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The role of forensic auditing in curbing earnings manipulation: A cross-industry analysis in emerging economies

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Abstract

This research seeks to examine the role of forensic auditing on the prevention of earnings manipulation in 5 selected industries in Nigeria from 2015 to 2024 with particular attention to the relationship among the three issues of financial reporting credibility namely: the intensity of forensic audit, corporate governance and the independence of the auditors. Using quantitative research design and panel data of 500 firm observation from 50 listed companies, the study used a fixed effects regression model to determine the degree to which forensic auditing affects the practise of earnings manipulation. The result obtained from the descriptive indicates moderate variations in earnings manipulation levels across the firms whereas the result obtained from the correlation analysis indicate that there are significant negative associations between earnings manipulation and both forensic auditing and corporate governance. Results from the regression confirm that forensic audit intensity (b=-0.204, p<0.01), corporate governance (b=-0.175, p<0.01) and audit independence (b=-0.114, p<0.01) have a significant negative impact on earnings manipulation. Firm size (which is negative) was only marginally significant. These results show that forensic auditing provides an important deterrent to financial misreporting, especially when backed up by good governance and auditor independence mechanisms. The study concludes that institutionalising forensic audit practises, improving governance structures, and ensuring auditor autonomy are important for improving financial transparency in emerging economies.

Keywords: Forensic Auditing; Manipulation of Earnings; Corporate Governance; Audit Independence; Emerging Economies; Panel Regression.

1. Introduction

Financial transparency is now among the pillars of trust in contemporary economies. Yet, in many emerging markets, concerns about the credibility of corporate financial reports are still increasing. Over the years, a number of companies have been caught participating in the practise of earnings manipulation -- the process of forcefully distorting accounting numbers to bring about a desired goal such as making a profit quota, obtaining a loan or having some impact on share prices. Such custodilla practices fool investors, obscure economic data and have the net consequence of eroding confidence in financial markets (Healy & Wahlen, 1999; Dechow et al., 2010).

Traditional auditing, though important, is often not adequate in order to detect such sophisticated manipulations. High profile Corporate Scandals like Cadbury Nigeria Plc (2006), Steinhoff International (2017) and Wirecard AG (2020) have revealed that even audited financial statements may hide major frauds. These cases have brought the topic of forensic auditing to the forefront, a form of audit that extends beyond the routine checking of compliance with financial regulations to investigate the possibility of financial malpractices and collect evidence of these malpractices that can be used in court proceedings (Bhasin, 2016; Okoye & Nwoye, 2020).

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Forensic auditing combines the skills and techniques of accounting, investigation and law to detect and prevent financial irregularities. Unlike regular audits that are based primarily on compliance, forensic audits are aimed at finding purpose and reassembling the fraudulent activities. In emerging economies where governance structures are weak, regulation and enforcement of regulations is poor and ethical standards are often compromised, forensic auditing has emerged as an important tool to ensure transparency and accountability (Appah & Oyadongha, 2011; Ocansey & Ganu, 2017).

However, there is still a lack of evidence on the effectiveness of forensic auditing in reducing earnings manipulation, particularly when it comes to comparing results across different industries. For example, the motives and methods of manipulation of the banking sphere (where firms are closely regulated) are different from the manufacturing or oil and gas industries. Understanding how forensic auditing functions in these various settings can be useful in-order to strengthen financial oversight and review the quality of reporting across sectors.

1.1. Statement of the Problem

Despite the increasing popularity of forensic auditing, manipulation of earnings continues to be an issue in emerging economies. Many companies are still resorting to creative accounting of earnings to inflate earnings or to either put off losses, or hide operational inefficiencies. While statutory audits are mandated under law, often times they manage to detect instances of deliberate frauds very little because their focus is compliance and not investigation. As a result, manipulation flourishes under the radar of the conventional audit processes (Emeh & Okafor, 2021).

