



DOES AUDIT QUALITY INFLUENCE EARNINGS MANAGEMENT PRACTICE IN COMPANIES? A THEORETICAL AND SYSTEMATIC REVIEW APPROACH

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Abstract

The primary intent of this study is to examine whether audit quality influences earnings management practices in companies. Specifically, the study seeks to synthesize theoretical and empirical evidence on how audit quality attributes such as audit firm size, audit tenure, auditor independence, audit fees, industry specialization, audit report timeliness, and auditor opinion affect accrual-based and real earnings management, thereby addressing inconsistencies in prior literature. This study adopts a theoretical and systematic review approach based on the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) framework. Relevant studies were systematically identified from Scopus, Emerald, Taylor and Francis, and other peer-reviewed journals. After applying defined inclusion and exclusion criteria, twenty-five (25) empirical articles published between 2017 and 2025 were reviewed and synthesized. The review reveals that, in many cases, higher audit quality significantly constrains earnings management practices. Audit attributes such as audit firm size (Big 4), auditor independence, auditor reputation, audit tenure, and industry specialization are found to reduce both accrual-based and real earnings management. However, mixed and contradictory evidence is also observed, indicating that the influence of audit quality varies across institutional, regulatory, and country. The study concludes that audit quality is a critical determinant of financial reporting quality, but its effectiveness depends on the strength of governance systems and institutional frameworks within which it operates. It is therefore recommended that regulators and professional bodies strengthen auditor independence, enhance audit committee effectiveness, enforce audit quality standards, and promote industry-specific audit expertise.

Keywords: audit quality, earnings management, accrual-based earnings management, real earnings management, systematic review.

1. Introduction

In modern corporate finance, financial reporting plays a central role in communicating firm performance to investors, regulators, creditors, and other stakeholders (Amara et al., 2025). However, this reporting system is frequently challenged by earnings management (EM) a practice where managers use accounting discretion or operational decisions to influence reported earnings, often to achieve personal incentives, meet market expectations, or comply with contractual obligations (Le, 2025). While some level of discretion in accounting is necessary, excessive manipulation distorts financial reality and undermines the credibility, transparency, and usefulness of financial statements (Nuhu et al., 2024). Earnings management is a global phenomenon observed in both developed and developing economies, including Nigeria. Firms engage in practices such as accrual-based manipulation and income smoothing to present stable or improved financial performance (Madhushani & Sujeewa, 2023; Bappah et al. 2024). Over time,

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these actions weaken investor confidence and may contribute to corporate scandals and failures when the gap between reported and actual performance becomes too wide to sustain (Levitt, 1998; Dechow & Skinner, 2000).

A useful way to understand this process is to view a company as a three-layer system. At the base is the real economic activity layer, where actual business transactions such as sales, production, and expenses occur. Above this is the financial reporting layer, where accountants translate these activities into financial statements (Levitt, 1998; Madhushani & Sujeewa, 2023). This layer is flexible and subject to managerial judgment, making it the primary space where earnings management takes place. At the top is the audit layer, where external auditors examine financial reports to determine whether they fairly reflect the underlying economic reality (DeAngelo, 1981). Within this structure, auditors act as an independent verification mechanism. When audit quality is high characterized by auditor independence, expertise, professional skepticism, and strong institutional backing auditors are able to detect and restrict manipulative reporting practices (Nyongesa et al., 2024). However, when audit quality is weak, gaps emerge between real economic activity and reported earnings, allowing managers greater freedom to distort financial outcomes without detection (Suliaman et al., 2024). Outside this system are investors, regulators, and other stakeholders who rely entirely on audited financial statements, as they cannot directly observe the firm's internal operations (Levitt, 1998). This “three-layer system” illustrates the critical importance of audit quality in bridging the gap between economic reality and reported performance. It highlights how audit quality functions as a truth-filter mechanism that determines whether financial reports reflect genuine performance or manipulated figures.

Audit quality plays a critical role in mitigating earnings management. According to DeAngelo (1981), audit quality is the probability that an auditor will detect and report material misstatements. High-quality audits, driven by auditor independence, expertise, and institutional strength, reduce managerial opportunism and improve financial reporting credibility (Abba & Sadah, 2020). However, historical corporate scandals such as Enron, WorldCom, and Cadbury Nigeria Plc reveal that weak audit systems can fail to detect or prevent earnings manipulation. Agency theory further explains the relationship between audit quality and earnings management by positioning auditors as monitoring agents who reduce conflicts between managers (agents) and shareholders (principals). When audit quality is high, the likelihood of detecting earnings manipulation increases, thereby improving financial reporting integrity (Nyongesa et al., 2024). Therefore, this study examines whether and how audit quality influences earnings management practices in companies through a theoretical and systematic review approach. It synthesizes existing literature to provide deeper insights into how auditing mechanisms can strengthen financial reporting integrity, enhance corporate governance, and protect stakeholder interests in both developed and emerging economies.

