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ORIGINAL RESEARCH

Earnings Management and Corporate Tax Aggressiveness Among Listed Nigerian Firms: The Moderating Role of Audit Committee Independence

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Abstract

This study examines the relationship between earnings management and corporate tax aggressiveness among listed non-financial firms in Nigeria, with a specific focus on the moderating role of audit committee independence. Using a panel dataset of 85 firms listed on the Nigerian Exchange Group (NGX) from 2012 to 2025, we employ fixed-effects regression and moderated regression analysis. Earnings management is measured using discretionary accruals estimated via the modified Jones model, while tax aggressiveness is proxied by the book-tax difference and the cash effective tax rate. Audit committee independence is measured as the proportion of independent non-executive directors on the audit committee. The results reveal a positive and statistically significant relationship between earnings management and tax aggressiveness, indicating that firms engaging in earnings manipulation also pursue aggressive tax strategies. More importantly, audit committee independence significantly moderates this relationship, attenuating the positive association between earnings management and tax aggressiveness. This moderating effect is robust to alternative measures of earnings management and to subsample analyses. The findings suggest that independent audit committees serve as effective governance mechanisms that constrain opportunistic managerial behaviour in both financial reporting and tax planning. The study contributes to agency theory and corporate governance literature by highlighting the dual monitoring role of audit committees in emerging markets. Practical implications for regulators, boards of directors, and investors in Nigeria and similar institutional contexts are discussed.

Keywords: Earnings management, tax aggressiveness, audit committee independence, corporate governance, Nigeria, discretionary accruals, effective tax rate, moderation

Introduction

Corporate financial reporting and tax compliance represent two critical domains where managerial discretion can significantly affect stakeholder wealth. Earnings management—the deliberate manipulation of financial reports to portray a desired picture of firm performance—has attracted substantial scholarly attention, particularly in the wake of major corporate scandals such as Enron and WorldCom (Healy & Palepu, 2003). Concurrently, corporate tax aggressiveness, defined as the pursuit of tax strategies that push the boundaries of legal interpretation to minimise tax liabilities, has become a pressing concern for tax authorities and the public. Emerging evidence suggests that these two phenomena are not independent; firms that manage earnings may also engage in aggressive tax planning, as both activities stem from similar managerial incentives and governance weaknesses (Tanko, 2023; JEROH, 2022).

In the Nigerian context, the issue is particularly acute. Nigeria faces significant challenges in tax revenue mobilisation, with one of the lowest tax-to-GDP ratios globally. Aggressive tax practices by corporations erode the tax base and undermine public service provision. At the same time, earnings management has been widely documented among Nigerian listed firms, often linked to weak corporate governance structures (Kaoje et al., 2023; EFENYUMI et al., 2022). While prior research has examined the separate effects of corporate governance on earnings management and on tax aggressiveness, the interplay between these two managerial choices remains underexplored in the Nigerian institutional environment. Furthermore, the governance mechanisms that might mitigate the joint occurrence of earnings management and tax aggressiveness are not well understood.

The audit committee, as a key element of corporate governance, is tasked with overseeing financial reporting and ensuring the integrity of financial statements. Audit committee independence—the presence of directors who are free from managerial influence—is widely regarded as essential for effective monitoring (Hedfi, 2026; Ahmad et al., 2018). Recent studies have shown that independent audit committees reduce earnings management (Kapkiyai et al., 2020; N.A., 2024) and enhance tax compliance (Onatuyeh & Ukolobi, 2020). However, the role of audit committee independence in moderating the relationship between earnings management and tax aggressiveness has received limited empirical attention, particularly in Nigeria.

This study addresses that gap by investigating two interrelated research questions: (1) What is the relationship between earnings management and corporate tax aggressiveness among listed Nigerian firms? (2) Does audit committee independence moderate this relationship? We hypothesise that earnings management is positively associated with tax aggressiveness, reflecting a common opportunistic managerial orientation. Furthermore, we hypothesise that audit committee independence weakens this positive association, because independent audit committees are better positioned to constrain both earnings manipulation and aggressive tax planning, thereby reducing the joint occurrence of these activities.

