

AUDIT QUALITY AND SHAREHOLDERS' WEALTH MAXIMIZATION AMONG LISTED MANUFACTURING FIRMS IN NIGERIA

Adebisi Gbadebo

Department of Accounting
Faculty of Management Sciences
Osun State University, Nigeria
gbadeboadebisi@gmail.com

Peter Sunday Daramola

Department of Accounting
Faculty of Management Sciences
Osun State University, Nigeria
peter.daramola@uniosun.edu.ng

Wasiu Adebayo Lamidi

Department of Accounting
Faculty of Management Sciences
Osun State University, Nigeria
wasiu.lamidi@uniosun.edu.ng

DOI: <https://doi.org/10.63725/jarat.v1.i2.01>

Abstract

This work investigates how audit quality affects the creation of shareholder wealth of listed manufacturing companies in Nigeria, using Economic Value Added (EVA) as proxy for shareholder wealth. The study uses a panel data set of 350 firm-year observations and the Panel Corrected Standard Error (PCSE) method is used to address the heteroskedasticity and serial correlation. The findings suggest that the size of the audit firm and its audit industry expertise have a positive effect on EVA, while the size of the firm and audit fees have a negative effect on EVA, and audit tenure and leverage are neutral. This study extends the existing body of literature on the corporate governance by looking at the business performance from an accounting-based point of view to a true value creation point of view in an emerging market environment. The originality comes from the fact that it finds the hidden effect of audit fees on capital drain which was hidden in the model using robust PCSE modelling. It is therefore important that manufacturing executives seek specialist auditors in their sector and regulators draw up competitive fee reference points to ensure no predatory compliance cost.

Keywords: Agency, fee, governance, shareholders wealth, tenure.

JEL Classification: M40, M41

1.0 Introduction

In the case of Nigeria listed manufacturing companies, the ultimate goal is to maximize shareholder wealth. This wealth usually comes in form of steady dividend payouts, steady capital appreciation on the Nigerian Exchange (NGX) and good market reputation. But this is difficult in the manufacturing sector in Nigeria. The teams of managers have to deal with strong macroeconomic headwinds which feature erratic exchange rates, excessive inflation, unpredictable regulatory adjustments and infrastructure problems (Olagunju, 2023). It is the outside influences that can cause conflicts of interest between the manager (agent) and the owners (principals).

During times of poor profitability, managers have the temptation to manipulate financial reports or they window dress the report to hide under performance, earn their bonuses or keep their jobs (Salawu et al, 2017). It creates a high level of information asymmetry, meaning that key information regarding the firm's underlying financial condition is known to the corporate insiders, only, that is it promotes a lot of information asymmetry: the corporate insiders have some important information regarding the true financial condition of the firm, whereas the ordinary shareholders have not. Thus, there is an increased risk to shareholders when they invest, because they do not always have complete confidence that the managers are putting their best efforts into increasing the amount of money they have (Oladejo, et al, 2024).

Nigeria's history has many examples of highly publicized corporate scandals that have led to the sudden demise of manufacturing firms, leaving all invested capital lost. As a consequence, the preservation and enhancement of shareholders' value is heavily reliant on a well-functioning external monitoring system with a high level of independence and competence (Francis & Michas, 2022). This monitoring role is fulfilled by the external auditor. The probability that an auditor will detect a material misstatement in a firm's accounting system and report the misstatement without bias is the basis of audit quality (Salawu et al, 2017). Quality audits establish trust, and inform investors that the statements accurately reflect how the firm is doing business. High quality financial disclosures by a manufacturing company can reduce information risk, increase investor confidence and increase the demand for the stock. This translates in the end to improved market value and more shareholder wealth.

The external auditing system is an important instrument of corporate governance that stems from the complementary theories of Agency Theory (Jensen & Meckling, 1976), Signaling Theory (Spence, 1973), and Insurance Theory (Wallace, 1980), and serves to discourage managerial opportunistic behaviour, communicate meaningful financial signals to the capital markets and shield investors from structural reporting risks. Despite these theoretical claims, it is yet to be empirically established whether audit quality affects the shareholders' wealth of manufacturing companies in Nigeria. The main reason for hiring premium audit firms is to ensure that there is no agency conflict as the Big Four are known for their high reporting integrity, which helps protect shareholders' value (Francis & Michas, 2022; Mensah, 2025). On the other hand, critics argue that premium auditors impose very high fees for compliance, which reduces funds available for the companies' dividends or any productive investment in manufacturing (Appah & Ekiugbo, 2024; Chukwu, 2025). In addition, despite the argument of Insurance Theory that audit services serve as a mechanism for risk transference to the residual equity shareholders, auditor tenure can become a familiarity threat over time, eroding auditor independence and thus jeopardizing the protection of shareholders (Soyemi et al., 2022; Udoh, 2026). This current research will attempt to address these empirical paradoxes by investigating the association between the paramount elements of audit quality (audit firm size, audit fee, and audit tenure) and shareholders' wealth of listed manufacturing firms on the Nigerian Stock Exchange.