Statement of the Problem

Despite regulatory frameworks and corporate governance mechanisms, earnings management continues to be a major challenge in financial reporting globally. Managers often exploit accounting flexibility to manipulate earnings in ways that obscure the true financial position of firms (Madhushani & Sujeewa, 2023). In Nigeria and other developing economies, several corporate failures and banking crises have raised serious concerns about the effectiveness of audit oversight. Cases such as Oceanic Bank, Savannah Bank, Intercontinental Bank, and Cadbury

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Nigeria Plc highlight instances where financial irregularities were either undetected or inadequately reported, suggesting weaknesses in audit quality and corporate governance systems (Jerry & Osho, 2021). Furthermore, empirical evidence indicates that Nigerian firms engage in earnings manipulation through accrual-based strategies and income smoothing to meet earnings targets and maintain market confidence (Bappah et al., 2024; Odaumiebi, 2023). These practices undermine investor trust, distort capital market decisions, and weaken financial reporting quality. Although audit quality is expected to serve as a monitoring mechanism against earnings manipulation, there is still limited and inconsistent empirical evidence on its effectiveness, particularly across different institutional contexts. This gap in literature creates uncertainty regarding the extent to which audit quality constrains earnings management. Therefore, the core problem of this study is the persistent prevalence of earnings management practices despite the existence of audit mechanisms intended to mitigate.

Hypotheses of the Study

Ho₁: Audit quality has no significant effect on earnings management of firms

Ho₂: Auditor independence has no significant effect on earnings management of firms

Ho₃: Audit firm size has no significant effect on earnings management of firms

Ho₄: Auditor industry specialization has no significant effect on earnings management of firms

Ho₅: Audit tenure has no significant effect on earnings management of firms

2. Literature Review

Earnings Management

Earning is an interesting single item in financial reporting and managers are interested in the way they report it in the financial statements. For this reason, they have to learn how to manage their earnings (Hasan et al., 2020). Earnings management is an effort made by company managers to influence the financial statement information of the company to mislead stakeholders who are interested in learning about the company performance and state (Zuhair et al., 2024). Earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence the contractual outcome that depends on reported accounting numbers (Madhushani & Sujeewa, 2023). Earnings management can cause stakeholders or corporate firms to lose their credibility, resulting in negative effects such as market volatility, legal repercussions, and loss of confidence (Awuye, 2022). Studies highlight two main earnings management strategies: accrual-based earnings management (AEM) and real earnings management (REM) (Luo et al., 2017). AEM involves adjusting accounting estimates, while REM focuses on altering the structure and timing of actual business activities to meet financial targets. Over the past 2 decades, firms have shifted from AEM to REM due to strict accounting standards, tax regulations, IFRS adoption, and improved audit quality (Le, 2025).

Accrual-Based Earnings Management

According to Nugroho and Eko (2012), as cited in Sulieman et al. (2024), documented two categories of accruals: discretionary accruals (DA), which can be controlled and manipulated by

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managerial policies, and non-discretionary accruals (NDA), which are accrual components that are not controlled and manipulated by earnings management policies. In addition, the generally accepted accounting principles (GAAP) have a degree of flexibility that makes accrual-based earnings management by corporate managers possible. Accounting discretions built into GAAP provide opportunities for corporate managers to change income numbers (either upward or downward) (Li, 2025).

Real Earnings Management

Real Earnings Management means accelerating earnings by altering certain firm operations (Roychowdhury, 2006). The evidence shows managers favor the real earnings management approach (Graham et al., 2005). While (Gunny, 2010) indicated the management of real practices is much more costly to companies and their shareholders and less costly for managers. Real earnings management imposes high long-term costs on shareholders (Roychowdhury, 2006). Furthermore, Roychowdhury (2006) pointed out that real earnings management strategies do not help firms' growth and competitive characteristics because of their long-term impact on overproduction, income manipulation, and discretionary cost reduction, (Dakhlallh et al., 2020). Since manipulating real activities leads to adverse economic consequences, understanding how to reduce this opportunistic behavior is a critical issue, especially after the study by (Graham et al. (2005) discovered that real earnings management activities are a common practice.

