Does Stakeholders' Engagement Strengthen the Audit Quality–Financial Reporting Quality Nexus? Evidence from Listed Manufacturing Firms in Nigeria

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ABSTRACT

The issues of lower financial reporting quality processes are especially high in Nigeria because economic decisions of investors are being faced with challenges, particularly in the emerging markets, where information asymmetry, regulatory inefficiencies, market volatility, and market failure are due to lower audit quality and inadequate stakeholders' participation in the financial reporting processes. Therefore, this study investigates the moderating effect of stakeholders' engagement on the relationship between audit quality and financial reporting quality of listed manufacturing companies in Nigeria from 2013 to 2024, while employing panel data from 47 listed manufacturing firms in Nigeria using fixed-effects regression analysis. The findings reveal that auditor independence exerts a significant negative effect on discretionary accruals ($\beta = -0.069$, $p < 0.05$), indicating improved financial reporting quality. Stakeholders' engagement also shows a significant negative relationship with discretionary accruals ($\beta = -0.088$, $p < 0.05$). More importantly, the interaction terms (STEG × AIND: $\beta = -0.278$, $p < 0.01$; STEG × ACFE: $\beta = -0.360$, $p < 0.05$) are negative and statistically significant, confirming that higher levels of stakeholders' engagement amplify the effectiveness of audit quality in constraining earnings management. All three null hypotheses are rejected. Stakeholders' engagement strengthens the audit quality-financial reporting quality nexus significantly by reducing earnings management. Therefore, Nigeria-listed manufacturing firms should enhance auditor independence, strengthen audit committee expertise, and actively promote stakeholder engagement through better GRI-compliant disclosures and higher AGM attendance to improve reporting credibility.

Keywords: *Audit quality, Auditor Independence, Audit Committee Financial Expertise, Discretionary accruals, Financial reporting quality, Nigerian listed manufacturing firms, Stakeholders' engagement.*

1. INTRODUCTION

In today's global investment environment, questions that influence shareholder behaviour have expanded beyond the firm to include the concerns of financial transparency, corporate governance and the credibility of the reported earnings. There is a growing demand by investors for plausible indicators of correct and prompt financial reporting, indicators that are increasingly becoming entrenched in audited financial reports rather than in unaudited reports. With the development of capital markets and the increase in information asymmetry, financial reporting quality stands out as one of the most important determinants of investor confidence, especially in the context of emerging economies where the issue of transparency has not been completely resolved. (Petruzzelli & Badia, 2024).

Among many parameters that influence the financial reporting quality (FRQ), audit quality (AQ) has become one of the most important factors to consider since it deals squarely with the issues of information credibility, comparability, and transparency. Relative to most of the qualitative information, which is hard to confirm, high-quality audits are structured, independent, and decision-useful assurance that allows investors to gauge the financial health of a firm, the strength of its governance, and dedication to proper reporting (Lawal, Shonubi,

***Online ISSN**: 1994-1633/ **Print ISSN**: 1994-1625*
***DOI**: 10.55951/nurture.v20i3.1108| **URL:** www.nurture.org.pk*
***Publisher:** Nurture Publishing Group*

Oyetunji, Sholarin, & Ajayi, 2025). In markets with information asymmetry where the enforcement mechanism is weak, like in Nigeria, audit quality is a more significant issue than the presence of auditing, given that investors need assurances of credible auditing to distinguish between material financial performance and manipulated accounting (Awodiji, Adeyemi, & Okpala, 2025). This increasing dependence makes audit quality one of the critical mechanisms by which stakeholders make judgments about the financial reports, hence its choice as the central explanatory variable in this research.

The AQ-FRQ relationship has a further context in stakeholders' engagement (STEG), which implies interaction with shareholders, regulators, employees, and communities. Based on stakeholder theory, SE encourages accountability through increasing the variety of inputs, integrating them into governance and reporting practices. (Zarzycka, Krasodomska, & Dobija, 2021). SE in manufacturing companies in Nigeria could moderate the AQ-FRQ connection by increasing the effectiveness of auditing through the increase of scrutiny and transparency requirements. (Appah & Joyce, 2024). However, economic decisions of investors are being faced with challenges, particularly in the emerging markets where information asymmetry, regulatory inefficiencies, market volatility, and market failure are still rampant. Investors are forced to invest in an environment where risks are rising regarding financial reporting delays, failures, reputational uncertainties, and inadequate transparency. (David, Abdullahi, & Dachomo, 2024). The situation is made more difficult by the fact that these conditions complicate the way shareholders evaluate the long-term outlook and risk exposures, as well as the sustainability of firms, and thus complicate the process of making informed investment decisions. (Akanbi, Adedipe, & Ajayi, 2022). Conventional financial parameters (earnings, dividends, cash flows, and so on) remain relevant but may not comprehensively reflect the long-term strength and value-generating ability of firms. As a result, audit quality has become a very important informational mechanism that is aimed at supplementing the financial disclosures and, in this way, to guarantee the accuracy, reliability, and timeliness of the reported financial information. However, the execution of audit quality in promoting financial reporting quality largely depends on the strength of audit practices. (Ajiduku, Saman, & Musa, 2020). Due to the inconsistency, laxity, or purely formal nature of audit quality, investors might not be able to distinguish between those firms with truly good financial health and those with superficial or compliant reporting. (Ogiriki & Egberibin, 2023).

These issues of lower financial reporting quality are especially high in Nigeria. (Kajola, Sanyaolu, & Adeyemi, 2021). However, the audit practices of listed firms may lack quality in respect of depth, independence, and credibility, despite the growing regulatory attention and pressure to promote better audit standards. Since, the usefulness of the financial reports has been inhibited by weak enforcement mechanisms, voluntary use of audit frameworks and the lack of external assurance, as a result, stakeholders may end up experiencing increased ambiguity in assessing risks and opportunities relating to financial reporting, which may result in an inefficient allocation of capital, reduced investor confidence, and increased investment risk. (Ajiduku et al., 2020; Daferighe & George, 2020; Enekwe, Nwoha, & Udeh, 2020; Kajola et al., 2021; Ogungbade, Akanbi, & Adedipe, 2020). The contribution of stakeholder engagement in defining the connection between the quality of audit and the financial reporting quality theoretically means that different stakeholders, such as investors, regulators, and communities, usually have varying opinions and engagement processes, and their involvement will increase audit discipline, enhance disclosure credibility, and increase the impact of audit quality on financial reporting quality. Nonetheless, there is still uncertainty regarding the degree to which stakeholders' engagement moderates this relationship in weak institutional environments such as Nigeria. (Appah & Joyce, 2024; Petruzzelli & Badia, 2024; Stocker, de Arruda, de Mascena, & Boaventura, 2020; Zarzycka et al., 2021).

The available empirical research that has identified the existence of relationships between audit quality and financial reporting quality or performance outcomes of firms has concentrated on audit characteristics but not comprehensive quality and has often failed to consider the moderating impact of stakeholder engagement. (Kajola et al., 2021; Ogungbade et al., 2020; Olalere & Adegbie, 2023). Additionally, little focus has been placed on listed manufacturing companies in Nigeria, where audit risks are especially relevant because of technological peculiarities of the sector and increased scrutiny of stakeholders. Such a gap highlights the necessity of research into the role of audit quality in financial reporting quality in Nigeria and whether stakeholders have a conditioning or amplifying effect on this connection. (Awodiji et al., 2025; Essien, Akanbi, & Adedipe, 2024; Lawal et al., 2025; Muhammad & Oladele, 2024; Olalere & Adegbie, 2023); Yayangida, Akanbi, & Adedipe, 2023). It is against this backdrop that this current study will address the gap of a lack of empirical evidence on whether audit quality

Nurture**: Volume 20, Issue 3, 17-36, **2026
***Online ISSN**: 1994-1633/ **Print ISSN**: 1994-1625*
***DOI**: 10.55951/nurture.v20i3.1108| **URL**:* www.nurture.org.pk
***Publisher:** Nurture Publishing Group*

influences the financial reporting quality of the listed manufacturing firms in Nigeria, and how much the stakeholders' engagement moderates this relationship. Addressing this problem is critical to improving investor decision-making, enhancing the credibility of disclosure, and efficiency in the capital market in Nigeria.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1. Financial Reporting Quality

Synthesizing the views of many scholars, financial reporting quality in this research is viewed as the degree to which the accounting records of listed manufacturing companies in Nigeria have high relevance, faithful representation, timeliness, understandability, and comparability levels and low levels of earnings management, manipulations, or discretionary accruals. (Lawal et al., 2025; Muhammad & Oladele, 2024; Ogiriki & Egberibin, 2023). This will allow the stakeholders to make sound economic decisions in the institutional and regulatory environment in Nigeria.

