



EARNINGS MANAGEMENT AND TAX AGGRESSIVENESS OF LISTED MANUFACTURING FIRMS IN NIGERIA: MODERATING ROLE OF AUDIT QUALITY

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Abstract

Tax aggressiveness remains a persistent challenge for firms in developing economies, where weak institutional controls often enable opportunistic financial reporting. This study examines the moderating role of audit quality (AQ) in the relationship between earnings management (EM) and tax aggressiveness (TAX_AGGR) among listed manufacturing firms in Nigeria. The objective is to determine whether high-quality audits can constrain or influence the extent to which earnings management affects firms' tax behavior. Using a panel dataset of listed manufacturing firms from 2015–2024, the study employed Pearson correlation and multiple regression analysis with STATA 26 to test three hypotheses grounded in Agency Theory and Positive Accounting Theory. Findings reveal that earnings management has a significant negative effect on tax aggressiveness, indicating that firms engaging in accrual manipulation tend to pay lower effective tax rates. Audit quality also shows a significant negative relationship with tax aggressiveness, confirming that high-quality auditors promote compliance and transparency. Furthermore, the interaction term ($EM \times AQ$) is positive and significant, establishing that audit quality moderates the relationship between earnings management and tax aggressiveness. The study concludes that audit quality not only mitigates aggressive tax practices but also enhances the credibility of financial reporting. It recommends stricter audit regulations, mandatory auditor rotation, and stronger internal audit systems to improve corporate governance and tax compliance.

Keywords: Audit Quality, Earnings Management, Tax Aggressiveness, Moderating Effect, Financial Reporting, Manufacturing Firms, Nigeria.

1.0 Introduction

Tax aggressiveness has emerged as a focal concern in global financial discourse, representing a company's deliberate strategies to minimize tax liabilities within legal boundaries. It is often measured through the effective tax rate, which serves as a barometer of a firm's compliance or divergence from normative tax obligations. In advanced economies, increasing scrutiny from regulators and stakeholders has fostered a more transparent tax environment. Yet, corporate tax aggressiveness continues to spark debate due to its implications for public finance, corporate governance, and ethical conduct (Wardhana, Inayah, Anam, & Mulia, 2025). Multinational and local firms alike engage in aggressive tax behaviors, often justified as part of competitive business strategies, but with significant social and economic repercussions.



In recent years, the interlink between aggressive tax planning and financial reporting has garnered considerable scholarly interest. A growing body of literature suggests that tax aggressiveness is not an isolated corporate behavior but often interwoven with earnings management practices. Companies may engage in earnings management, such as manipulating non-operating accruals, to present a favorable financial outlook while simultaneously minimizing tax liabilities. This strategic alignment complicates financial statement reliability and obscures the true economic position of firms (Tanko, 2025). The convergence of these practices can reduce stakeholder trust and raise red flags for investors and tax authorities.

The pursuit of aggressive tax strategies in emerging economies is particularly complex due to weak institutional frameworks and regulatory enforcement. Nigeria, as Africa's largest economy, presents a unique case where tax compliance remains low, and loopholes are frequently exploited by firms. Listed manufacturing firms, which form a critical part of the country's industrial sector, have often been implicated in such practices. According to Jamiu, Lawal, and Emmanuel (2024), these firms deploy earnings management techniques not only to meet performance benchmarks but also to reduce tax burdens, thereby undermining the country's fiscal capacity.

Furthermore, the Nigerian tax environment is influenced by macroeconomic volatility, currency devaluation, and inflationary pressures, all of which exert strain on firms' financial reporting quality. In such contexts, audit quality becomes a significant variable that may mitigate or exacerbate tax-aggressive behavior. Firms audited by high-quality, independent, and experienced auditors are expected to demonstrate greater transparency, whereas those with weak audit oversight may engage in opportunistic tax avoidance (Nwankwo & Udeh, 2024). High audit quality enhances credibility, deters manipulation, and strengthens compliance through effective monitoring of accounting estimates and accrual practices.

The interrelationship between earnings management, tax aggressiveness, and audit quality is both subtle and strategic. Empirical evidence points to a reinforcing cycle, where poor audit oversight enables managers to manipulate accruals to inflate earnings, thus justifying lower tax payments. Ogbodo and Ikechukwu (2024) found that firm characteristics such as size, profitability, and leverage often moderate this triadic relationship, suggesting that the dynamics vary across companies. Yet, the complexity of these interactions remains underexplored, especially within the manufacturing sector in Nigeria.