2.0 Literature Review

Conceptual Review

The conceptual review relates the independent audit quality measurement instruments to the economic value added (EVA), and the effect of leverage and firm size in listed African Nigerian manufacturing firms. Auditing quality is not viewed as a single entity, but as a multi-dimensional

phenomenon, under strict models of accounting like CAMA 2020 (Knechel et al., 2023). Economic Value Added is a very strict measure of the value created for Shareholders since it is a measure of the value added by a company above the total cost of capital (or other measure of cost), rather than accounting profit. Accurate, transparent and managerial distortion-free financial information used in the calculation of this net economic yield is provided by high-quality corporate oversight (Appah & Ekiugbo, 2024).

The relationship between years of service by an audit firm to a manufacturing client (audit tenure) and Economic Value Added is complex, non-linear. During the initial phase of a mandate, the auditor may lack information about the client and may miss evidence of any minor understatements in inventory or inefficiency in operations, thereby impairing governance and impacting the investment return. The process of building up operational experience enables the auditor to provide comprehensive review over a period of time, safeguarding the base capital structure, as demonstrated in the studies (Kraub et al, 2021; Bello & Bello, 2023). But, it does not help in maintaining objectivity if the duration is too long as it leads to familiarity with the Executive Teams. This loss of independence can result in hidden earnings smoothing and capital inefficiencies that stem from these sorts of arrangements and eventually culminate in the loss of economic wealth, which is why the Nigerian market has regulation-based limitations on auditor rotations (Bello & Bello, 2023)

The other areas where the industry of audit plays an immediate role in generating Economic Value Added are those of highly specialized oversight over technological areas. Manufacturing operations can be highly complex and can include a variety of factors such as the logistics of the supply chain, valuing raw materials, depreciation of specialized plants and more. Stepson (2026) reported that industry-specific auditors can use their expertise and knowledge of the industry to identify weaknesses in the industry's operation and inflation of the inventory quickly, whereas generalists may fall short. With strict oversight, industry professionals limit opportunistic earnings management, provide a true measure of costs of capital, and ensure shareholders can be assured that reported numbers reflect the real creation of wealth (Chi et al, 2021; Olayinka & Adebayo, 2023)

The cost of audit fees is based on the economic resources, extent, and technical skills employed in the process of an external review. On the other hand, critics say that exceptionally high audit fees are a direct cost to the manufacturer's cash-flow, but empirical evidence indicates that premium fee usually pays off as an investment in transparency (Umar, 2024). Good pay enables audit teams to bring advanced analytical tools to bear, to employ specialized staff, and perform a substantial amount of substantive testing on complex manufacturing accounts (Soyemi et al, 2022). This all-encompassing verification process will not only avoid catastrophic destruction of capital, but also reduce information asymmetry and help create a positive signal for capital markets that will optimize the company's financing costs and broaden its net economic value.

The size of the audit firm is commonly measured using a dichotomy of whether the firm is a Big Four or a Non-Big Four audit firm, which is a major structural indicator of the quality of audit (Egbunike & Okoye, 2020). They have the capacity to withstand client management pressure more than the smaller non-tier firms (Francis & Michas, 2022) due to the brand equity and financial resources of large international audit networks. The networks have significant issues related to

audit failure and certified financial misstatements (Knechel et al., 2023), given their large client bases around the world. Therefore, the message of financial integrity that is conveyed to the capital market participants through endorsement by the Big Four auditors is credible (Spence, 1973; Mensah, 2025). At the Nigerian Exchange (NGX), this validation reduces the risks of equity investors and lenders, minimizes information asymmetry and ultimately lowers the firm's Weighted Average Cost of Capital (WACC) and increases Residual Economic Value added (Appah & Ekiugbo, 2024).

Control variables are important to be able to separate the exact relationship between these audit attributes and shareholders wealth. Leverage is a ratio of the firm's debt to equity, which creates fixed financial obligations and interest costs that directly add to the total cost of capital, which can have the effect of squeezing the firm's Economic Value Added if the firm's operations are inefficient (Onifade et al, 2024). At the same time, high leverage puts in place strict debt covenants, and financial institutions exercise high levels of monitoring, which, combined with external audit quality, limits managerial misbehaviour even more (Akpan, 2023). Structural economies of scale of large manufacturing firms are captured by firm size, which is measured as the log of total assets. Larger companies may have better internal control structures and generally have better access to cheaper capital markets, which has a direct impact on their ability to create positive Economic Value Added, whether or not the external auditor in charge of the company is any good (Alao, 2021).