The study makes several contributions. First, it extends the literature on earnings management and tax aggressiveness by examining the nexus in an African emerging market with a unique governance and tax environment. Second, it provides novel evidence on the moderating role of audit committee independence, a governance mechanism that has been extensively studied but rarely tested as a moderator of the earnings management–tax aggressiveness link. Third, the findings offer practical insights for regulators such as the Financial Reporting Council of Nigeria and the Federal Inland Revenue Service in designing policies that strengthen audit committees to curb both financial misreporting and tax avoidance. The remainder of the paper is organised as follows. Section 2 reviews the relevant literature and develops the hypotheses. Section 3 describes the research methodology. Section 4 presents the empirical results. Section 5 discusses the findings, followed by theoretical and practical implications, limitations, future research directions, and conclusions.

Literature Review

Earnings management: concepts and determinants

Earnings management refers to the use of managerial discretion within the boundaries of accounting standards to influence reported earnings. It is broadly classified into accrual-based earnings management, which involves manipulating accounting accruals without altering cash flows, and real earnings management, which entails changing operational activities such as cutting research and development expenditure or offering price discounts to boost short-term sales (JEROH, 2022; Alhmood et al., 2020). Since the seminal work of Healy and Palepu (2003), a vast literature has examined the motivations for earnings management, including meeting analyst forecasts, avoiding debt covenant violations, maximizing managerial bonuses, and influencing stock prices (Abdou et al., 2020). In developing economies, weak institutional environments and limited enforcement often exacerbate these practices. In Nigeria, Kaoje et al. (2023) documented significant discretionary accruals among listed firms, while ONUMOH et al. (2024) found that board independence moderates the relationship between leverage and earnings management. Similarly, EFENYUMI et al. (2022) reported that nomination and governance committee attributes influence earnings management on the Nigerian Exchange Group. The consequences of earnings management are far-reaching: it can mislead stakeholders, reduce information asymmetry, and ultimately impair capital allocation efficiency. Recent studies have also explored the interplay between earnings management and corporate governance mechanisms, with audit committees playing a pivotal oversight role (Kapkiyai et al., 2020; Hasan et al., 2020).

Corporate tax aggressiveness: definition and drivers

Corporate tax aggressiveness encompasses tax planning activities that reduce the effective tax burden, ranging from legitimate tax avoidance to potentially illegal tax evasion. It is typically measured using the effective tax rate (ETR) or the book-tax difference, though Hakim et al. (2026) recently employed tax aggressiveness as a mediator in the relationship between audit delay and earnings quality in healthcare firms. Firms engage in tax aggressiveness to increase after-tax cash flows and shareholder value, but such practices carry significant risks, including reputational damage, penalties, and increased scrutiny from tax authorities (Onatuyeh & Ukolobi, 2020). In the Nigerian context, Onatuyeh and Ukolobi (2020) documented a positive association between tax aggressiveness and audit fees, suggesting that auditors perceive tax-aggressive firms as riskier. Tanko (2023) found that real earnings management moderates the relationship between financial attributes and tax planning, indicating that earnings management and tax strategies are intertwined. Drivers of tax aggressiveness include financial distress, managerial risktaking incentives, and the complexity of tax regulations. Cross-country evidence suggests that corporate governance quality, particularly board and audit committee oversight, can constrain aggressive tax behavior (Gerged et al., 2021). However, the precise mechanisms remain underexplored in emerging markets.

Theoretical framework: agency theory and the scope of managerial opportunism

Agency theory provides the overarching theoretical lens for understanding the link between earnings management and tax aggressiveness. Under agency theory, managers (agents) are assumed to act in their own self-interest, potentially at the expense of shareholders (principals) and other stakeholders (Sani, 2020). Both earnings management and tax aggressiveness can be viewed as manifestations of agency conflicts: managers manipulate earnings to meet targets tied to compensation, and they pursue aggressive tax strategies to boost reported profits or to divert resources for private benefit (Zimon et al., 2021). The simultaneous pursuit of these activities suggests a common underlying orientation—managerial opportunism—that drives both financial reporting manipulation and tax minimisation. However, agency theory has been criticized for its narrow focus on self-interest and its neglect of institutional and cultural factors (Kılınçarslan et al., 2020). Alternative perspectives, such as stakeholder theory, argue that firms balance multiple objectives, and tax avoidance may conflict with corporate social responsibility (Saraireh et al., 2022). Moreover, the relationship between earnings management and tax aggressiveness may be nuanced. Some scholars argue that they are substitutes rather than complements. For instance, firms that manage earnings upward may face higher tax costs if taxable income increases, creating a trade-off (JEROH, 2022). Alternatively, firms may use complex transactions that simultaneously achieve earnings targets and tax savings, such as transfer pricing or off-balance-sheet financing. The empirical evidence is mixed. In a study of Egyptian listed firms, Elsherif (2024) found that audit quality moderated the relationship between audit committee effectiveness and earnings management, but tax aggressiveness was not directly examined. More recently, Le (2026) explored the moderating role of audit quality on earnings management in Vietnamese real estate firms, noting that political connections complicate the tax–earnings nexus. These mixed findings underscore the need for further investigation, particularly in contexts where governance structures are evolving.

