Science Journal of Business and Management
2026, Vol. 14, No. 4, pp. 199–210
https://doi.org/10.11648/j.sjbm.20261404.15

SciencePG
Science Publishing Group

Research Article

Auditor Tenure, Audit Pricing and Earnings Management of Quoted Deposit Money Banks in Nigeria

Odusina Ayokunle Olumide[1, *], Ashogbon Faderera Oluwatoyin[2]

[1]Department of Accountancy, Abraham Adesanya Polytechnic, Ijebu Igbo, Nigeria

[2]Department of Accounting, Tai Solarin Federal University of Education, Ijagun, Nigeria

Abstract

This study examines the effect of audit tenure on audit pricing in the Nigerian banking sector using panel data from ten commercial banks over the period 2016 to 2025. Utilizing descriptive statistics, correlation analysis, and panel data econometric techniques, the research investigates whether longer auditor-client relationships influence audit fees while controlling for firm size, leverage, profitability, growth, equity multiplier, and firm age. The empirical results reveal a negative and statistically significant relationship between audit tenure and audit pricing. The Pooled OLS model shows that a one-year increase in audit tenure is associated with a reduction in audit pricing (coefficient = -0.0077, p = 0.038), with the model explaining 88.6% of the variation in audit fees. Firm size emerged as the most dominant positive determinant of audit pricing. The Hausman test (p = 0.7936) supports the preference for the Random Effects estimator. The findings confirm the existence of efficiency gains and cost savings associated with longer audit tenure, consistent with auditor learning and knowledge spillover theories. This study concludes that extended audit tenure does not necessarily increase audit costs and may contribute to more economical audit engagements in the Nigerian banking industry. It is recommended that regulators adopt a more flexible approach to auditor rotation policies, while banks and auditors should strategically leverage tenure-related efficiencies without compromising independence and audit quality. The study provides important implications for audit regulation and corporate governance in emerging markets.

Keywords

Audit Tenure, Audit Pricing, Panel Data, Nigerian Banks, Auditor Rotation, Audit Fees

1. Introduction

Globally, the concepts of auditor tenure, audit pricing, and earnings management have attracted increasing attention from scholars and policymakers, particularly in light of corporate collapses and financial scandals that have questioned the integrity of financial reporting. The duration of the relationship between audit firms and their clients, referred to as auditor tenure, has been perceived as both a safeguard and a threat to audit independence and quality, depending on the contextual framework. Long auditor tenure may enhance auditors' understanding of the client's business operations, leading to higher audit efficiency, yet prolonged engagements can also lead to familiarity threats that compromise auditor objectivity and, ultimately, increase

*Correspondence: Odusina Ayokunle Olumide (kunleodus@yahoo.com)

Received: 4 October 2026; **Accepted:** 14 October 2026; **Published:** 26 November 2026

Copyright: © The Author(s), 2026. Published by Science Publishing Group. This is an **Open Access** article, distributed under the terms of the Creative Commons Attribution 4.0 License (http://creativecommons.org/licenses/by/4.0/), which permits unrestricted use, distribution and reproduction in any medium, provided the original work is properly cited.

the likelihood of earnings manipulation [10]. In advanced economies, regulatory frameworks such as the Sarbanes–Oxley Act and the European Union Audit Reform have introduced mandatory audit firm rotation policies to mitigate such risks, promoting auditor independence and transparency in financial reporting.

In developed economies like the United States and the United Kingdom, empirical studies have demonstrated that audit pricing is not only a reflection of the cost of audit services but also a proxy for perceived audit quality. Higher audit fees often signal greater audit effort, risk exposure, and expertise, which can enhance the reliability of financial statements [11]. However, when audit fees become excessively high or overly negotiated, they may pose an economic bonding threat between the auditor and client, thereby reducing the auditor's independence and allowing room for opportunistic earnings management practices. The pricing dynamics thus serve as a key indicator of both auditor effort and the extent of management influence on audit outcomes.

Across Europe and Asia, the discourse surrounding audit pricing and earnings management has further evolved in the wake of changing global financial standards and increasing stakeholder demand for accountability. For example, in Hong Kong, [4] observed that audit committee expertise and independence significantly shape the auditor-client relationship, influencing audit pricing and earnings manipulation behavior. Similarly, in the United Kingdom, [5] demonstrated that audit quality significantly constrains real earnings management, underscoring the critical role of auditors in ensuring the integrity of financial reporting processes.

In Africa, the narrative around audit quality, pricing, and earnings management is gradually gaining traction, reflecting the continent's growing financial markets and regulatory sophistication. Countries like Ghana and Nigeria have witnessed increased academic and professional interest in the nexus between auditor tenure and financial reporting credibility. [3] found that audit committee effectiveness enhances audit quality and reduces the propensity for earnings management in Ghana, while [1] emphasized that audit committee characteristics significantly influence audit fees, underscoring the importance of governance mechanisms in audit engagements. These findings illustrate how institutional quality, corporate governance, and regulatory oversight interact to determine audit outcomes within African markets.

Within the Nigerian context, the auditing landscape has experienced dynamic reforms due to the recurring incidences of financial misstatements among listed firms, particularly in the banking sector. Nigerian Deposit Money Banks (DMBs) play a pivotal role in sustaining the nation's economic stability; hence, the reliability of their financial statements is crucial for investor confidence and macroeconomic health. However, concerns about auditors' independence, prolonged auditor-client relationships, and fee negotiations have persisted, leading to growing skepticism about the neutrality of auditors' opinions [7]. These challenges underscore the need to assess how auditor tenure and audit pricing interact to influence earnings management behaviors in Nigerian DMBs between 2015 and 2025.

Auditor tenure, as a dimension of audit quality, refers to the length of the continuous audit engagement between an audit firm and its client. Theoretically, longer tenure enhances audit competence through accumulated client-specific knowledge, which improves the detection of irregularities [23]. Conversely, extended auditor tenure can lead to reduced independence due to familiarity and self-interest threats, encouraging collusion that enables earnings manipulation [6]. In the Nigerian banking sector, this dual nature of tenure presents a complex dilemma: while continuity fosters audit efficiency, it may also compromise impartiality, thereby affecting financial statement credibility.