The issue is further exacerbated by weak institutions, a lack of forensics and an inconsistency in enforcing financial regulations. In these environments, organisations take advantage of these weaknesses and provide misleading information about their financial health. Even when the audits are done for forensic purposes little empirical research exists on whether they actually have the effect of reducing manipulation or improving reporting standards in practise.

In addition, industries vary greatly with respect to risk in manipulation. For instance, banks have stringent disclosure requirements relative to manufacturing or service concerns and this may affect the ability of forensic audit to discourage earnings management. Unfortunately, most of the existing research has considered firms to be identical and have overlooked the role that industry factors play in audit outcomes.

Therefore, the core problem that this study addresses is the dearth of systematic, cross-industry evidence on whether forensic auditing is effective in curbing earnings manipulation in the emerging economies. Without evidence to the contrary it is unclear whether current forensic audit practise is sufficient, or how it should be adapted to the unique realities of different industries.

1.2. Research Objectives

The main aim of this study is to examine the role of forensic auditing in curbing earnings manipulation across industries in emerging economies. Specifically, the study seeks to:

- Determine the relationship between forensic auditing and the level of earnings manipulation among firms.
- Assess whether the effectiveness of forensic auditing varies across industries such as manufacturing, banking, oil and gas, and telecommunications.
- Evaluate the moderating effects of corporate governance mechanisms—such as board independence and audit committee strength—on the relationship between forensic auditing and earnings manipulation.
- Propose policy measures for strengthening forensic audit practices as a means of promoting transparency and accountability in emerging markets.

1.3. Research Hypotheses

To provide direction for the analysis, the study proposes the following hypotheses:

- $H0_1$: Forensic auditing has a significant negative relationship with earnings manipulation among firms in emerging economies.
- $H0_2$: The impact of forensic auditing in curbing earnings manipulation differs significantly across industries.
- $H0_3$: Corporate governance mechanisms significantly moderate the relationship between forensic auditing and earnings manipulation.