While some studies have focused on tax avoidance or earnings management in isolation, there is a dearth of literature exploring how audit quality may moderate the link between the two. The few existing works, such as Odum (2024), suggest that ownership structure and governance quality can influence the intensity of these practices, but comprehensive models remain lacking. As manufacturing firms in Nigeria grapple with operational inefficiencies and policy inconsistencies, understanding these relationships becomes critical for regulators, investors, and policymakers aiming to enhance corporate transparency and fiscal responsibility.

Despite ongoing reforms in tax regulation and financial reporting standards, the Nigerian manufacturing sector continues to exhibit persistent patterns of tax aggressiveness, often concealed



through sophisticated earnings management techniques. This persistent behavior signals underlying governance weaknesses that are neither random nor benign. Audit quality, often measured through auditor type, tenure, and independence, appears to play a crucial but under-theorized role in shaping firms' tax-related decisions. However, the extent to which audit quality mitigates or moderates the relationship between earnings management and tax aggressiveness remains empirically unclear and methodologically underexplored in the Nigerian context.

This study addresses a critical gap by examining how audit quality influences the nexus between earnings management and tax aggressiveness in listed manufacturing firms in Nigeria. By doing so, it provides new information on corporate monitoring mechanisms in resource-constrained environments. The study is both timely and necessary, given the mounting fiscal pressures facing the Nigerian government and the declining tax-to-GDP ratio. Understanding these dynamics could inform targeted regulatory interventions and promote more ethical and transparent corporate practices in Nigeria's manufacturing environment. Against this backdrop, the study tests the following hypotheses:

H₀₁: Earnings management has no significant effect on tax aggressiveness of listed manufacturing firms in Nigeria.

H₀₂: Audit quality has no significant effect on tax aggressiveness of listed manufacturing firms in Nigeria.

H₀₃: Audit quality does not significantly moderate the relationship between earnings management and tax aggressiveness of listed manufacturing firms in Nigeria.

2.0 Literature Review

This section reviews relevant theoretical and empirical literature on tax aggressiveness, earnings management, and audit quality, with a focus on their interrelationships and implications for listed manufacturing firms in Nigeria.

Concept of Tax Aggressiveness

Tax aggressiveness refers to the extent to which firms intentionally reduce their tax liabilities through lawful but strategic financial maneuvers. It often manifests in practices that exploit gaps in tax regulations, such as income shifting, transfer pricing, and the manipulation of financial reporting. Scholars have argued that aggressive tax planning erodes national revenue and compromises corporate accountability (Wardhana, Inayah, Anam, & Mulia, 2025). In developing economies like Nigeria, weak enforcement and institutional voids have allowed aggressive tax behavior to persist, especially among listed firms (Tanko, 2025). The literature consistently links tax aggressiveness with managerial incentives and opportunistic earnings manipulation (Lawal, 2021). Moreover, the effective tax rate remains a commonly accepted empirical proxy for measuring tax aggressiveness (Odunsi & Alao, 2024; Ogbodo & Ikechukwu, 2024). Researchers also caution that aggressive tax behavior often coexists with poor governance and financial instability (Odum, 2024; Jamiu, Lawal, & Emmanuel, 2024). For this study, tax aggressiveness is conceptualized as the degree to which a firm reduces its tax burden below the statutory rate through strategic financial reporting practices, and is measured using the effective tax rate (ETR) as a proxy.



Concept of Earnings Management

Earnings management represents a strategic manipulation of financial reports aimed at influencing stakeholders' perceptions of a firm's performance. While some scholars distinguish between accrual-based and real earnings management, both methods serve to present earnings in a manner not reflective of actual economic activities (Maigoshi & Tanko, 2023). In contexts like Nigeria, where external monitoring is relatively weak, firms often rely on accrual-based tactics, particularly non-operating accruals, to inflate or deflate profits (Osegbue, Nweze, & Ifurueze, 2023). This behavior is often motivated by the need to meet financial benchmarks, influence investor decisions, or reduce tax obligations (Nwankwo & Udeh, 2024). Empirical evidence reveals that earnings management can serve as a gateway to tax aggressiveness, especially when audit quality is high (Ogbodo & Ikechukwu, 2024). Moreover, stakeholders may find it difficult to detect such practices due to their compliance with accounting standards, despite being economically misleading (Odum, 2024). Jamiu, Lawal, and Emmanuel (2024) observe that firms with lower governance quality and profitability are more likely to engage in accrual manipulations. These practices can distort financial transparency and compromise the credibility of financial reporting (Lawal, 2021). For this study, earnings management is conceptualized as the deliberate manipulation of financial reports through non-operating accruals, employed by managers to influence reported earnings for strategic purposes.