In addition to its conceptual meaning, FRQ is a key determinant of capital market efficiency, corporate governance, and sustainable growth of firms, especially in the manufacturing industry in Nigeria. FRQ minimizes information asymmetry (which is one of the main issues of Agency Theory, which is very popular in the reviewed literature), instills confidence in investors, decreases the cost of capital, and ensures that resources are allocated more effectively (Olalere & Adegbie, 2023). Listed manufacturing companies have operations that require complex areas like inventory valuation, asset impairment, foreign exchange exposures, and supply chain financing, which are important in proper performance evaluation and strategic planning. High-quality reports are important to stakeholders, especially shareholders, creditors, regulators, and other market participants in terms of investment, lending, monitoring, and policy-making. This is particularly relevant to the present study, which aims to investigate the moderating effect of stakeholder involvement on the reinforcing relationship between audit quality and FRQ. Stakeholders' engagement could enhance the advantages of audit quality by enhancing scrutiny, transparency requirements, and accountability practices.

2.2. Audit Quality

Audit quality has become an important instrument to audit companies in modern business settings, aiming to establish the transparency, accountability, and credibility of financial reports. In the past, corporate disclosures were more concerned with financial performance indicators, including profit margins, earnings per share, and return on investment. The focus has, however, expanded over the past few years to encompass well-developed assurance systems that focus on the areas of governance, risk management, and prevention of material misstatements that enhance the overall integrity of financial reporting. (Enekwe et al., 2020; Olabisi, 2022). Audit quality means the degree to which an audit minimizes the chances of material misstatements (as a result of error or fraud) and affords a reasonable degree of assurance that financial statements are prepared according to relevant frameworks. (Lawal et al., 2025). It is not only a tool of regulatory compliance, but it is an effective instrument of transparency, reduction in agency conflicts between managers and owners, and effective decision-making by stakeholders. (Appah & Joyce, 2024; Ogiriki & Egberibin, 2023). In Nigeria, the audits of listed companies are expected to be in conformity with the International Standards on Auditing (ISA) and supervised by bodies like the Financial Reporting Council of Nigeria (FRCN), which encourages high standards in audits and financial reporting. In empirical research, especially in manufacturing, the effects of a particular attribute on audit attributes have been investigated concerning the outcomes. (Daferighe & George, 2020; Enekwe et al., 2020). However, the extent of audit quality is determined by the level of independence and the extent of the commitment of the audit committee oversight function. Therefore, this study proxies audit quality by considering independence and the expertise of the audit committee.

Audit independence is considered the ability of external auditors and members of the audit committee to make unbiased professional judgement, that is, not based on conflicts of interest, management pressure, and economic dependencies (Including tenure, fees, and non-audit services), and thus enables believable and trustworthy financial reporting in listed manufacturing companies in Nigeria. (Rashidat, Akanbi, & Adedipe, 2022; Tsetim, Akanbi, & Adedipe, 2024). In addition to the conceptual meaning, audit independence is a key factor in reducing agency issues and information asymmetry between management and outside parties. It boosts the credibility of the financial statements, minimizes the frequency of earnings management, and enhances transparency, which are

Nurture*: Volume 20, Issue 3, 17-36,* ***2026***
Online ISSN*: 1994-1633/* ***Print ISSN****: 1994-1625*
DOI*: 10.55951/nurture.v20i3.1108|* ***URL****:* www.nurture.org.pk
Publisher: *Nurture Publishing Group*

crucial qualities appreciated by investors to trust and allocate their capital effectively in the manufacturing sector. (Enekwe et al., 2020; Olabisi, 2022). In publicly traded manufacturing companies, where business processes entail such sophisticated areas as inventory valuation, revenue recognition, and cost management, audits and controls by an independent audit verifies that results reported in such companies are a true reflection of economic reality.

Also, audit committee financial expertise in this study is understood as the collective accounting, finance, and related professional knowledge, skills, and experience possessed by audit committee members. This expertise enables the committee to provide robust technical oversight of the financial reporting process, challenge management assumptions, identify potential misstatements, and ensure compliance with relevant accounting standards within Nigeria's institutional environment. (Akanbi et al., 2022; Hasan, Kassim, & Hamid, 2020). Beyond its conceptualization, audit committee financial expertise plays a central role in strengthening audit quality and financial reporting quality. It enhances the monitoring function of the board, reduces information asymmetry, limits opportunities for earnings management, and increases the credibility of published financial statements. These outcomes ultimately support better resource allocation decisions by investors and other stakeholders. In the manufacturing sector, where firms deal with complex issues such as inventory valuation, cost of production, foreign exchange exposures, revenue recognition on long-term contracts, and impairment assessments, the need for financially expert audit committee members becomes even more pronounced.

2.3. Stakeholders' Engagement

Stakeholders' engagement in this study is understood as the systematic processes and strategies through which listed manufacturing firms identify, interact with, and integrate the interests, expectations, and feedback of diverse stakeholders (including shareholders, regulators, employees, suppliers, customers, communities, and creditors) into corporate governance, audit oversight, and financial reporting practices. (Petruzzelli & Badia, 2024; Stocker et al., 2020; Zarzycka et al., 2021). This goes beyond one-way information provision to foster dialogue, accountability, and mutual value creation, particularly in moderating the relationship between audit quality and financial reporting quality. Beyond its conceptual definition, stakeholders' engagement plays a central role in strengthening corporate accountability mechanisms and enhancing the credibility of financial reports. (Stocker et al., 2020). Therefore, active engagement enables stakeholders to demand higher audit standards, scrutinize reporting processes, and promote transparency, which can amplify the positive effects of strong audit quality on financial reporting outcomes. According to the Global Reporting Initiative (GRI) Standards, the company should report on its stakeholders' engagement process by disclosing the following details, as stated in Appendix 1, Table A1. (Global Reporting Initiative, 2021).

2.4. Agency Theory

The agency theory, which was presented by Jensen and Meckling (1976), assumes that the division of ownership and control in organisations creates a unique relationship between the principals and the agents. Principals (mainly shareholders) want to maximise firm value, and agents (usually managers) may have personal interests that are not entirely consistent with the interests of shareholders, which gives rise to agency costs in the form of moral hazard and adverse selection. Within the framework of audit quality, the theory implies that audit quality acts as a compensating mechanism for information asymmetry, so that financial reporting quality (FRQ) is aligned with shareholder value by limiting managerial discretion in the manipulation of earnings and by promoting strict controls. The theory puts audit quality as a key factor in determining FRQ, and stakeholders' engagement serves as a moderator that increases monitoring and reduces agency costs in listed manufacturing firms. This strategy can solve the problem of managerial inflation of reports to make short-term profits, which helps to align with the main goals under conditions of economic pressure, especially in the harsh regulatory environment in Nigeria. (Akanbi et al., 2022; Ogbodu & Okolie, 2025).

2.5. Stakeholder Theory

The stakeholder theory, which is the view of Freeman (1984), argues that organisations should balance the interests of all stakeholders such as shareholders, employees, regulators, suppliers, and communities, as opposed to giving shareholders a free ride in the name of achieving sustainable long-term performance in interrelated networks. Within the audit quality sphere, the theory highlights that FRQ is a result of joint supervision;

Nurture*: Volume 20, Issue 3, 17-36,* ***2026***
Online ISSN*: 1994-1633/* ***Print ISSN****: 1994-1625*
DOI*: 10.55951/nurture.v20i3.1108|* ***URL****:* www.nurture.org.pk
Publisher: *Nurture Publishing Group*

stakeholder participation ensures that audits focus on transparency, ethics, and other wider concerns than just compliance, which improves reporting integrity. The stakeholder theory is very applicable to the present study, since it places stakeholders' engagement as a moderator that increases the effects of audit quality on FRQ among listed manufacturing firms. The theory can also tackle multifaceted risks, maintain confidence, and ensure firm resilience by engaging different groups in audit reviews, especially in the changing regulatory framework of Nigeria (Fave & Adamu, 2021; Igben & Jeroh, 2024).

