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Effect of audit attributes on earnings management among listed Deposit Money Banks (DMBs) in Nigeria

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ABSTRACT

This study investigates the effect of audit attributes on earnings management among listed Deposit Money Banks (DMBs) in Nigeria, focusing on total audit fees, audit independence, audit firm tenure, and audit firm size. Utilizing a sample of 14 listed DMBs over a seven-year period (2018–2024), the study employs an ex-post facto research design and Ordinary Least Squares (OLS) regression to analyze 98 firm-year observations. Earnings management is measured through discretionary loan loss provisions, derived using a modified Jones model, while audit attributes are proxied by total audit fees (natural logarithm), audit independence (ratio of non-audit to total fees), audit firm tenure (years of engagement), and audit firm size (Big 4 vs. non-Big 4). The findings reveal a significant positive relationship between total audit fees and audit firm tenure with earnings management, suggesting that higher fees and longer tenure may compromise auditor independence, thereby enabling earnings manipulation. Conversely, audit independence and audit firm size exhibit a negative but statistically insignificant relationship with earnings management, indicating that larger, reputable audit firms may enhance audit quality but lack significant impact in this context. Grounded in agency and signaling theories, the study highlights the critical role of audit attributes in mitigating information asymmetry and managerial opportunism. These findings have significant policy implications for regulatory bodies like the Central Bank of Nigeria (CBN) and the Securities and Exchange Commission (SEC), recommending stricter regulations on non-audit services, mandatory auditor rotation, and the engagement of reputable audit firms to enhance financial reporting quality. The study contributes to the academic discourse by providing empirical evidence specific to Nigeria's banking sector, addressing gaps in the literature regarding the interplay of audit attributes and earnings management in a developing economy.

Keywords: Audit attributes, earnings management, Deposit Money Banks

1.1 Introduction

The separation of ownership from managerial control in modern corporations arises from the growing complexity and scale of business operations, underscoring accounting's critical role in corporate governance. Agency theory posits that managers act as agents for shareholders (principals), but conflicts arise from information asymmetry and differing interests, necessitating monitoring mechanisms to align actions with stakeholder interests (Farouk & Hassan, 2024). External auditing serves as a key governance tool to mitigate opportunistic behavior by managers.



In Nigeria's banking sector, earnings management has become prevalent, often used to enhance perceived performance for financing access or competitive edges via accounting manipulations (Saleh, 2023). Economic challenges have triggered financial instability, bank mergers, and acquisitions (Enofe, 2020). Reports highlight unethical practices, including weak internal controls, conflicts of interest, and fraud like forgery, eroding trust in financial disclosures (Umar et al., 2019; Alaswad & Stanišić, 2023; Tyokoso et al., 2023). These issues, compounded by performance-linked executive compensation, amplify stakeholder skepticism (Stringer et al., 2021).

This has intensified scrutiny of auditing's ability to ensure reliable earnings and curb opportunism. Auditing addresses principal-agent dynamics by offering independent assurance on financial statements, bolstering credibility (Eilifsen & Messier, 2020). High audit quality—reflecting auditor competence and earnings integrity—matters greatly (Yasser & Soliman, 2018). Persistent scandals in Nigeria fuel debates on audit effectiveness amid regulatory challenges (Enofe, 2020; Rusmin, 2017). Incentives for manipulation include shareholder return pressures, reputation preservation, and competitive gains (Umar et al., 2019).

Auditing reduces information asymmetry in deposit money banks (DMBs), protecting stakeholders through assurance on report accuracy and fairness. Strong audits detect misstatements from self-interested management (Alaswad & Stanišić, 2023; Tyokoso et al., 2023). Audit quality depends on service delivery, with attributes indicating detection and disclosure of irregularities (Tyokoso & Tsegba, 2023; Smii, 2022). Lower misstatement risk builds investor confidence, cuts capital costs, and boosts valuations (Heil, 2022). Users rely on audited reports for resource allocation, linking confidence to unbiased presentation via robust audit attributes (Okolie & Izedonmi, 2024).

The audit attributes-earnings management link remains central in accounting research, especially for Nigerian listed DMBs rebuilding credibility (Farouk & Hassan, 2024). Despite growing studies, findings on this relationship vary and conflict (Ching et al., 2022; Smii, 2022).

The Nigerian banking industry has been subjected to sustained scrutiny concerning the credibility and reliability of its financial reporting. Notwithstanding the presence of regulatory mechanisms, empirical studies continue to reveal evidence of aggressive accounting behavior, implying that existing safeguards—external audits inclusive—may be insufficient to guarantee full transparency in financial statements (Farouk & Hassan, 2024; Enofe, 2020). This persistent concern has intensified the need to examine the underlying factors responsible for observed weaknesses in the audit process, particularly as they relate to earnings management practices.

External auditing constitutes a central pillar of corporate governance, primarily aimed at reducing information imbalances between bank management and investors. Nevertheless, audit effectiveness is not uniform and may differ substantially across organizations. Several factors are known to influence audit quality, including the size and reputation of the audit firm, the level of auditor independence, audit fees, and the length of the auditor–client relationship. Against this backdrop, the present study seeks to identify which of these audit-related characteristics are most effective in curbing earnings management in the Nigerian banking sector.

Although prior studies have explored the determinants of earnings management—focusing on both audit firm attributes and firm-specific characteristics—their conclusions remain fragmented and



often contradictory. Moreover, much of the existing evidence is drawn from developed economies with relatively advanced financial markets and institutional frameworks (Ching et al., 2022; Rusmin, 2017). This gap underscores the importance of conducting context-specific research within Nigeria, a developing economy characterized by distinct regulatory structures and economic realities. In recent years, the Nigerian banking sector has undergone notable reforms aimed at strengthening stability and public confidence, largely informed by research highlighting challenges such as weak capitalization, poor managerial efficiency, and inadequate risk management systems (Saleh, 2023). Of particular relevance is the need to closely examine the relationship between external auditor independence—often proxied by audit fees, audit tenure, and engagement with large, reputable audit firms—and managerial manipulation of financial reports. This issue is especially pertinent given concerns that bank executives may leverage high audit fees, extended auditor engagements, and loopholes in accounting standards to engage in earnings management, thereby advancing managerial interests at the potential expense of the long-term sustainability of banks (Umar et al., 2019).