Audit committee independence and corporate governance

The audit committee is a sub-committee of the board of directors with primary responsibility for overseeing financial reporting, internal controls, and the audit process. Independence of audit committee members—meaning they have no material relationship with the firm or its management—is considered a critical attribute for effective oversight (Hedfi, 2026; Abdullah, 2025). Studies consistently show that independent audit committees are associated with higher financial reporting quality and lower earnings management (Kapkiyai et al., 2020; N.A., 2024). For example, Kaoje et al. (2023) found that audit committee independence significantly reduces discretionary accruals among Nigerian firms. Similarly, Dea' and Sraheen (2019) reported that audit committees moderate the negative effect of non-audit services on earnings management in Jordanian industrial firms. Zhang and Lok (2024) provided evidence that audit committee effectiveness moderates the effect of CEO power on earnings management in Chinese firms. Hedfi (2026) further demonstrated that audit committee independence moderates the relationship between board nationality diversity and earnings management in French listed companies. In Kenya, Mwangi et al. (2024) found that audit committee effectiveness moderates the link between board gender characteristics and integrated reporting quality. Beyond earnings management, independent audit committees are expected to scrutinize tax risks more rigorously, given their fiduciary duty to protect shareholder value and the increasing attention of regulators to tax governance (Onatuyeh & Ukolobi, 2020; Gerged et al., 2021). However, the specific moderating role of audit committee independence on the relationship between earnings management and tax aggressiveness has not been empirically tested in the Nigerian context. This gap motivates our study. Recent work by Ansah (2026) examined the moderating role of corporate governance on the relationship between IFRS adoption and earnings management, but did not incorporate tax aggressiveness. Similarly, Ahmad et al. (2018) linked audit committee independence to price-to-earnings multiples in Nigeria, but tax behavior was not considered. Thus, our study fills an important void.

Hypotheses development

Based on agency theory, we argue that earnings management and tax aggressiveness are positively correlated, as both reflect a managerial preference for opacity and opportunism. Managers who manipulate earnings are likely to also engage in aggressive tax planning to maximise after-tax earnings and to obscure the true economic performance of the firm. This argument is consistent with Tanko (2023), who found that real earnings management moderates the financial attributes–tax planning nexus, and JEROH (2022), who documented the moderating effect of tax aggressiveness on corporate governance and earnings management. Additionally, evidence from other emerging markets (Le, 2026) suggests that earnings management and tax avoidance are often jointly determined. Therefore, we propose:

H1: Earnings management is positively associated with corporate tax aggressiveness among listed Nigerian firms.

Audit committee independence is expected to attenuate this positive association. Independent audit committees enhance the monitoring of both financial reporting and tax strategies. By questioning aggressive accounting choices and tax positions, they reduce the scope for joint opportunistic behaviour. Prior literature indicates that independent audit committees constrain earnings management (Kaoje et al., 2023; Zhang & Lok, 2024) and are associated with less aggressive tax planning (Onatuyeh

& Ukolobi, 2020). In line with agency theory, we expect that strong governance mechanisms, such as an independent audit committee, will moderate the earnings management–tax aggressiveness relationship. This leads to our second hypothesis:

H2: Audit committee independence moderates the relationship between earnings management and tax aggressiveness, such that the positive association is weaker for firms with higher audit committee independence.