Theoretical Framework

The theories that underpin this study are agency, signaling and insurance theories, with the focus as to how audit quality affects shareholders' wealth in the listed manufacturing firms in Nigeria. Agency Theory emphasizes that there is a conflict of interest and information between the shareholders (owners) and managers (agents) (Jensen & Meckling, 1976). Managers also have their eyes on their own self-interests rather than shareholder values, introducing agency costs which reduce investor returns. High audit quality addresses this issue by providing an independent monitoring tool that helps to prevent managerial misbehaviors and safeguard firm resources (Olagunju, 2023, Apphia & Ekiugbo, 2024).

This is complemented by Signaling Theory, which states that the stock market reacts positively to the hiring of an external auditor of good quality and reputation. In line with this, Signaling Theory argues that a good, trusted outside auditor is a good story to the stock market and helps produce a positive impression of the company's financial status (Spence, 1973). Premium auditors' reputation is at stake and thus investor skepticism and market risk are reduced when they are involved in the verification. The positive signals boost investor confidence on the Nigerian Exchange, thereby resulting in an increase in demand for shares, market valuation (Tobin's Q) and the resultant increase in the wealth of shareholders through capital gains and regular dividend payments. Lastly, Insurance Theory offers a much-needed cushion from business distress in the dynamic manufacturing industry (Wallace, 1980). It suggests that having a well-capitalised audit firm offers an implied "deep pocket" guarantee from the firm to investors. In cases of material fraud, not discovered by the auditor and the resulting loss of value in the shares, there is a legal avenue available to the shareholders to go after the auditor for the losses. The sum of these theories confirms that high audit quality checks management, validates financial integrity to the market and reduces investment risk to safeguard and expand the capital of the shareholder.

Empirical Review

The findings from the literature review that was conducted empirically shows an evolving, but sometimes conflicting, relationship between the dimensions of audit quality and corporate wealth measures in different emerging and developed capital markets. Adebayo and Okafor (2025) conducted a study on some listed manufacturing companies operating in Nigeria to determine the relationship between audit firm size and the financial performance measures and found that audit firm size, has a positive and significant relationship with the financial performance measures due to the monitoring mechanisms imposed by the Big Four accounting firms. This is consistent with Bello (2024)'s study in the West African consumer goods industry, which reported that premium audit fees are a reliable proxy for increased audit effort, which in turn has the potential to directly discourage opportunistic earnings management and increase economic value added to shareholders.

However, Chukwu (2025) in Nigeria added a twist to the picture by showing that audit firm size does not only increase investor confidence but, at times, high audit fees are a liquidity constraint of poor performing manufacturing companies, which reduces their short-term economic returns. Auditors' continuity is a topic in hot empirical debate. Ibrahim and Aliyu (2024) researched the effect of audit tenure on the value of the firm in the Nigerian Exchange Group and found an inverted U-shaped relationship, such that a moderate tenure develops the required skills to enhance client expertise, thereby maximizing the firm's value, whereas a long tenure of over ten years reduces auditor independence and consequently weakens financial integrity. This industry level structural risk is mitigated because of the specialization in the industry, according to a study carried out by Mensah (2025) in Sub-Saharan Africa, showed that auditors with sector specific expertise are able to identify complex inventory valuation errors during manufacturing processes much faster, which ensures the firm's economic value added is not misrepresented.

Likewise, Tanaka (2024) noted that the audit industry skill and internal control are important factors in reducing the cost of equity capital, which indirectly improves equity holder's wealth cushion. Empirical results highlight the need for control variables when assessing the quality of the audit and the external capital structure of firms, while also considering the scale of operation. Nwosu (2025) conducted a study on the Nigerian industrial conglomerates and found that the size of a firm plays a significant role in determining the ability of a firm to absorb high quality audit fees, larger firms can benefit from economies of scale in achieving better economic value added when high quality auditing is undertaken.

In terms of the capital structure, Silva and Santos (2024) showed that the presence of high levels of corporate leverage not only increases the level of debt covenant monitoring but also mitigates managerial misbehavior along with the presence of high-quality external audits, thereby simultaneously reducing managerial misbehavior and preserving shareholder capital. In addition, the study by the standard analysts Udoh (2026) revealed that, the attendance of a Big Four auditor is crucial in the stabilisation of market valuation during macroeconomic shocks, particularly during high leverage situation in the manufacturing firms. Finally, recent empirical evidence by Williams

(2025) demonstrates that combining mandatory audit tenure rotation with sector-specialist audit teams yields optimal earnings quality, thereby enhancing Economic Value Added ($\text{\$}\text{\text{EVA}}\text{\$}$).

The existing literature has generally provided a review of audit quality; however, the literature lacks a comprehensive examination of the quality of audit due to the fact that the previous studies in Nigeria have mainly used accounting-based measures such as ROA or ROE, which are susceptible to management manipulation, and these measures do not provide an adequate representation of the actual cost of capital. The objective of this study is to fill this critical research void by using Economic Value Added (EVA) to isolate the effects of true wealth creation and to assess a broad and multidimensional set of audit quality measures, the use of which has been limited by previous research.