2.6. Audit Quality and Financial Reporting Quality

The audit quality (AQ)-financial reporting quality (FRQ) nexus is a major theme of the accounting literature, insofar as it explains how high-quality audit procedures can reduce the informational asymmetry and improve the reliability, relevance, and transparency of financial reports. Empirical studies have always shown that high AQ is linked to better FRQ, less earnings manipulation, and increased stakeholder confidence. Indicatively, Enekwe et al. (2020) found that out of 24 listed manufacturing companies in Nigeria between 2006 and 2016, auditors' independence significantly enhanced FRQ, as measured by the return on assets (ROA), by reducing managerial opportunism. This observation is supported by the study by Olabisi (2022), who reported that auditors' independence and audit firm size had a positive and statistically significant impact on ROA in 40 listed manufacturing companies in Nigeria in 2013-2022, but audit fees showed an insignificant positive relationship, thus supporting the primacy of independence in promoting reporting integrity. Likewise, Lawal et al. (2025) found that AQ also enhanced the relevance (Adj. R Square = 0.766) and faithful representation (Adj. R Square = 0.598) of financial reports among 201 auditors of Nigerian manufacturing companies, thus highlighting a direct role in upholding the principles of conceptual frameworks. However, inconsistencies still exist; Ogiriki and Egberibin (2023) found that audit tenure had a significant and positive influence on earnings management, which could be detrimental to FRQ, in 12 listed manufacturing companies in Nigeria between 2012 and 2022. These findings suggest that contextual elements like regulatory laxity can reverse the anticipated benefits of increased AQ, so additional examination of the AQ-FRQ relationship in the Nigerian manufacturing industry is necessary, where economic volatility might increase or decrease audit protection.

However, there are numerous limitations, such as the small sample size in Ajiduku et al. (2020) can limit generalizability, and purposive sampling in David et al. (2024) can be associated with bias, particularly in the context of the manufacturing industry in Nigeria, which is prone to inflation, and where the buffering effect of AQ needs to be proved in the environment of changing policies. The interaction between AQ attributes also influences FRQ, which depends on firm-specific adaptations and control systems. Yayangida et al. (2023) studied 30 listed non-financial services companies in Nigeria (2011-2021) and discovered that the audit tenure was not significant on FRQ but was significantly positive when it was moderated by audit committee independence, thus supporting the argument that governance synergies can be used to optimize auditing. This view was supported by Akanbi et al. (2022) in 15 quoted consumer goods companies in Nigeria (2008-2019), in which audit committee independence was not significant on FRQ (timeliness proxy), but financial expertise was essential to audit, although other characteristics were not empirically detailed. Muhammad and Oladele (2024) found weak but significant linkages in 11 listed industrial firms in Nigeria (2011-2022), with the size of the audit committee, its independence, and frequency of meetings having a weak but positive correlation with discretionary accruals, and expertise having a negative correlation. Combined, audit quality (AQ) tends to improve financial reporting quality (FRQ), but its practicality in the context of Nigerian manufacturing is conditional on the involvement of stakeholders, which can serve as an accelerator; therefore, the empirical research is justified to determine whether intensified auditing leads to higher quality of reporting under different oversight regimes.

H_1: AQ effect on the FRQ of listed manufacturing firms in Nigeria.

2.7. Stakeholders' Engagement (STEG) and Financial Reporting

The stakeholders' engagement (STEG) and financial reporting quality (FRQ) represent a critical nexus in accounting research, particularly as companies are growing more conscious of the need to meet the heterogeneous stakeholder demands to provide transparent and credible disclosures. Based on stakeholder theory, STEG has an impact on non-financial and financial reporting practices by promoting accountability and reducing information asymmetries.

Zarzycka et al. (2021) have performed a systematic literature review of 68 academic articles published in 2010-2020 in journals with an ABDC ranking (B, A, A+) and found stakeholder theory as the most common framework used to conduct SE research. This finding suggests that strong STEG can mitigate earnings management and enhance the quality of accruals. The ability to improve FRQ by using structured engagement strategies to foster responsiveness and engagement. Stocker et al. (2020) used content analysis on 119 sustainability reports of energy-sector companies in 40 countries and came up with a 3 x 3 matrix that categorizes STEG as information, response, and involvement strategies. Their results show that lower-complexity strategies (information and response) are mostly used by firms, but high levels of involvement are positively related to high-quality reports, such as better incorporation of stakeholder feedback and results. According to this framework, deeper STEG will reduce information asymmetry, which may protect FRQ against external shocks like economic volatility.

Nevertheless, between 2018 and 2021, Petruzzelli and Badia (2024) evaluated 75 non-financial statements of Italian listed firms in terms of an eight-variable content analysis model (including stakeholder identification, selection procedures, degree of involvement, dialogue channels, and integration of results). The results showed that the average quality of STEG disclosure was poor, that the coverage of salient stakeholder issues was not adequate, that there was no significant improvement in the quality of disclosure over time, and that there was a high level of variability in the reports. These shortcomings imply that superficial SE undermines the credibility of FRQ and can potentially worsen earnings management. The Italian setting restricts the generalizability.

In addition to classification and disclosure, the buffering effect of STEG during FRQ risks, including regulatory changes or market volatility, turns out to be a protective mechanism in terms of trust-building and the alleviation of manipulation incentives. Based on the involvement strategies of Stocker et al. (2020), increased levels of STEG can be viewed as a protective factor, similar to the case of board independence on the positive impact of audit-committee diligence on FRQ in Sub-Saharan non-financial companies. (Essien et al., 2024). The growing usefulness of social media in STEG to provide real-time feedback, which may prevent restatements or biases, is also observed by Zarzycka et al. (2021) as the moderating effect of internal controls on oil and gas sector FRQ. (David et al., 2024). However, Petruzzelli and Badia (2024) warn that these advantages might be a mirage without meaningful integration of the stakeholder perspectives. The role of STEG is worth investigating in more depth in Nigerian listed manufacturing companies that face currency fluctuations and audit-tenure issues, especially since the impact of audit quality on performance and reporting is divergent (for example, Ajiduku et al. (2020) and Enekwe et al. (2020)).

These findings suggest that stakeholders' engagement (STEG) has the capacity to affect financial reporting quality among Nigerian listed manufacturing companies, which depends on institutional factors, the intensity of engagement, and the extent of audit integration; therefore, specific empirical research is justified.

H_2: SE affects the FRQ of listed manufacturing firms in Nigeria.

2.8. AQ, SE, and FRQ

Although much has been written on the nexus between audit quality and financial reporting quality in emerging economies like Nigeria, there is a significant research gap on the moderating effect of stakeholders' engagement, with the manufacturing industry being the major one. The systematic literature review by Zarzycka et al. (2021) provides a background, and it relies on stakeholder theory to examine 68 peer-reviewed articles published in the past ten years (2010-2020) in the most reputable journals. The review highlights the importance of stakeholders' engagement in social practices and non-financial disclosures, with surveys as the most common methodology and an increasing focus on social-media communication. These results indicate that stakeholders' engagement can enhance the impact of audit quality on the plausibility of financial reporting by harmonizing the disclosures with the varied expectations of the stakeholders, but the focus on high-quality journals limits the scope of understanding of context-specific implementations, including stakeholder-influenced audits in Nigerian manufacturing companies.