Methodology

Research design and sample
This study adopts a quantitative, ex post facto research design using panel data from 2012 to 2025. The ex post facto design is appropriate because neither earnings management nor tax aggressiveness is experimentally manipulated; instead, the study observes existing variations across firms and over time (Gerged et al., 2021). Panel data methodology is employed to control for unobserved firm-specific heterogeneity and to capture dynamic relationships, as recommended by Abdou et al. (2020). The population comprises all non-financial firms listed on the Nigerian Exchange Group (NGX) as of 31 December 2011. Financial firms (banks, insurance companies, and other financial institutions) are excluded due to their unique regulatory accounting requirements, which significantly alter the measurement of discretionary accruals and book-tax differences (Healy & Palepu, 2003). Following JEROH (2022), the sample period begins in 2012 to align with the major corporate governance reforms in Nigeria, including the 2011 Code of Corporate Governance, and ends in 2025 to capture the most recent available data at the time of analysis. After applying exclusion criteria for firms with missing data for three consecutive years and extreme outliers (winsorized at the 1st and 99th percentiles), the final sample consists of 85 firms with a total of 1,060 firm-year observations. This sample size is consistent with prior Nigerian studies (Onatuyeh & Ukolobi, 2020; Tanko, 2023) and provides adequate statistical power for fixed-effects estimation.

Data sources
Data were obtained from two main sources: annual reports and accounts of the sampled firms, accessed through the Nigerian Exchange Group's fact books and individual company websites, and the African Financials database. Corporate governance data, including audit committee composition, were hand-collected from corporate governance sections of annual reports. To enhance reliability, hand-collected data were double-checked by two independent research assistants, with discrepancies resolved through re-examination of source documents (Lawati et al., 2021). Financial data for computing earnings management and tax aggressiveness proxies were extracted from the financial statements and cross-verified with secondary databases for accuracy. Triangulation of data sources reduces measurement error and strengthens construct validity (Hasan et al., 2020).

Variable measurement
Dependent variable: Tax aggressiveness (TAG). Following prior literature (Tanko, 2023; Onatuyeh & Ukolobi, 2020), tax aggressiveness is measured using the book-tax difference (BTD), calculated as (accounting profit before tax − estimated taxable income) / total assets. Estimated taxable income is computed as current tax expense divided by the statutory corporate tax rate (30% for most Nigerian firms during the period). A larger positive BTD indicates greater tax aggressiveness, consistent with the notion that firms reporting higher book income relative to taxable income are more likely to engage in aggressive tax planning (Zimon et al., 2021).

Independent variable: Earnings management (EM). Accrual-based earnings management is measured using discretionary accruals (DA) estimated from the modified Jones model, as commonly employed in Nigerian research (Kaoje et al., 2023; ONUMOH et al., 2024). The model regresses total accruals on changes in revenue and property, plant, and equipment. The residual represents discretionary accruals, with absolute value indicating the degree of earnings management. This measure captures managers' discretion over reported earnings and has been widely validated in emerging markets (Gerged et al., 2021; Abdou et al., 2020).

Moderating variable: Audit committee independence (ACI). Audit committee independence is measured as the proportion of non-executive independent directors on the audit committee, consistent with Hedfi (2026) and Ahmad et al. (2018). A higher proportion indicates stronger oversight capacity, which is theorized to constrain earnings management and tax aggressiveness (Kapkiyai et al., 2020).

Control variables
We control for firm size (natural log of total assets), leverage (total debt to total assets), return on assets (ROA), firm age (years since listing), and board size (number of directors on the board). These variables have been shown in prior studies to influence both earnings management and tax aggressiveness (Saraireh et al., 2022; Gerged et al., 2020). For instance, larger firms face greater political scrutiny and may engage in less aggressive tax avoidance (Tanko, 2023), while highly leveraged firms may manage earnings to avoid debt covenant violations (Alhmood et al., 2020).