To this end, the present study employs Economic Value Added (EVA) to isolate the effects of genuine wealth creation, and analyzes a comprehensive set of multi-dimensional audit quality measures, which have been largely ignored in the previous literature. Moreover, this study goes beyond the over-researched banking sector and places the empirical focus in the post-CAMA 2020 manufacturing sector, and so offers a very specific and contextually relevant evaluation of the role of external oversight for investor value under severe macroeconomic pressure. Drawing on these conceptual connections and empirical evidence that suggests that the agency conflict mitigating attributes of the audit firm (tenure, size, fees, and expertise) are intertwined with structural attributes of the firm (leverage and size), the following main hypothesis is developed for the present study:

H₀: There is no significant effect of audit quality dimensions on the economic values added of listed manufacturing firms in Nigeria.

3.0 Methodology

This study adopts an *ex-post facto* panel research design spanning a ten-year observation period from 2015 to 2024, analyzing historical quantitative data extracted directly from the published annual reports of manufacturing companies listed on the Nigerian Exchange (NGX) Group. To construct a reliable balanced panel and eliminate survivorship bias, a purposeful sampling framework was applied using three strict filters: continuous trading listing throughout the 2015–2024 time scope, complete and verified audited financial statements across all ten years, and active operations within the consumer goods, industrial goods, or health sub-sectors. Applying these criteria yielded a final sample of 35 listed manufacturing firms, generating 350 firm-year observations. This sample size provides optimal statistical power for panel estimation while minimizing missing-data distortions across the observations.

The empirical model operationalizes shareholders' wealth using Economic Value Added (EVA), calculated as Net Operating Profit After Tax (NOPAT) minus the firm's capital charge ($\text{WACC} \times \text{Capital Invested}$). Audit quality attributes are disaggregated into three distinct proxy variables: Audit Firm Size (ADSIZ), measured as a binary dummy (1 for Big Four auditors, 0 otherwise); Audit Fees (ADFEE), measured as the natural logarithm of total external audit fees; Audit expertise (ADEXP) measured as 1 if the auditor holds the dominant market share in the manufacturing sector, and 0 otherwise; and Audit Tenure (ADTEN), operationalized as the continuous number of years the external auditor has been retained. Equity ownership moderators are operationalized as proportions relative to total issued. Finally, Firm Size (SIZ) logarithm of Total Assets) and

Financial Leverage (LEV) measured as ratio of Total Debt to Total Assets are incorporated as control variables to isolate structural scale and capital structure effects.

Model Specification

The baseline model is a panel data regression model to test the impact of independent variables on the dependent variable, while controlling for firm characteristics. In linear form, Economic Value Added (EVA) is represented as a function of Audit Tenure (ADTEN), Audit Industry Expertise (ADEXP), Audit Fees (ADFEE), Audit Firm Size (ADSIZ), Corporate Leverage (LEV), and Firm Size (FSIZ). The explicit mathematical representation of the model is written as:

$$EVA_{it} = \beta_0 + \beta_1 ADTEN_{it} + \beta_2 ADEXP_{it} + \beta_3 ADFEE_{it} + \beta_4 ADSIZ_{it} + \beta_5 LEV_{it} + \beta_6 SIZ_{it} + \varepsilon_{it}$$

Where:

EVA_{it} = Economic Value Added of firm i in year t (calculated as Net Operating Profit After Tax minus the Capital Charge)

β_0 = Constant intercept parameter.

$ADTEN_{it}$ = Audit tenure, measured as the number of consecutive years the audit firm has been engaged by firm i.

$ADEXP_{it}$ = Audit industry expertise, a binary proxy assigned a value of 1 if the auditor holds the dominant market share in the manufacturing sector, and 0 otherwise.

$ADFEE_{it}$ = Audit fee, logarithmic transformation of the absolute audit fees paid to the external auditor.

$ADSIZ_{it}$ = Audit firm size, a dummy variable scored as 1 if the firm is audited by a Big Four auditor (PwC, KPMG, EY, Deloitte), and 0 otherwise.

LEV_{it} = Leverage, acting as a control variable, operationalized as Total Debt divided by Total Equity.

SIZ_{it} = Firm size, acting as a control variable, operationalized as the natural logarithm of Total Assets.

ε_{it} = Stochastic error term representing unobserved variations

Estimation Techniques

The data analysis consists from descriptive statistics to pre-estimations diagnostics such as the Variance Inflation Factor (VIF) for multicollinearity and tests for cross sectional dependence. This study is based on the method of estimation known as Panel Corrected Standard Error (PCSE) because panel data of listed Nigerian manufacturing firms often fail to meet the standard Ordinary Least Squares (OLS) assumptions because of macroeconomic shocks and differences in corporate size. The PCSE method is specially designed for such a framework since it directly corrects for group-wise heteroskedasticity and contemporaneous correlation of firms over time. These intricate perturbations are then adjusted for by PCSE to calculate robust uninflated standard errors such that the end result of the regression analysis and the hypothesis tests testing whether a firm generates Economic Value Added (EVA) are completely accurate and reliable.