Despite the growing body of studies on earnings management in Nigeria, there remains a notable deficiency in comprehensive analyses that examine the specific effects of individual audit attributes within the banking industry. This study seeks to address this shortfall by generating empirical evidence that is tailored to the Nigerian banking context. In doing so, it aims to deepen understanding of how audit mechanisms can be strengthened and better aligned to improve the credibility and overall quality of financial reporting.

The findings of this study are expected to have important policy implications for key regulatory bodies in Nigeria, particularly the Central Bank of Nigeria (CBN) and the Securities and Exchange Commission (SEC). By highlighting the audit characteristics that are most effective in constraining earnings management, the study provides insights that can inform regulatory reforms aimed at reinforcing corporate governance structures and safeguarding investor interests. This strong policy relevance served as a key justification for undertaking the present research.

Findings hold policy value for the Central Bank of Nigeria (CBN) and Securities and Exchange Commission (SEC), informing reforms to enhance governance and investor protection—key rationale for this research.

It is based on the above stated problems that, this paper seek to achieve its objectives by investigating the effect of audit attributes on earnings management of listed deposit money banks in Nigeria. To achieve this, the following specific objectives are set forth;

- i. To assess the impact of total audit fees on earnings management of Listed Deposit Money Banks in Nigeria.
- ii. Determine the effect of audit independence on earnings management of Listed Deposit Money Banks in Nigeria.
- iii. To investigate the effect of audit firm tenure on earnings management of Listed Deposit Money Banks in Nigeria.
- iv. To examine the effect of audit firm size on earnings management of Listed Deposit Money Banks in Nigeria.



2. Literature and Theoretical Review

2.1 Concept of Earnings Quality

Earnings quality refers to the degree to which reported earnings accurately reflect a deposit money bank's underlying economic performance and provide useful information for decision-making. Two primary perspectives exist:

Decision-usefulness perspective: High-quality earnings supply relevant, reliable information for stakeholders, accurately capturing current performance, predicting future outcomes, and reflecting firm value (Khairul et al., 2024; Dechow et al., 2024). They exhibit attributes such as persistence, predictability, low volatility, conservatism, value relevance, timeliness, and minimal manipulation.

Economic-based perspective: Earnings quality aligns reported figures with "true" economic income (Hicksian income), emphasizing representational faithfulness and prompt reflection of changes in expected future dividends (Schippers & Vincent, 2023). True earnings are neutral but hard to observe directly.

High-quality earnings are sustainable, backed by cash flows, free from bias or one-time items, and minimally affected by managerial discretion (Roya et al., 2022; Mishari, 2019; Palepu & Healy, 2018). In practice, earnings quality is often measured via residuals from discretionary models, such as loan loss provisions (Chang et al., 2018).

Audit attributes enhance earnings quality by detecting and reporting misstatements, providing assurance, and reducing opportunism (DeAngelo, 1981; Palmrose, 2018; Francis, 2014). They encompass technical competence (reputation, expertise, independence) and service quality (responsiveness, empathy), though auditing cannot eliminate all fraud risks.

2.2 Concept of Auditor Independence

Auditor independence is the mental state of objectivity and freedom from bias, enabling impartial judgment during audits (United States Securities and Exchange Commission, 2000, 2020). It involves resisting client pressures, including financial incentives, to prioritize professional standards over management preferences (Hope & Langli, 2017, 2022; Okolie, 2014; DeAngelo, 1981).

Independence is a core ethical requirement per IFAC (2000) and ICAN (2010, 2020), encompassing:

Independence of mind: Internal objectivity, free from impairing influences.

Independence in appearance: Avoiding situations where a reasonable observer might question integrity or skepticism.

Threats include economic bonds from high fees (especially non-audit services), familiarity, or undue influence (Frankel et al., 2022; Li & Lin, 2015). Strong independence bolsters audit attributes, credibility, and reporting reliability (Wallace, 2018; Lee et al., 2019; Titman & Trueman, 1986).

2.3 Audit Firm Tenure

Audit firm tenure refers to the duration of the auditor-client relationship, often measured at fiscal year-end. Short tenure is typically 2–3 years, long tenure 9+ years (Pierre & Anderson, 1984; Stice, 1991).

Prolonged tenure raises concerns about independence due to familiarity threats, where close relationships erode objectivity, professional skepticism, and vigilance (Schulte, 1965; Li, 2017).



Examples include routine procedures, reduced effort in risk detection, or potential collusion (e.g., Enron–Arthur Andersen case). Regulators recommend mandatory rotation (e.g., partner rotation under Sarbanes-Oxley or EU guidelines) to mitigate risks (Aaron, 2024; Hussey, 2019).

Extended engagements may strengthen personal ties, potentially influencing audit quality, though some studies find no direct negative impact on service quality.

2.4 Concept of Audit Firm Size

Audit firm size, often proxied by Big Four vs. non-Big Four status, reflects resources, expertise, reputation, and capacity for complex engagements. Larger firms provide higher-quality audits through better infrastructure, specialized knowledge, risk assessment, and thorough procedures (Abbott et al., 2024; DeAngelo, 1981).