Later literature has applied these findings to the non-financial and sustainability environment, thus implicitly connecting the stakeholders' engagement to the audit-financial reporting quality relationship. Stocker et al. (2020) used content analysis on 119 sustainability reports by companies in the energy sector in 40 countries and came up with a 3-3 classification matrix of engagement strategies (information, response, involvement). Their results show

Nurture**: Volume 20, Issue 3, 17-36, **2026
***Online ISSN**: 1994-1633/ **Print ISSN**: 1994-1625*
***DOI**: 10.55951/nurture.v20i3.1108| **URL**:* www.nurture.org.pk
***Publisher:** Nurture Publishing Group*

that lower-complexity strategies are mostly used, but higher levels of involvement are positively related to the high quality of reports, which means that the greater the stakeholder involvement, the better the effect of audit quality on transparency of financial reporting. Similarly, Petruzzelli and Badia (2024) reviewed 75 non-financial statements of Italian listed companies with an eight-variable content analysis model and found that the average quality of disclosures is low, the variance is high, and that the quality of disclosures did not improve over time. These findings highlight the importance of considering integrated stakeholder views in order to improve reporting practices, but the sector-specific emphasis on energy and the European context restricts the relevance of these findings to the unstable setting of Nigerian manufacturing, where stakeholder demands often overlap with regulatory transparency demands.

Empirical support for stakeholders' engagement as a moderator in the Nigerian context is being developed, which is often proxied by governance mechanisms, including audit committees, which reflect the interests of stakeholders. Yayangida et al. (2023) examined the 30 listed non-financial services companies (2011-2021) by means of multiple regression analysis and discovered that audit tenure was not significant in terms of financial reporting quality; however, when it was moderated by audit committee independence, it was significantly positive, thus indicating the influence of stakeholder oversight on earnings manipulation. This is in line with agency and credibility theories, which indicate that independent committees, as proxies of stakeholder power, make sure that audit quality is converted into credible reporting. Egbe, Nmesirionye, and Eshiet (2021) used simple regression to analyze 40 listed manufacturing companies (2014–2018) and found that the quality of earnings (a financial reporting dimension) did not significantly affect the returns on assets but significantly affected the post-audit profit, which aligns with the stewardship and information asymmetry theories. The research suggests that the dialogues that are driven by stakeholders may narrow down earnings judgments, thus improving the effectiveness of audit quality in the production of supply chains that are likely to be opaque.

In general, although the involvement of stakeholders is confirmed by the research of Zarzycka et al. (2021); Stocker et al. (2020); Petruzzelli and Badia (2024); Yayangida et al. (2023) and Egbe et al. (2021), the research is still disjointed in terms of methodological tools (content analysis, regression), industries (manufacturing, banking, energy), and locations (Nigeria, Europe, global). The gaps that remain in Nigerian manufacturing are namely the lack of integration of stakeholder proxies other than audit committees and inadequate analysis of the effects of economic instability on the depth of engagement. The paper aims to fill these gaps by testing the engagement of stakeholders as a moderator in the audit quality-financial reporting quality nexus in listed manufacturing companies in Nigeria empirically, thus providing a subtle understanding of the governance practices in emerging markets.

H_3: SE moderating effect on AQ-FRQ nexus in listed manufacturing firms in Nigeria.

2.9. Conceptual Framework

The dependent variable, Financial Reporting Quality (FRQ), is a term used to describe the accuracy, reliability, timeliness, and transparency of the disclosed financial information to the stakeholders by the firm. The independent variable is Audit Quality, which includes the characteristics that guarantee that an audit provides reasonable assurance that the financial statements are free of material misstatements. The moderating variable is the stakeholders' engagement, which refers to the process in which the firms interact with the stakeholders (for example, shareholders, regulators, communities, employees) to meet their interests and expectations.

Nurture**: Volume 20, Issue 3, 17-36, **2026
***Online ISSN**: 1994-1633/ **Print ISSN**: 1994-1625*
DOI**: 10.55951/nurture.v20i3.1108| **URL: www.nurture.org.pk
***Publisher:** Nurture Publishing Group*

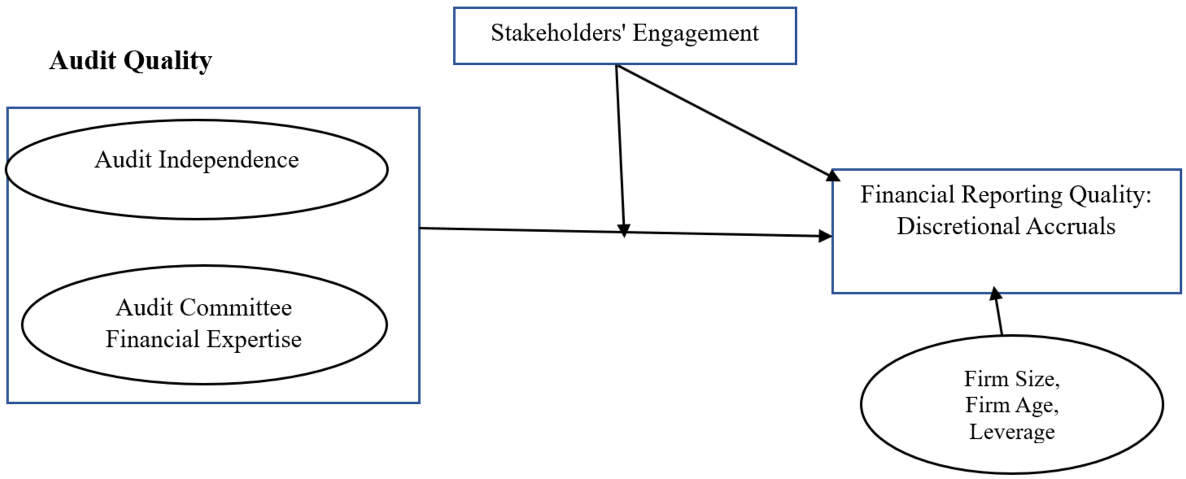

Figure 1. Conceptual framework.

3. RESEARCH DESIGN

This research adopted a panel research design. Panel data from 47 listed manufacturing firms over the period 2013–2024 (564 firm-year observations) were used to examine the relationship between audit quality and financial reporting quality and the moderating role of stakeholders' engagement. The design is appropriate in that the study examined the interrelationship between audit quality (AQ) and financial reporting quality (FRQ) of listed manufacturing enterprises in Nigeria and, at the same time, the moderating role of stakeholder engagement (STEG). The use of panel data allows the unobserved heterogeneity to be controlled across both firms and time periods, therefore giving stronger empirical results as opposed to the cross-sectional or time-based approaches.

3.1. Model Specification

This study examined the relationship between audit quality and financial reporting quality, with stakeholders' engagement as a moderating variable, in the context of listed Nigerian manufacturing firms over the period 2013–2024. The model specification is informed by prior research, notably Yayangida et al. (2023), which investigated the effect of audit tenure on financial reporting quality, moderated by audit committee independence, in Nigerian non-financial firms from 2011 to 2021. Building on this framework, the current research adapts and extends the model to incorporate stakeholders' engagement as the moderating variable, while retaining audit quality as the independent variable, financial reporting quality as the dependent variable, and firm size, firm age, and leverage as control variables. It supports the application of the synthesis of cross-sectional and longitudinal data to identify firm-specific and time-specific effects in an empirical analysis, which justifies the use of panel regression models, consistent with Yayangida et al. (2023). This model is adapted and modified by this study.

Model from Yayangida et al. (2023).

$FRQ_{it}=\beta_0+\beta_1 TEN_{it}+\beta_2 ACI_{it}+\beta_3(TEN_{it}\times ACI_{it})+\beta_4 SIZE_{it}+\beta_5 LEV_{it}+\beta_6 GROW_{it}+\epsilon_{it}$

Where:

$FRQ_{it:}$ Financial reporting quality (Discretionary accruals, modified Jones model).

$TEN_{it:}$ Audit tenure (audit quality proxy).

$ACI_{it:}$ Audit committee independence (Moderator).

$TEN_{it}\times ACI_{it:}$ Interaction term.

$SIZE_{i,}$ $LEV_{it,}$ $GROW_{it:}$ Firm size, leverage, growth (Controls).

$\beta_{0,}\beta_1 - .\beta_{6\,:}$ Coefficients; ϵ_{it}: Error term; (i, t): Firm, time.