Audit Quality

Auditing is the main contributor to financial stability, trust, and market confidence. It is an important contributor to monetary stability, the re-establishment of the company, and market and consumer confidence (Li, 2025). Thus, audit quality is one of the corporate governance mechanisms, where the auditor should have high-quality management to minimize managers' manipulation (Alqudah, 2024). According to the International Auditing and Assurance Standards Board (IAASB, 2011), there have been several attempts to conceptualize audit quality in the past. However, none have resulted in a definition that has achieved universal recognition and acceptance. Audit quality is the willingness of the auditor to report any material manipulation or misstatement that threatens the going concern of the client (Madhushani & Sujeewa, 2023). Therefore, audit quality is an auditor/audit firm which detects, corrects and reveals any material omission or misstatements in the financial statements to give high-quality reports.

Theoretical Framework

This study is anchored on Agency Theory and supported by Signaling Theory.

Agency Theory

Agency theory, developed by Jensen and Meckling (1976), explains the relationship between principals (shareholders) and agents (management) within a corporation. The theory assumes that managers may act in their own interest rather than maximizing shareholder wealth, leading to agency conflicts, In the context of "Audit Quality and Earnings Management," Earnings management is a direct outcome of such conflicts, as managers manipulate financial statements to achieve personal objectives such as bonuses, job security, or stock price manipulation. Audit quality serves as a monitoring mechanism that reduces agency costs by increasing the likelihood of detecting and reporting earnings manipulation. High-quality auditors therefore act as external watchdogs that enhance accountability and financial reporting integrity.

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Signaling Theory

Signaling theory, originated by Spence (1973), documented that individuals or entities uses signals to convey information to external parties or stakeholders in situations of information asymmetry. These signals are credible indicators of the sender's true characteristics or intentions. In the context of audit quality and earnings management, signaling theory suggests that audit quality can serve as a signal of a firm's commitment to accountability, transparency and reliability of financial reporting. High-quality audits signal company's intention to provide accurate and reliable information to stakeholders, thereby reducing the need for earnings management. Stakeholders can use audit quality as a credible signal to assess the reliability of financial statements (Li & Tang, 2010). Furthermore, an unqualified audit opinion from a reputable auditor signals strong financial reporting quality, while a modified opinion signals potential issues, including earnings manipulation. Therefore, firms audited by high-quality auditors send positive signals to investors, reducing uncertainty and improving market confidence.

Empirical Review

Some prior researches have investigated the relationship between audit quality and earnings management, such as the stud of Nurjanah and Winarna (2025) examine the impact of audit quality on real earnings management. The population of the study are manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2017–2021. The study used a sample of 625 firm-year observations. A panel data was employed and was analyzed. Multiple regression technique was to analyzed the extracted data. The results of the findings show that audit quality has a significant negative impact on real earnings management.

Amara et al. (2025) explores the impact of audit quality on earnings management. The study utilizes data from 165 UK-based listed companies between 2011 and 2021. The study employed the discretionary accrual as a proxy for EM. Findings from the study established that audit quality show a negative and significant impact on earnings management in UK firms. Also, Le (2025) assess the influence of audit quality on real earnings management. The study analyze data from 499 non-financial firms listed on the Vietnam stock market between 2008 and 2023. The study uses the Roychowdhury (2006) model and applies OLS, FEM, and GLS regressions. Findings of the study indicate that audit quality influences real earnings management differently depending on a firm's financial condition. Specifically, higher audit quality is associated with lower levels of real earnings management in firms with sufficiently low financial leverage and sufficiently high operating cash flows.

Mwangi (2024) assess the effect of audit quality on earnings management practices. The study adopted a desk methodology. The study collected data from existing resources. The study looked uses the already published studies and reports as the data was easily accessed through online journals and libraries. Findings from the study indicates that higher audit quality is associated with reduced earnings management practices. High-quality audits lead to improved financial reporting, fraud detection, and lower costs of capital. Market reactions are positive when reputable audit firms are involved. However, the outcomes vary by industry and country, due to the regulatory and institutional factors.

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Zuhair et al. (2024) investigated the impact of audit committee independence on earnings management based on data collected from the annual reports of banks operating in Dubai from 2010 to 2022. The audit committee's independence and the number of members had a statistically significant negative effect on earnings management. Similarly, Yasmin and Yudha (2024) investigates the impact of audit quality on discretionary accruals among Indonesian firms. The study sample is 4,723 firms over the period 2020-2023, and multiple regression analysis was applied in the study. Findings of the study indicate that audit quality, as represented by Big4, is significantly associated with a reduction in discretionary accruals, suggesting that higher audit quality constrains earnings manipulation.