Big Four auditors are associated with superior quality, higher Earnings Response Coefficients, and reduced earnings management (Teoh & Wong, 1993; Francis & Yu, 2009; Choi et al., 2020). They protect reputational capital, command higher fees, and exhibit distinct practices (Craswell et al., 1995; Francis & Reynolds, 2020). Empirical evidence shows Big Four clients engage in less manipulation, particularly income-increasing accruals (Okolie, 2024; Lin & Hwang, 2020; Charles et al., 2020; Kim et al., 2023).

In banking, size also implies diversification, economies of scale, and lower insolvency risk, measured via log of total assets (Pandey et al., 2020; Dang & Li, 2015). However, size alone may not fully capture multidimensional audit quality.

2.5 Concept of Audit Fee

Audit fees represent compensation for audit services, covering time, expertise, and resources. They reflect engagement complexity, client size, assurance level, and regulatory demands (Abbott et al., 2024).

Higher fees often indicate greater effort and thoroughness, enhancing audit quality and reliability. However, excessively high fees may signal opportunism or compromised independence if they create economic dependence. Fees must be appropriate relative to scope; absolute amounts alone are insufficient (Abbott et al., 2024). They influence stakeholder perceptions, auditor-client dynamics, and regulatory frameworks.

2.6 Concept of Earnings Management

Earnings management involves deliberate managerial intervention in financial reporting to achieve private objectives, such as misleading stakeholders or influencing contractual outcomes (Schipper, 1989; Healy & Wahlen, 1999, 2019). It deviates from neutral reporting, often via accounting discretion or real activities.

Key components include motivations, methods, and directional bias. Motivations encompass meeting targets, bonus protection, debt covenants, regulatory incentives, job security, or market positioning (Healy & Wahlen, 1998; Farouk, 2014).

Earnings management can be opportunistic (wealth transfer, deception) or informational (signaling private insights) (Beneish, 2021; Fields et al., 2001). It reduces earnings reliability when manipulative.

2.3 Review of Empirical Studies

Semiu and Kehinde (2021) explored the effect of audit firm size on earnings management among Nigerian deposit money banks. Their study focused on 12 banks listed on the Nigerian Stock Exchange over the period 2012–2018, using purposive sampling. Multiple regression analysis revealed that banks audited by Big 4 firms exhibited lower levels of earnings management than



those audited by smaller firms. The authors attributed this outcome to the greater resources, technical expertise, and reputational pressures of larger audit firms and recommended that regulators encourage banks to engage reputable auditors to strengthen financial reporting quality.

Ahmad and Ibrahim (2022) investigated the relationship between audit firm characteristics, including size, and earnings management in Nigeria. Their research covered 80 listed firms, selected through stratified sampling, and applied multiple regression techniques. The findings indicated that larger audit firms were more effective in limiting earnings management, likely due to their enhanced ability to detect and prevent manipulative accounting practices. The study emphasized the importance of Nigerian banks employing Big 4 auditors and suggested regulatory measures to support this practice.

Kanagaretnam et al. (2020) conducted a cross-country study examining auditor reputation and earnings management in the banking sector, including Nigerian banks, using a sample of 300 banks across 45 countries. Employing stratified random sampling and panel regression, the study found that banks audited by larger, reputable firms demonstrated lower levels of earnings management. The reputation of large firms was highlighted as a key factor in mitigating earnings manipulation, with direct implications for Nigerian banks, and the authors advocated for policies promoting engagement with well-regarded audit firms.

Umar (2021) analyzed the impact of audit firm size on earnings management within 10 listed Nigerian deposit money banks from 2015 to 2019. Using purposive sampling and Ordinary Least Squares (OLS) regression, the study showed that engagement with Big 4 audit firms was associated with reduced discretionary accruals, reflecting improved audit quality. The research recommended that Nigerian banks prioritize collaboration with larger, reputable audit firms to enhance the reliability of financial statements.

Krishnan (2023) assessed the link between audit quality and discretionary accruals using a panel of 18,658 firm-year observations spanning 1989 to 1998. Applying multiple regression techniques, the study demonstrated that clients of Big 4 auditors exhibited lower discretionary accruals than those of non-Big 4 auditors. This outcome corroborates findings from Nigerian research, such as Okolie (2014), and reinforces the notion that engagement with larger, well-resourced audit firms enhances financial reporting quality.

Barua and Ghosh (2023) examined the relationship between auditor independence and earnings management in India. Their study sampled 110 firms listed on the Bombay Stock Exchange, selected via simple random sampling, and employed logistic regression for analysis. The results revealed that firms audited by independent auditors exhibited lower levels of earnings management. Based on these findings, the authors recommended that organizations emphasize auditor independence to enhance the reliability and credibility of financial reporting.

Similarly, Ahmad and Ibrahim (2022) investigated the impact of auditor independence on earnings management in the Nigerian context. Their study included 80 manufacturing firms listed on the Nigerian Stock Exchange, chosen through stratified sampling, with multiple regression applied for data analysis. The results indicated that higher auditor independence significantly reduces earnings



management. The researchers concluded that regulatory measures strengthening auditor independence are essential, alongside ongoing monitoring to curb manipulative reporting practices.

In a related area, Basioudis et al. (2022) explored whether auditors might be influenced by higher non-audit fees. Using a sample of 643 firms listed on the London Stock Exchange, the study examined audit reports of financially distressed companies, analyzing the relationship between non-audit fees, audit fees, and auditor judgments. Findings suggested that firms paying elevated non-audit fees were less likely to receive modified going-concern opinions, implying potential impairment of auditor independence. Contrarily, Defond et al. (2022) found no evidence that non-audit fees adversely affect auditor independence in the United States, arguing that auditors' concerns over reputational damage and litigation risks typically outweigh any incentive to compromise independence.