This study's models are specified as follows:

Model One: Audit Quality and Financial Reporting Quality

FRQ = f (AIND, ACFE, FSIZ, FAGE, FLEV)

The panel regression model is expressed as:

$$FRQ_{it} = \beta_0 + \beta_1 AIND_{it} + \beta_2 ACFE_{it} + \beta_3 FSIZ_{it} + \beta_4 FAGE_{it} + \beta_5 FLEV_{it} + \epsilon it \quad (1)$$

Model Two: stakeholders' engagement and Financial Reporting Quality

***Online ISSN**: 1994-1633/* ***Print ISSN**: 1994-1625*
***DOI**: 10.55951/nurture.v20i3.1108|* ***URL**: www.nurture.org.pk*
***Publisher:** Nurture Publishing Group*

FRQ = f(STEG, FSIZ, FAGE, FLEV)

The panel regression model is expressed as:

$$FRQ_{it} = \beta_0 + \beta_1 STEG_{it} + \beta_2 FSIZ_{it} + \beta_3 FAGE_{it} + \beta_4 FLEV_{it} + \epsilon_{it} \quad (2)$$

Model Three: Stakeholders' engagement, Audit Quality, and financial reporting quality of listed manufacturing companies in Nigeria

FRQ = f (AIND, STE, (STEG*AIND), FSIZ, FAGE, FLEV)

The panel regression model is expressed as:

$$FRQ_{it} = \beta_0 + \beta_1 AIND_{it} + \beta_2 ACFE_{it} + \beta_3 STEG_{it} + \beta_4 (STEG*AIND)_{it} + \beta_5 (STEG*ACFE)_{it}\ \beta_6 FSIZ_{it} + \beta_7 FAGE_{it} + \beta_8 FLEV_{it} + \epsilon_{it} \quad (3)$$

Where:

FRQ: Financial Reporting Quality (Dependent variable).

AIND: Auditor's Independence (Independent variable).

ACFE: Audit Committee Financial expertise (Independent variable).

STEG: Stakeholders' engagement (Moderating variable).

FSIZ: Firm Size (Control variable).

FAGE: Firm Age (Control variable).

FLEV: Leverage Ratio (Control variable).

ϵ = Error term.

i = Firm.

t = Time (2013–2024).

A Priori Expectation: $\beta_1, \beta_2, \beta_3, \beta_4, \ldots, \beta_8 < 0$, indicating that audit quality, stakeholders' engagement, their interaction, and control variables negatively affect discretionary accruals to improve FRQ. The interaction term β_3 is expected to be significant, suggesting that stakeholders' engagement strengthens the audit quality–FRQ relationship, consistent with Yayangida et al. (2023).

3.2. Variables and Measurements

This section lists the key variables examined in the study, including the independent variable (audit quality), dependent variable (financial reporting quality), moderating variable (stakeholders' engagement), and control variables (firm size, firm age, leverage). It details their measurement techniques, formulas, and stated sources used for each variable measurement.

Nurture**: Volume 20, Issue 3, 17-36, **2026
***Online ISSN**: 1994-1633/ **Print ISSN**: 1994-1625*
***DOI**: 10.55951/nurture.v20i3.1108| **URL**: www.nurture.org.pk*
***Publisher:** Nurture Publishing Group*

Table 1. Variables and measurements.

Variable	Type	Description	Measurement	Source	Literatures
Financial Reporting Quality (FRQ)	Dependent	The accuracy, reliability, timeliness, and faithful representation of financial statements (Lower earnings management = Higher quality)	Discretionary accruals (Absolute value) calculated using the Modified Jones Model (Abnormal accruals after controlling for normal business activity)	Company annual reports and financial statements	Yayangida et al. (2023); Akanbi et al. (2022) and Muhammad and Oladele (2024)
Auditor Independence (AIND)	Independent	The degree to which external auditors maintain objectivity and impartiality, free from conflicts of interest	Binary dummy variable: 1 if the firm complies with auditor independence requirements (for example, audit firm rotation or meets regulatory independence criteria), 0 otherwise	Audit firm disclosures, company annual reports, and proxy statements	Kajola et al. (2021); Enekwe et al. (2020) and Olabisi (2022)
Audit Committee Financial Expertise (ACFE)	Independent	The collective financial and accounting expertise of audit committee members	Proportion (Percentage) of audit committee members with recognised accounting/Finance professional qualifications (ICAN, ANAN, ACCA, CPA, etc.) to total audit committee members	Company governance reports, annual reports, and proxy statements	Ogungbade et al. (2020); Yayangida et al. (2023) and Rashidat et al. (2022)
Stakeholders' Engagement (STEG)	Moderating	The extent and quality of firm interaction with key stakeholders (Shareholders, regulators, communities, etc.) in governance and reporting processes	Composite index based on: (1) Proportion of GRI-compliant stakeholder engagement disclosures (from Table 2); and (2) Annual General Meeting (AGM) Attendance Ratio (Percentage of total issued shares represented at the AGM – in person + proxy)	GRI sustainability reports, annual reports, and company disclosures	Essien et al. (2024); Stocker et al. (2020) and Petruzzelli and Badia (2024)
Firm Size (FSIZ)	Control	The scale of the firm's operations	Natural logarithm of total assets (Ln (Total Assets))	Company financial statements and balance sheets	Ogiriki and Egberibin (2023) and Awodiji et al. (2025)
Firm Age (FAGE)	Control	The duration of the firm's existence	Number of years since the firm commenced operations (As at the end of each financial year)	Company records, annual reports, and regulatory filings	Shujah-Ur-Rahman et al. (2022) and Akanbi et al. (2022)
Firm Leverage (FLEV)	Control	The firm's reliance on debt financing and financial risk	Debt-to-Equity ratio	Company financial statements and balance sheets	Madugba et al. (2021) and David et al. (2024)

Nurture**: Volume 20, Issue 3, 17-36, **2026
***Online ISSN**: 1994-1633/ **Print ISSN**: 1994-1625*
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4. RESULTS AND DISCUSSION

This section presents the empirical results of the relationship between audit quality and financial reporting quality of listed manufacturing firms in Nigeria in the years 2013-2024. It further examines the moderating role of stakeholders' engagement in this relationship. It starts with descriptive statistics providing a summary of the distribution, central tendency, and variability of the main variables, such as financial reporting quality (FRQ), auditor independence (AIND), audit committee financial expertise (ACFE), stakeholder engagement (STEG), firm age (FAGE), firm size (FSIZ), and firm leverage (FLEV). This is followed by an examination of diagnostic tests to test the appropriateness of the data for regression modelling, including tests of normality, multicollinearity, and heteroskedasticity.

Table 2. Descriptive statistics.

Variables	Obs.	Mean	Std. Dev.	Min.	Max.
FRQ	564	0.001	0.168	-0.608	0.572
AIND	564	0.676	0.469	0.000	1.000
ACFE	564	0.383	0.245	0.160	1.000
STEG	564	0.397	0.204	0.000	0.830
FSIZ (₦B)	564	133.918	417.907	0.085	6403.240
FAGE	564	29.160	14.601	1.000	59.000
FLEV	564	173.986	674.570	-2849.080	10361.880

4.1. Descriptive Statistics

Table 2 presents the descriptive statistics for all variables included in the study. Financial reporting quality, measured by discretionary accruals, has a mean value of 0.001, a standard deviation of 0.168, a minimum of −0.608, and a maximum of 0.572. The mean close to zero suggests that, on average, discretionary accruals across Nigerian manufacturing firms tend to neutralize over time. However, the relatively large standard deviation and wide range indicate substantial variation in earnings management practices. Economically, the minimum value (−0.608) suggests that some firms adopt highly conservative reporting practices, possibly reflecting strong governance, strict audit oversight, or reputational concerns. Conversely, the maximum value (0.572) indicates aggressive accrual manipulation in certain firm-years, raising concerns about opportunistic financial reporting. This dispersion underscores the relevance of governance mechanisms such as audit quality and stakeholder engagement in explaining differences in reporting behaviour.