Bappah et al. (2024) examines the impact of audit quality on earnings management of listed consumer goods firms in Nigeria. The study adopted correlational research design. The population of the study is twenty-one (21) and sample size is fifteen (15), the data were extracted from annual reports and accounts of the sampled firms from 2013-2022. The study employed a multiple regression and the result of the study shows that audit reporting lag, audit client's importance and auditor independence have a positive and significant impact on earnings management, while auditor's tenure has a negative and significant impact on earnings management.

Suliaman et al. (2024) examine whether audit quality is capable to restrict earnings management of industrial service firms listed on the Amman Stock Exchange, Jordan from 2012-2021. The results of the study showed that the audit fees are significantly and positively related to earnings management measured by discretionary accruals, while the aggregated measure of real earnings management shows a significant negative association with the audit fees. Meanwhile, the result showed that the existence of audit firm size (B4) is a negative and significant effect on earnings management measured by discretionary accruals and the aggregated measure of real earnings management.

Nuhu et al. (2024) assess the effects of external audit quality factors on earnings management practices of firms listed on Bursa Malaysia's main market, covering 2011 to 2022. The study uses a panel regression to analyze the data. The findings of this study confirmed a significant negative association between audit reputation, audit quality, audit opinions, and EM. Audit fees and audit tenure were found to be not significant in relation to EM. More so, Bawuah (2024) investigates the effect of audit quality (Big4) on earnings management. The study uses panel data from 25 non-financial firms in Ghana, and employs the fixed-effect (FE) and Two-stage Least-squares (2SLS) regression methods. The study shows that audit committee independence constrains EM. The analysis reveals that the audit quality negatively influences EM.

Alqudah (2024) examine whether audit quality is capable of restricting real earnings management for the industrial and service firms listed on the Amman Stock Exchange (ASE) from 2014- 2023 in Jordan. The uses cash flow from operations (CFO), discretionary expenditure (DISX), and production cost (PROD) as proxies of real earnings management. The results of the study showed that the audit fees (AFEE) are significantly and negatively related to cash flow from operations (CFO) and discretionary expenditure (DISX), and also significantly and positively related to production cost (PROD). Meanwhile, the result showed that the existence of audit firm size (B4) has a negative and significant effect on cash flow from operations (CFO) and production cost

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(PROD), and a positive and significant effect on discretionary expenditure (DISX). Also, Nyongesa et al. (2024) evaluate the effect of audit quality on earnings manipulation among companies listed at the Nairobi Securities Exchange. The study uses discretionary accruals computed by the Modified Jones Model to quantify earnings manipulation. The study found out that audit fees have a negative but statistically significant effect on earnings manipulation while auditor industry specialization showed a positive but statistically insignificant influence on earnings manipulation.

Madhushani and Sujeewa (2023) investigates the impact of audit quality on EM in Sri Lankan listed companies from 2015 - 2020 and audit reports for the financial period 2012 - 2020 of listed companies on the Colombo Stock Exchange. This study employs Modified Jones model to examine earnings management practices through Discretionary Accruals. This study employed multivariate analysis to analyze the data, and the results demonstrated that the association between audit firm size and earnings management is negative and significant. It was found that the level of EM between companies using Big 4 auditors and those using non-Big 4 auditors is much lower. This study revealed that auditor independence and EM have a significant negative association. It was suggested that independent auditors have a greater ability to regulate and identify EM activities through company management. Further, this study exposed that there is an insignificant association between the length of audit tenure and earnings management.

Abd et al. (2023) investigates the effect of audit quality on earnings management in 28 banks listed on the Stock Exchange of Iraq and Oman during the financial period of 7 years (2015 to 2021). The study hypotheses were tested using EViews software and panel data. The findings of the study showed that audit firm size and the auditors' change have no significant effect on earnings management for both countries (Iraq and Oman). While the auditor's industry expertise, the timely presentation of the audit report, and the auditor's opinion have a negative effect on earnings management for both countries (Iraq and Oman). Furthermore, Odaumiebi (2023) investigates the impact of audit quality on earnings management of industrial goods sector in Nigeria. The study employs secondary data from annual reports, and judgmental sampling techniques was employed to select eight firms. The regression analysis provided that audit quality has an insignificant impact on earnings management.