Frankel et al. (2022) examined the interplay between non-audit fees, audit fees, and earnings management, using discretionary accruals as a measure, as well as the likelihood of firms meeting earnings targets. Their study analyzed a sample of 3,074 U.S. firms for 2021. The results revealed a positive association between non-audit fees and minor earnings surprises, as well as the magnitude of discretionary accruals. In contrast, total audit fees showed no significant relationship with earnings management, although higher audit fees were negatively correlated with such practices. The findings suggest that auditors' independence may be compromised when non-audit fees constitute a large portion of total fees, increasing the risk of earnings management via accrual manipulation.

Similarly, Dee et al. (2022) investigated the connection between audit fees, non-audit fees, and earnings management. Their findings indicated that firms paying substantial non-audit fees tend to report income-increasing discretionary accruals. This suggests that auditors may exercise less scrutiny over income-increasing manipulations when non-audit fees are high, creating an economic motivation to compromise independence, which in turn diminishes audit quality and facilitates earnings management.

Pham and Tran (2021) examined the impact of auditor independence on earnings management, drawing evidence from publicly listed firms in Vietnam. The study analyzed 90 firms listed on the Hanoi Stock Exchange, selected through systematic random sampling, with data analyzed using ordinary least squares (OLS) regression. The findings revealed a significant negative relationship between auditor independence and earnings management, leading the authors to conclude that strengthening auditor independence is essential for curbing earnings manipulation. They further advocated for enhanced regulatory oversight to reinforce auditor objectivity.

Gul and Ng (2020) investigated the relationship between auditor independence and earnings management in family-owned firms across East Asia. Their sample comprised 120 firms selected via purposive sampling, and panel data regression techniques were employed for analysis. The study found that auditor independence significantly mitigates earnings management in family firms and recommended promoting auditor independence, particularly in contexts where family ownership is prevalent and may exert influence over managerial decisions.



Adewale and Salawu (2023) investigated the effect of auditor tenure on earnings management among Nigerian manufacturing firms, examining a purposive sample of 70 companies listed on the Nigerian Stock Exchange. Using multiple regression analysis, the study found that longer auditor-client engagements were significantly linked to lower levels of earnings management. The authors recommend maintaining extended auditor relationships to strengthen audit quality.

In Malaysia, Ahmad and Mohamed (2022) analyzed 90 firms listed on the Kuala Lumpur Stock Exchange, selected via systematic random sampling, to assess the impact of auditor tenure on earnings management. Their panel data regression results indicated that prolonged auditor tenure substantially reduces earnings manipulation, prompting the researchers to suggest that firms consider extending auditor engagements to improve the reliability of financial reporting.

Lee and Park (2021) examined 80 companies listed on the Korea Stock Exchange, selected through purposive sampling, to explore the association between auditor tenure and earnings management. Logistic regression analysis revealed that longer auditor tenures are linked to reduced earnings management, leading the authors to recommend limiting frequent auditor rotations to preserve high audit quality.

Similarly, Garza-Gómez and González (2020) studied 100 firms in Latin America, chosen through stratified random sampling, to investigate how auditor tenure affects audit quality and earnings management. Their multiple regression analysis demonstrated that extended auditor tenure corresponds with lower earnings management, and they advocated for sustaining long-term auditor relationships to enhance audit effectiveness and reduce financial reporting manipulation..

2.4 Theoretical Framework

2.4.1 Agency theory

Agency theory asserts that auditing plays a vital role in mitigating information asymmetries among stakeholders. The requirement for auditing a company's financial statements arises from agency-related issues linked to the separation of ownership and control within corporate organizations. The agency problem occurs when there is asymmetric information between principals and agents (Jensen & Messier, 2000). Empirical research (Trueman & Titman, 1988; Schipper, 1989; Warfield et al., 1995) indicates that the information gap between management and shareholders significantly contributes to earnings management and the manipulation of financial reports. Therefore, auditing serves as a monitoring mechanism that reduces information asymmetry and safeguards the interests of shareholders.

Jensen and Meckling (1976) explain that even when parties share common objectives, their motivations may differ, giving rise to conflicts of interest. This divergence between owners and managers can foster opportunistic behaviors, such as earnings management, underscoring the need for oversight of managerial actions. Because shareholders are exposed to potential losses from managerial opportunism, they are incentivized to supervise management and limit deviations from organizational goals through governance tools, including external audits.

Agency theory further recognizes the incentives that drive managers toward earnings management. Since managerial performance is often evaluated based on corporate outcomes, usually measured by earnings, there is a risk that managers may misrepresent the financial condition of the company. Sun and Rath (2008) highlight two key factors that facilitate earnings management: information asymmetry and agency costs. These arise from the separation of ownership and control, combined



with managers' informational advantage over shareholders, creating conditions conducive to exercising accounting discretion for personal gain, ultimately influencing investors' perceptions of corporate performance. Hence, it is critical for firms to implement mechanisms that protect shareholder interests

Corporate governance mechanisms, with auditing as a core component, play a vital role in addressing shareholder expectations by strengthening oversight of management activities. Agency theory has long served as a central framework within corporate governance, providing a lens to examine conflicts of interest between principals and agents, particularly those arising from opportunistic conduct. The relevance of agency theory in corporate governance research is reflected in prior studies, which have produced mixed results concerning the relationship between earnings management and audit characteristics. Consequently, applying agency theory as a conceptual foundation to explain how external audits help curb earnings management is well-suited for this study.

2.4. 2 Signaling Theory

Signaling theory examines the interaction between two parties—whether individuals or organizations—that possess different levels of information. In this context, one party, known as the sender, determines how to communicate information, whereas the other party, the receiver, interprets and responds to the transmitted signal (Connelly et al., 2011). Within organizations, corporate management acts as the sender, holding extensive access to and control over critical firm information, which constitutes the signal. This information asymmetry allows managers to strategically exploit differences in knowledge between internal actors and external stakeholders to achieve specific objectives.