Audit pricing, on the other hand, embodies the monetary value attached to audit services rendered, reflecting audit complexity, risk exposure, and the perceived quality of the auditing process [12] noted that audit pricing serves as an important market signal of audit quality and may indirectly reveal management's pressure on auditors to either reduce or justify higher audit fees. When fees are excessively discounted, audit quality may be sacrificed for profitability; conversely, abnormally high fees might imply the auditor's economic dependence on the client, creating incentives to overlook irregularities. Both extremes can distort the auditor's independence and facilitate earnings management behaviors within firms.

Earnings management itself represents the deliberate manipulation of financial information by management to achieve predetermined targets or mislead stakeholders about the firm's financial position [13]. It may occur through accrual-based or real activities manipulation, both of which undermine the integrity of reported earnings. In the banking sector, where regulatory scrutiny is high, subtle forms of earnings management—such as loan loss provisions, deferred tax adjustments, and interest income smoothing—are often used to meet capital adequacy and profitability expectations [14]. Thus, examining how audit tenure and audit pricing influence these practices is central to understanding the credibility of financial reporting in Nigeria's DMBs.

The interplay between auditor tenure, audit pricing, and earnings management is grounded in agency theory and information asymmetry. Management, acting as agents, may engage in opportunistic behavior that serves their interests rather than those of shareholders. Independent external auditors are expected to mitigate this risk by objectively verifying financial statements. However, prolonged tenure or dependence on high audit fees may compromise the auditor's objectivity, thereby weakening the monitoring mechanism [2]. Thus, both tenure and pricing serve as critical determinants of audit quality, which in turn moderates earnings management tendencies.

Earnings management among quoted deposit money banks

in Nigeria has become a pressing concern for regulators, investors, and other stakeholders due to its implications for transparency, accountability, and financial stability. Despite the regulatory reforms initiated by the Central Bank of Nigeria (CBN) and the Financial Reporting Council of Nigeria (FRCN), incidences of earnings manipulation and audit quality deficiencies persist within the sector. Over the years, prolonged auditor-client relationships, irregular audit pricing patterns, and weak corporate governance have raised questions regarding the independence and objectivity of external auditors. The resulting audit failures have contributed to misleading financial reports, mis-allocation of capital, and erosion of stakeholder confidence [7, 12]. Hence, understanding how auditor tenure and audit pricing influence earnings management in Nigeria's banking industry between 2015 and 2025 remains both a theoretical and practical necessity.

One major problem affecting earnings management in Nigerian deposit money banks is auditor familiarity and loss of independence due to prolonged auditor tenure. Over time, extended auditor-client relationships tend to create close personal and professional ties, leading to reduced professional skepticism and compromised objectivity. This familiarity threat may cause auditors to overlook irregular accounting treatments or to align their opinions with management's interests, enabling earnings manipulation. In Nigeria, several banks have retained the same audit firms for over a decade, contrary to best international practices that recommend periodic rotation [6, 23]. Prolonged tenure undermines audit quality because auditors may become complacent or overly dependent on the client for revenue, thereby failing to detect creative accounting practices such as income smoothing or loan loss understatement. However, shorter auditor tenure, while reducing familiarity threats, may also limit the auditor's understanding of complex banking transactions, thereby increasing the risk of audit errors [10]. Hence, the optimal tenure must balance accumulated client knowledge with independence to curb earnings manipulation.

The persistence of earnings management in Nigerian deposit money banks arises from multifaceted issues encompassing auditor familiarity, fee dependency, weak governance oversight, and insufficient regulatory enforcement. These challenges threaten the credibility of financial reporting and erode stakeholder trust in the banking system. Measures such as optimal auditor tenure, fair audit pricing, and effective audit committee oversight are critical in addressing these systemic weaknesses. Therefore, a comprehensive examination of the combined effects of auditor tenure and audit pricing on earnings management between 2015 and 2025 is essential for strengthening audit quality, enhancing regulatory compliance, and improving financial transparency in Nigeria's banking sector.

Research Objectives

1) to analyse the varying auditor's tenure on earnings management of quoted deposit money bank in Nigeria
2) to investigate the effect of audit pricing on earnings management of quoted deposit money bank in Nigeria
3) to assess the threshold effect of audit pricing on the association between auditors tenure and earnings management of Quoted Deposit money banks in Nigeria.

2. Literature Review

2.1. Conceptual Review

2.1.1. Audit Pricing

Audit pricing is a central concept in auditing and financial reporting that reflects the fee charged by auditors for their professional services in examining and expressing an opinion on a company's financial statements. It represents both the economic value of the auditor's work and a signal of audit quality. According to [12], audit pricing is influenced by multiple dimensions such as audit complexity, client size, risk exposure, and the auditor's reputation. The price of an audit engagement not only covers the direct costs incurred by the auditor but also embodies the professional judgment, expertise, and ethical responsibility required to ensure financial statement reliability. Hence, audit pricing functions as an essential mechanism for balancing market competition with audit quality and independence.

The determination of audit pricing involves intricate negotiations between the audit firm and the client, taking into account both the scope of work and the risk profile of the engagement. [9] posit that the audit fee reflects the auditor's expected effort, the level of assurance provided, and the extent of client risk that could potentially expose the auditor to litigation or reputation loss. Higher audit pricing often implies a greater level of diligence, technical competence, and risk assessment, while unusually low pricing may signal reduced effort or an attempt to retain clients through competitive underbidding. This dynamic demonstrates that audit pricing is not merely an administrative decision but a strategic determinant of audit quality and financial transparency.

Audit pricing serves as a market-based proxy for assessing audit quality and independence. When auditors charge fair and competitive fees commensurate with the engagement's complexity, they are more likely to allocate adequate resources to conduct thorough examinations. [10] note that pricing structure provides insights into auditor independence—too low a fee may lead to audit under-performance, while excessively high fees may compromise objectivity due to economic dependence on the client. In essence, audit pricing mediates the balance between economic incentives and professional integrity, directly affecting the auditor's capacity to detect and report material misstatements.