Thi (2023) investigate the relationship between audit quality and earnings management of 189 newly-listed companies on the Hochiminh Stock Exchange. The findings from regression model indicated that there was no role for Big 4, auditor tenure, and auditor industry specialization in curbing earnings management. The regression results of different forms of earnings management showed a contrast and indicated that the auditor tenure can mitigate the activities of income-increasing activities in the positive model, the auditor tenure and auditor industry specialization can explain the incentives for managing earnings in the negative model. Furthermore, Aondoakaa and Achika (2022) investigated the effect of audit quality on earnings management of listed (8) selected industrial goods firms in Nigeria from 2010 to 2019. The study used multiple regression analysis to analyze the data, and discovered that audit firm size and auditor sector specialization are not significantly associated with earnings management; auditor tenure significantly affected earnings management, and auditor client importance has significantly affected earnings management.

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Awuye (2022) investigates the relationship audit quality (auditor brand name (Big4) and earnings management of French listed companies. The results indicate that clients of Big4 audit firms record higher levels of accruals and real earnings management. This assertion could be attributed to the low level of auditor litigation risk in France. More so, Jerry and Osho (2021) examine the effect of audit quality on earnings management. of 16 consumer goods listed manufacturing firms in Nigeria for the period 2010-2019. The study uses OLS regression to analyzed of data. The study revealed that audit quality (audit size, audit fee and audit tenure) has a positively significant effect on abnormal cash flow from operating activities.

Odaumiebi (2023) observed that income smoothing is a dominant form of earnings management in Nigerian firms. The study concluded that managers deliberately reduce earnings volatility to create a perception of stability, thereby influencing investor confidence and market valuation. In addition, Magaji et al. (2019) on Nigerian deposit money banks found that governance mechanisms and audit quality jointly influence earnings management practices. The study emphasized that weak monitoring systems and ineffective audit committees increase the likelihood of earnings manipulation in Nigerian banks.

3. Methodology

This study employed a systematic review method because it provides unbiased findings. This methodology utilized the systematic review study according to the Preferred Reporting Items for the systematic review and meta-analysis (PRISMA) framework. This study systematically reviews the existing literature by following the PRISMA protocol to reveal the factors of audit quality and earnings management practices. The comprehensive PRISMA protocol consists of identifying, screening, and evaluating eligibility, ensuring transparency and repeatability of the review process (Banerjee, 2024). Based on Sierra-Correa and Kintz (2015), the PRISMA items have three advantages: through a systematic literature review, more precise research questions can be defined, allowing insertion detection and exclusion criteria to be identified, and quickly checking an extensive database of scientific study. This study used primary electronic sources to identify studies review from Journals indexed in Scopus, Emerald, Taylor and Francis, and other peer-reviewed journals published in universities and professional journals. These databases were selected due to the undeniable quality of the journals published on the platforms.

Keyword was used to search various previous literature. A total of 94 records were found using the search string mentioned. After removing duplicate articles, we screened 54 articles. Subsequently, screening procedures are performed based on the inclusion and exclusion criteria set; this study focuses on accounting and finance. The study selectively used empirical data and peer-reviewed journal articles to provide a comprehensive overview of the most recent and current literature; our analysis only included articles published in English. and articles published from 2017 until 2025 were included. Hence, 40 articles were assessed for eligibility and appropriateness, with article captions, synopses, and primary content carefully reviewed. Therefore, only 25 articles are found to be related to the measurement of earnings management practices, resulting in the elimination of 69 articles. The earnings management was ascertained through accrual-based earnings management and real earnings management. In the studies reviewed, the accrual-based earnings management are estimated using the Jones Model and the Modified Jones Model while real earnings management is estimated through the use of models proposed by Roychowdhury (2006).