Auditor independence records a mean of 0.676, a standard deviation of 0.469, and ranges from 0 to 1, indicating a binary structure. The mean implies that approximately 68% of the sampled firm-year observations comply with auditor independence requirements, such as audit firm rotation. From an economic perspective, this relatively high compliance rate reflects the impact of regulatory reforms and increased enforcement by Nigerian capital market authorities. However, the presence of non-compliant observations (minimum = 0) suggests that some firms still maintain long auditor tenures, potentially weakening auditor objectivity and increasing the risk of compromised financial reporting quality. Audit committee financial expertise has a mean of 0.383, a standard deviation of 0.245, a minimum of 0.160, and a maximum of 1.000. This implies that, on average, only 38% of audit committee members possess recognised accounting or financial qualifications. Economically, the relatively low mean suggests that most audit committees may lack sufficient technical capacity to challenge complex accounting estimates and judgments. The maximum value of 1.000 indicates that some firms maintain fully financially literate audit committees, which should theoretically enhance monitoring effectiveness. The high dispersion signals uneven governance quality across firms.

Stakeholders' engagement reports a mean of 0.397, a standard deviation of 0.204, a minimum of 0.000, and a maximum of 0.830. This suggests moderate stakeholder engagement on average, but with considerable variation across firms. The zero minimum implies that some firms disclose virtually no stakeholder engagement activities, reflecting weak transparency and limited stakeholder dialogue. In contrast, firms near the maximum exhibit extensive engagement consistent with Global Reporting Initiative (GRI) standards. Economically, this variation suggests that stakeholder engagement is a discretionary governance mechanism that could influence managerial behaviour and reporting incentives.

*Nurture: Volume 20, Issue 3, 17-36, **2026***
***Online ISSN**: 1994-1633/ **Print ISSN**: 1994-1625*
***DOI**: 10.55951/nurture.v20i3.1108| **URL**: www.nurture.org.pk*
***Publisher:** Nurture Publishing Group*

Firm size, measured as total assets in billion naira, has a mean of ₦133.9 billion, a standard deviation of ₦417.9 billion, a minimum of ₦0.085 billion, and a maximum of ₦6.403.2 trillion. This extreme dispersion reflects the heterogeneous nature of the Nigerian manufacturing sector, where small-scale manufacturers coexist with very large conglomerates. Economically, larger firms face greater political visibility and regulatory scrutiny, which may influence their reporting behaviour, while smaller firms may face fewer monitoring pressures. Firm age averages 29 years, with a minimum of 1 and a maximum of 59 years. The mean indicates that most sampled firms are mature entities. Economically, older firms may have entrenched management structures and more complex operations, potentially affecting financial reporting practices. Leverage shows a mean of 173.99, a standard deviation of 674.57, a minimum of −2,849.08, and a maximum of 10,361.88. The extreme values suggest heterogeneous financing structures and possible financial distress in certain firm-years. Economically, such volatility in leverage may create incentives for earnings management, particularly to meet debt covenants.

4.2. Regression Result

The hypotheses were tested using fixed-effects panel regression with heteroskedasticity-robust standard errors using data gathered on listed manufacturing companies in Nigeria in the years 2013- 2024. The adoption of this technique was a result of several model robustness and post-estimation tests carried out, which reflect that the Variance Inflation Factor has a mean of 1.032 (Appendix 1), indicating the absence of multicollinearity. Also, the test of Heteroskedasticity carried out showed a p-value of 0.3284 (Appendix 1), indicating the absence of heteroskedasticity and giving rise to the need to estimate this model using Panel Least Squares by conducting the Hausman test, which gave a Chi-Square test value of 0.000 (Appendix 1). This is an indication that fixed effects should be selected, as it provides consistent estimates by controlling for unobserved firm heterogeneity (Hausman, 1978).

4.2.1. Test of Hypothesis One (H_o1)

The main aim of this research is to analyse how audit quality affects the quality of financial reporting of the listed manufacturing companies in Nigeria, especially the ability of high audit quality to reduce earnings management and increase the credibility of the financial reports. Hypothesis 1: There is no significant effect of audit quality on the financial reporting quality of the listed manufacturing firms in Nigeria. As can be seen, Table 3 shows that the coefficient of auditor independence (AIND) is negative and it is statistically significant (b = -0.069, p = 0.021). This implies that the more auditor independence, the less the discretionary accruals, increasing financial reporting quality. The null hypothesis is, therefore, rejected. To conclude, the independence of the auditor has a significant effect on minimizing discretionary accruals and improving the financial reporting quality of listed manufacturing firms in Nigeria. Based on the results of the regression, audit committee financial expertise (ACFE) has a positive but insignificant coefficient (b=0.049, p=0.214). Even though it can be argued that the sign of the coefficient has a possible positive effect on earnings management, the impact is not statistically significant at the 5 percent level; hence, the null hypothesis is not rejected. In short, the direct influence of audit committee financial expertise on financial reporting quality of the listed manufacturing companies in Nigeria is not statistically significant.

Nurture**: Volume 20, Issue 3, 17-36, **2026
***Online ISSN**: 1994-1633/ **Print ISSN**: 1994-1625*
***DOI**: 10.55951/nurture.v20i3.1108| **URL**:* www.nurture.org.pk
***Publisher:** Nurture Publishing Group*

Table 3. Model one (Effect of audit quality on financial reporting quality).

Variables	(1)	(2)	(3)
	OLS	RE	FE
AIND	-0.016	-0.017	-0.069**
	(0.306)	(-1.066)	(0.021)
ACFE	0.021	0.022	0.049
	(0.469)	(0.756)	(0.214)
FSIZ	-0.011	-0.011	0.008
	(0.164)	(-1.344)	(0.803)
FAGE	0.001***	0.001***	0.002***
	(0.006)	(2.750)	(0.009)
FLEV	0.000	0.000	0.000
	(0.559)	(0.575)	(0.683)
_cons	0.039	0.039	-0.104
	(0.492)	(0.656)	(0.647)
Observations	564	564	564
R-squared	0.321	.z	0.324

Note: p-values are in parentheses.
*** p<0.01, ** p<0.05.

4.2.2. Test of Hypothesis Two (H_o2)

The second objective of the study is to discuss how stakeholders' engagement affects the quality of financial reporting of listed manufacturing companies in Nigeria, with special interest in the potential of active stakeholders' engagement in reducing the process of earnings management as well as increasing the reliability of the financial reporting. Hypothesis 2: Stakeholders' engagement has no significant impact on the financial reporting quality of the listed manufacturing companies in Nigeria. Table 4 assesses this hypothesis. The stakeholders' engagement (STEG) coefficient is negative and statistically significant (b = -0.088, p =0.035), which means that an increased stakeholders' engagement level has a significant negative influence on earnings management practices. In this way, the null hypothesis is rejected. The stakeholders' engagement therefore has a strong negative influence on discretionary accruals and improves financial reporting quality.

Table 4. Model two (Effect of stakeholders' engagement on financial reporting quality).

Variables	(1)	(2)	(3)
	OLS	RE	FE
STEG	0.028	0.044	-0.088**
	(0.413)	(0.315)	(0.035)
FSIZ	-0.010	-0.004	-0.004
	(0.194)	(0.887)	(0.887)
FAGE	0.001***	0.002***	0.002***
	(0.003)	(0.009)	(0.009)
FLEV	0.000	0.000	0.000
	(0.593)	(0.800)	(0.800)
_cons	0.018	-0.042	-0.042
	(0.757)	(0.853)	(0.853)
Observations	564	564	564
R-squared	0.319	0.015	0.315

Note: p-values are in parentheses.
*** p<0.01, ** p<0.05.

4.2.3. Test of Hypothesis Three ($H_0 3$)

The third objective of the study is to investigate how the stakeholders' engagement moderates the association between audit quality and financial reporting quality in the listed manufacturing companies in Nigeria, especially

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***Online ISSN**: 1994-1633/ **Print ISSN**: 1994-1625*
***DOI**: 10.55951/nurture.v20i3.1108| **URL**: www.nurture.org.pk*
***Publisher:** Nurture Publishing Group*

the ability of stakeholder pressure to enhance the effectiveness of audit mechanisms in deterring the earnings management process and improving the quality of financial reports. Hypothesis 3: The moderating effect of the stakeholders' engagement on the relationship between audit quality and financial reporting quality of listed manufacturing companies in Nigeria is not significant.