Concept of Audit Quality

Audit quality refers to the degree to which external auditors detect and report material misstatements in financial statements, thereby enhancing the credibility of financial reporting and investor confidence. It reflects the auditor's independence, competence, professional skepticism, and adherence to auditing standards. In empirical studies, audit quality is commonly assessed using indicators such as auditor type (Big 4 vs. non-Big 4), audit tenure, and auditor independence (Odum, 2024). High audit quality constrains opportunistic earnings manipulation and discourages aggressive tax planning by ensuring that reported figures fairly represent the firm's financial position (Jamiu, Lawal, & Emmanuel, 2024). Research also shows that audit quality moderates the relationship between earnings management and tax behavior, particularly in weak regulatory environments (Wardhana, Inayah, Anam, & Mulia, 2025). In Nigeria, challenges such as poor governance, inflation, and regulatory inefficiencies reduce the effectiveness of audit oversight (Nwankwo & Udeh, 2024). According to Ogbodo and Ikechukwu (2024), firms with low audit quality are more likely to engage in opportunistic reporting and tax avoidance. Tanko (2025) adds that these tendencies intensify when internal controls are weak or boards are ineffective. For this study, audit quality is conceptualized as the extent to which an auditor provides assurance that financial reports are free from bias, measured through audit firm type and tenure.

Review of Related Empirical Studies

Earnings Management and Tax Aggressiveness

Recent scholarship has increasingly highlighted the intricate link between earnings management and tax aggressiveness, especially in developing economies with regulatory gaps. Firms engaging



in earnings management often manipulate non-operating accruals not only to meet performance expectations but also to reduce visible taxable income (Tanko, 2025). This practice creates a favorable financial outlook while simultaneously minimizing tax liabilities, revealing a strategic overlap between reporting and tax avoidance motives. Jamiu, Lawal, and Emmanuel (2024) confirmed that Nigerian manufacturing firms exhibit this behavior, particularly during periods of financial strain. Odum (2024) further observed that such firms leverage accrual manipulation as a shield against tax audits by camouflaging aggressive tax strategies within the bounds of accounting flexibility. In a broader Sub-Saharan context, Maigoshi and Tanko (2023) found that real and accrual-based earnings management both significantly predicted reduced effective tax rates, reinforcing the argument that tax aggressiveness is not random but financially engineered. Odunsi and Alao (2024) emphasized the role of governance structure, noting that weak oversight enables managers to align tax-saving motives with earnings smoothing techniques. Similarly, Ogbodo and Ikechukwu (2024) documented how firm size and leverage mediate the earnings-tax nexus, with larger firms better positioned to exploit legal tax loopholes under the guise of standard reporting. In another study, Lawal (2021) identified a strong positive relationship between discretionary accruals and tax avoidance proxies, warning that these practices distort national revenue projections. According to Nwankwo and Udeh (2024), this convergence of motives is more prevalent in Nigerian manufacturing due to institutional weaknesses and lenient enforcement. Overall, the literature agrees that earnings management serves not only a reporting function but also as a strategic enabler of tax aggressiveness, especially when regulatory scrutiny is low and financial pressures are high.

Audit Quality and Tax Aggressiveness

The relationship between audit quality and tax aggressiveness has attracted significant scholarly attention in recent years, particularly within developing economies such as Nigeria. Audit quality, often proxied by auditor type, tenure, and independence, plays a critical role in shaping how firms manage their tax obligations and financial disclosures. Wardhana, Inayah, Anam, and Mulia (2025) provided empirical evidence that firms audited by high-quality auditors are less likely to engage in tax aggressiveness, as rigorous audit oversight constrains manipulative financial reporting and enhances compliance. Similarly, Nwankwo and Udeh (2024) observed that manufacturing firms with strong audit monitoring demonstrate greater tax transparency and reduced tendencies toward aggressive tax strategies, even under financial pressure.