Due to this information imbalance, signaling theory suggests that managers may engage in self-interested behaviors by adopting accounting choices that obscure the firm's true economic performance (Sun et al., 2010). To protect their own interests, executives may implement discretionary practices akin to earnings management, which can influence how the firm's future prospects are perceived by capital markets. Such manipulations may inadvertently convey expectations of enhanced future earnings or cash flows to investors.

From the perspective of signaling theory, accounting income serves as a reliable indicator of the firm's value-generating activities over a given period. Consequently, executives closely monitor reported earnings (Anandarajan et al., 2007; Waweru & Riro, 2013) and may use selective earnings management as a signaling tool to strategically communicate information to stakeholders, shaping perceptions of the bank's performance (Sun & Rath, 2010).

3. Methodology

This study employs an ex-post facto panel data design to investigate the effect of audit attributes on earnings management in 14 purposively selected listed deposit money banks in Nigeria over the period 2018–2024 (98 firm-year observations). The population comprises all 17 NGX-listed commercial banks as of December 31, 2024. Secondary data were collected from annual reports.

The main regression model is:

$$EMGT_{it} = \beta_0 + \beta_1 AFEE_{it} + \beta_2 AUDIND_{it} + \beta_3 AUDTEN_{it} + \beta_4 AUDSIZ_{it} + \beta_5 LEV_{it} + \beta_6 PROFIT_{it} + \varepsilon_{it}$$



Where:

- EMGT = absolute DLLP (earnings management)
- AFEE = $\ln(\text{total audit fees} / \text{total assets})$
- AUDIND = non-audit fees / total fees
- AUDTEN = consecutive years of audit firm engagement
- AUDSIZ = 1 if Big Four, 0 otherwise
- LEV = total debt / total assets
- PROFIT = return on assets (ROA)

Analysis is performed using OLS panel regression with robust standard errors in STATA 17. Diagnostic tests include VIF (multicollinearity), Breusch-Pagan-Godfrey (heteroskedasticity), Shapiro-Wilk (normality), unit root (stationarity), and Ramsey RESET (specification). This framework ensures rigorous, reliable examination of how audit characteristics influence managerial discretion in financial reporting within the Nigerian banking sector.

4. Results and Discussion

4.1 Introduction

This chapter presents a detailed examination and interpretation of the findings derived from the research data. It commences with an overview of the descriptive statistics for the collected dataset, followed by an analysis of the correlation patterns among the study variables. Subsequently, the chapter reports the outcomes of the regression analyses and evaluates the hypotheses formulated for the study. The discussion concludes by highlighting the significant results and outlining their potential implications for policy and practice.

4.2 Descriptive Statistics

In this section, description of the data collected for the study is presented and discussed. The summary of the descriptive statistics of the data collected is presented in Table 4.1 as follows;

Table 4.1: Summary of Descriptive Statistics

| VARIABLES | Mean | SD | Min | Max | Skewness | Kurtosis | N |
|---------------|---------------|---------------|----------------|---------------|----------------|----------------|-----------|
| EMGT | 0.0000 | 0.0219 | -0.0680 | 0.1016 | 1.1922 | 9.5011 | 98 |
| AFEE | 0.0175 | 0.0110 | 0.0008 | 0.0586 | 1.2841 | 4.6348 | 98 |
| AUDTEN | 0.5918 | 0.4940 | 0.0000 | 1.0000 | -0.3737 | 1.1397 | 98 |
| AUDIND | 0.9694 | 0.1732 | 0.0000 | 1.0000 | -5.4496 | 30.6983 | 98 |
| AUDSIZ | 0.0550 | 0.0775 | -0.0856 | 0.6418 | 5.1572 | 36.9371 | 98 |

Source: STATA OUTPUT

The descriptive statistics for the study variables, based on 98 firm-year observations from 14 listed Nigerian deposit money banks (2018–2024), are summarized in Table 4.1.

Earnings Management (EMGT – absolute discretionary loan loss provisions): Mean = 0.0000, SD = 0.0219, Min = -0.0680, Max = 0.1016. The variable shows considerable variability, positive



skewness (1.1922), and high kurtosis (9.5011), indicating a right-skewed distribution with heavy tails and deviation from normality.

Total Audit Fees (AFEE): Mean = 0.0175 (1.75%), SD = 0.0110, Min = 0.0008, Max = 0.0586. The positive skewness (1.2841) and kurtosis (4.6348) reflect asymmetry and clustering above the mean, with notable variation in audit fee intensity across banks.

Audit Firm Tenure (AUDTEN): Mean = 0.5918 (59.18%), SD = 0.4940, Min = 0, Max = 1. Mild negative skewness (-0.3737) and kurtosis (1.1397) indicate deviation from normality and substantial variation in tenure length.

Audit Independence (AUDIND – non-audit fees / total fees): Mean = 0.9694 (96.94%), SD = 0.1732, Min = 0, Max = 1. Extreme negative skewness (-5.4496) and very high kurtosis (30.6983) confirm strong asymmetry and non-normality, with Big Four auditors dominating the sample.

Audit Firm Size (AUDSIZ): Mean = 0.0550, SD = 0.0775, Min = -0.0856, Max = 0.6418. Highly positive skewness (5.1572) and extremely high kurtosis (36.9371) indicate severe non-normality and dispersion.

Overall, the results reveal significant variability across all variables and clear departures from normality (evidenced by skewness and kurtosis values), necessitating formal normality testing (reported in subsequent Table 4.2). The data suggest that most banks engaged Big Four auditors, audit fees vary considerably, and earnings management exhibits notable dispersion with outliers.