2. Literature Review

2.1. Conceptual Framework

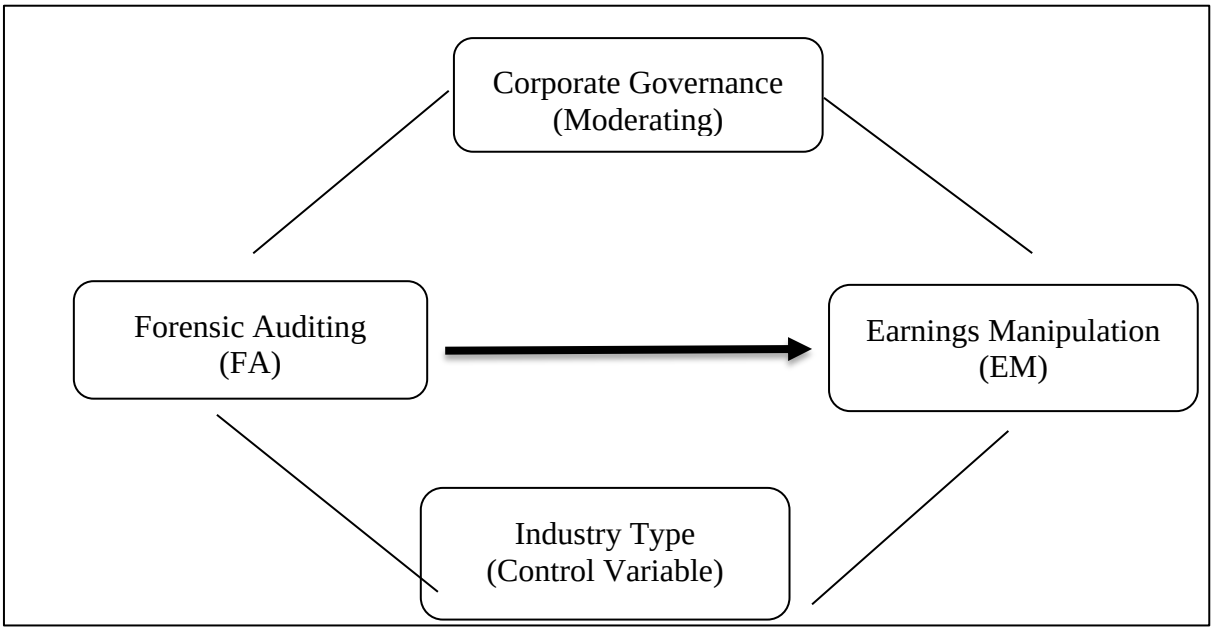

Figure1 Conceptual Framework

In this framework, forensic auditing is expected to reduce earnings manipulation, with governance practices and industry characteristics shaping how strong that effect will be.

2.1.1. Forensic Auditing

Forensic auditing has become one of the powerful tools in exposing financial irregularities and fraud reporting in today's organisations. It involves utilising accounting, auditing and investigating skills to investigate financial records for evidence that can be used in legal or disciplinary proceedings (Bhasin, 2016). Unlike traditional audits whose focus is mainly to insure compliance with accounting standards, forensic audits are intended to work and detect any fraudulent activity, analyse and report evidence of such activities and to provide proof for the same that can stand the test of court.

In simple terms, forensic auditing is not only a process of checking the figures, but it is more about establishing the reason why and how the irregularities occur. It is abut reconstructing financial events, tracing hidden transactions and evaluation of the intent of financial manipulations. As Okoye and Nwoye (2020) observe, while statutory audits are preventive in nature, the forensic audits are investigative and corrective. They are especially applicable to situations where financial improperence is a problem in the environment and traditional auditing systems have lost credibility.

In many emerging economies, forensic auditing is gaining an upper hand due to the strengthening of the fight against corruption, embezzlement and creative accounting. This is by combining accounting and legal expertise to establish accountability, enable asset recovery and enable the public to regain confidence in financial systems (Appah & Oyadongha, 2011).

2.1.2. Earnings Manipulation

Earnings manipulation, also commonly known as earnings management, refers to a purposeful manipulation of a firm's financial results at the discretion of managers for a set of objectives. These goals may be to attract investors, achieve profit goals, or to become eligible for performance-based pay (Healy & Wahlen, 1999). Techniques for manipulation vary widely - not least of which would be altering accruals and deferment of expenses - overstating of revenue, or aggressive estimates of accounting (Dechow et al., 2010). While there is some degree of freedom in how one interprets accounting standards, the distortion of earnings intentionally to meet self-serving interests destroys the credibility of financial reporting. In emerging markets, where governments usually have weak governance systems and underfunded oversight bodies, such manipulation is even more rife. The presence of forensic auditing can help curb this behaviour

by increasing the likelihood of this behaviour being detected and holding managers accountable for the accuracy of reporting information.

2.1.3. Forensic Auditing and Reporting Integrity of Financial Reporting

Financial reporting integrity involves the accuracy, fairness and transparency of the information that is being reported to the stakeholders. Traditional audits provide an assurance that financial statements are free from material misstatements, they may not identify intentional fraud or sophisticated schemes of manipulation of the financial statement. Forensic auditing overcomes this shortcoming by introducing investigative scepticism and the examination of evidence.

As Ocansey and Ganu (2017) mentioned, forensic auditors use many techniques such as digital data analysis, examination of trends, and behavioural profiling to reveal hidden manipulation. Organisations that have forensic auditing practises experience less incidents of accounting fraud and more financial transparency (Bhasin, 2016; Popoola et al., 2014). Essentially, forensic auditing is part detective as well as deterrent -- part detective, as well as deterring managers from partaking in suspect accounting practises in the first place.

2.2. Theoretical Framework

2.2.1. Agency Theory

Agency theory gives a basic explanation for earnings manipulation. It is focused on the relationship of principals (shareholders) and agents (managers) that are responsible for running the firm (Jensen & Meckling, 1976). Because managers have access to more information than shareholders, they may take advantage of this information asymmetry in their efforts to pursue personal interests - e.g., manipulating earnings to earn bonuses or attract investors.