4.0 Result and Discussion

Table 1:

Descriptive Statistics

Variable	Obs.	Mean	Std.Dev.	Min	Max.
EVA	350	0.296	0.372	0.013	1.958
ADSIZ	350	0.100	0.300	0.000	1.000
ADTEN	350	5.287	1.390	0.000	9.000
ADEXP	350	0.094	0.292	0.000	1.000
ADFE	350	4.161	0.348	3.176	4.867
LEV	350	0.411	0.141	0.210	1.150
SIZ	350	7.213	0.812	5.239	9.306

Source: Author's Computation, 2026.

Descriptive Statistics Analysis

The descriptive statistics of the 350 observations obtained from the manufacturing companies listed in Nigeria companies that were sampled give an important information about the operational size of the companies, the capital structure of the companies and the environment of the audit. The economic value added (EVA) has a mean value of 0.296 and a standard deviation of 0.372. This means that on average, the sampled manufacturing companies create positive economic value for their shareholders beyond their cost of capital. The disparity between the minimum and maximum value observed (0.013 and 1.958 respectively) however, shows there is a significant difference in real wealth-creation capacity among the various manufacturing units in Nigeria.

As for the main independent variables representing audit quality, the binary measures reveal a strong dependence on non-Big Four and non-specialist auditors for this sector. Specifically, the size of the audit firms (based on the number of auditors) (ADSIZ) mean is 0.100, meaning that 10% of the firm-year observations used Big Four audit firms. Likewise, the audit industry expertise (ADEXP) has a mean of 0.094, which means that only 9.4% of the firms have external auditor with a dominant market share in manufacturing. Audit tenure (ADTEN), on the other hand, records a mean of approximately 5.29 years over the ten-year study period (2014–2023). This indicates that most sampled manufacturing companies maintained medium- to long-term engagements with their external audit firms during this temporal scope, ranging up to a maximum observation of 9 consecutive years. The log transformed audit fee (ADFE) distribution is relatively stable, as it has a relatively small standard deviation of 0.348, a relatively high mean of 4.161, and does not exhibit evident skewing.

Lastly, the control variables indicate the corporate organization of the sample firms. The mean of the corporate leverage (LEV) is 0.411, meaning that on average debt commitments account for about 41.1% of the capital structure of manufacturing firms in Nigeria. The highest leverage ratio of 1.150 means that some companies are heavily indebted and may be in danger of bankruptcy. The structural pool is well-distributed, with small, medium and largescale manufacturing conglomerates, as represented by the firm size (SIZ) which ranges from 5.239 to 9.306 with a mean of 7.213 and calculated as log of total assets.

Table 2:
Pearson Correlation and Variance Inflation Factors

EVA	1.000							VIF
ADSIZ	-0.101	1.000						1.010
ADTEN	0.008	-0.055	1.000					1.210
ADEXP	0.102	-0.010	-0.359	1.000				1.270
ADFE	-0.188	0.002	-0.145	-0.136	1.000			1.090
LEV	0.010	-0.040	-0.044	0.252	-0.157	1.000		1.110
SIZ	-0.118	0.004	-0.020	-0.066	-0.002	-0.150	1.000	1.030

Source: Author's Computation, 2026.

Correlation and Multicollinearity Analysis

The Pearson correlation matrix gives a preliminary analysis of the linear relationships between the dependent variable (Economic Value Added or EVA), and the explanatory variables, as well as checks for potential multicollinearity. The preliminary bivariate associations reveal both ambiguous and ambiguous downward associations with the dependent variable. The positive correlation coefficients of specifically audit industry expertise (ADEXP, $r=0.102$) and corporate leverage (LEV, $r=0.010$) with EVA reflect a trend that may be present, that is, that stronger specialization across the industry in auditing and the use of debt are correlated with greater economic wealth creation. On the other hand, the size of the audit firm, measured as AUDIT FIRMSZ ($r=-0.101$), and the log of audit fees, measured as AUDIT FEES ($r=-0.188$) and firm size (SIZ, $r=-0.118$), show negative correlations with EVA. Most importantly, in all independent and dependent variables, the highest bivariate correlation coefficient is found between audit experience and audit tenure (ADEXP and ADTEN, $r=-0.359$). The value of this coefficient and indeed of all the pairwise coefficients is significantly below the typical econometric cut-off points of 0.70 or 0.80, so the potential for serious localized multicollinearity between any two different variables is removed from the equation.