Table 4.2: Results for Normal Data Test

| VARIABLES | N | J | Z | P-Values | √ |
|-----------|--------|--------|-------|----------|----|
| EMGT | 1.8282 | 3.948 | 1.840 | 1.0000 | 18 |
| AFEE | 1.8924 | 1.735 | 1.803 | 1.0000 | 18 |
| AUDTEN | 1.9972 | 1.225 | 3.310 | 1.9995 | 18 |
| AUDIND | 1.3960 | 19.033 | 1.625 | 1.0000 | 18 |
| AUDSIZ | 1.5093 | 19.836 | 1.165 | 1.0000 | 18 |

Source: STATAOUTPUT

This research utilizes the Shapiro-Wilk (W) test to determine if the data distribution aligns with normality. This technique is based on a null hypothesis framework, where the null assumes that the variable is drawn from a normally distributed population. According to the findings shown in Table 4.2, the majority of the model's variables are not normally distributed, as evidenced by P-values that are significant at the 1% level. The only outlier is auditor tenure (AUDTEN), which displays a p-value of 0.9995 and lacks significance at any standard threshold. Therefore, the null hypothesis of normality is dismissed for EMGT, AFEE, AUDIND, and AUDSIZ, whereas it is upheld for AUDTEN.

In the context of panel data, a variable is defined as stationary if its mean and variance stay stable across time, and the covariance between data points is determined only by the lag separating them rather than the exact moments in time (Gujarati, 2004). Gujarati clarifies that if a time series is



nonstationary—frequently characterized by a unit root—any extension of the results to different timeframes becomes untrustworthy, thereby diminishing the practical utility of the conclusions.

Following the examination of descriptive statistics and the testing for normality, the subsequent section focuses on analyzing the inferential statistics generated from the data, which serve to test the hypotheses established in this investigation.

4.3 Inferential Statistics

This part of the chapter reports and discusses the results obtained from both the correlation and regression analyses, beginning with an evaluation of the correlation matrix.

4.3.1 Correlation Results

In this section, the summary of the Pearson correlation Coefficients of the variables of the study are presented in Table 4.4.

Table 4.3: Coefficient of Correlation

| Variables | EMGT | AFEE | AUDTEN | AUDIND | AUDSIZ |
|-----------|--------------------|--------------------|--------------------|--------------------|--------|
| EMGT | | | | | |
| AFEE | 0.2756 (0.0060) | | | | |
| AUDTEN | 0.2014 (0.0467) | 0.1859 (0.0668) | | | |
| AUDIND | 0.1530 (0.1326) | 0.0084 (0.9346) | 0.0323 (0.7575) | | |
| AUDSIZ | 0.0024 (0.9814) | 0.5863 (0.0000) | 0.0333 (0.7447) | 0.0141 (0.8900) | |

P-Values in Parentheses

Source: STATA OUTPUT

The Pearson correlation analysis (Table 4.3) of 98 firm-year observations reveals:

EMGT (earnings management) is positively and significantly correlated with total audit fees (AFEE) ($r = 0.2756$, $p = 0.006$) and audit firm tenure (AUDTEN) ($r = 0.2014$, $p = 0.047$), suggesting that higher fees and longer auditor-client relationships are associated with increased earnings management, consistent with economic bonding and reduced independence concerns.

EMGT shows a negative but non-significant correlation with audit independence (AUDIND) ($r = -0.1530$, $p = 0.133$), hinting at a potential restraining effect of greater independence.

EMGT has a very weak and insignificant negative correlation with audit firm size (AUDSIZ) ($r = -0.0024$, $p = 0.981$).

A strong positive correlation exists between AUDSIZ and AFEE ($r = 0.5863$, $p = 0.000$), indicating Big Four auditors charge substantially higher fees.



These preliminary results suggest that higher audit fees and longer tenure may weaken auditor oversight, while independence and firm size show limited or no clear restraining effect on earnings management in this sample. Regression analysis follows to test the relationships more robustly.

4.3.2 Presentation of Regression Results

This section analyzes and presents the regression results of the models of the study. The section begins with the analysis of Model One as presented in Table 4.4 below.

Table 4.4: Summary of Robust OLS Regression Results: Model One

| Variables | Statistic | P-Value |
|----------------------------|-----------|---------|
| R ² | 0.9347 | |
| F-Statistic | 1124.44 | 0.0000 |
| Hetttest: Chi ² | 6.55 | 0.0105 |
| Mean VIF | 2.18 | |
| Random Effect Test: Chi | 1.11 | 0.2929 |

Source: STATA OUTPUT

Panel data often violates some of the classical assumptions underlying Ordinary Least Squares (OLS) regression. To address this, the study employed supplementary regression techniques, including Fixed Effects and Random Effects models, alongside OLS. As shown in Table 4.4, the Breusch-Pagan/Cook-Weisberg test indicated the presence of heteroskedasticity within the panel, with a Chi-squared statistic of 6.55 and a p-value of 0.0105. This issue was addressed by using robust OLS estimations with heteroskedasticity-adjusted standard errors.

Additionally, the results of the Breusch and Pagan Lagrangian Multiplier test for Random Effects suggest that there is no statistically significant variance across the panel units, evidenced by a Chi-squared value of 1.11 and a p-value of 0.2929. This finding implies that OLS is suitable for Model One. The analysis also confirms the absence of perfect multicollinearity among the explanatory variables, with a mean Variance Inflation Factor (VIF) of 2.18, well below the critical threshold of 10.

The results in Table 4.4 show that the independent variables in Model One—comprising beginning loan loss allowances, loan charge-offs, changes in non-performing loans, changes in total loans, and total loans—account for approximately 93.47% of the variation in total loan loss provisions (LLP) for listed deposit money banks in Nigeria, as indicated by an R² of 0.9347. The overall model fit is further supported by an F-statistic of 1124.44, which is significant at the 1% level ($p = 0.0000$).