Forensic auditing is a control mechanism in this setup. It promotes monitoring and transparency and thus declines the agency costs and informs management to act in line with the interests of shareholder. In this sense, forensic auditing can be seen as a governance tool to strengthen accountability as well as discourage opportunistic reporting behaviour.

2.2.2. Fraud Triangle Theory

The Fraud Triangle Theory that was developed by Donald Cressey (1953) helps to understand the psychological and situational factors that make an individual commit fraud. According to this model, three factors must coexist for fraudulent behaviour to take place; pressure, opportunity and rationalization. Forensic auditing therefore has a direct bearing on the "opportunity" component in that it reduces the likelihood of manipulation of unnoticeability. It does this using sophisticated methods of detection such as transaction monitoring, forensic analytics and lifestyle audits. When employees and managers are aware that there is a possibility of detection by forensic audit, the perceived risk of detection is higher and the temptation to manipulate financial results is lower.

2.2.3. Stakeholder Theory

Stakeholder theory (Freeman, 1984) is based on the idea that the responsibilities of a firm go beyond the shareholders and involve employees, customers, creditors, and the rest of the community. Earnings manipulation is detrimental to all of these stakeholders as it results in misrepresenting the true performance of the company and the lack of confidence. By creating more transparency and trust, forensic auditing benefits both parties. Where institutional trust is readily compromised in emerging economies the role of forensic auditing assuming greater importance is ever more important. It protecting the shareholders not only benefit but also promotes ethical business conduct and sustainable relationships with stakeholders.

2.3. Empirical Review

There has been an increasing body of empirical evidence on forensic auditing and earnings manipulation, but the evidence is still mixed, particularly by industry and country.

Bhasin (2016) examined the effects of forensic accounting practises in India and concluded that firms applying forensic audits reported fewer irregularities and a higher level of investor confidence. Similarly, Okoye and Nwoye (2020) reported that the utilisation of forensic auditing enhances financial transparency in Nigerian companies to a great extent through its ability to deter management from falsifying reports.

In contrast, Enofe, Okunega and Edemenya (2013) noted that the full potentials of forensic auditing have not been demonstrated in many developing countries as a result of poor training, lack of data and lack of institutional support. Popoola et al. (2014) have further noted that in sub-Saharan Africa, there are practical challenges encountered by forensic auditors including poor record-keeping, limited evidence access, and lack of adequate legal framework in enforcing audit findings.

In Ghana, Ocansey and Ganu (2017) discovered that the introduction of forensic audit unit in public institutions led to the improvement of fraud detection, although it could not completely stop manipulation due to political interference and bad governance. Similarly, Bhasin and Shaikh (2019) found that the efficacy of forensic auditing varies across industries- banking companies, because of greater regulatory oversight, benefit more from forensic audits than manufacturing companies, where regulatory oversight is often flabby.

Overall, the evidence appears to indicate that forensic auditing can play a role in reducing earnings manipulation, although its success is contingent on institutional environment, industry characteristics and quality of governance mechanisms in place.

Earnings manipulation is not a one size fits all issue; in nature and motivation, it varies from industry to industry. Each sector is exposed to unique pressures and risks that influence the way and reasons for managers to choose to manipulate financial results.

In the banking industry, manipulation is frequently done through provision of loan loss, confirmation of capital adequacy and timing of recognition of income (Alzoubi, 2017). In the context of manufacturing, some common practices are manipulation of inventory valuation, uploading capitalization assets or delaying revenues to average earnings. The oil and gas industry poses even greater complexities because of asset revaluation, environmental liability, and problems with transferring pricing from one subsidiary to another (Aghghaleh, 2014). For telecommunications firms, manipulation can be the result of inflation of the number of subscribers, deferred recognition of revenue and misclassification of promotional expenses.