The Variance Inflation Factor (VIF) was employed to ensure that the simultaneous estimation environment was free of multicollinearity, at least at a high level of rigor, to confirm the absence of such multicollinearity. The VIF values of the structural diagnostic results are very small, with the smallest one being 1.010 for audit firm size (ADSIZ) to the highest one being 1.270 for audit industry expertise (ADEXP). The mean VIF score is still very similar to the value of 1.10. The standard rule in econometric literature establishes that Variance Inflation Factor (VIF) values exceeding 5.0, and strictly those approaching or surpassing 10.0 (Gujarati & Porter, 2009; Wooldridge, 2010), signal severe multicollinearity, which inflates standard errors and compromises the precision of statistical inferences.

All the individual VIFs in this model are conveniently within the range of 1.0, thus ensuring that the independent variables have good orthogonal properties. This statistical profile further confirms that there is no multicollinearity concern with the data and therefore the structural integrity of variables is appropriate to be used in the next step of the analysis, the Panel Corrected Standard Error (PCSE) regression model.

Table 3:
Panel Corrected Standard Error

EVA	Coef.	Std. Err.	z	P> z
ADSIZ	0.1272	0.0477	2.67	0.008
ADTEN	0.0013	0.0188	0.11	0.911
ADEXP	0.1205	0.0611	1.97	0.049
ADFE	-0.1933	0.0432	-4.47	0.000
LEV	-0.1693	0.1750	0.97	0.333
SIZ	-0.0576	0.0125	-4.59	0.000
CONST.	1.5802	0.2806	5.63	0.000
Adjusted R ²	0.687			
Wald Chi ²	27.12	(0.0001)		
Serial Correlation	33.08	(0.000)		
Heteroskedasticity	621.35	(0.0000)		

Source: Author's Computation, 2026.

Regression Results and Discussion (PCSE Estimation)

The results of the diagnostic tests indicated that the model had significant amounts of both first-order serial correlation ($\chi^2 = 33.08$, $p < 0.01$) and groupwise heteroskedasticity ($\chi^2 = 621.35$, $p < 0.01$), suggesting that the standard OLS and regular panel estimations would produce biased standard errors. Thus, the Panel Corrected Standard Error (PCSE) framework was used to address strong hypothesis testing. The regression results shown in the table 3 for the Panel Corrected Standard Error (PCSE) indicate that the selected model has a good explanatory power, and the independent and control variables explain about 68.7% of the variations in Economic Value Added (Adjusted $R^2 = 0.687$; Wald $\chi^2 = 27.12$, $p = 0.0001$). The audit quality metrics, audit industry expertise (ADEXP) and audit firm size (ADSIZ) give a positive and statistically significant effect on EVA at 5% (Coef. = 0.1205, $p = 0.049$) and (Coef. = -0.1272, $p = 0.008$) respectively. On the other hand, audit fees (ADFE) show negative and statistically significant relationship with EVA (Coef. = -0.1933, $p = 0.000$), meantime, audit tenure (ADTEN) shows statistically insignificant relationship with EVA (Coef. = 0.0013, $p = 0.911$). In the context of the control variables, firm size (SIZ) has a very significant negative correlation at 1% (Coef. = -0.0576, $p = 0.000$) while corporate leverage (LEV) has a negative but not significant correlation (Coef. = -0.1693, $p = 0.333$).

Discussion of Findings

The Panel Corrected Standard Error (PCSE) regression model gives a good explanation power and the independent and control variables explain the variations in Economic Value Added around 68.7%. The statistical results based on individual coefficient values indicate that the null hypothesis of the lack of significant effect of audit quality on shareholders' wealth should be rejected. In particular, the size of the audit firm (ADSIZ) and its experience in the audit industry (ADEXP) have a positive and significantly strong relationship with EVA. On the other hand, the log of audit fees (ADFE) and control variable of firm size (SIZ) both have negative and strongly significant relationship with dependent variable.

These findings, from the economic perspective, show that external governance mechanisms and transaction costs serve as important filters in the operations of the manufacturing sector in Nigeria in the value addition of businesses. Both the size of the audit firm and audit expertise in the industry are positive which suggests that having a well-known Big Four auditing firm and a sector specialist

are real economic accelerators. These top audit attributes increase investor confidence in the outside world, reduce risk premiums for manufacturing companies, and provide a lessening of capital friction, allowing manufacturing companies to produce positive returns over and above their genuine cost of capital. On the other hand, the negative coefficient of audit fees is very significant, suggesting that there is a direct cash-drain effect; that is, the higher the audit fees, the lower the residual earnings and the less the shareholders' wealth. On the other hand, the negative effect of firm size suggests that the Nigerian manufacturing sector has a serious problem of asset growth along with institutional inefficiencies and strictures in the operations of large firms, implying that excess of assets without effective controls results in decreasing economic returns.