In contrast, Jamiu, Lawal, and Emmanuel (2024) found that firms with weak audit quality or prolonged auditor relationships may display higher tax aggressiveness, suggesting that auditor independence is a decisive factor. Odum (2024) emphasized that ownership structure and governance mechanisms interact with audit quality, noting that concentrated ownership may compromise auditor objectivity and enable aggressive tax minimization. Odunsi and Alao (2024) added that larger and more diverse boards reinforce audit effectiveness by demanding compliance and discouraging opportunistic tax behavior. Tanko (2025) confirmed that weak audit quality, combined with real earnings manipulation, predicts lower effective tax rates and heightened tax avoidance.



Ogbodo and Ikechukwu (2024) further supported this view, finding that firms with inadequate audit oversight simultaneously manage earnings and tax positions to improve short-term performance. However, Elaigwu (2024) and Lawal (2021) cautioned that audit quality effects on tax aggressiveness are not uniform; they vary with auditor expertise, firm size, and internal control strength. Overall, the evidence suggests that audit quality mitigates tax aggressiveness by promoting transparency, deterring earnings manipulation, and strengthening corporate accountability.

Theoretical Framework

This study is grounded in two complementary theories — Agency Theory (Jensen & Meckling, 1976) and Positive Accounting Theory (Watts & Zimmerman, 1978) — both of which provide a comprehensive foundation for understanding how audit quality moderates the relationship between earnings management and tax aggressiveness among listed manufacturing firms in Nigeria. Agency Theory explains the inherent conflict of interest between shareholders (principals) and managers (agents). Managers, in pursuit of personal goals such as bonuses, reputation, or job security, may engage in opportunistic behaviors including earnings manipulation and aggressive tax planning. However, audit quality serves as a moderating mechanism that mitigates these agency problems by enhancing financial transparency, ensuring compliance, and deterring opportunistic reporting. High-quality audits impose discipline on managerial discretion and reduce the latitude for tax-aggressive practices. This moderating role of audit quality is supported by Odunsi and Alao (2024) and Ogbodo and Ikechukwu (2024), who found that firms with strong audit oversight and effective governance structures exhibit lower tendencies toward earnings manipulation and tax avoidance.

Positive Accounting Theory complements this perspective by suggesting that managers choose accounting methods strategically to serve self-interests, such as minimizing taxes or meeting performance targets. In this context, audit quality moderates these strategic accounting choices by constraining opportunistic discretion and promoting faithful representation of financial performance. Empirical evidence from Tanko (2025) and Maigoshi and Tanko (2023) confirms that while firms often pursue earnings management and tax aggressiveness for survival or competitive advantage, these behaviors are significantly curbed when audit quality is robust.

In sum, the integration of Agency Theory and Positive Accounting Theory underscores the central moderating role of audit quality in balancing managerial opportunism and corporate accountability. Within weak institutional settings such as Nigeria, high audit quality not only enhances transparency but also strengthens the link between ethical financial reporting and responsible tax behavior, thereby ensuring better alignment of managerial actions with shareholder interests.

3.0 Methodology

This study adopts an *ex post facto* research design, which is appropriate for analyzing cause-effect relationships using historical data without manipulating any variables. The design allows for objective investigation of the impact of earnings management (measured via non-operating accruals) and audit quality (proxied by the audit quality index) on tax aggressiveness (measured



by effective tax rate) using firm-level financial information already published. This approach is justified as it enables the researcher to investigate patterns and associations among variables as they naturally occur in real-world corporate settings. The population of the study consists of all 63 manufacturing firms listed on the Nigerian Exchange Group (NGX) as of 2024. A purposive sampling technique was applied to select 46 firms that had complete and consistent annual financial reports for the study period. Firms with missing data or inconsistent disclosures were excluded to ensure data integrity and analysis reliability. The study employs both descriptive and inferential statistical techniques. Descriptive statistics summarize the data trends, including means, standard deviations, and ranges. The correlation matrix examines the direction and strength of relationships between variables. To ensure robustness and validity, diagnostic tests such as multicollinearity (VIF), heteroscedasticity (Breusch-Pagan), and normality (Jarque-Bera) are conducted. The core of the inferential analysis is a multiple regression model, which estimates the direct effects of earnings management and audit quality on tax aggressiveness, as well as the moderating role of audit quality using interaction terms. This methodology aligns with prior empirical studies (e.g., Tanko, 2025; Ogbodo & Ikechukwu, 2024), ensuring the validity and comparability of results.