Because of such sectoral differences, the forensic auditing cannot be of a uniform nature. Each industry has the need for customised forensic approaches and analytical tools based on the nature of their accounting systems, regulatory requirements and risk profile. This highlights the need to have a cross industry comparative study to examine the workings of forensic auditing in variable environments, particularly in the institutional realities of emerging markets.

While the literature base to consider on forensic auditing and financial fraud has grown, several important gaps exist. First, most of the existing studies focus on single sectors especially banking - failing to carry out the comparisons between multiple industries that comes with varied manipulation incentives and institutional governance challenges. Second, very few studies have relied on quantitative measures such as discretionary accruals or Beneish M-scores to reflect the actual amount of earnings manipulation. Third, the role of corporate governance mechanisms such as board independence and effectiveness of audit committees-for the improvement of forensic audit results has received little empirical attention. Finally, a large part of available research originates from developed countries and much of the research still needs to be done in emerging markets, which have weaker institutional environments.

This research aims to fill these gaps with a cross-industry study on the effect of forensic auditing in the manipulation of earnings in emerging economies. It also focuses on the conflictual role played by corporate governance in this relationship. By doing so, the research adds new evidence to the wider debate about how forensic auditing can be used to stimulate transparency, accountability and investor confidence in the corporate sector.

3. Methodology

This study takes the quantitative and explanatory research design, paying attention to the role of forensic auditing in the curtailing of earnings manipulation in different industries in emerging economies. The design is suitable for it permits empirical tests for relationships between measurable variables (Olulu-Briggs & Onoh, 2014; Sunday et al., 2019; Okene & Sunday, 2023), specifically, the degree to which activities in forensic auditing and other firm-level characteristics determine earnings management practises. The study combines both cross section data and panel data in order to capture industry and time variation, therefore increasing the robustness of results and addressing possible problem of heterogeneity.

The population of the research includes 500 publicly-listed firms taken from important industries in selected emerging economies, covering manufacturing, financial services, oil and gas and telecommunications. These sectors were selected as they possess varying financial structure of reporting and more or less vulnerable to the scrutiny of the regulations.

A purposive sampling technique has been adopted in choosing 50 firms with consistent financial disclosures and available audit information throughout the period of study (2014) to (2024). In order to ensure reliability, firms that used incomplete data or had non-disclosures of forensic audits were excluded. The final sample size is computed considering the availability of data from secondary sources including annual reports of the companies, financial statements of audit committees, and financial information aggregators (Bloomberg, Orbis, Thomson Reuters Eikon etc.).

The subject matter of the study is mainly depended on the information collected from secondary data sources such as the published financial statements, audit reports and corporate governance disclosures. Forensic audit indicators were taken from reported cases of audit investigations, restatement of financial statements, or official disclosures related to fraud detection. Industry classification and firm-level characteristics also were taken from relevant stock exchange bulletins and regulatory filings. To increase the credibility of the data, all of the variables were cross-checked using multiple sources, such as corporate annual reports, national audit oversight board publications and independent forensic audit documentation where available.

To empirically examine the relationship between forensic auditing and earnings manipulation, the following baseline model is specified:

$$EM_{it} = \alpha + \beta_1 FA_{it} + \beta_2 CG_{it} + \beta_3 FS_{it} + \beta_4 LEV_{it} + \beta_5 IND_{it} + \varepsilon_{it}$$

Where: EMit = Earnings Manipulation for firm i at time t, proxied by discretionary accruals (modified Jones model), FAit = Forensic Auditing, representing the presence or intensity of forensic audit practices, CGit = Corporate Governance Index, capturing board independence, audit committee activity, and ownership structure, FSit = Firm Size, measured by the natural logarithm of total assets, LEVit = Leverage, measured as the ratio of total debt to total assets, INDit = Industry dummy variable, representing cross-industry differences, it = Stochastic error term capturing unobserved influences. The model allows for evaluating the effect of forensic auditing while controlling for firm-specific and industry-level characteristics.