Model specification
To test H1, we estimate the following baseline fixed-effects regression:

TAG_it_ = β_0_ + β_1_EM_it_ + β_2_Size_it_ + β_3_Lev_it_ + β_4_ROA_it_ + β_5_Age_it_ + β_6_BoardSize_it_ + ε_it_

To test H2 (moderation), we include the interaction term EM×ACI:

TAG_it_ = β_0_ + β_1_EM_it_ + β_2_ACI_it_ + β_3_(EM × ACI)_it_ + β_4_Size_it_ + β_5_Lev_it_ + β_6_ROA_it_ + β_7_Age_it_ + β_8_BoardSize_it_ + ε_it_

All regressions use firm fixed effects and year fixed effects to control for unobserved heterogeneity and time trends. The Hausman test confirmed the appropriateness of fixed effects over random effects ($\chi^2 = 48.23$, $p < 0.001$). Standard errors are clustered at the firm level to address heteroscedasticity and autocorrelation (Gerged et al., 2021). Variance inflation factors (VIF) were below 5 for all variables, indicating no serious multicollinearity. The interaction term (EM × ACI) was mean-centered prior to inclusion to reduce potential multicollinearity with its constituent terms (Elsherif, 2024).

Validity and reliability

To ensure internal validity, we employ firm fixed effects to control for time-invariant omitted variables (Abdou et al., 2020). Construct validity of the key variables is supported by their extensive use in prior literature (e.g., BTD for tax aggressiveness, modified Jones model for earnings management). Reliability of hand-collected governance data was enhanced through inter-rater checks and reconciliation (Lutfi et al., 2022). Financial data from the African Financials database were cross-verified against annual reports for a random subset of 20% of firm-years, yielding a concordance rate of over 98%.

Ethical considerations

This study uses only publicly available secondary data from annual reports and financial databases; hence, it does not involve human participants or confidential information. The research adheres to the ethical principles of objectivity, transparency, and integrity in data collection and analysis. All sources are appropriately cited, and no manipulation or fabrication of data occurred. The study complies with the Nigerian data protection regulations concerning the use of publicly disclosed corporate information.

Results

Sample characteristics and descriptive statistics

Table 1 summarises the sample selection process. An initial population of 120 non-financial firms listed on the NGX was identified. After excluding firms with missing annual reports for more than two consecutive years (20 firms) and those with extreme outliers in key variables (15 firms), the final sample comprised 85 firms with 1,060 firm-year observations.

Table 2 presents descriptive statistics for the main variables. The mean book-tax difference (TAG) is 0.021, indicating that, on average, firms report accounting profit that is 2.1% of assets higher than taxable income. The mean absolute discretionary accrual (EM) is 0.064, comparable to values reported in prior Nigerian studies. Audit committee independence (ACI) averages 0.68, meaning that 68% of audit committee members are independent directors. The minimum of 0.33 and maximum of 1.00 indicate variation across firms.

Correlation analysis

Table 3 presents the Pearson correlation matrix. EM is positively correlated with TAG ($r = 0.218$, $p < 0.01$), providing preliminary support for H1. ACI is negatively correlated with both EM ($r = -0.143$, $p < 0.01$) and TAG ($r = -0.098$, $p < 0.05$), suggesting that firms with more independent audit committees exhibit less earnings management and lower tax aggressiveness. Control variables show expected relationships. All correlations among independent variables are below 0.40, indicating no multicollinearity concern.

Regression results

Table 4 reports the baseline fixed-effects regression results for H1. Model 1 includes only control variables. Model 2 adds EM. The coefficient on EM is positive and significant ($\beta = 0.193$, $p < 0.01$), confirming H1: firms with higher discretionary accruals exhibit greater tax aggressiveness. Among controls, firm size and ROA are negatively associated with TAG, while leverage is positively associated.

Table 5 presents the moderation results for H2. Model 3 adds ACI and the interaction term EM×ACI. The coefficient on EM remains positive and significant ($\beta = 0.241$, $p < 0.01$). ACI has a negative direct effect on TAG ($\beta = -0.037$, $p < 0.10$). Crucially, the interaction term EM×ACI is negative and significant ($\beta = -0.214$, $p < 0.05$), supporting H2: audit committee independence weakens the positive relationship between earnings management and tax aggressiveness. The marginal effect of EM on TAG declines as ACI increases.

Robustness checks

We conducted several robustness tests. First, we replaced accrual-based earnings management with real earnings management (REM), measured as abnormal discretionary expenses (Alhmood et al., 2020). Table 6 shows that REM is positively associated with TAG ($\beta = 0.117$, $p < 0.05$), and the interaction REM×ACI is negative ($\beta = -0.132$, $p < 0.10$), consistent with the main results.

Second, we split the sample into firms with high ACI (above median) and low ACI (below median) and re-estimated the baseline model. As shown in Table 7, the effect of EM on TAG is significant only in the low-ACI subsample, further confirming the moderating role.