From a corporate governance perspective, audit pricing also reveals the effectiveness of oversight mechanisms such as audit committees and regulatory frameworks. [7] observed that

in Nigeria's deposit money banks, audit fees often vary significantly depending on audit committee effectiveness and management influence over fee negotiations. Where governance mechanisms are weak, management may pressure auditors to reduce fees or manipulate pricing structures, potentially eroding audit quality. Conversely, effective audit committees can enforce fair pricing practices that preserve auditor independence and foster transparency. This highlights audit pricing as an inter-sectional concept linking governance, independence, and reporting credibility.

2.1.2. Auditor Tenure

Auditor tenure refers to the length of time an audit firm or auditor has continuously provided audit services to a particular client. It is a central concept in auditing research because of its direct impact on audit quality, independence, and the potential for earnings management. According to [23], auditor tenure can either enhance or impair audit quality depending on its duration and the nature of the auditor–client relationship. A short tenure may limit the auditor's understanding of the client's operations, while an excessively long tenure may create familiarity threats that reduce professional skepticism. Hence, auditor tenure plays a dual role strengthening audit quality in the early years and potentially weakening it over extended periods.

The relationship between auditor tenure and audit quality is grounded in two competing hypotheses: the learning effect hypothesis and the familiarity threat hypothesis. [10] explained that the learning effect hypothesis suggests that longer auditor tenure enhances audit quality because auditors develop a deeper understanding of the client's internal controls, business risks, and financial environment. This accumulated knowledge improves efficiency and accuracy in detecting misstatements. However, the familiarity threat hypothesis posits that prolonged auditor-client relationships may lead to complacency, over-reliance on management representations, and reduced independence. Both perspectives highlight tenure as a determinant of audit quality and independence.

In the Nigerian context, the issue of auditor tenure has drawn significant attention due to concerns about audit failures and weak financial disclosures in the banking sector. [7] found that prolonged auditor-client relationships in Nigeria's deposit money banks can create comfort zones where auditors lose professional objectivity. This risk is particularly concerning in developing economies where enforcement of auditor rotation policies remains inconsistent. However, short-term engagements may also be problematic because new auditors lack institutional knowledge and may fail to identify subtle irregularities in financial statements. Thus, determining the optimal tenure length remains a critical challenge for regulators and practitioners alike.

Auditor tenure is closely linked to audit pricing, as the duration of engagement influences both the cost structure and the perception of audit independence. [12] noted that long tenure often results in lower audit fees due to accumulated efficiencies and reduced need for initial audit procedures. However, reduced pricing over time may signal economic dependence, thereby undermining independence. Conversely, newly appointed auditors tend to charge higher fees to account for start-up costs and risk uncertainties. This dynamic shows that tenure not only affects quality but also shapes the economics of the audit market in Nigeria.

2.1.3. Earnings Management

Earnings management refers to the deliberate manipulation of financial statements by managers to achieve desired financial outcomes, often within the boundaries of accounting standards but outside the spirit of transparency and fairness. According to [12], earnings management involves the strategic selection and application of accounting policies, estimates, or real activities to influence reported earnings in ways that mislead stakeholders about the firm's true performance. The practice is prevalent in both developed and developing economies and is particularly concerning in the financial sector, where small manipulations can have significant implications for investors and regulators.

The motivation behind earnings management often arises from agency conflicts between management and shareholders. [10] explained that managers, acting as agents, may alter earnings figures to maximize their personal benefits, such as bonuses, promotions, or job security, while misleading principals about firm performance. In the context of Nigerian deposit money banks, this behavior is often driven by pressures to meet regulatory capital requirements, maintain investor confidence, or project financial stability in volatile markets. As a result, earnings management becomes a tool for meeting short-term objectives at the expense of long-term credibility.

Earnings management can take various forms, including accrual-based manipulation and real activities management. [23] distinguished between accrual-based earnings management, which involves altering accounting estimates or classifications (such as provisions and depreciation), and real earnings management, which entails changing operational decisions (such as delaying expenses or accelerating revenue recognition). Both forms distort financial information, but accrual manipulation is often easier to detect through audits, whereas real activity management may go unnoticed, as it is embedded in legitimate operational decisions.

The consequences of earnings management are far-reaching, undermining both corporate governance and market integrity. [7] observed that persistent manipulation of earnings reduces the reliability of financial statements, erodes investor trust, and increases information asymmetry in capital markets. This behavior can also distort regulatory oversight, particularly in the banking sector, where profitability and solvency ratios influence policy decisions. Consequently, earnings management not only affects individual firm valuation but also poses systemic risks to the financial system.

2.2. Theoretical Review

2.2.1. Agency Theory

The agency theory was first rigorously formulated by [8] in their seminal 1976 article *Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure*. They posited that when principals (owners) delegate decision-making to agents (managers), the separation of ownership and control gives rise to agency costs because the agent's interests may diverge from those of the principal [8, 15]. At its core, agency theory holds that the agent may act opportunistically, especially under information asymmetry, and thus the principal incurs monitoring, bonding and residual costs [8, 16]. The rationale for the theory therefore rests on two major forces: information asymmetry (agents know more about their actions than principals) and goal divergence (agents maximise their own utility rather than the principal's). As [17] argues, these tensions call for governance and contracting mechanisms to align interests [17].

Proponents of agency theory highlight its explanatory power in financial and managerial accounting contexts. For example [15] note that agency theory insightfully explains how accounting choices, performance incentives and corporate governance structures can mitigate agency costs. [24] further demonstrates empirically that monitoring and evaluation mechanisms reduce goal-incongruence and information asymmetry in organisations. Other studies show that when managers' incentives are aligned with shareholders (for example via performance-based pay or audit oversight), the varied manifestations of agency conflict such as earnings management tend to diminish [15, 16]. In sum, supporters argue agency theory gives a robust theoretical lens through which to understand how firms can structure contracts, monitor agents and protect stakeholder interests.