Panel data regression analysis was applied using both Fixed Effects (FE) and Random Effects (RE) estimators in order to take into account within-firm and between-firm differences. The Hausman specification test was performed to establish the best model for the data. Where necessary, robust standard errors were used to give correction for heteroskedasticity and autocorrelation.

In order to validate the robustness of results, additional estimations were carried out using Generalised Method of Moments (GMM) in order to control for possible endogeneity between forensic auditing and earnings manipulation.

Table 1 Variable Measurement and Operationalization

Variable	Description	Measurement/Proxy	Expected Sign
EM it	Earnings Manipulation	Discretionary Accruals (Modified Jones Model)	Dependent
FAit	Forensic Auditing	Dummy: 1 = presence of forensic audit, 0 = otherwise	–
CGit	Corporate Governance	Composite index of governance quality	–
FSit	Firm Size	Log of total assets	±
LEVit	Leverage	Total debt / total assets	+
INDit	Industry	Dummy variable for sector classification	Control

To ensure the model validity, model statistical soundness several diagnostic tests were performed, including:

Multicollinearity test using Variance Inflation Factor (VIF) Heteroskedasticity test using Breusch- PNGara/Cook-Weisberg Autocorrelation test using Wooldridge serial correlation test Normality test using Jarque- Berry statistics

Cross-sectional data dependency test in case of industry level data Robustness cheques also involved alternative proxies for earnings management (e.g., real earnings management) and the use of lagged forensic audit variables to reduce the problem of simultaneity bias.

4. Results and Analysis

4.1. Descriptive Statistics

The descriptive statistics reveal some information about the key variables of this study - the earnings manipulation (EM), corporate governance (CG), forensic audit intensity (FA), firm size (FS) and audit independence (AI) with 500 firm years observations drawn from various industries. Table 2 shows the descriptive statistics of the study variables

Table 2 Descriptive Statistics Summary

	EM	**CG**	**FA**	**FS**	**AI**
Mean	0.156424	0.706770	0.606870	9.041004	0.653210
Median	0.155000	0.706000	0.613000	9.053500	0.656500
Maximum	0.332000	0.974000	1.000000	10.55900	0.986000
Minimum	0.000000	0.461000	0.097000	6.968000	0.246000
Std. Dev.	0.064323	0.098498	0.164627	0.588668	0.119865
Skewness	0.026252	0.134899	-0.101035	-0.158034	-0.129945
Kurtosis	2.811275	2.593780	2.861391	2.928991	2.987143
Jarque-Bera	0.799449	4.954288	1.250926	2.186285	1.410584
Probability	0.670505	0.083983	0.535014	0.335162	0.493964

Source: Author's computation using EViews 12 (2025).

The calculate value of the mean of EM is found to be 0.156, which implies that the majority of the sample companies are relatively free from any significant earnings manipulation. The small standard deviation (0.064) indicates that there is little change for various firms suggesting generally consistent financial reporting practises. Corporate governance 0.707 Average score for corporate governance which provides a moderate score for most firms (moderately strong corporate governance structure) The low variation across different firms suggests that good governance practises are relatively common across industries sampled. Forensic audit intensity, with a mean of 0.607, pertains to the idea that the practise of forensic audit is moderately applied among the firms although few are still lagging behind and not embracing these practises to the fullest.

The average firm size of 9.04 indicates that the data set contains large and small firms, which would ensure a cross-sector representation. Audit independence has a mean of 0.653 which shows that auditors usually maintain an acceptable degree of objectivity and professional integrity.

Overall, the variables are approximately normally distributed, as shown from the skewness, kurtosis and Jarque-Bera probabilities. These results suggest that governance quality and audit quality of the firms in emerging economies are maintained at a moderate level and this plays a key role in reducing earnings manipulation.