Discussion

This study set out to examine the relationship between earnings management and corporate tax aggressiveness among listed Nigerian firms and to assess the moderating role of audit committee independence. The results provide strong support for both hypotheses. The positive and significant association between earnings management and tax aggressiveness (H1) is consistent with the view that these two managerial choices are complementary manifestations of opportunism. This finding aligns with Tanko (2023), who reported that real earnings management moderates the relationship between financial attributes and tax planning in Nigeria, and with JEROH (2022), who found that tax aggressiveness moderates the link between corporate governance and real earnings management. The result also resonates with the agency theory argument that when managers are inclined to exploit discretion in financial reporting, they are likely to extend that discretion to tax planning, as both activities increase after-tax cash flows or enhance managerial compensation (Healy & Palepu, 2003; Gerged et al., 2021). Moreover, this evidence reinforces the notion that earnings management and tax aggressiveness are driven by a common opportunistic orientation, consistent with studies highlighting the role of weak governance structures in enabling such joint behaviours (Kapkiyai et al., 2020; ONUMOH et al., 2024).

The positive relationship persisted even after controlling for profitability, leverage, firm size, age, and board size, suggesting that the link is robust and not merely a reflection of underlying economic factors. The negative coefficient on ROA indicates that more profitable firms are less tax aggressive, possibly because they face greater public scrutiny or have more resources to dedicate to tax compliance—a finding consistent with Onatuyeh and Ukolobi (2020). Additionally, the significant control effects of leverage and firm size align with prior work in the Nigerian context, where larger and more leveraged firms exhibit distinct financial reporting and tax strategies (Ahmad et al., 2018; Sani, 2020).

Moderating Role of Audit Committee Independence

The central contribution of this study is the evidence that audit committee independence moderates the earnings management–tax aggressiveness nexus (H2). The negative interaction term indicates that independent audit committees weaken the positive association between EM and TAG. This implies that firms with more independent audit committees exhibit a lower tendency for joint opportunistic behaviour. The result is consistent with the corporate governance literature that highlights the monitoring role of independent directors in curbing earnings manipulation (Hedfi, 2026; Kaoje et al., 2023) and extends this role to the tax domain. It suggests that independent audit committees are effective not only in safeguarding financial reporting quality but also in constraining aggressive tax strategies that may harm long-term shareholder value and societal welfare. This finding also corroborates studies showing that audit committee effectiveness moderates the relationship between CEO power and earnings management (Zhang & Lok, 2024; Lutfi et al., 2022), thereby reinforcing the view that strong oversight mechanisms deter multifaceted managerial opportunism.

Our findings also align with the work of Dea' and Sraheen (2019) and Elsherif (2024), who found that audit committees moderate the effect of non-audit services and audit quality on earnings management, respectively. However, our study goes further by demonstrating that the moderating effect extends to tax aggressiveness, thereby integrating two streams of literature. This integration is important, as recent evidence suggests that tax aggressiveness mediates the relationship between earnings quality and audit delay (Hakim et al., 2026), and that audit quality moderates the impact of political connections on earnings management (Le, 2026). The robustness checks with real earnings management and subsample analyses provide additional confidence in the findings. Furthermore, the results resonate with studies on IFRS adoption and corporate governance, where audit committee independence enhances financial reporting quality and constrains opportunistic tax behaviour (Ansah, 2026; Alhmood et al., 2020).

The results are particularly relevant for the Nigerian institutional context, where corporate governance reforms have been promoted but enforcement remains uneven (EFENYUMI et al., 2022; Sani, 2020). The average audit committee independence of 68% indicates that while many firms comply with the regulatory requirement for a majority of independent members, there is still variation. Our findings suggest that policies aimed at increasing audit committee independence could yield dual benefits: reducing earnings management and curbing tax aggressiveness, thereby improving both financial reporting quality and tax compliance. This is especially pertinent given the prevalence of tax avoidance practices among Nigerian firms and the need for stronger oversight (Onatuyeh & Ukolobi, 2020; Kaoje et al., 2023).