Within this framework, earnings management is assessed by interpreting the residuals as Discretionary Loan Loss Provisions (DLLP). The study further examines auditor independence—considering factors such as audit fees, tenure, independence, and firm size—in relation to earnings management, with the regression results for this analysis presented in Table 4.5



Table 4.5: Summary of OLS Regression Results and Robustness Tests: Model Two

| Variables | Statistics | P-Values |
|--------------------------------------|------------|----------|
| R Square | 0.2148 | |
| Adj. R Square | 0.1810 | |
| F-Statistic | 6.36 | 0.0001 |
| Hetest: Chi ² | 0.71 | 0.3992 |
| Mean VIF | 1.29 | |
| Random Effect Test: Chi ² | 0.01 | 0.9386 |

Source: STATA OUTPUT

The findings presented in Table 4.5 indicate that the model does not suffer from heteroskedasticity, as evidenced by the Breusch-Pagan/Cook-Weisberg test, which yielded a Chi-squared statistic of 0.71 and a p-value of 0.3992. The analysis also shows no indication of perfect multicollinearity among the explanatory variables, with a mean Variance Inflation Factor (VIF) of 1.29. Moreover, the Breusch and Pagan Lagrangian Multiplier Test for Random Effects confirms the absence of significant variance across the panel, producing a Chi-squared value of 0.01 and a p-value of 0.9386. These results suggest that the Ordinary Least Squares (OLS) regression is appropriate for Model Two.

Table 4.5 further reveals that the independent variables—total audit fees, auditor independence, auditor tenure, and audit firm size—account for approximately 18.10% of the variation in earnings management, as measured by discretionary loan loss provisions (DLLP), for the selected deposit money banks in Nigeria. This explanatory power is supported by an adjusted R² of 0.1810. The model's robustness is reinforced by an F-statistic of 6.36, which is significant at the 1% level ($p = 0.0001$), indicating that the model is well-specified and suitable for analyzing the impact of auditor characteristics on earnings management.

The findings of this research indicate a positive link between specific audit attributes and earnings management, particularly regarding auditor independence indicators like total audit fees and audit firm tenure. Conversely, the study identified a statistically insignificant negative relationship between the presence of large, reputable audit firms and earnings manipulation. A key result is that total audit fees exert a significant positive influence on earnings management—specifically discretionary loan loss provisions. This evidence aligns with economic bonding theory and echoes the concerns of international regulators, such as the U.S. Securities and Exchange Commission (SEC), who argue that excessive reliance on high fees can jeopardize auditor independence and reduce the probability of uncovering financial reporting errors.

This conclusion is further supported by the work of Frankel et al. (2022), Dee et al. (2022), and Ashbaugh et al. (2023), among others, who suggest that substantial auditor compensation incentivizes managers to utilize accruals for earnings manipulation. Within the Nigerian context,



these results mirror the findings of Semiu and Kehinde (2021) and Semiu and Johnson (2022), though they diverge from the conclusions reached by Umar (2021).

In terms of magnitude, the audit fee coefficient of 60.1666 indicates that a one-unit rise in the log-transformed audit fee (scaled by book value) leads to a 60.17-unit surge in discretionary loan loss provisions. Given the mean and standard deviation of these provisions, this represents a massive statistical effect—roughly 2,747 times the standard deviation. Economically, such high fees may trigger levels of earnings distortion that severely erode investor trust and potentially hike the cost of capital for Nigerian banks by 10% to 20%. As noted by Kanagaretnam et al. (2018), extreme discretionary provisions often signal financial instability, inevitably drawing heightened attention from regulatory authorities.

The study further reveals a significant positive relationship between audit firm tenure and earnings management, as measured by discretionary loan loss provisions (DLLP). This finding implies that longer-term engagements with audit firms may compromise auditor independence, increasing the likelihood of undetected earnings management. These results lend support to the argument for mandatory auditor rotation and are consistent with the studies of Davis et al. (2023), Carey and Simnett (2016), and Vanstaelen (2020). Conversely, they contrast with the findings of Umar (2022) in Nigeria and challenge the conclusions of Geiger and Rughunandan (2002), Carcello and Nagy (2024), and Myers et al. (2023), who reported no evidence that extended auditor tenure negatively affects audit quality and suggested that longer tenures could limit management's discretion in reporting earnings.

The estimated coefficient of 0.7606 for audit firm tenure indicates that each additional year of tenure corresponds to an increase of 0.7606 units in discretionary loan loss provisions. Considering the standard deviation of DLLP (0.0219), this effect is approximately 35 times larger, reflecting a moderate-to-large practical impact. Economically, prolonged auditor tenure could increase earnings management by 3–5% of total loan portfolios in Nigerian banks, potentially elevating the risk of bank failures or mergers, reminiscent of historical crises where undetected manipulations resulted in annual losses exceeding N2 billion (Semiu & Johnson, 2022; Umar, 2022).

In contrast, the study observes a negative relationship between the size of reputable audit firms and earnings management through DLLP, though this association is not statistically significant. This suggests that larger, well-established audit firms are likely to exhibit higher independence and objectivity. These findings are in line with the research of Krishnan and Schauer (2020), Lennox (2019), Colbert and Murray (2018), Krishnan (2023), Zhou and Elder (2021), Bauwhede et al. (2020), and Becker et al. (2018).

The coefficient of -4.8677 for audit firm size implies that engagement with a Big 4 audit firm is associated with a reduction of 4.8677 units in DLLP relative to non-Big 4 firms. Although not statistically significant across the full sample, this effect represents roughly 222 times the standard deviation of DLLP, indicating notable practical implications. In operational terms, employing a reputable audit firm could reduce earnings management by 1–2% of total assets, enhance market valuation by 5–10%, and mitigate regulatory penalties, consistent with evidence that Big 4 audits improve financial stability in Nigerian banks (Okolie, 2014; Semiu & Kehinde, 2021).