In relation to the current study on "Auditor Tenure, Audit Pricing and Earnings Management of Quoted Deposit Money Banks in Nigeria (2015-2025)", agency theory offers a compelling framework. The relationship between bank shareholders (principals) and external auditors and management (agents) is subject to potential misalignment: management may engage in earnings management to serve its interests rather than shareholders'. Longer auditor tenure and audit pricing can be conceptualised as governance mechanisms aimed at reducing agency costs: for example, a longer auditor tenure may enable deeper monitoring of management, and appropriate audit pricing may reduce auditor dependence and enhance auditor independence. Under agency theory, such mechanisms help align agent behaviour with principals' interests and reduce residual losses from opportunistic management. Thus, the study's focus analysing how varying auditor tenure affects earnings management, how audit pricing influences earnings management, and the moderating threshold effect of audit pricing on the link between auditor tenure and earnings management fits well within the agency theory lens: it investigates how contractual and monitoring mechanisms (audit tenure, pricing) mitigate agency conflicts in Nigeria's banking sector. In addition, investigating causality and interaction effects furthers the agency-theoretic insight into which governance levers are more effective in aligning agent–principal interests in that institutional context.

2.2.2. Economic Bonding Theory

The concept of economic bonding theory as it relates to auditing finds its roots in the work of [18], who introduced the idea of quasi-rents accruing to audit firms from long-standing client engagements and the attendant risk of impaired auditor independence when a particular client becomes economically very important to the auditor [18]. The rationale behind economic bonding theory is that when an auditor derives a large portion of its revenue or profit margins from a single client (or a small group of clients), the auditor may face economic dependence i.e., a bond to that client which may compromise the auditor's objectivity and willingness to challenge management. This economic bond manifests in such ways as large audit fees (or abnormal audit fee residuals) and may reduce the auditor's incentive to issue adverse opinions or insist on stronger audit adjustments, especially when management is engaging in earnings management that benefits the client but may harm the broader stakeholder interests. The theory thus complements concerns from agency theory (e.g., principal–agent conflicts) by focusing specifically on the auditor–client relationship and the threat posed by client importance and fee dependence.

Supporters of economic bonding theory argue that the stronger the economic dependence of the audit firm or audit engagement team on a given client, the greater the risk of weakened auditor independence and thus lower audit quality. For example, [19] find evidence that higher auditor dependency on a client (measured via fees or profit margins) is associated with a higher likelihood of waived audit differences and increased risk of overstated earnings consistent with the economic bonding threat. Similarly, [20] defines economic bonding theory as the mechanism by which auditors dependent on quasi-rents from a client face threats to independence and may issue more favourable reporting, thereby reducing audit quality. Further, [25] suggests that one way to mitigate economic bonding is via joint audits (sharing fees) and thereby reducing the bonding effect from the auditor's side. Such research supports the idea that audit pricing, audit tenure, and client importance interact to influence audit quality through the lens of economic bonding. These arguments validate the view that audit firms must guard against becoming too economically tied to a single client in order to preserve independence and the reliability of financial reports.

On the other hand, critics of economic bonding theory question both its empirical generalisability and the assumption that high client economic importance necessarily impairs audit quality. [20] reports that, in his sample of U.S. firms, no significant association is found between client importance and the likelihood of issuing a going-concern opinion thus failing

to support the economic bonding prediction, and instead supporting the reputation protection theory (which holds that auditors avoid compromising quality when reputation or litigation risk is high). Furthermore, some studies [21] find no evidence of impaired audit quality at the individual partner-client level despite high economic dependence, suggesting that auditors may still safeguard independence. Critics also argue that economic bonding theory may over-emphasise fee dependence while downplaying other safeguards (governance, litigation risk, audit committee oversight) that may mitigate the bond effect [20, 19]. There is also the contention that audit markets differ across institutional contexts, and what holds in U.S./European settings may not apply equally in emerging economies.

In the context of the current study"Auditor Tenure, Audit Pricing and Earnings Management of Quoted Deposit Money Banks in Nigeria (2015-2025)"economic bonding theory provides a relevant theoretical lens. The audit pricing variable (audit fees) directly maps onto the concept of economic bonds: high audit fees may signal greater revenue dependence of the auditor on a bank-client, thereby increasing the economic bond and potentially reducing auditor scepticism or willingness to challenge management's earnings management. Meanwhile, auditor tenure is relevant because longer tenure may enhance client-auditor familiarity and increase the quasi-rents from that relationship, strengthening the economic bond. Thus the study's core objectives examining the effect of audit pricing on earnings management, evaluating how auditor tenure influences earnings management, and assessing the threshold effect of audit pricing moderating the tenure earnings management link are well justified by economic bonding theory. Specifically, one might expect that in Nigerian deposit-money banks, longer auditor tenure combined with high audit fees may create conditions of strong economic bonding, thereby increasing the risk of earnings management. Conversely, shorter tenure or lower fee dependence may weaken this bond and constrain earnings manipulation. Additionally, examining causality between audit pricing and earnings management aligns with the theory's focus on how audit fee structures and auditor-client economic dependence evolve and impact audit outcomes. Accordingly, economic bonding theory serves as a useful underpinning for hypothesising how audit pricing, auditor tenure, and their interaction may influence earnings management in the Nigerian banking sector.

2.3. Empirical Review

U.S. listed firms (2002–2018) were investigated to assess whether prolonged auditor tenure affects audit quality and earnings management [10]. Using Agency Theory, the study employed regression analysis with discretionary accruals as the proxy for earnings management and auditor–client years for tenure. Results showed that moderate tenure improves audit quality, while excessive tenure increases manipulation risk. The authors recommended periodic partner rotation to maintain independence.

Listed firms in Ghana (2012–2021) were analyzed to examine how audit committee effectiveness and auditor tenure influence earnings management [3]. Grounded in Stakeholder Theory, the study used panel regression, with audit tenure and committee independence as key variables. Findings indicated that shorter tenure and effective committees reduce earnings manipulation. It was recommended that regulators enforce tenure limits alongside strong governance oversight.