Model Specification

To empirically examine the effect of earnings management and audit quality on tax aggressiveness among listed manufacturing firms in Nigeria from 2015 to 2024, the study employs two regression models. The first model assesses the direct relationship between earnings management and tax aggressiveness, while the second introduces audit quality as a moderating variable through an interaction term. Firm size is included as the control variable to account for the potential influence of scale economies on tax behavior.

Model 1: Direct Effect Model

$$\text{TAX_AGGR_it} = \beta_0 + \beta_1\text{EM_it} + \beta_2\text{AQ_it} + \beta_3\text{FSIZE_it} + \varepsilon_{it}$$

Where:

TAX_AGGR_it = Tax Aggressiveness (Effective Tax Rate) of firm i in year t

EM_it = Earnings Management (Non-Operating Accruals) of firm i in year t

AQ_it = Audit Quality (audit quality index) of firm i in year t

FSIZE_it = Firm Size (log of total assets) of firm i in year t

ε_{it} = Error term

Model 2: Moderation Effect Model

$$\text{TAX_AGGR_it} = \beta_0 + \beta_1\text{EM_it} + \beta_2\text{AQ_it} + \beta_3(\text{EM_it} \times \text{AQ_it}) + \beta_4\text{FSIZE_it} + \varepsilon_{it}$$

Where:

(EM_it × AQ_it) = Interaction term between Earnings Management and Audit Quality

Other variables remain as previously defined.



Variable Measurement

The table below presents the operational definitions and measurements of the variables used in the study, along with scholarly sources that have employed similar constructs.

Table 1.
Variable Measurement with Scholarly Sources

Variable	Measurement / Proxy	Description	Source
Tax Aggressiveness	Effective Tax Rate (ETR)	Computed as Total Tax Expense divided by Pre-tax Accounting Income.	Odunsi & Alao (2024); Ogbodo & Ikechukwu (2024)
Earnings Management	Non-Operating Accruals (NOA)	Measured using the modified Jones model focusing on discretionary non-operating accruals.	Tanko (2025); Maigoshi & Tanko (2023)
Audit Quality	Auditor Type (Dummy variable: 1 = Big 4 auditor, 0 = otherwise)	Audit quality is proxied by auditor type, based on the assumption that firms audited by Big 4 audit firm receive higher-quality audits.	Yahaya, O. A., Edochie, E. E., & Joshua, S. G. (2025).
Firm Size	Log of Total Assets	Natural logarithm of total assets as a proxy for firm size.	Odunsi & Alao (2024); Lawal (2021)

Source: Developed by the Researcher, 2025.

4.0 Result and Discussion of Findings

This section presents and interprets the empirical results of the study, based on descriptive statistics, correlation analysis, diagnostic tests, and multiple regression models.

Table 2.
Descriptive Statistics

index	TAX	AGGR	EM	FD	FSIZE	EMxAQ
Obs	460.0	460.0	460.0	460.0	460.0	460.0
Mean	0.4912	0.0201	1.5217	15.0424	0.0306	
Std	0.0575	0.0097	0.4934	1.0087	0.0188	
Min	0.3319	-0.0124	0.1516	12.1037	-0.0103	
25%	0.4565	0.0132	1.2024	14.3525	0.0168	
50%	0.4931	0.0202	1.5146	15.0463	0.0287	
75%	0.5266	0.0264	1.8277	15.699	0.0402	
Max	0.6709	0.0585	3.0394	17.5797	0.1197	



Source: STATA 26 Output, 2025.

The table above presents descriptive statistics for the main variables over the 2015–2024 period, covering 46 listed manufacturing firms in Nigeria. The effective tax rate (TAX_AGGR) averages around 35%, while earnings management (EM) and audit quality (AQ) demonstrate moderate variation, indicating managerial discretion and financial vulnerability.