4.2. Correlation Matrix

The correlation result indicates the relationship among the important variables of this study that are earnings manipulation (EM), corporate governance (CG), forensic audit intensity (FA), firm size (FS) and audit independence (AI).

Table 3 Correlation Matrix

Correlation					
Probability	EM	CG	FA	FS	AI
EM	1.000000				

CG	-0.230774	1.000000			
	0.0000	-----			
FA	-0.505546	-0.072989	1.000000		
	0.0000	0.1031	-----		
FS	-0.084245	0.055342	-0.010854	1.000000	
	0.0598	0.2167	0.8087	-----	
AI	-0.219403	-0.012518	0.015790	0.040399	1.000000
	0.0000	0.7801	0.7247	0.3673	-----

Source: Author's computation using EViews 12 (2025).

The results in Table 3 above show some obvious and meaningful patterns. Earnings manipulation, however, has a negative and significant relation with corporate governance ($r = -0.231$, $p < 0.01$) and forensic audit intensity ($r = -0.506$, $p < 0.01$). This means therefore that firms with better governance sets, and those with more forensic auditing, are less likely to be involved in earnings manipulation. The greater correlation in EM and FA shows the vital importance of forensic auditing in understanding and preventing financial mis reporting. Likewise, the negative correlation relationship between EM and audit independence ($r = -0.219$, $p < 0.01$) suggests that when auditors remain objective and independent from management financial manipulation, as a result, decreases. The weak and statistically insignificant correlation between EM and firm size ($r = -0.084$, $p > 0.05$) indicates that the larger firms may to some extent decrease manipulation, perhaps because of greater public visibility and greater oversight. The relationships between the independent variables are weak and most are not significant, indicating that multicollinearity is not an issue. In summary, the results suggest that governance structures, independent auditors and more active forensic audit practises all reduce the ability of firms to manipulate earnings in emerging economies.

4.3. Regression Results

Panel regression analysis was conducted by using Fixed Effects (FE) and Random Effects (RE) models. The Hausman test showed that the Fixed Effects model is a better model for interpretation. The results of estimation are represented in Table 4.

Table 4 Panel Regression Results

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	0.543930	0.040746	13.34935	0.0000
CG	-0.174936	0.023247	-7.525005	0.0000
FA	-0.204143	0.013889	-14.69825	0.0000
FS	-0.007270	0.003883	-1.872477	0.0617
AI	-0.113669	0.019042	-5.969417	0.0000

	Effects Specification		
Cross-section fixed (dummy variables)			
R-squared	0.798034	Mean dependent var	0.156424
Adjusted R-squared	0.773008	S.D. dependent var	0.064323
S.E. of regression	0.050933	Akaike info criterion	-3.106656
Sum squared resid	1.284121	Schwarz criterion	-3.064510
Log likelihood	781.6641	Hannan-Quinn criter.	-3.090118
F-statistic	75.21599	Durbin-Watson stat	2.135991
Prob(F-statistic)	0.000000		

Source: Author's computation using EViews 12 (2025).

The results of panel regression (fixed effects) show strong evidence about the factors that influence the manipulation of earnings by the firms of the emerging economies. The model is statistically significant overall (the F-statistic is 75.22 [$p < 0.01$]) which means that the explanatory variables have a meaningful impact on earnings manipulation together. The R squared is 0.798, which means that approximately 80% of variation of earnings manipulation can be explained by forensic auditing, corporate governance, audit independence and firm size, which indicates that the model has a high explanatory power. The Durbin-Watson value of 2.14 indicates there is no serial correlation which indicates that the results are reliable from a statistical point of view. Looking at the individual variables, forensic audit intensity (FA) has a negative and highly significant coefficient (-0.204, $p < 0.01$) thereby showing that much forensic auditing efforts are effective in reducing earnings manipulation. Similarly, there is also a negative and significant relationship between corporate governance (CG) (-0.175, $p < 0.01$), which shows that the more stringent the governing structure of firms, the less likely these firms will manipulate the financial results. Audit independence (AI) has a statistically significant negative impact on earnings manipulation (-0.114, $p < 0.01$), and underscores the importance of preserving auditor objectivity. Even though there is a negative coefficient of firm size (FS) (-0.007) it is only slightly significant ($p = 0.06$). Overall, the results imply that there is a combined effect between strong forensic auditing, governance and independent auditing which help minimize earnings manipulation leading to increased transparency and accountability across firms.