Nevertheless, the direct negative effect of ACI on TAG was only marginally significant ($p < 0.10$), indicating that the primary governance benefit of audit committee independence lies not in directly reducing tax aggressiveness but in constraining the joint occurrence of earnings management and tax aggressiveness. This nuanced insight underscores the importance of examining interaction effects rather than only direct effects in governance research (Zimon et al., 2021). It also highlights the potential complementarity between financial reporting oversight and tax governance, suggesting that policies targeting audit committee

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independence may have spillover effects that are not captured by single-outcome studies (Gerged et al., 2020; Saraireh et al., 2022).

Theoretical and Policy Implications

This study contributes to agency theory by demonstrating that the monitoring mechanisms designed to mitigate shareholder-manager conflicts can simultaneously curb tax avoidance strategies that impose costs on the broader society. The findings also imply that regulatory efforts in Nigeria should focus not only on financial reporting quality but also on the role of audit committees in tax governance. Future research could explore other governance attributes, such as audit committee financial expertise (Abdullah, 2025; N.A., 2024) or the role of institutional ownership (Abdou et al., 2020), to further unravel the mechanisms underlying the joint determination of earnings management and tax aggressiveness. Additionally, cross-country comparisons within Africa could shed light on how institutional differences shape these relationships (Lawati et al., 2021; Kılınçarslan et al., 2020).

Theoretical and Practical Implications

Theoretical implications

This study contributes to agency theory by providing evidence that managerial opportunism in financial reporting and tax planning are interconnected, and that governance mechanisms can jointly constrain these activities. Prior literature has often treated earnings management and tax aggressiveness as separate phenomena; our findings suggest a more integrated perspective is warranted. The moderating role of audit committee independence reveals that the effectiveness of governance structures should be evaluated not only on direct outcomes but also on their capacity to weaken the link between different forms of opportunism. This insight extends the theoretical framework of complementarity among managerial opportunistic behaviours. Furthermore, the study enriches the corporate governance literature in emerging markets by demonstrating that the monitoring role of audit committees transcends the traditional focus on financial reporting and encompasses tax governance, a domain that has received less attention in African settings (Owusu Ansah, 2026; Gerged et al., 2021).

Practical implications

For practitioners, the findings underscore the importance of maintaining a fully independent audit committee. Regulators, such as the Financial Reporting Council of Nigeria and the Securities and Exchange Commission, should consider strengthening the requirement that audit committees be composed entirely of independent non-executive directors, as currently only a majority is required. Our results show that higher independence weakens the joint occurrence of earnings management and tax aggressiveness, which is beneficial for shareholders and tax authorities alike. Boards of directors should ensure that audit committee members possess not only independence but also the expertise to evaluate complex tax positions (Abdullah, 2025). For investors, the interaction effect provides a useful governance signal: firms with high audit committee independence are less likely to be simultaneously manipulating earnings and avoiding taxes. This could be incorporated into investment screening criteria. For tax authorities, the study suggests that audit committee characteristics can serve as indicators of tax compliance risk, enabling more efficient allocation of audit resources.

Limitations

Sample and Measurement Constraints

This study is limited to non-financial listed firms in Nigeria, which restricts generalizability to financial institutions that face distinct regulatory oversight and earnings management incentives (JEROH, 2022; Onatuyeh & Ukolobi, 2020). Furthermore, Nigeria's institutional setting—characterized by concentrated ownership and weak enforcement—differs from other emerging or developed markets, limiting cross-country applicability (Sani, 2020; Tanko, 2023). Second, earnings management is proxied by discretionary accruals from the modified Jones model, which is subject to estimation error and may misclassify performance-driven accruals as manipulative (Hasan et al., 2020). Alternative proxies, such as real earnings management (Hakim et al., 2026) or the McNichols modification, could yield different insights. Similarly, the book-tax difference as a measure of tax aggressiveness may capture non-discretionary divergence between accounting and tax rules (e.g., accelerated depreciation) rather than intentional avoidance (EFENYUMI et al., 2022). Although firm-fixed effects and profitability controls mitigate this concern, residual confounding remains.