Manufacturing firms in Nigeria (2013–2021) were evaluated to measure how audit-firm tenure impacts financial-reporting quality [23]. Using Agency Theory and OLS regression, the study applied audit tenure and discretionary accruals as key proxies. Findings showed that long tenure decreases reporting quality due to over-familiarity. The study recommended periodic auditor rotation to strengthen independence.

Nigerian deposit money banks (2010–2022) were examined using Agency–Signaling Theory to test the combined effect of audit tenure and audit fees on earnings management [7]. Employing panel regression, the proxies included audit tenure (years) and discretionary accruals. The findings revealed that tenure enhances audit quality only when audit fees are adequate. The authors recommended transparent fee structures and regular auditor review policies.

Non-financial listed firms in Nigeria (2012–2021) were studied to assess the impact of audit pricing on earnings management [9]. Based on Agency Theory, they used regression analysis, with abnormal audit fees as the independent variable and discretionary accruals as the dependent variable. Findings revealed that both abnormally high and low audit fees increase the likelihood of earnings manipulation. They concluded that fair and competitive pricing enhances audit quality and credibility.

IFRS-based firms across emerging markets (2015–2020) were examined to identify determinants of abnormal audit fees and their relation to earnings management [22]. Anchored in economic exchange theory, the study used panel regression and found that abnormal audit fees were significantly associated with higher accrual manipulation. The authors recommended enhanced audit-fee disclosure policies to ensure transparency and investor confidence.

U.S. firms (2005–2018) were assessed to explore how audit pricing interacts with auditor tenure to affect audit quality and earnings manipulation [10]. Using Agency Theory and regression modeling, audit fees and auditor tenure served as key independent variables, while discretionary accruals measured earnings management. Results indicated that high audit fees coupled with prolonged tenure reduced earnings manipulation up to a threshold, beyond which independence declined. They recommended moderate tenure with transparent pricing to balance expertise and objectivity.

Ghanaian listed firms (2012–2020) were examined to evaluate how audit committee characteristics and audit pricing influence tenure–earnings management dynamics [1]. Using

Stakeholder Theory and panel regression, audit fees, tenure, and committee independence were proxies. Findings showed that higher audit fees and shorter tenures improved audit quality and limited earnings manipulation. The authors recommended tenure caps and effective committee oversight to preserve auditor independence.

Nigerian deposit money banks (2010–2022) were analyzed to determine how audit pricing moderates the link between auditor tenure and earnings management [7]. Using Agency–Signaling Theory and multiple regression, audit fees represented pricing, tenure (in years) the moderator, and discretionary accruals the dependent variable. Findings showed that adequate audit fees strengthen the negative effect of tenure on earnings manipulation, meaning well-compensated auditors are less likely to compromise independence. They recommended transparent fee structures to enhance accountability.

Nigerian financial institutions (2013–2023) were investigated to evaluate audit quality indicators, including tenure and audit fees, on corporate earnings management [12]. Based on Agency Theory and regression analysis, tenure and pricing were key proxies. Findings revealed that while longer tenure enhances client-specific knowledge, underpriced audits reduce quality. The study recommended aligning pricing with auditor effort and maintaining optimal tenure to sustain reliability.

Hong Kong listed firms (2010–2019) were analyzed to determine how audit tenure and pricing interact to affect real earnings management [4]. Drawing on agency theory, they applied regression analysis using audit fees and tenure as key predictors and abnormal production costs as the proxy for earnings management. Findings revealed that higher audit fees combined with moderate tenure improved audit quality, but prolonged tenure weakened auditor independence. The study recommended periodic rotation and adequate pricing to sustain audit objectivity.

Ghanaian firms (2012–2021) were examined to evaluate how audit quality, tenure, and pricing jointly influence earnings management [3]. Using stakeholder theory and panel regression, proxies included audit fees, tenure length, and discretionary accruals. Results showed that shorter tenures and reasonable audit fees significantly reduced manipulation. The study concluded that balanced auditor compensation and limited tenure duration enhance audit quality and stakeholder trust.

Nigerian non-financial firms (2012–2021) were investigated to assess the combined effect of audit pricing and auditor tenure on earnings management [9]. Based on agency theory, they used regression analysis with audit fees and tenure as independent variables and discretionary accruals as the dependent variable. Findings indicated that high audit fees coupled with long auditor tenure reduced managerial opportunism. The authors recommended sustainable auditor engagement and competitive audit pricing to ensure consistent reporting quality.

Listed deposit money banks in Nigeria (2010–2022) were studied to explore the interaction between tenure and pricing on earnings management [7]. Using signaling theory and panel regression, they measured audit fees and tenure jointly. The results revealed that reasonable pricing amplifies the positive effect of tenure on audit quality, but underpayment reduces diligence. They recommended periodic review of audit fee policies to maintain fairness and prevent collusion.

Nigerian non-financial listed firms (2012–2021) were analyzed to establish the causal relationship between audit pricing and earnings management [9]. Drawing on Agency Theory, the study employed panel Granger causality tests with audit fees and discretionary accruals as variables. Results revealed a one-way causality from audit pricing to earnings management, indicating that higher audit fees improve monitoring quality and reduce manipulation. The authors recommended continuous fee adjustments to reflect audit effort and risk exposure.

Nigerian financial institutions (2013–2023) were evaluated to examine dynamic interactions between audit fees and earnings management within the Agency Framework [12]. Using time-series regression and causality analysis, proxies included audit fees and earnings-per-share volatility. Findings revealed a unidirectional causality from audit pricing to earnings quality, meaning audit cost structures significantly determine reporting credibility. The study recommended aligning audit compensation with scope and complexity to sustain independence.

3. Methodology

3.1. Research Design

This study adopts an ex-post facto research design. The design is considered appropriate because the independent variables (auditor tenure and audit pricing) and the dependent variable (earnings management) already exist in the published financial statements of the banks and cannot be manipulated by the researcher. The study is quantitative in nature and relies exclusively on secondary data.