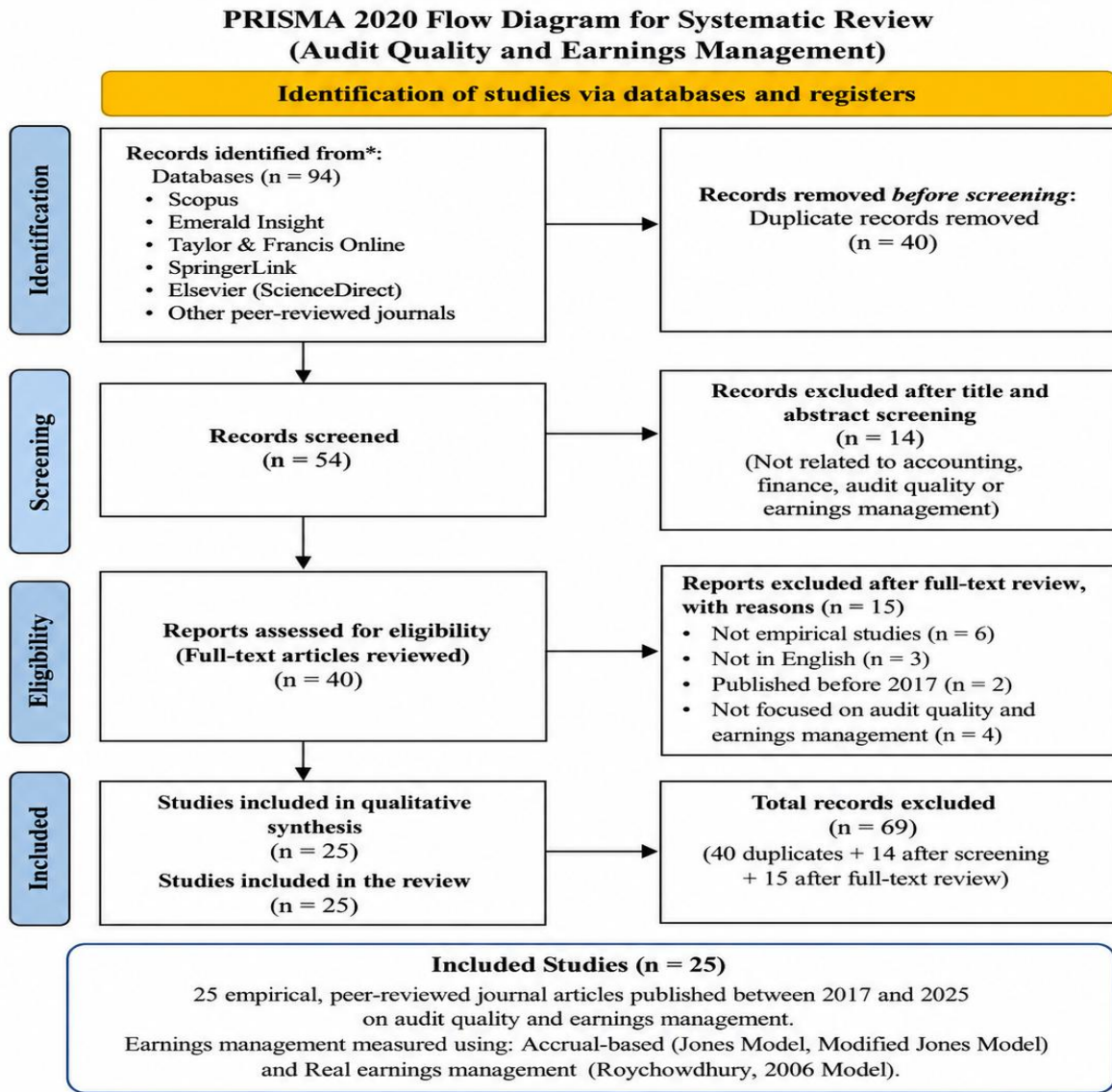


Figure 3.1: PRISMA Flow Diagram of Study Selection Process

Source: Adapted from PRISMA 2020 Statement

4. Results and Discussion

This section presents the synthesized findings and thematic analysis derived from twenty-five (25) empirical studies on the relationship between audit quality and earnings management. The analysis identifies recurring patterns, convergences, and divergences in the literature across different countries and institutional settings. The review indicates that audit quality plays a significant role in influencing earnings management practices, although the strength and direction of this relationship vary depending on contextual and firm-specific factors.

Thematic Analysis of Results

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Theme 1: Audit Quality Reduces Earnings Management Practices

A dominant and recurring finding across the reviewed studies is that audit quality generally constrains earnings management. Most empirical evidence supports a negative relationship between audit quality and earnings manipulation. Studies such as Nurjanah and Winarna (2025), Amara et al. (2025), Le (2025), Mwangi (2024), and Zuhair et al. (2024) consistently show that stronger audit quality reduces discretionary accruals and real earnings management practices. Similar findings are reported across Nigeria, Ghana, Kenya, Jordan, Malaysia, Iraq, Oman, Vietnam, and Indonesia, reinforcing the global relevance of audit quality in enhancing financial reporting integrity. The key Finding revealed that high audit quality improves transparency and reduces managerial discretion in financial reporting.