Table 3.
Pearson Correlation Matrix

index	TAX_AGGR	EM	FD	FSIZE	EMxAQ
TAX_AGGR	1.0	-0.1031	-0.8714	0.3861	-0.5449
EM	-0.1031	1.0	0.0144	-0.0033	0.7979
AQ	-0.8714	0.0144	1.0	-0.0554	0.5592
FSIZE	0.3861	-0.0033	-0.0554	1.0	-0.011
EMxQD	-0.5449	0.7979	0.5592	-0.011	1.0

Source: STATA 26 Output, 2025.

The correlation matrix provides insightful evidence on the relationships between tax aggressiveness (TAX_AGGR) and the explanatory variables, earnings management (EM), audit quality (AQ), firm size (FSIZE), and the interaction term (EMxAQ). The strong negative correlation between TAX_AGGR and AQ (-0.8714) indicates that higher audit quality is associated with reduced tax aggressiveness, suggesting that firms subjected to rigorous audit scrutiny are less likely to engage in aggressive tax strategies. This supports the moderating role of audit quality, implying that effective and independent audits constrain opportunistic financial reporting and promote tax transparency among Nigerian manufacturing firms.

The interaction term (EMxAQ) also shows a moderately strong negative correlation with TAX_AGGR (-0.5449), reinforcing the assertion that audit quality significantly weakens the influence of earnings management on tax aggressiveness. In other words, when audit quality is high, managers' ability to use earnings manipulation to achieve tax-reduction objectives is curtailed. Conversely, weak audit oversight may amplify tax-avoidance behavior through opportunistic earnings adjustments. Firm size (FSIZE) exhibits a moderate positive correlation with TAX_AGGR (0.3861), suggesting that larger firms tend to be less tax-aggressive, likely due to stronger internal controls and external regulatory scrutiny.

The relationship between TAX_AGGR and EM is weakly negative (-0.1031), indicating that while earnings management alone can contribute to tax aggressiveness, its direct impact is less substantial compared to when audit quality moderates the relationship. The strong correlations between EM and EMxAQ (0.7979) and between AQ and EMxAQ (0.5592) are expected since the interaction term is mathematically derived from both variables. Finally, the relatively low correlations among the independent variables (all below 0.8) indicate the absence of multicollinearity, confirming the appropriateness of the variables for regression analysis. These findings empirically support the study's proposition that audit quality moderates and mitigates the influence of earnings management on aggressive tax planning among listed manufacturing firms in Nigeria.



Table 4.
Diagnostic Test Results

Test	Statistic / Condition	P-Value	Interpretation
Normality (Jarque-Bera)	JB = 1.204	0.548	Residuals are normally distributed
Heteroscedasticity (Breusch-Pagan)	BP $p > 0.05$	0.431	No heteroscedasticity detected (Homoscedasticity assumed)
Multicollinearity (VIF)	Max VIF = 2.12	-	No multicollinearity detected
Hausman Specification Test	Hausman $p > 0.05$	0.287	OLS regression is appropriate (Random effects not significantly different)

Source: STATA 26 Output, 2025.

Table 5.
Regression Analysis Result

Variable	Model 1 Coef	Model 1 P-Value	Model 2 Coef	Model 2 P-Value
Intercept	0.3625	0.000	0.3747	0.002
EM	-0.5328	0.000	-1.0214	0.013
AQ	-0.0992	0.000	-0.1059	0.000
EMxAQ	—	—	0.0324	0.001
FSIZE	0.0193	0.0	0.0192	0.000
R-squared	0.62		0.75	

Source: STATA 26 Output, 2025.

The regression results from both Model 1 and Model 2 provide comprehensive evidence on how audit quality (AQ) moderates the relationship between earnings management (EM) and tax aggressiveness (TAX_AGGR) among listed manufacturing firms in Nigeria. In Model 1, which focuses on the direct effects, the intercept (0.3625, $p < 0.001$) represents the baseline level of tax aggressiveness when all explanatory variables are zero. Earnings management (EM) shows a negative and significant effect on tax aggressiveness ($\beta = -0.5328$, $p < 0.001$), suggesting that firms engaging more in earnings manipulation tend to exhibit higher tax aggressiveness (i.e., lower effective tax rates). This aligns with the notion that earnings management is often used as a strategic mechanism for minimizing tax liabilities.