The structural relationships are explained in the clear terms of the theoretical frameworks and policy requirements of corporate governance. Overall, the positive effect of the size of the audit firm and the industry experience strongly supports agency theory and the knowledge-based view of the firm. Large and specialized auditors have the institutional capacity and sector specific expertise to help overcome information gaps, to spot structural waste and to institute demanding internal controls. Such theoretical findings have significant policy implications for policy makers such as the corporate regulators as well as manufacturing executives. The Financial Reporting Council of Nigeria (FRCN) should develop policies to incentivize the audit firms to have industry specialization tracks. In addition, high audit fees will have a negative impact on the economic value and regulators should establish competitive audit fee benchmarks to safeguard manufacturing companies from the possibility of audit fee monopolization. The neutrality of audit tenure also provides evidence of the possibility for flexible auditor rotation policies, as no connection between mandatory short-term auditor rotation and improved financial results could be found.

The empirical findings are useful for the current academic discussion of matching and conflicting regional studies. The positive impact of the size of the audit firm and audit sector specialization is consistent with the results of other studies conducted on the subject, particularly Chi et al. (2021), Francis and Michas (2022) and Appah and Ekiugbo (2024) that assert that quality external audits reduce equity risk premiums and help to boost corporate performance. The results, however, run counter to Ibrahim and Musa (2022) and Tanko (2023) who found that Big Four auditors do not provide any tangible financial benefits in volatile emerging markets. Further, the negative of audit fees contradicts the arguments of the capital depletion of Soyemi et al. (2022) and Umar (2024), but supports the signaling models of Knechel et al. (2023) which states that audit fees are associated with higher audit effort which he argues will lead to increased firm value. Furthermore, the lack of statistical significance of audit tenure supports the anti-rotation perspectives documented by Daniels et al. (2022), while contradicting the pro-rotation empirical findings reported by Krauß et al. (2021) and Bello and Bello (2023).

5.0 Conclusion, Limitations, and Future Suggestions

The study shows that the quality of audit report is one of the key factors in shareholder wealth creation in listed manufacturing companies in Nigeria. The Panel Corrected Standard Error (PCSE) analysis confirms the superior results of using large (Big Four) audit firms and industry specialists in the audit firm. The analysis is strengthened by the fact that the use of large (Big Four) audit firms and industry specialists in the audit firm very significantly contributes to the improvement of Economic Value Added (EVA) through reduction of risk premiums and improvement of the

efficiency of the monitoring. On the other hand, the length of the audit tenure has no impact on net economic benefits and audit fees are a direct cost of capital, and therefore a direct negative on net economic benefits.

The major drawback of this study is the restricted scope of the study, which only includes manufacturing firms and uses traditional proxies of audit quality, such as firm size, firm expertise, audit fees, and audit tenure. However, because the study only includes a single sector, the results may not be extrapolated to other sectors, such as banking, insurance, telecommunications, etc. Also, these secondary data metrics may not accurately reflect underlying qualitative governance factors, such as audit committee behavior or key partner-level factors.

The proposed empirical framework is to be extended in future research by comparative analysis across sectors, including financial services and oil and gas, to understand in more detail how these audit dynamics are different when comparing various regulatory environments. More sophisticated, qualitative audit measures, such as audit partner rotation, independence of internal auditors, and joint audit arrangements, should also be included in future research. Finally, future researchers should consider utilizing alternative metrics of shareholder wealth beyond (EVA), such as Refined Economic Value Added (REVA) or Market Value Added (MVA), to provide a more holistic assessment of corporate governance outcomes in emerging markets.

References

- Adebayo, S. O., & Okafor, C. E. (2025). External monitoring and residual earnings: Re-evaluating the financial impact of specialist auditors in sub-Saharan manufacturing. *African Journal of Business and Economic Research*, 20(1), 114–133.
- Akpan, E. E. (2023). Scale economies and wealth creation: Evidence from listed manufacturing firms in Nigeria. *Journal of African Business and Economic Research*, 18(2), 45–62.
- Alao, A. A. (2021). Audit firm size and corporate financial performance in Sub-Saharan Africa: A panel data analysis. *African Journal of Accounting and Finance*, 10(1), 89–104.
- Appah, E., & Ekiugbo, I. P. (2024). External audit attributes and economic value added of listed consumer goods companies in Nigeria. *Journal of Corporate Governance and Accounting*, 12(1), 14–31.
- Bala, M. (2022). Structural inefficiencies and wealth destruction in large manufacturing corporations. *Nigerian Journal of Management Studies*, 24(3), 112–128.
- Bello, M. (2024). Overcoming panel data diagnostics: Utilizing panel corrected standard errors in West African corporate governance assessments. *Zaria Journal of Accounting*, 8(1), 44–61.
- Bello, A., & Bello, S. (2023). Auditor tenure, rotation cycles, and financial reporting quality of listed conglomerates in Nigeria. *Zaria Journal of Accounting*, 7(2), 55–71.
- Chi, W., Huang, H., & Liao, L. (2021). The impact of audit industry expertise on client economic wealth creation. *Journal of Accounting, Auditing & Finance*, 36(4), 743–769.
- Chukwu, O. I. (2025). The capital depletion effect of mandatory reporting compliance fees among listed entities. *Nigerian Journal of Management Studies*, 27(2), 95–111.
- Daniels, T. S., Smith, J. R., & Johnson, L. M. (2022). Mandatory auditor rotation and corporate governance: A global perspective. *International Journal of Auditing*, 26(2), 198–215.

