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INTERNAL AUDIT AND FINANCIAL REPORTING QUALITY OF QUOTED FIRMS

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Abstract

The study examines the effect of internal audit on the financial reporting quality of quoted real estate and construction firms in Nigeria. Ex-post facto research design was employed in the study. The population of the study comprised nine (9) Construction and Real Estate firms quoted on the Nigerian Exchange Group (NGX) as at 31st December 2023. The period covered was 10 years from 2014-2023. Amongst other preliminary analysis and tests, the ordinary least square regression was employed in validating the hypotheses of the study. The study found that internal audit standard has significant effect on accounting conservatism of quoted real estate and construction firms in Nigeria (P = 0.014); internal audit standard has significant effect on earning management of quoted real estate and construction firms in Nigeria (P = 0.001); internal audit standard has significant effect on accrual quality of quoted real estate and construction firms in Nigeria (P = 0.035). Consequent on the above findings, the study recommended amongst others that Real estate and construction firms should invest in comprehensive training programs for their internal auditors to ensure they are well-versed in the latest auditing standards and practices as this will improve the effectiveness of internal audits and help in the detection and prevention of accounting irregularities, thus enhancing the overall quality of financial reporting.

Keywords: Internal Audit, Financial Reporting Quality, Internal Audit Standard, Accounting Conservatism, Earnings Management, Accruals Quality, Real Estate and Construction Firms, Nigeria.

Introduction

Internal auditing is an essential component of modern corporate governance and a crucial tool for evaluating and improving the effectiveness of risk management systems, internal controls, and overall organizational performance (Usman, Rohman, & Ratmono, 2023; Osman & Ronald, 2023; Mohsin & Yahya, 2023). Organizations can enhance financial reporting quality, mitigate risks, and achieve strategic objectives by executing effective internal audits that directly influence the quality and applicability of audit findings (Álvarez-Foronda, De-Pablos-Heredero, & Rodríguez-Sánchez, 2023). An successful internal audit function yields enhanced operational efficiency, improved risk management, elevated compliance, and fortified governance. Effective internal auditing facilitates the rapid identification and mitigation of threats (Owusu & Owusu-Boateng, 2023). Internal auditors can enhance the quality of financial reporting by promptly detecting emerging risks and vulnerabilities through risk assessments and proactive monitoring (Ntakiyimana, 2024).

Financial reporting quality is the accuracy, reliability, and transparency of the financial information a company discloses in its financial statements (Yusran, 2023). Accurate financial reporting ensures that the financial statements accurately reflect the business's financial condition and performance, enabling creditors, investors, regulators, and management to make informed decisions. Internal auditors evaluate the efficacy of auditing processes, controls, and systems (Osman & Ronald, 2023), and this effectiveness enhances operational efficiency

(Zaidan & Neamah, 2022). They identify inefficiencies, bottlenecks, and areas for enhancement through their assessments. Internal auditors facilitate optimal resource allocation, expense reduction, and enhanced operational efficiency by providing recommendations for streamlining processes and eliminating superfluous or non-value-added activities (Almodallah, Shahimi, & Che Azmi, 2023). The basic objective of financial reporting is to furnish high-quality financial data on economic entities that facilitates economic decision-making. The International Accounting Standard Board (IASB) asserted in 2008 that investors and other stakeholders depend on high-quality financial reporting for decision-making about credit, investments, and related issues.

An effective internal audit function conducts thorough evaluations of internal controls, risk management protocols, and compliance measures, while also offering valuable guidance and recommendations to improve governance, mitigate risks, and enhance operating efficiency (Karikari-Appiah, Amaning, Tettevi, Frimpong, & Opoku, 2023). This proactive strategy enables the swift discovery and resolution of issues, so assisting the business in making informed decisions, optimizing resource allocation, and achieving its strategic objectives. However, in reality, prevailing conditions often reveal deficiencies and challenges in the efficacy of internal auditing within organizations (Negussie, 2023). The primary reasons of issues within internal audit functions in numerous organizations include inadequate resources, insufficient experience, and limited access to relevant data and information (Al-Taee & Flayyih, 2023). These factors can diminish the effectiveness and efficiency of internal audits, leading to overlooked opportunities for enhancement, suboptimal control evaluations, and postponed risk recognition. The capacity of internal auditors to allocate sufficient time and focus to essential aspects of the organization may at times be constrained by their administrative responsibilities or competing priorities (Jori, 2023).