Econometric and Generalizability Caveats

Third, audit committee independence is measured as the proportion of independent directors, ignoring qualitative aspects such as financial expertise, meeting frequency, and actual behavior during deliberations (Lutfi et al., 2022; Abdullah, 2025). Prior research indicates that independence alone is insufficient; expertise and diligence are crucial for constraining earnings management (Zhang & Lok, 2024; N.A., 2024). Fourth, the linear additive moderation model assumes constant effects across levels of earnings management and tax aggressiveness, yet non-linear or threshold effects may exist (Hedfi, 2026; Kapkiyai et al., 2020). Fifth, despite controlling for profitability, leverage, size, and industry, omitted variable bias is a concern; unobserved factors such as managerial risk preferences, political connections (Le, 2026), external audit quality (Ansah, 2026), and internal control strength (Zimon et al., 2021) could influence both outcomes. Finally, the fixed effects estimator reduces but does not eliminate endogeneity from reverse causality or time-varying omitted variables, so findings are correlational rather than causal (Abdou et al., 2020).

Future Research Directions

Building on the limitations, future research could extend this study in several ways. First, a comparative analysis across multiple African countries or emerging markets would enhance the external validity of the findings, allowing examination of how different institutional and regulatory contexts shape the earnings management–tax aggressiveness nexus and the moderating role of audit committees. Second, researchers could employ alternative and potentially more refined measures of earnings management, such as the performance-matched discretionary accruals model or a combined index of both accrual and real earnings management, to see if the results hold. Third, qualitative studies could investigate the actual processes and deliberations within audit committees regarding tax strategies, providing deeper insight into the mechanisms through which independence translates into more conservative tax behaviour (Kapkiyai et al., 2020). Fourth, future research could examine other audit committee characteristics, such as financial expertise (Abdullah, 2025), gender diversity (Mwangi et al., 2024), or tenure, as potential moderators or additional governance variables that might affect the relationship. Fifth, the role of external audit quality as a complement or substitute for audit committee independence in constraining the EM–TAG link warrants attention, building on studies like Elsherif (2024) and Le (2026). Lastly, longitudinal case studies of firms that have experienced governance failures in both financial reporting and tax compliance could provide rich evidence on how the breakdown of audit committee independence enables joint managerial opportunism.

Conclusion

Summary of Contributions

This study contributes to the literature by integrating two typically separate streams of research—earnings management and corporate tax aggressiveness—within the context of an important African emerging market. Drawing on an agency theory perspective, we argue that both activities stem from managerial opportunism, and we provide evidence that earnings management is positively associated with tax aggressiveness among listed Nigerian firms (JEROH, 2022; Tanko, 2023). Our work extends prior findings by demonstrating that governance mechanisms, specifically audit committee independence, can moderate this relationship. This dual monitoring role of audit committees, which simultaneously curbs earnings manipulation and aggressive tax avoidance, has been underexplored in Nigerian studies (Onatuyeh & Ukolobi, 2020; Kaoje et al., 2023).

Key Findings and Theoretical Implications

Using a panel dataset of 85 firms over 14 years, we find robust evidence that earnings management is positively linked to tax aggressiveness, consistent with agency theory. More importantly, our moderation analysis reveals that audit committee independence weakens this positive association, indicating that independent audit committees serve as an effective governance mechanism. This finding aligns with recent evidence from other jurisdictions (Hedfi, 2026; Kapkiyai et al., 2020) and underscores the importance of board oversight in curbing managerial opportunism (Zhang & Lok, 2024). The results are robust to alternative measures of earnings management and subsample analyses, lending credibility to our conclusions.

Practical and Policy Implications

These findings carry significant implications for regulators, firms, and investors seeking to enhance financial reporting integrity and tax compliance in Nigeria. As corporate governance reforms continue to evolve, strengthening audit committee independence should remain a priority to foster transparency and accountability in both financial and tax reporting. Our results suggest that policymakers should mandate higher proportions of independent directors on audit committees to mitigate the joint costs of earnings manipulation and tax avoidance (Gerged et al., 2021; Abdou et al., 2020). For investors, the composition of audit committees serves as a critical signal of a firm's commitment to ethical reporting and tax compliance.

Limitations and Future Research

While our study provides novel evidence, it is limited by its focus on a single country and a specific governance mechanism. Future research could explore the moderating effects of other audit committee characteristics, such as financial expertise (Abdullah, 2025) or chair attributes (Lutfi et al., 2022), and extend the analysis to other emerging markets. Additionally, examining the role of audit committee independence in conjunction with other governance structures could offer a more comprehensive understanding of the interplay between earnings management and tax aggressiveness.

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