5. Discussion of Findings

The results of this research show the significance of forensic auditing, corporate governance and audit independence in mitigating earnings manipulation by the firms of emerging economies. The findings are consistent with expectations and with the existing evidence, adding to the evidence base that adequate oversight mechanisms are important to ensuring the integrity and transparency of financial reporting.

The negative and significant relationship between forensic audit intensity (FA) and earnings manipulation (EM) implies that the higher the forensic audit practises in a firm, the less likely it is to ever practise financial misstatement. This finding is in line with the research of Enofe et al. (2017) and Ijeoma (2019) who stated that forensic auditing is useful in strengthening internal controls and identifying fraud in a timely manner which discourages unethical financial behaviour. In many emerging markets where regulatory enforcement is often weak, forensic auditing is an added measure of accountability.

Similarly, corporate governance i.e. CG, was found to have a significant negative effect on earnings manipulation. This means that firms having better governance structures like independent boards and active audit committees tend to report to a higher standard. This result is in agreement with Klein (2002) and Uwuigbe et al. (2018) who identified that good governance practises diminishes the degree of managerial opportunism.

The study has also found that audit independence (AI) has a significant reducing relationship with earnings manipulation which was supported by the findings of Ocansey and Ganu (2017), Okoye et al. (2020). When auditors are objective and have no influence from management, they are able to detect and report irregularities much better than before. Although firm size (FS) was weakly but negatively associated with less manipulation of stock prices probably as a result of greater scrutiny and regulatory attention. In general, these results suggest that strengthening the importance of forensic auditing, corporate governance, and audit independence can improve financial transparency and reduce unethical reporting practises to a considerable extent in emerging economies.

6. Conclusion

This study aimed at examining the relationship between the practise of forensic auditing, corporate governance, and audit independence in earning manipulation in a sample of 50 listed Nigerian firms across five number of industries between 2015 and 2024. The empirical results of a fixed-effects panel regression model showed that all three factors namely corporate governance, forensic auditing and audit independence have a significant impact in lowering the probability of earnings manipulation. In layman terms, companies that have a better structure in governance, the auditors are credible and independent, and forensic audit practises are common, the company is likely to report the financial statements more transparently. The study concludes that building these mechanisms is imperative to establishing ethical reporting, investor confidence and financial integrity in the corporate sector of Nigeria.

Recommendations

- Financial Reporting Council of Nigeria (FRCN and Securities and Exchange Commission (SEC) should encourage or require that forensic audit elements be included in annual external audits, particularly the firms that belong to sectors vulnerable to financial irregularities.
- Companies should ensure that their boards of directors and audit committees are independent, competent and proactive in monitoring financial reporting processes.
- To reduce bias, audit companies should change periodically and the terms of the audit should be structured to reduce management influence.
- Auditors and financial professionals should be trained continually on forensic technique, ethics and fraud detection techniques, so that they become more effective.
- Government and oversight agencies should increase the enforcement of financial reporting standards, and to enforce such standards, impose sanctions upon firms that manipulate earnings.

Limitations of the Study

While the findings are robust, there were some limitations for the study. It was based primarily on second-hand information from corporate annual reports which may not reflect hidden governance dynamics or internal audit procedures. The analysis was restricted to listed Nigerian firms and therefore, one should be careful in generalising the findings. Additionally, some of the qualitative factors of audit independence and governance effectiveness could not be fully reflected in quantitative measures.

Compliance with ethical standards

Disclosure of conflict of interest

No conflict of interest to be disclosed.

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