Theme 2: Key Audit Quality Attributes and Their Influence

The review identifies several audit quality attributes that significantly affect earnings management, study revealed that, Audit Tenure found to reduce earnings management in Nigeria and Vietnam (Bappah et al., 2024; Thi, 2023; Aondoakaa and Achika, 2022), although some studies report no significant effect in Malaysia and Colombo. Secondly, Audit Firm Size (Big 4): generally associated with lower earnings management due to superior resources and reputation, although mixed evidence exists in Jordan, France, and Vietnam. More so, Audit Fees often interpreted as a proxy for audit effort, with several studies showing a reduction in earnings manipulation (Nyongesa et al., 2024; Alqudah, 2024), while others show either no effect or a positive association with discretionary accruals. Auditor Independence and Reputation: Strongly linked to reduced earnings management, particularly where independence is not compromised. Additionally, the key findings shows that: Audit quality is multidimensional, and its effectiveness depends on specific audit characteristics rather than a single factor.

Theme 3: Corporate Governance Strengthens Audit Effectiveness

Another important finding is the interaction between audit quality and corporate governance mechanisms. Studies such as Bawuah (2024) highlight that audit committee independence significantly reduces earnings management. Strong governance structures reinforce audit effectiveness by enhancing oversight, accountability, and monitoring of management actions. Conversely, weak governance environments reduce the effectiveness of audit mechanisms. The key finding outline that audit quality is more effective in curbing earnings management when supported by strong corporate governance systems.

Theme 4: Institutional and Country-Level Differences

The findings show significant variation in the audit quality earnings management relationship across countries. In developed or highly regulated environments, audit quality has a stronger constraining effect on earnings management. In contrast, in emerging economies with weaker enforcement mechanisms, the relationship is often weaker or inconsistent. For example, strong negative relationships are more consistently observed in developed or better-regulated markets like the UK firms, while mixed or insignificant results are more common in some African and Asian contexts. The main finding shows that the institutional quality and regulatory enforcement moderate the effectiveness of audit quality.

Theme 5: Contradictory and Inconclusive Evidence

Despite the dominant positive findings, several studies report contradictory results: The audit quality variables (audit tenure, Big 4 status, audit fees) sometimes show no significant effect on

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earnings management (Nuhu et al., 2024; Odaumiebi, 2023; Thi, 2023). Some studies report positive relationships, where higher audit fees or Big 4 association coincide with increased earnings management (Awuye, 2022; Jerry and Osho, 2021). Auditor independence and specialization also show inconsistent effects across different contexts. These contradictions suggest that audit quality does not operate in isolation and may be influenced by regulatory loopholes, auditor-client relationships, or economic pressures. The key finding revealed that the relationship between audit quality and earnings management is not uniform and may vary across contexts and measurement approaches.

Theme 6: Economic and Reporting Implications

The reviewed studies also indicate that audit quality has broader implications beyond earnings management reduction. Improved audit quality enhances financial reporting credibility, investor confidence, market discipline and corporate transparency. However, where audit quality is weak or ineffective, firms may still engage in earnings manipulation, reducing trust in financial statements. The main findings from the study shows that audit quality contributes to financial market efficiency and reporting credibility when effectively implemented.

Discussion of Findings

The findings of this systematic review generally indicate that audit quality serves as an important mechanism for constraining earnings management. The majority of the reviewed studies reported a negative relationship between audit quality and earnings management, suggesting that high-quality audits improve the reliability of financial reporting by reducing managers' opportunities to manipulate accounting figures. This finding is consistent with the principles of the Agency Theory, which posit that external audits help reduce information asymmetry and agency conflicts between managers and shareholders. However, the review also revealed considerable variations in findings across countries, industries, and audit quality dimensions. These differences can be explained by several contextual factors.

Differences in Institutional and Regulatory Environments

One major reason for the divergent findings is the variation in institutional and regulatory frameworks across countries. Studies conducted in countries with stronger regulatory oversight and enforcement mechanisms, such as the United Kingdom, generally found a stronger negative relationship between audit quality and earnings management. In such environments, auditors operate under stricter professional standards, face greater litigation risks, and are subject to stronger regulatory monitoring, which enhances audit effectiveness. Conversely, in some emerging economies, weak regulatory enforcement and limited oversight may reduce the ability of auditors to effectively constrain earnings management. Even when audit quality indicators such as Big Four affiliation or higher audit fees are present, weak institutional frameworks may diminish their effectiveness. This helps explain why some studies in Nigeria, Jordan, and other developing economies reported mixed or insignificant results.