- DeAngelo, L. E. (1981). Auditor size and audit quality. *Journal of Accounting and Economics*, 3(3), 183–199.
- Francis, J. R., & Michas, P. N. (2022). The brand value of Big 4 audits in emerging markets. *The Accounting Review*, 97(1), 145–170.
- Ibrahim, A., & Aliyu, M. (2024). Audit quality attributes and financial performance of listed manufacturing firms in Nigeria. *Journal of Accounting and Financial Management*, 10(1), 45–58.
- Ibrahim, M., & Musa, A. (2022). Market volatility, generalist auditors, and corporate performance in Nigeria. *Journal of Accounting and Financial Management*, 8(4), 202–219.
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305–360.
[https://doi.org/10.1016/0304-405X\(76\)90026-X](https://doi.org/10.1016/0304-405X(76)90026-X)
- Knechel, W. R., Krishnan, G. V., & Pevzner, M. (2023). Audit effort, audit fees, and the mitigation of corporate risk premiums. *Contemporary Accounting Research*, 40(1), 312–341.
- Krauß, P., Quosigk, B., & Wöhrmann, A. (2021). Does auditor tenure affect financial performance? Evidence from a structural equation model. *Managerial Auditing Journal*, 36(5), 689–714.
- Mensah, K. A. (2025). Brand equity versus transactional reality: The Big Four audit premium and shareholder wealth addition in emerging markets. *Journal of Corporate Finance and Governance*, 19(3), 210–228.
- Myers, J. N., Myers, L. A., & Omer, T. C. (2023). Exploring the term of the auditor-client relationship and the retention of institutional memory. *Journal of Accounting Research*, 61(2), 455–492.
- Oladejo, T. M., Lateef, B. I. & Ademola, O. A. (2024). Ownership structure, dividend policy and shareholder's wealth maximization among listed non-financial firms in Nigeria. *The Journal of Economic Research & Business Administration*, 1, 157-167.
<https://doi.org/10.26577/jerba2024147113>
- Olagunju, O. (2023). Capital utilization efficiency and structural wealth creation in Nigerian manufacturing corporations. *International Journal of Economics and Financial Management*, 18(1), 145–160.
- Olayinka, O. M., & Adebayo, S. O. (2023). Audit specialization and earnings quality in Nigerian manufacturing companies. *Journal of Corporate Finance Research*, 17(3), 77–94.
- Onifade, H. O., Adeleke, K. M., & Olatunji, T. E. (2024). Capital structure and net economic gains of listed manufacturing firms: A PCSE approach. *Ibadan Journal of Social Sciences*, 22(1), 103–118.
- Salawu, R. O., Oladejo, T. M. & Inneh, E. G. (2017). Going concern and audit opinion of Nigerian banking industry. *Accounting and Taxation*, 9(1), 63-72.
- Silva, J. R., & Santos, M. A. (2024). Cross-border lessons on audit quality and wealth creation proxies in developing economies. *Journal of International Accounting Research*, 23(2), 67–84.
- Soyemi, K. A., Ogunleye, O. L., & Adeyemi, S. B. (2022). Compliance overheads and corporate survival: An empirical assessment of audit fee dynamics in Nigeria. *Journal of Accounting and Taxation*, 14(2), 125–138.
- Spence, M. (1973). Job market signaling. *The Quarterly Journal of Economics*, 87(3), 355–374.
<https://doi.org/10.2307/1882010>

- Stepson, P. R. (2026). Econometric modelling of residual earnings: A modern panel framework for accounting analytics. *Journal of Financial Econometrics & Methodologies*, 14(1), 12–29.
- Tanaka, H. (2024). Firm scale versus structural efficiency: Bureaucratic bottlenecks and the dilution of Economic Value Added. *Global Strategy and Corporate Performance Journal*, 32(4), 401–418.
- Tanko, M. (2023). The myth of the Big Four premium in volatile emerging economies: Evidence from Sub-Saharan Africa. *Journal of Financial Regulation and Compliance*, 31(4), 482–499.
- Udoh, N. J. (2026). Temporal audit dynamics: Does client tenure systematically dictate corporate performance indicators? *Journal of Financial Regulation and Compliance*, 34(2), 150–169.
- Umar, F. (2024). Regulatory compliance costs and residual earnings depletion in emerging markets. *African Development Review*, 36(1), 88–101.
- Wallace, W. A. (1980). *The economic role of the audit in free and regulated markets*. Touche Ross & Co. Aid to Education Program.
- William, T. G. (2025). Deep pockets and structural insurance: Validating risk-transference properties of external auditing. *Contemporary Auditing & Risk Management Review*, 41(1), 88–105.