings, the study recommends that regulatory authorities and professional accounting bodies in Nigeria should strengthen policies that promote auditor independence by limiting situations that may create economic bonding between auditors and client management. Enforcement mechanisms should be enhanced to ensure compliance with professional auditing standards and ethical guidelines.

Firms should encourage auditor industry specialization because specialized auditors possess greater technical knowledge and are better able to detect complex financial misstatements. Audit committees should prioritize the engagement of auditors with relevant industry experience to improve monitoring effectiveness.

Audit remuneration should reflect audit workload, risk exposure, and engagement complexity; however, regulatory authorities should ensure that audit fee dependence does not compromise auditor objectivity. Audit fee structures should be monitored to prevent excessive client-auditor economic relationships that may weaken professional scepticism.

Corporate governance regulators should establish optimal audit tenure guidelines to balance knowledge accumulation benefits and independence preservation. Periodic audit partner or firm rotation policies may help reduce familiarity risk associated with long-term audit engagement.

Finally, corporate boards should strengthen internal control systems and promote ethical financial reporting culture within organizations. Continuous professional training for auditors and improved regulatory oversight will enhance audit governance effectiveness and support transparent financial reporting practices in Nigeria.

References

Abdullahi, S. R., & Mansor, N. (2022). Audit quality and earnings management in emerging markets: Evidence from Nigerian listed firms. *Journal of Accounting and Taxation*, 14(2), 45–58.

Adegboye, A., & Agbulu, O. (2024). Corporate governance mechanisms and financial reporting quality in Nigerian firms. *African Journal of Accounting Research*, 12(1), 23–40.

Adeyemi, S. B., & Fagbemi, T. O. (2010). Audit quality, corporate governance and firm characteristics in Nigeria. *International Journal of Business and Management*, 5(5), 169–179.

Aladejebi, D. O., et al. (2023). Corporate governance and earnings management among listed firms in Nigeria. *Journal of Financial Reporting and Accounting*, 21(3), 355–372.

Amara, I. (2025). Audit governance and financial reporting behaviour in European listed firms. *European Accounting Review*, 34(1), 88–105.

Balsam, S., Krishnan, J., & Yang, J. S. (2003). Auditor industry specialization and earnings quality. *Auditing: A Journal of Practice & Theory*, 22(2), 71–97.

Becker, C. L., DeFond, M. L., Jiambalvo, J., & Subramanyam, K. R. (1998). The effect of audit quality on earnings management. *Contemporary Accounting Research*, 15(1), 1–24. https://doi.org/10.1111/j.1911-3846.1998.tb00547.x

Beneish, M. D. (2001). Earnings management: A perspective. *Financial Analysts Journal*, 57(1), 67–80.

Chen, C. J. P., Kim, J. B., & Nofsinger, J. R. (2021). Corporate governance and earnings management in emerging markets. *Journal of International Financial Management & Accounting*, 32(2), 145–168.

DeAngelo, L. E. (1981). Auditor size and audit quality. *Journal of Accounting and Economics*, 3(3), 183–199.

Dechow, P. M., & Skinner, D. J. (2000). Earnings management: Reconciling the views of accounting academics, practitioners, and regulators. *Accounting Horizons*, 14(2), 235–250.

Dechow, P. M., Ge, W., & Schrand, C. (2011). Understanding earnings quality: A review of the proxies, their determinants and their consequences. *Journal of Accounting and Economics*, 50(2–3), 344–401.

Dechow, P. M., Sloan, R. G., & Sweeney, A. P. (1995). Detecting earnings management. *The Accounting Review*, 70(2), 193–225.

DeFond, M. L., & Zhang, J. (2020). A review of archival auditing research. *Journal of Accounting and Economics*, 58(2–3), 275–326.

Francis, J. R. (2004). What do we know about audit quality? *The British Accounting Review*, 36(4), 345–368.

Francis, J. R., Maydew, E. L., & Sparks, H. C. (2020). Audit market structure and audit quality. *Journal of Accounting Research*, 58(1), 1–30.

Gul, F. A., Srinidhi, B., & Ng, A. C. (2011). Does board gender diversity improve the informativeness of stock prices? *Journal of Accounting and Economics*, 51(3), 314–338.

Hassan, M. K., & Marimuthu, M. (2021). Corporate governance and earnings management: Evidence from emerging markets. *Corporate Governance Journal*, 21(4), 689–710.

Hoitash, R., Hoitash, U., & Bedard, J. C. (2020). Corporate governance and internal control quality. *The Accounting Review*, 85(3), 1023–1050.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behaviour, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305–360.

Johnson, V. E., Khurana, I. K., & Reynolds, J. K. (2002). Audit quality and earnings management. *Journal of Accounting and Public Policy*, 21(4–5), 269–295.

Jones, J. J. (1991). Earnings management during import relief investigations. *Journal of Accounting Research*, 29(2), 193–228.

Knechel, W. R., Krishnan, G. V., & Pevzner, M. (2013). Audit quality: Insights from the academic literature. *Auditing: A Journal of Practice & Theory*, 32(Supplement 1), 385–421.

Leuz, C., Nanda, D., & Wysocki, P. D. (2003). Earnings management and investor protection. *Journal of Financial Economics*, 69(3), 505–527.

Okafor, R. G., & Mohammed, N. (2026). Audit governance and earnings management in Nigerian manufacturing firms. *African Accounting and Finance Journal*, 18(1), 55–72.

Oladele, P. O., & Ajibolade, S. O. (2022). Audit oversight and financial reporting quality in Nigeria. *Journal of Accounting in Emerging Economies*, 12(3), 401–420.

Olatunji, T. (2025). Corporate governance and financial disclosure quality in Nigerian firms. *West African Journal of Business Research*, 14(2), 112–128.

Olowookere, J. K., & Aladejebi, D. O. (2024). Governance structure and audit monitoring effectiveness. *Accounting and Finance Review*, 11(1), 78–96.

Reynolds, J. K., & Francis, J. R. (2021). Client economic dependence and auditor independence. *Contemporary Accounting Research*, 38(2), 911–940.

Roychowdhury, S. (2006). Earnings management through real activities manipulation. *Journal of Accounting and Economics*, 42(3), 335–370.

Scott, W. R. (2015). *Financial accounting theory* (7th ed.). Pearson Education.

Singh, V., & Gupta, M. (2025). Audit governance mechanisms in emerging capital markets. *International Journal of Accounting Research*, 13(2), 201–220.

Soyemi, K. A. (2024). Board diversity and financial reporting quality in Nigeria. *Journal of Corporate Governance Studies*, 9(1), 44–63.

Togbolo, T., & Orjinta, S. (2025). Audit quality attributes and earnings management in Nigerian firms. *African Journal of Management Research*, 15(2), 89–107.

Uwakwe, O. (2025). Audit fee structure and financial disclosure behaviour in Nigerian listed firms. *Journal of Financial Accountability*, 10(3), 233–248.

Zhou, H., & Wang, X. (2023). Audit market characteristics and reporting behaviour in China. *Accounting & Finance*, 63(2), 345–368.