Differences in Measurement of Audit Quality

Another important explanation for the variation in findings relates to how audit quality is measured. The reviewed studies employed different proxies, including audit tenure, audit fees, audit firm size (Big Four), auditor independence, audit reputation, audit opinion, audit reporting lag, and auditor industry specialization. These proxies do not necessarily capture the same dimensions of audit quality. For example, while Big Four auditors are generally associated with

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higher audit quality due to their expertise and resources, Big Four status alone does not guarantee effective monitoring in every context. Similarly, higher audit fees may indicate greater audit effort in some cases, but in other situations they may reflect economic dependence on clients, potentially compromising auditor independence. As a result, studies using different audit quality measures often arrive at different conclusions regarding the effectiveness of audits in reducing earnings management.

Differences in Corporate Governance Structures

The effectiveness of audit quality is also influenced by the strength of corporate governance mechanisms within firms. Studies that found stronger constraints on earnings management often involved firms with independent audit committees, effective boards of directors, and robust internal control systems. Where governance structures are weak, management may exert greater influence over auditors, reducing audit effectiveness. Consequently, the same audit quality characteristic may produce different outcomes depending on the governance environment in which it operates. This explains why audit committee independence was found to significantly constrain earnings management in some studies, while other audit quality variables produced weaker effects.

Differences in Auditor-Client Relationships

The length and nature of auditor-client relationships also help explain conflicting findings regarding audit tenure. Some studies found that longer audit tenure reduces earnings management because auditors gain deeper knowledge of the client's operations and accounting systems over time. This enhanced understanding improves the auditor's ability to identify irregularities. In contrast, other studies found that extended auditor tenure may impair independence due to familiarity threats, leading auditors to become less objective. Consequently, the effect of audit tenure on earnings management may vary depending on whether the benefits of auditor knowledge outweigh the risks of reduced independence.

Differences in Industry Characteristics

Industry-specific factors also influence the relationship between audit quality and earnings management. Firms in complex industries often face unique accounting challenges that require specialized audit expertise. Studies that reported significant effects of auditor industry specialization suggest that specialized auditors possess superior knowledge to detect earnings manipulation. However, where industry expertise is limited or where industry transactions are highly complex, auditor specialization may not significantly reduce earnings management, thereby producing inconsistent results across studies.

5. Conclusion and Recommendations

This systematic review examined the relationship between audit quality and earnings management using evidence from twenty-five (25) empirical studies across different countries and institutional settings. The findings indicate that audit quality generally plays a significant role in constraining earnings management and enhancing the credibility of financial reporting. Key audit quality attributes such as audit tenure, auditor independence, audit firm size (Big Four), audit reputation, audit fees, audit committee independence, and auditor industry specialization were found to reduce managerial opportunism and improve reporting transparency.

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However, the review also revealed mixed and contradictory findings across some studies. These variations were largely attributable to differences in regulatory environments, corporate governance structures, audit quality proxies, industry characteristics, and levels of institutional enforcement. While stronger regulatory and governance frameworks tend to enhance the effectiveness of audit quality in curbing earnings management, weaker institutional settings may limit its impact. Overall, the study concludes that audit quality remains an essential corporate governance mechanism for reducing earnings management and improving financial reporting quality. The findings underscore the need for regulators, professional accounting bodies, and firms to strengthen auditor independence, promote effective governance practices, and enhance audit standards to improve the reliability and transparency of financial statements. This study contributes to the existing literature by providing a comprehensive synthesis of the evidence on audit quality and earnings management and highlighting the contextual factors that influence their relationship.

Recommendations are made based on the findings of these reviewed studies;

- i. The regulators, professional accounting bodies, and corporate organizations should strengthen audit quality mechanisms to reduce earnings management practices.
- ii. Corporate organizations should specifically focus on enhancing auditor independence, improving the effectiveness of audit committees, promoting industry-specific audit expertise, and strengthening regulatory oversight of audit activities.
- iii. Companies should also reinforce corporate governance structures and internal control systems to complement the monitoring role of external auditors.
- iv. Regulators should establish appropriate auditor tenure and rotation policies that balance auditor independence with the benefits of client-specific knowledge.
- v. The audit firms should be encouraged to adopt advanced audit technologies and continuous professional training to improve the detection of earnings manipulation.
- vi. Given the variations observed across countries, policymakers should develop context-specific audit quality frameworks that reflect local institutional and regulatory environments. Implementing these measures will improve financial reporting quality, enhance investor confidence, and reduce opportunities for earnings management

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