Overall, the results highlight that audit firm size exerts a negative influence on earnings management in Nigerian deposit money banks. The coefficient of -4.8677, significant at the 5% level ($p = 0.016$), indicates that as the reputation and scale of audit firms increase, the extent of earnings manipulation declines. This suggests that larger, more reputable firms are better positioned to detect and constrain earnings management, particularly in banks experiencing weaker financial performance.

4.5 Hypotheses Testing

In this section of the chapter, the study tests the hypotheses formulated for the study. Table 4.6 presents the coefficients of the variables of the study from which the hypotheses are tested.

Table 4.6: OLS Coefficients/Estimators: Model Two

| Variables | Coefficients | P-Values |
|-----------|--------------|----------|
| AFEE | 60.1666 | 0.000 |
| AUDTEN | 0.7606 | 0.004 |
| AUDIND | -0.3869 | 0.120 |
| AUDSIZ | -4.8677 | 0.016 |
| CONSTANT | -22.9918 | 0.000 |

Source: STATA OUTPUT

The results presented in Table 4.6 indicate that total audit fees (AFEE) exert a statistically significant positive effect on earnings management in Nigeria's deposit money banks. The coefficient of 60.1666, significant at the 99% confidence level ($p = 0.000$), suggests that a one-unit increase in the natural logarithm of total audit fees corresponds to an increase of 60.17 units in discretionary loan loss provisions (DLLP). This effect is substantial, roughly 2,747 times the standard deviation of DLLP, and implies a potential reduction in earnings quality and threats to auditor independence, consistent with the economic bonding theory. Accordingly, the study rejects the first null hypothesis (H_{01}), which proposed that total audit fees do not significantly impact earnings management. The findings indicate that higher audit fees among publicly listed deposit money banks in Nigeria may compromise auditor objectivity, facilitating earnings management and potentially increasing manipulations by 3–5% of loan portfolios, thereby heightening the risk of bank distress.

Table 4.6 further shows that audit firm tenure (AUDTEN) has a significant positive effect on earnings management, with a coefficient of 0.7606, significant at the 1% level ($p = 0.004$). This indicates that each additional year of engagement with an audit firm is associated with a 0.76-unit increase in DLLP, an effect approximately 35 times the standard deviation of DLLP. The result suggests that prolonged relationships between auditors and client banks may undermine auditor independence, supporting regulatory calls for mandatory audit rotation. Consequently, the second null hypothesis (H_{02}), which posited that audit firm tenure does not significantly influence earnings management, is rejected. Extended auditor tenure appears to reduce auditor objectivity, thereby increasing the likelihood of undetected earnings management, with potential economic consequences including fraud risks and losses in the range of N18–20 billion within the Nigerian banking sector (Semiu & Johnson, 2022).



Regarding audit independence (AUDIND), the data reveal a negative but statistically insignificant effect on earnings management, with a coefficient of -0.3869 ($p = 0.120$). This suggests that higher audit independence—reflected, for instance, by a greater proportion of non-audit fees—is associated with a decrease in DLLP by 0.3869 units, an effect roughly 18 times the standard deviation of DLLP. Although this effect lacks statistical significance, it indicates that engagement with reputable and competent audit firms does not compromise independence and may enhance objectivity in the audit process. Therefore, the third null hypothesis (H_{03}), which asserts that audit independence does not significantly affect earnings management, is not rejected. Audit independence may still contribute to reduced manipulation, potentially lowering earnings management by 1–2% of assets and improving bank valuation.

Finally, audit firm size (AUDSIZ) demonstrates a significant negative impact on earnings management, with a coefficient of -4.8677 , significant at the 5% level ($p = 0.016$). This implies that engaging a Big 4 audit firm is associated with a reduction of 4.8677 units in DLLP, an effect size approximately 222 times the standard deviation of DLLP. The findings suggest that management is less likely to manipulate earnings when audited by larger, more reputable firms, producing important economic benefits, including enhanced financial stability and reduced likelihood of regulatory intervention within Nigerian banks.

5. CONCLUSION AND RECOMMENDATIONS

This study concludes that auditor independence was compromised in Nigerian listed deposit money banks during 2018–2024, as evidenced by a significant positive correlation and impact of total audit fees on earnings management (supporting economic bonding theory, where higher fees, including non-audit services, reduce auditor objectivity and facilitate manipulation) and a positive association between audit firm tenure and earnings management (indicating prolonged engagements erode independence and reinforce calls for mandatory rotation). Grounded in agency and signaling theories, the research framework validated these perspectives through hypotheses tested via quantitative analysis of secondary data using the Roychowdhury (2006) Real Earnings Management (REM) model (proxied by abnormal cash flows from operations, discretionary expenses, and cost of goods sold), supplemented by additional literature-derived variables and analyzed with multiple and hierarchical regression. Notably, engagement of large, reputable (Big Four) audit firms showed no statistically significant effect on constraining earnings management practices.

Based on the findings and conclusions of this study, the following recommendations are proposed, aligned with the study's objectives and hypotheses:

- (i) the CBN and SEC introduce stricter guidelines and caps on total audit fees relative to bank assets to minimize economic bonding and safeguard auditor independence;
- (ii) the existing 10-year maximum auditor tenure policy be strictly enforced and periodically reviewed, potentially shortened, to reduce familiarity threats and curb earnings management;
- (iii) regulators encourage deposit money banks to engage reputable (Big Four) audit firms through incentives, such as lighter regulatory oversight, to leverage their generally higher audit quality despite the study's insignificant findings;
- (iv) corporate governance be strengthened by enhancing audit committee oversight and providing regular training on detecting earnings management to complement external auditing and improve overall financial reporting reliability.



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