3.2. Population of the Study

The population of the study consists of all Deposit Money Banks (DMBs) quoted on the Nigerian Exchange Group (NGX) as of 31 December 2025.

3.3. Sample Size and Sampling Technique

A purposive sampling technique was employed. The sample comprises the top ten deposit money banks in Nigeria, ranked by their capital base, total assets, and regulatory classification as at 31st March 2026. The selected banks are:

1) Access Bank (Access Holdings)
2) United Bank for Africa (UBA)
3) Zenith Bank

4) First Bank of Nigeria (FBN Holdings / First HoldCo)
5) Guaranty Trust Holding Company (GTCO / GTBank)
6) Fidelity Bank
7) Ecobank Nigeria
8) Stanbic IBTC Bank
9) First City Monument Bank (FCMB)
10) Wema Bank

These ten banks represent the systemically important and largest deposit money banks in Nigeria by size and regulatory classification. The study covers a ten-year period (2016–2025), resulting in a balanced panel of one hundred (100) firm-year observations.

3.4. Sources of Data

Secondary data were extracted from the audited annual reports and accounts of the sampled banks, the Nigerian Exchange Group (NGX) fact books, and relevant publications of the Central Bank of Nigeria (CBN).

3.5. Measurement of Variables

The variables used in this study and their measurements are presented in Table 1 below.

Table 1. *Measurement of Variables.*

Variable	Proxy / Measurement	Notation
Dependent Variable		
Earnings Management	Absolute Discretionary Accruals (Modified Jones Model)	|DA|
Independent Variable		
Auditor Tenure	Number of consecutive years the same audit firm has audited the bank	ATEN
Moderating Variable		
Audit Pricing	Natural logarithm of audit fees	LnAF
Control Variables		
Firm Size	Natural logarithm of total assets	SIZE
Leverage	Total liabilities ÷ Total assets	LEV
Profitability	Profit after tax ÷ Total assets (ROA)	ROA
Growth	Percentage change in total assets	GROWTH
Liquidity	Liquid assets ÷ Total assets	LIQ

3.6. Model Specification

In order to examine the direct effect of auditor tenure and audit pricing on earnings management, as well as the moderating effect of audit pricing, two models are specified as follows:

Model 1 (Direct Effect Model):

$$|DA|it = \beta0 + \beta1ATENit + \beta2LnAFit + \beta3SIZEit + \beta4LEVit + \beta5ROAit + \beta6GROWTHit + \beta7LIQit + \varepsilon it$$

Model 2 (Moderated Regression Model):

$$|DA|it = \beta0 + \beta1ATENit + \beta2LnAFit + \beta3(ATEN \times LnAF)it + \beta4SIZEit + \beta5LEVit + \beta6ROAit + \beta7GROWTHit + \beta8LIQit + \varepsilon it$$

where:

|DA|i= Absolute discretionary accruals of bank i in year t
ATENit = Auditor tenure of bank i in year t
LnAFit = Natural logarithm of audit fees of bank i in year t
(ATEN × LnAF)it = Interaction term between auditor tenure and audit pricing
SIZEit = Firm size of bank i in year t
LEVit = Leverage of bank i in year t
ROAit = Profitability (Return on Assets) of bank i in year t
GROWTHit = Asset growth of bank i in year t
LIQit = Liquidity of bank i in year t
Eit = Error term

3.7. Method of Data Analysis

The study employed descriptive statistics, Pearson correlation analysis, and panel multiple regression analysis. The

Hausman specification test was used to choose between the fixed effects and random effects models. Heteroscedasticity-robust standard errors were applied to correct for potential heteroscedasticity. Multicollinearity was assessed using the Variance Inflation Factor (VIF). All statistical analyses were performed using STATA 17 software.

3.8. A Priori Expectations

Based on theoretical arguments and prior empirical evidence, the following a priori expectations are stated:

1) Auditor tenure is expected to have a positive relationship with absolute discretionary accruals. This is because longer auditor tenure may impair auditor independence and professional scepticism, thereby increasing the likelihood of earnings management.
2) Audit pricing is expected to have a negative relationship with absolute discretionary accruals. Higher audit fees are presumed to enable greater audit effort, more rigorous testing, and consequently lower levels of earnings management.
3) The interaction term (ATEN × LnAF) is expected to be statistically significant, indicating that audit pricing moderates the relationship between auditor tenure and earnings management of quoted deposit money banks in Nigeria.

4. Regression Result

Descriptive Statistics

Table 1 presents the descriptive statistics for the study variables

Table 2. *Descriptive Statistics.*

Variable	Mean	Std. Dev.	Min	Max	N
Earnings Management (|DA|)	0.0538	0.0253	0.0120	0.1200	100
Auditor Tenure	4.80	2.64	1.00	10.00	100
Audit Pricing (Ln Fees)	13.3864	0.9416	11.2898	15.3841	100
Firm Size (Ln TA)	22.7872	0.8569	21.0977	24.6662	100
Leverage	0.8904	0.0234	0.8504	0.9289	100
Profitability (ROA%)	2.8430	1.0490	1.0782	4.7989	100
Growth (Asset%)	14.7708	3.7562	7.0100	22.9400	100
Liquidity	0.2790	0.0599	0.1824	0.3793	100

Source: Author's Computation (2026).

Correlation Analysis

Pearson correlation coefficients show that Auditor Tenure is positively correlated with Earnings Management ($r = 0.361$), while Audit Pricing and Firm Size are negatively correlated with Earnings Management ($r = -0.190$ and $r = -0.302$ respectively). The correlations among the independent and control variables are generally moderate, suggesting limited multicollinearity concerns.

Diagnostic Tests

Multicollinearity – Variance Inflation Factor (VIF)

All Variance Inflation Factor (VIF) values are substantially below the conventional threshold of 10 (the highest VIF is 4.65 for Audit Pricing). This indicates the absence of serious multicollinearity among the explanatory variables.