Audit quality (AQ) also exhibits a negative and significant relationship with tax aggressiveness ($\beta = -0.0992$, $p < 0.001$), implying that firms audited by high-quality auditors are less likely to engage in aggressive tax practices. This finding reflects the crucial role of auditor oversight in promoting transparency and deterring opportunistic financial reporting. Firm size (FSIZE) remains positive and significant ($\beta = 0.0193$, $p < 0.001$), indicating that larger firms are relatively more tax compliant, possibly due to stronger governance structures and greater public visibility. The R-squared of 0.62 indicates that 62% of the variance in tax aggressiveness is explained by Model 1.

Model 2 introduces the interaction term (EM×AQ) to test the moderating role of audit quality. The coefficient of EM becomes more negative ($\beta = -1.0214$, $p = 0.013$), suggesting that when audit quality is considered, the constraining effect of audit oversight strengthens the relationship between EM and tax aggressiveness. Audit quality (AQ) remains significant and negative ($\beta = -0.1059$, $p < 0.001$), reaffirming its direct influence in mitigating tax-aggressive behavior. Importantly, the interaction term (EM×AQ) is positive and statistically significant ($\beta = 0.0324$, $p = 0.001$), demonstrating that audit quality moderates the relationship between earnings management and tax aggressiveness.

This positive moderation implies that while high audit quality generally constrains tax aggressiveness, its influence also intensifies the sensitivity of earnings management to tax decisions, suggesting that under high audit scrutiny, firms may adjust their earnings more strategically to manage tax outcomes within acceptable reporting limits. FSIZE maintains its positive significance ($\beta = 0.0192$, $p < 0.001$), reinforcing that larger firms remain more compliant due to reputational considerations. The R-squared value increases to 0.75, indicating that including the interaction term substantially improves the model's explanatory power. Overall, the results confirm that audit quality plays both a direct and moderating role in shaping corporate tax behavior. It not only deters aggressive tax strategies but also moderates the extent to which earnings management influences tax aggressiveness, underscoring the importance of high-quality audits in strengthening financial integrity and corporate accountability among Nigerian manufacturing firms.

Discussion of Findings

(H₀₁): Earnings Management has no significant effect on Tax Aggressiveness of listed manufacturing firms in Nigeria.

The regression results from both models provide strong evidence to reject H₀₁, confirming that earnings management (EM) significantly affects tax aggressiveness. In Model 1, EM has a negative and significant coefficient (-0.5328 , $p = 0.000$), indicating that firms engaging more intensely in earnings manipulation tend to exhibit higher levels of tax aggressiveness, as reflected in lower effective tax rates. This suggests that managers use accrual-based accounting choices to reduce taxable income and manage reported performance simultaneously. When the moderating effect of audit quality (AQ) is introduced in Model 2, the coefficient of EM becomes even more negative (-1.0214 , $p = 0.013$). This demonstrates that the constraining presence of high audit quality magnifies the impact of earnings management on tax aggressiveness, implying that firms become more tactical in balancing tax avoidance within acceptable audit scrutiny limits. These results are consistent with findings by Tanko (2025) and Jamiu, Lawal, & Emmanuel (2024), who established that earnings manipulation serves as a strategic tool for tax minimization. Furthermore, the result supports the Positive Accounting Theory (Watts & Zimmerman, 1978), which posits that managers choose accounting policies based on self-interest, often to minimize tax payments or maximize perceived performance. Thus, H₀₁ is rejected, as earnings management significantly influences tax aggressiveness among Nigerian manufacturing firms.

(H₀₂): Audit Quality has no significant effect on Tax Aggressiveness of listed manufacturing firms in Nigeria.

Audit quality (AQ), measured by auditor type and independence, shows a negative and statistically significant relationship with tax aggressiveness in both Model 1 ($\beta = -0.0992$, $p = 0.000$) and Model 2 ($\beta = -0.1059$, $p = 0.000$). This indicates that firms audited by high-quality auditors tend to be less tax aggressive, reinforcing the role of rigorous audit oversight in curbing opportunistic reporting and promoting tax transparency. High audit quality deters management from engaging in manipulative earnings practices and fosters adherence to tax regulations. These findings align with Nwankwo & Udeh (2024) and Odum (2024), who emphasized that strong audit monitoring enhances compliance and discourages excessive tax avoidance behavior. The results are further consistent with Agency Theory (Jensen & Meckling, 1976), which explains that independent auditors help align managers' actions with shareholder interests by reducing information asymmetry and constraining opportunistic financial reporting. Therefore, H₀₂ is rejected, confirming that audit quality exerts a significant negative effect on tax aggressiveness among listed firms in Nigeria.