In the case of Model Three, from Table 5, the stakeholders' engagement and auditor independence (STEG x AIND) can be found to interact, which is not only significant (b = -0.278, p = 0.001) but also negative. As a result, the null hypothesis is not accepted, which implies that stakeholders' engagement significantly affects the effectiveness of audit independence in controlling earnings management and enhancing financial reporting quality. The findings also indicate that the relationship between stakeholders' engagement and the audit committee financial expertise (STEG × ACFE) is negative and statistically significant (b = -0.360, p = 0.023). Therefore, the null hypothesis is rejected, which confirms that stakeholders' engagement has a substantive effect on improving the efficiency of audit committee financial expertise to curb earnings management.

Table 5. Model three (Moderating effect of stakeholders' engagement on the relationship between audit quality and financial reporting quality).

Variables	**(1)**	**(2)**	**(3)**
	OLS	**RE**	**FE**
AIND	-0.090***	-0.090***	-0.082**
	(0.006)	(-2.761)	(0.028)
ACFE	0.015	0.015	0.064
	(0.828)	(0.219)	(0.418)
STEG	-0.085	-0.085	0.000
	(0.292)	(-1.051)	(0.997)
C.STEG#C.AIND	0.187***	0.188	-0.278***
	(0.010)	(2.589)	(0.001)
C.STEG#C.ACFE	-0.013	-0.013	-0.360**
	(0.924)	(-0.096)	(0.023)
FSIZ	-0.010	-0.010	0.011
	(0.200)	(-1.282)	(0.719)
FAGE	0.001***	0.001***	0.002**
	(0.006)	(2.782)	(0.010)
FLEV	0.000	0.000	0.000
	(0.420)	(0.806)	(0.605)
_cons	0.071	0.071	-0.129
	(0.300)	(1.033)	(0.577)
Observations	564	564	564
R-squared	0.334	.z	0.330

Note: p-values are in parentheses.
*** p<0.01, ** p<0.05.

4.3. Discussion of Findings

In this section, a discussion will be made on the major findings of the research as they relate to the objectives and hypotheses of the research. The discussion explains why audit quality and stakeholders' engagement can affect the financial reporting quality of listed manufacturing companies in Nigeria and why stakeholders' engagement may enhance the effectiveness of audit mechanisms to mitigate the practice of earnings management.

The discussion is structured in accordance with the key variables that are being analysed in the study: independence of auditors, financial expertise of the audit committee, stakeholders' engagement, and the moderating effect of stakeholders' engagement.

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Online ISSN: *1994-1633/* ***Print ISSN***: *1994-1625*
DOI: *10.55951/nurture.v20i3.1108*| ***URL***: www.nurture.org.pk
Publisher: *Nurture Publishing Group*

4.3.1. Auditor Quality and Financial Reporting Quality

The empirical evidence shows that the effect that auditor independence has on discretionary accruals is negative and statistically significant, meaning that the greater the independence of the auditor, the smaller the probability of earnings management, and the higher the quality of the financial reporting will be. The coefficient of -0.069 implies that an increase of one unit of auditor independence (including a non-compliant to a compliant status change) would decrease discretionary accruals by 6.9 w per cent. All other conditions being equal. In practice, it means that companies that are governed by independent auditors face significantly reduced earnings manipulation and, hence, increase the credibility of financial statements and reduce the risk of restatements or regulatory fines. Such a discovery highlights the critical role of monitoring played by independent auditors in Nigerian manufacturing firms. Due to low levels of economic reliance on client handling, independent auditors are more equipped to question the accounting estimates, require disclosure, and provide financial reports regarding the true economic state of the firm. This finding is consistent with agency theory, according to which independent audits reduce the conflict of interests between shareholders and managers. It also supports previous empirical studies conducted by Enekwe et al. (2020), Olabisi (2022), and Kajola et al. (2021), who have found a positive effect of auditor independence on accountability and lessening financial manipulation as advantages. In comparison to Enekwe et al. (2020), who estimated a similar negative correlation in manufacturing companies, the current study has a smaller value, which could be due to the introduction of stakeholder engagement as a moderator, increasing the impact of independence.

However, audit committee financial expertise is insignificantly correlated with discretionary accruals in the overarching model (b =0.049, p=0.214). The positive coefficient suggests that a unit increase in Audit Committee expertise may increase the existence of earnings management by 4.9% and thereby reduce FRQ, but the non-significant value suggests that this is not reliably reflected in practice. This unlikely lack of significance can be explained by factors such as the limited power of audit committees in the context of the tightly controlled ownership in the Nigerian market, where management has overshadowed experience or measurement constraints that would make expertise only through formal credentials and not through practice. This fact indicates that technical expertise might not be enough to ensure improved financial reporting quality. Practically, the audit committees frequently face such limitations as a lack of delegation of authority, control by management, latency in accessing information, and ineffectiveness in implementing recommendations. Therefore, the influence of the audit committee members can be limited despite their strong accounting or financial qualifications. This adds to the body of literature, which confirms the propositions made by Muhammad and Oladele (2024) and Essien et al. (2024) that audit committees can only be effective when they are complemented with other mechanisms like stakeholder engagement. However, contrary to the significant impact of expertise in banks reported by Rashidat et al. (2022), the non-significance in this case probably corresponds to industry-specific issues, such as the value of inventory in manufacturing, which require stakeholder input on a broader scale in order to implement the potential of audit committee expertise.

4.3.2. Stakeholder Engagement and Financial Reporting Quality

The empirical evidence shows that stakeholder engagement has a statistically significant negative effect on discretionary accruals; therefore, the higher the level of effective stakeholder engagement is, the lower the chances of practicing earnings management and, therefore, increasing financial reporting quality. The coefficient of -0.088 suggests that a unit change in the engagement index leads to an 8.8% decrease in discretionary accruals, which implies increased conservative reporting and consequently reduced capital costs attributed to increased investor confidence. This finding suggests that active stakeholder involvement creates both external pressure and legitimate threat as well as reputational risk, which is a deterrent to managerial opportunism. Economically, the companies that maintain transparent communication with shareholders, regulators, communities, and other stakeholders are exposed to increased scrutiny, which creates more conservative and believable financial reporting. These results strongly support the stakeholder theory that argues that companies must balance the interests of all stakeholders to ensure long-term legitimacy and sustainability. Additionally, the findings align with the empirical literature regarding substantial stakeholder engagement as a way to make corporate disclosures more credible and useful, as Zarzycka et al. (2021), Stocker et al. (2020), and Lawal et al. (2025) document. This can be attributed to the fact that Stocker et al. (2020) find that more detailed engagement strategies enhance the

Nurture**: Volume 20, Issue 3, 17-36, **2026
***Online ISSN**: 1994-1633/ **Print ISSN**: 1994-1625*
***DOI**: 10.55951/nurture.v20i3.1108| **URL**: www.nurture.org.pk*
***Publisher:** Nurture Publishing Group*

quality of reports, but it can also be applied to financial reporting in the Nigerian manufacturing industry, where the effects of economic volatility compound the impact of stakeholder engagement.

4.3.3. Moderating Effect of Stakeholder Engagement

The main value of this research is the establishment of the fact that stakeholder engagement enhances the relationship between quality of audits and quality of financial reporting. This view is consistent with recent empirical research implying that the quality of auditing might not be sufficient to reduce earnings management without the active control of stakeholders (Appah & Joyce, 2024; Yayangida et al., 2023). This argument is supported by the interaction terms: the coefficient of STEG x AIND = -0.278, which means that at high levels of engagement, the independence of the auditor will decrease the discretionary accruals by an additional 27.8%, and the coefficient of STEG x ACFE = -0.360, which is an additional deterrent effect of the audit on the manipulation of a higher percentage. These findings are also supported by the works of Yayangida et al. (2023), who noted that audit tenure is better utilised when audit independence is established, and Appah and Joyce (2024), who indicated that the monitoring capacity of internal audit practices is increased under the combination of both active audit-committee oversight and stakeholder pressure. The stronger moderating effect of the present research can be linked to the broader scope of the proxy of stakeholders, which summarizes the pressures exerted by the external factors that go beyond internal committees (compared to Yayangida et al. (2023). The finding also supports the results of David et al. (2024) and Essien et al. (2024), who discovered that independent auditing is more likely to drive accountability, but the effectiveness is significantly higher when stakeholders actively oversee and demand accountability. Therefore, auditor independence and stakeholder engagement are complementary monitoring systems that scrutinize managerial opportunism.