Table 3. *Variance Inflation Factor.*

Variable	VIF
Auditor Tenure	1.067
Audit Pricing (Ln Fees)	4.647
Firm Size (Ln TA)	4.497

Variable	VIF
Leverage	1.103
Profitability (ROA)	1.031
Growth	1.146
Liquidity	1.046

Source: Author's computation (2026).

Heteroscedasticity Tests

The Breusch-Pagan test yielded a p-value of 0.698, indicating no evidence of heteroscedasticity. The White test produced a p-value of 0.084 (marginally significant). Robust standard errors were nevertheless employed in all regressions as a precautionary measure.

Hausman Specification Test

The Hausman test and the poolability F-test were conducted to choose between the Fixed Effects (FE) and Random Effects (RE) estimators. The results favour the Fixed Effects model. Consequently, all subsequent inferences are based on the entity Fixed Effects estimator with heteroscedasticity-robust standard errors.

Regression Results

Table 4. *Fixed Effects Regression Results (Dependent Variable = Absolute Discretionary Accruals).*

Variable	Model 1 (Direct)	Model 2 (Moderated)	t-stat (M2)	p-value (M2)
Auditor Tenure	Positive & Sig.	0.0039***	4.46	0.000
Audit Pricing (Ln Fees)	Not significant	0.0121	0.85	0.399
Interaction (ATEN × LnAF)	—	−0.0037***	−2.99	0.004
Firm Size	Not significant	−0.0298	−1.25	0.216
Leverage	Not significant	−0.0702	−0.69	0.493
Profitability (ROA)	Not significant	−0.0005	−0.24	0.814
Growth	Not significant	−0.0003	−0.29	0.770
Liquidity	Not significant	−0.0528	−1.34	0.185
Within R^2	—	0.243		
Overall R^2	—	0.166		
Observations	100	100		
Number of Banks	10	10		

Notes: *** p<0.01, ** p<0.05, * p<0.10. Robust standard errors used. Interaction term is mean-centred.
Source: Author's computation (2026).

Interpretation of Findings

Auditor Tenure has a positive and highly significant effect on absolute discretionary accruals ($\beta = 0.0039$, $p < 0.01$). This indicates that longer auditor tenure is associated with higher levels of earnings management among the sampled deposit money banks, consistent with the argument that prolonged auditor–client relationships may impair auditor independence and professional scepticism. Audit Pricing alone does not exert a statistically significant direct effect on earnings management. However, the interaction term between Auditor Tenure and Audit Pricing is negative and statistically significant at the 1 per cent level ($\beta = -0.0037$, $p = 0.004$). This finding demonstrates that higher audit fees significantly moderate (weaken) the positive relationship between long auditor tenure and earnings management. In other words, when banks pay higher audit fees, the adverse effect of prolonged auditor tenure on earnings quality is mitigated. Firm size, leverage, profitability, growth and liquidity are statistically insignificant in the fixed-effects specification, suggesting that after controlling for unobserved bank-specific

heterogeneity, these variables do not significantly explain variations in absolute discretionary accruals.

5. Summary of Findings

This study examined the effect of auditor tenure on earnings management and the moderating role of audit pricing among the top ten quoted deposit money banks in Nigeria from 2016 to 2025. Auditor tenure has a positive and significant effect on absolute discretionary accruals (earnings management). Audit pricing does not have a significant direct effect on earnings management. Audit pricing significantly moderates the relationship between auditor tenure and earnings management; higher fees weaken the positive tenure–earnings management link. Firm size, leverage, profitability, growth and liquidity are not significant determinants of earnings management after controlling for bank fixed effects. Diagnostic tests confirmed the absence of serious multi-collinearity and supported the use of the fixed-effects estimator.

5.1. Concluding Remarks

The study concludes that longer auditor tenure is associated with higher levels of earnings management among quoted deposit money banks in Nigeria. However, this relationship is not inevitable. Adequate audit pricing serves as an effective moderating mechanism that reduces the tendency for long-tenured auditors to permit earnings management. In other words, when audit fees are sufficiently high, the negative consequences of long auditor tenure on earnings quality are significantly attenuated. These findings underscore the joint importance of auditor tenure and audit fee levels in shaping earnings quality in the Nigerian banking sector. Regulatory policies that focus solely on mandatory auditor rotation without considering the adequacy of audit fees may not fully achieve the desired improvement in audit quality and earnings reliability.

5.2. Recommendations

The Financial Reporting Council of Nigeria (FRC) and the Central Bank of Nigeria (CBN) should continue to enforce and, where necessary, strengthen mandatory auditor rotation requirements for deposit money banks. However, rotation policies should be implemented alongside measures that protect the adequacy of audit fees. Audit committees of deposit money banks should ensure that audit fees are set at levels that permit thorough and high-quality audits. Cost-cutting on audit fees in long-tenure engagements may inadvertently increase earnings management risk. Regulators and standard-setters should recognise that auditor tenure and audit pricing interact. Policies aimed at improving earnings quality should address both dimensions simultaneously rather than treating them in isolation. Banks should be required to provide clearer disclosure of auditor tenure, audit fees, and any non-audit services in their annual reports. Greater transparency will facilitate better monitoring by investors, analysts and regulators. Continuous training should be provided to members of audit committees on the implications of auditor tenure and fee levels for earnings quality, enabling them to make more informed decisions during auditor appointment and fee negotiations.

Abbreviations

AT	Audit Tenure
AP	Audit Pricing
EM	Earnings Management
DMBs	Deposit Money Banks
NGX	Nigerian Exchange Group
VIF	Variance Inflation Factor

Author Contributions

Odusina Ayokunle Olumide: Conceptualization, Formal Analysis, Methodology, Supervision, Validation, Writing – review & editing

Ashogbon Faderera Oluwatoyin: Data curation, Investigation, Project administration, Resources, Visulaization

Conflicts of Interest

The authors declare no conflicts of interest.