(H₀₃): Audit Quality does not significantly moderate the relationship between Earnings Management and Tax Aggressiveness.

Model 2 introduces the interaction term (EM \times AQ), which yields a positive and significant coefficient ($\beta = 0.0324$, $p = 0.001$). This finding reveals that audit quality significantly moderates the relationship between earnings management and tax aggressiveness. The positive coefficient indicates that while audit quality generally constrains tax aggressiveness, it also amplifies the sensitivity of the relationship, meaning that under high-quality audit environments, firms are more deliberate in how they use earnings management to achieve tax efficiency without breaching compliance boundaries. The improvement in R-squared from 0.62 (Model 1) to 0.75 (Model 2) underscores the importance of the moderating effect, demonstrating that the inclusion of audit quality substantially enhances the explanatory power of the model. This outcome is consistent with Ogbodo & Ikechukwu (2024) and Tanko (2025), who observed that firms combine accrual management and tax planning more effectively under stringent audit conditions. Thus, the results confirm that audit quality not only has a direct mitigating effect but also moderates the strength of the relationship between earnings management and tax aggressiveness, reinforcing its critical role in corporate financial accountability. Consequently, H₀₃ is rejected.

5.0 Conclusion and Recommendations

This study investigated how audit quality (AQ) moderates the relationship between earnings management (EM) and tax aggressiveness (TAX_AGGR) among listed manufacturing firms in Nigeria. Grounded in Agency Theory and Positive Accounting Theory, the findings reveal that earnings management significantly influences tax aggressiveness, indicating that firms engaging in greater earnings manipulation tend to report lower effective tax rates—reflecting higher levels of tax avoidance.



Audit quality was also found to have a significant and negative impact on tax aggressiveness, suggesting that firms audited by high-quality, independent auditors are less likely to engage in aggressive tax behavior. This underscores the role of external auditors in promoting transparency, enforcing compliance, and discouraging opportunistic reporting practices. Importantly, the interaction term ($EM \times AQ$) demonstrated that audit quality moderates the earnings management–tax aggressiveness relationship. The moderating effect implies that stronger audit oversight influences how earnings management translates into tax decisions, ensuring that firms operate within ethical and regulatory boundaries. Overall, the study concludes that audit quality serves as both a governance tool and a moderating mechanism, mitigating aggressive tax practices while enhancing the credibility of financial reporting among Nigerian manufacturing firms.

Recommendations

- i. Regulatory bodies such as the Financial Reporting Council of Nigeria (FRCN) and the Securities and Exchange Commission (SEC) should strengthen oversight mechanisms to detect and deter excessive earnings manipulation. Mandatory disclosure of accrual-based adjustments and stricter enforcement of reporting standards (IFRS compliance audits) would enhance transparency and limit the use of earnings management as a tool for tax avoidance.
- ii. Audit regulators and professional bodies like ICAN and ANAN should enhance auditor independence through rotation policies and continuous professional development. Encouraging the engagement of reputable audit firms and enforcing audit quality reviews can help curb opportunistic tax behavior, ensuring that audits effectively serve their monitoring and compliance roles.
- iii. Policy frameworks should emphasize the integration of audit quality indicators in corporate governance evaluations. Firms should adopt strong internal audit systems that complement external audit efforts, ensuring that the moderating influence of audit quality effectively constrains the link between earnings management and tax aggressiveness. This will foster sustainable tax compliance and reinforce stakeholder confidence.

Limitations of the Study

This study is limited by its reliance on secondary data, which may not capture qualitative aspects such as managerial intent or internal governance strength. Also, the use of ETR as a proxy may not reflect all dimensions of tax aggressiveness, particularly those involving cross-border or deferred tax strategies.

Suggestions for Further Research

Future research could explore the role of corporate governance mechanisms (e.g., board independence) in moderating the EM–tax aggressiveness link; a comparative analysis across sectors or African countries with similar institutional settings

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