Besides, the results prove that stakeholder engagement proves to be effective in enhancing the relationship between audit-committee financial expertise and financial reporting quality. Despite the fact that audit-committee expertise had an insignificant positive effect on FRQ when tested alone. However, the surprise expression of expertise when interacted with stakeholders' engagement could be because, where otherwise there is no stakeholder pressure, expert committees have no external pressure to mobilize against management; stakeholder engagement provides an instance of that pressure through reputational threats. These observations are in line with empirical evidence by Petruzzelli and Badia (2024) and Stocker et al. (2020), who found that such audit committees with financial expertise tend to question accounting estimates, a tendency that is supported by substantive dialogue with stakeholders. Lawal et al. (2025) also stated that the audit committee functions better under the circumstances that they are closely associated with all the outside parties that require good quality disclosure. Therefore, the current findings build on the involvement strategies of Stocker et al. (2020) to provide a mechanistic picture of the empowerment of expert committees by stakeholders' engagement in Nigeria, a weak enforcement environment. Moreover, Muhammad and Oladele (2024) and Essien et al. (2024) have discovered that strong audit committees significantly decrease earnings management only when the engagement of the stakeholders is high. The combined findings of these studies indicate that excessive stakeholders' involvement provides audit-committee members with power and authority from the outside, and thus, facilitates sound financial reporting behaviour and imposes pressure on managerial decisions.

5. CONCLUSION

The positive impact of audit quality on financial reporting quality is enhanced by stakeholder engagement, which goes a long way in diminishing earnings management among listed Nigerian manufacturing companies. The findings indicate that even though audit quality offers systematic assurance, stakeholder-instigated external pressure exerts a greater influence; therefore, formal and informal governance mechanisms complement each other in emerging markets like Nigeria. To improve the credibility of reporting, manufacturing firms are thus advised to increase the independence of auditors, the competence of the audit committee, and actively encourage stakeholders by improving reporting through better GRI-compliant disclosures and higher attendance at AGMs. These lessons emphasize the necessity of combined management strategies, which would create transparency, lessen information asymmetry, and develop investor trust in unstable economic circumstances.

Nurture**: Volume 20, Issue 3, 17-36, **2026
***Online ISSN**: 1994-1633/ **Print ISSN**: 1994-1625*
***DOI**: 10.55951/nurture.v20i3.1108| **URL**: www.nurture.org.pk*
***Publisher:** Nurture Publishing Group*

6. RECOMMENDATIONS

As per the study objectives and study results, the following recommendations are offered.

The boards of directors and audit committees of listed manufacturing companies need to apply the principle of high auditor independence through a mandatory rotation policy, limiting non-audit services, and adherence to the FRCN standards. The regulators should implement more rigorous independence requirements by introducing consistent audits and fines for non-compliance to protect market integrity.

The manufacturing firms should institutionalize quality stakeholder participation by promoting GRI-compliant disclosure regarding the stakeholders and attaining high AGM attendance rates, where at least 70 percent of the issued shares must be covered. This method can be independent of earnings management and enhance the quality of financial reporting by providing a higher level of transparency and accountability.

Stakeholders' oversight of audit procedures must be part of regulators' procedural requirements for manufacturing companies in Nigeria. This integration will make the interacting effect of stakeholder engagement more effective, and audit independence will be much more effective in minimizing the discretionary accruals and improving the overall financial reporting quality. The FRCN should come up with guidelines for stakeholder-inclusive audit frameworks, and the corporate boards need to focus on training programmes that would enable the consultation of audit skills with the stakeholders' needs to achieve resilient governance.

FUNDING

This study received no specific financial support.

TRANSPARENCY

The authors confirm that the manuscript is an honest, accurate, and transparent account of the study; that no vital features of the study have been omitted; and that any discrepancies from the study as planned have been explained. This study followed all ethical practices during writing.

COMPETING INTERESTS

The authors declare that they have no competing interests.

AUTHORS' CONTRIBUTIONS

Both authors contributed equally to the conception and design of the study. Both authors have read and agreed to the published version of the manuscript.

ACKNOWLEDGEMENT

I give thanks to Almighty God, the giver of life and knowledge. Also, I acknowledge all my colleagues at the University of Ibadan, who in one way contributed to this paper.

ARTICLE HISTORY

Received: 23 July 2026/ Revised: 1 September 2026/ Accepted: 9 September 2026/ Published: 18 September 2026

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Nurture**: Volume 20, Issue 3, 17-36, **2026
***Online ISSN**: 1994-1633/ **Print ISSN**: 1994-1625*
***DOI**: 10.55951/nurture.v20i3.1108| **URL**: www.nurture.org.pk*
***Publisher:** Nurture Publishing Group*

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Appendix 1. Tables.

Table A1. GRI Stakeholders' Engagement Index.

GRI Standard	Disclosure / Principle	What the Organization Must Report (Simplified)	Why it Matters for Stakeholder Engagement
GRI 1: Foundation 2021	Reporting Principle: Stakeholder Inclusiveness	You must identify your stakeholders and report how you have responded to their reasonable expectations and interests.	This is the *foundational requirement* that dictates all engagement must be meaningful and inform the report content.
GRI 2: General Disclosures 2021	2-29: Approach to stakeholder engagement	1. List of all stakeholder groups (For example, employees, customers, local communities, suppliers, investors).	Shows who the organization recognizes as impacted by its operations.
		2. Criteria for selecting these groups (For example, based on influence, dependency, or rights).	Explains the rationale behind the engagement strategy.
		3. Key topics and concerns raised during engagement, and how the organization has responded to them.	Demonstrates that the engagement has led to action or strategy changes.
GRI 3: Material Topics 2021	3-1: Process to determine material topics	You must explain how stakeholder engagement was used to identify the organization's most significant actual and potential impacts on people and the environment.	Engagement is a mandatory step in determining which issues are "material" (most important) to report on.
GRI 2: General Disclosures 2021	2-26: Mechanisms for seeking advice and raising concerns	A description of the processes (For example, whistleblowing lines, official hotlines) for workers, business partners, and local communities to seek advice or raise concerns about impacts.	Ensure stakeholders have formal, accessible channels to communicate issues, which is a core part of due diligence.
GRI 2: General Disclosures 2021	2-30: Collective bargaining agreements	The percentage of the organization's total workers covered by collective bargaining agreements.	Demonstrate formal engagement with workers through representative structures (Unions/Worker representatives).

Source: Global Reporting Initiative (2021).

Table A2. Variance inflation factor.

Variables	VIF	1/VIF

Nurture: *Volume 20, Issue 3, 17-36,* ***2026***
Online ISSN: *1994-1633/* ***Print ISSN***: *1994-1625*
DOI: *10.55951/nurture.v20i3.1108*| ***URL:*** www.nurture.org.pk
Publisher: *Nurture Publishing Group*

FAGE	1.045	0.957
ACFE	1.038	0.964
AIND	1.038	0.964
FSIZ	1.034	0.967
STEG	1.032	0.969
FLEV	1.008	0.992
Mean VIF	1.032	–

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
H0: Constant variance
Variables: Fitted values of FRQ
chi2(1) = 0.96
Prob > chi2 = 0.3284

Table A3. Hausman (1978) **specification test.**

Items	Coef.
Chi-square test value	0.000
P-value	.

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***Online ISSN**: 1994-1633/ **Print ISSN**: 1994-1625*
***DOI**: 10.55951/nurture.v20i3.1108| **URL**: www.nurture.org.pk*
***Publisher:** Nurture Publishing Group*