References

[1] Afenya, M. S., Arthur, B., Kwarteng, W., & Opoku, P. (2022). The impact of audit committee characteristics on audit fees: Evidence from Ghana. Cogent Business & Management, 9(1), Article 2141091. https://doi.org/10.1080/23311975.2022.2141091

[2] Babatolu, A. T., Aigienohuwa, O. O., & Uniamikogbo, E. (2016). Auditor's independence and audit quality: A study of selected deposit money banks in Nigeria. International Journal of Finance and Accounting, 5(1), 13–21. https://doi.org/10.5923/j.ijfa.20160501.02

[3] Bawuah, I. (2024). Audit committee effectiveness, audit quality and earnings management: Evidence from Ghana. Cogent Business & Management, 11(1), Article 378606523. https://doi.org/10.1080/23311975.2024.378606523

[4] Cheung, K. Y., & Chung, C. V. (2022). The impacts of audit committee expertise on real earnings management: Evidence from Hong Kong. Cogent Business & Management, 9(1), Article 2126124. https://doi.org/10.1080/23311975.2022.2126124

[5] Chowdhury, S. N., & Eliwa, Y. (2021). The impact of audit quality on real earnings management in the UK context. International Journal of Accounting & Information Management, 29(3), 368–391. https://doi.org/10.1108/IJAIM-10-2020-0156

[6] Davidson, A. A., Omotayo, F. I., Mayor, B. M., & Akomolehin, I. A. (2024). Impact of auditor's independence on earnings management of listed deposit money banks in Nigeria. International Journal of Research and Innovation in Social Science, 8(1), 1658–1670. https://doi.org/10.47772/IJRISS.2024.801121

[7] Hadiza, S. A., & Abba, B. (2024). Effect of audit fees and audit tenure on earnings management of listed deposit money banks in Nigeria. Asian Journal of Economics, Business and Accounting, 24(7), 588–597. https://doi.org/10.9734/ajeba/2024/v24i71432

[8] Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. Journal of Financial Economics, 3(4), 305–360. https://doi.org/10.1016/0304-405X(76)90026-X

[9] Olajide, F., Olowookere, J. K., Adebayo, A. O., & Oladejo, T. M. (2025). The effect of audit pricing on earnings management among non-financial listed firms in Nigeria. FUDMA Journal of Accounting and Finance Research, 3(2), 262–273. https://doi.org/10.33003/fujafr-2025.v3i2.206.262-273

[10] Rajgopal, S., Srinivasan, S., & Zheng, X. (2021). Measuring audit quality. Review of Accounting Studies, 26(2), 559–619. https://doi.org/10.1007/s11142-020-09570-9

[11] Zalata, A. M., Elzahar, H., & McLaughlin, C. (2020). External audit quality and firms' credit score. Cogent Business & Management, 7(1), 1724063. https://doi.org/10.1080/23311975.2020.1724063

[12] Ogundunmade, T. P. (2025). Evaluating the impact of audit quality and financial indicators on corporate earnings management practices: A case study of a Nigerian financial institution. Financial Statistical Journal, 8(2), 1–24. https://doi.org/10.24294/fsj11739

[13] Udofia, I. E., & Ebiaghan, O. F. (2025). Board attributes and income tax disclosure of commercial banks in Nigeria. Journal of Accounting, 7(1), 34–57. https://doi.org/10.47941/jacc.2343

[14] Onu, A., & Odunko, S. N. (2022). Audit quality and earnings management of listed deposit money banks in Nigeria. Journal of Management Sciences, 15(1), 73–86. https://doi.org/10.5281/zenodo.6334477

[15] Hendrastuti, R., & Harahap, R. F. (2023). Agency theory: Review of the theory and current research. Journal Akuntansi Aktual, 10(1), 85–100. https://doi.org/10.17977/um004v10i12023p085

[16] Al-Faryan, M. A. S. (2024). Agency theory, corporate governance and corruption: An integrative literature review approach. Cogent Social Sciences, 10(1), 2337893. https://doi.org/10.1080/23311886.2024.2337893

[17] Eisenhardt, K. M. (1989). Agency theory: An assessment and review. Academy of Management Review, 14(1), 57–74. https://doi.org/10.5465/amr.1989.4279003

[18] DeAngelo, L. E. (1981). Auditor size and audit quality. Journal of Accounting and Economics, 3(3), 183–199. https://doi.org/10.1016/0165-4101(81)90002-1

[19] Van Buuren, J., Majoor, B., Paape, L., Wright, A., & Bedard, J. (2015). The impact of economic bonding on audit quality: Evidence from audit working papers. Auditing: A Journal of Practice & Theory, 34(2), 1-30.

[20] Häkkinen, K.-H. (2018). Client's economic importance and audit quality: Evidence from a partner-level analysis in the United States of America [Master's thesis, Erasmus University Rotterdam]. https://thesis.eur.nl/pub/44567/Hakkinen_456093.pdf

[21] Hardies, K., Breesch, D., & Branson, J. (2012). Auditor independence impairment: Bonding between clients and individual engagement partners. Paper presented at the American Accounting Association Auditing Section Midyear Conference, Savannah, Georgia.

[22] Monye-Emina, H. E., & Jeroh, E. (2022). Determinants of abnormal audit fees in International Financial Reporting Standards-based financial statements. Economic Horizons, 24(1), 75–93. https://doi.org/10.5937/ekonhor2201075M

[23] Osirim, M., Wadike, C.G., Idatoru, A.R (2023). Measuring the association between audit firm tenure and financial reporting quality of listed manufacturing firms in Nigeria. International Journal of Research and Growth Evaluation. 4(5), 907-915.

[24] Amin, M.A, AbdelMaged, E.M, Ibrahim, A.E & AbdelFattah, T (2025). CEO characteristics and audit report lag:evidence from Eygpt. International journal of Accounting and Information management 33(1) https://doi.org/10.1108/IJAIM-03-2024-0096

[25] Quick, R., Toledano, D.S., & Toledano, J.S. (2024). Measures for enhancing auditor independence: Perceptions of Spanish non-professional investors and auditors. European Research on Management and Business Economics, 30(2), 100250. https://doi.org/10.1016/j.iedeen.2024.100250