The consequences of inadequate internal auditing efficiency may adversely affect the reporting quality of a firm (Ntakiyimana, 2024). In the absence of rapid risk identification and mitigation, the business may become more vulnerable to fraud, errors, and regulatory non-compliance, thereby compromising the integrity of its financial reporting. External stakeholders of an organization are anticipated to obtain relevant information from its financial reports. Consequently, it is imperative that financial reports include precise and verifiable financial information to enable shareholders and other stakeholders to make educated decisions. Inaccurate financial reporting will lead current and prospective investors to have erroneous perceptions about the company. Managers have been incentivized to manipulate earnings for personal gain due to the significant dependence on accounting figures, which are utilized to assess the trajectory of the business entity and inform the decisions of diverse users of accounting information (Ball, Kothari & Robin, 2000; & Bello, 2010). Organizations of various scales have often succumbed to collapse due to this manipulation, which auditors are designed to avert. It has generated worries over the integrity of auditors and the characteristics of audit firms. Consequently, less information exists regarding the influence of internal audit and the quality of business reporting in developing markets such as Nigeria, based on data from real estate and construction companies. Based on the foregoing, the main objective of the study is to examine the effect of internal audit on the financial reporting quality of quoted real estate and construction firms in Nigeria. The specific objectives are: To determine the effect of internal audit standard on accounting conservatism of quoted real estate and construction firms in Nigeria; To ascertain the effect of internal audit standard on earning management of quoted real estate and construction firms in Nigeria; To examine the effect of internal audit standard on the accrual quality of quoted real estate and construction firms in Nigeria.

The Educational

Conceptual Review

Internal Audit

Zaidan and Neamah (2022) assert that internal audit is an objective, independent assurance and consulting function designed to improve an organization's operations and create value. By systematically evaluating and improving risk management, control, and governance practices, it aids a business in attaining its objectives. Internal auditors assess the design and operational effectiveness of the internal control system, identify inefficiencies or risks, and provide recommendations for improvements (Osman & Ronald, 2023). This study proxies the internal audit standard for the internal audit.

Internal audit standards

Internal audit standards regulate the international professional practice of internal auditing. The standards are based on concepts and are utilized to evaluate and enhance the quality of the internal audit function. The Standards are founded on 15 guiding principles that enhance the efficiency of internal audits. Each concept is supported by standards that encompass specifications, implementation considerations, and examples of compliance. Collectively, these components aid internal auditors in maintaining principles and fulfilling the objectives of internal auditing.

Financial reporting quality

Financial reporting quality denotes the extent to which financial statements accurately and reliably represent a company's financial performance and position (Ntakiyimana, 2024). It encompasses various aspects of financial reporting, including the precision, comprehensiveness, and clarity of the information shown in financial statements. Providing stakeholders such as creditors, investors, and regulators with precise information to facilitate informed decision-making necessitates superior financial reporting (Madawaki, Ahmi & Ahmad, 2022). High-quality financial reporting ensures that financial statements accurately and objectively reflect the company's financial condition. This indicates that the company's financial performance over a specific period and its financial condition at a particular moment should be accurately represented in the statements. Alongside adherence to relevant accounting standards and principles, high-quality financial reports must be devoid of substantial errors or misstatements (Oladejo, Yinus, Shittu & Rutaro, 2021). Transparency is a fundamental attribute of superior financial reporting. Details on the company's financial activities, including revenue, expenses, assets, liabilities, and equity, must be clear and provided in financial statements. Transparency involves delivering information to stakeholders in a transparent and comprehensible manner, devoid of intentional obfuscation or omission of critical components. Consistency is an essential element of superior financial reporting. Consistent preparation of financial statements across time is essential for comparative analysis across different reporting years. Stakeholders can assess the company's performance and identify trends or changes in its financial status. This research employs accounting conservatism, earnings management, and accruals quality as indicators of financial reporting quality.

Accounting conservatism

Zhang (2008) defines accounting conservatism as the principle that accountants must recognize expenditures and liabilities promptly, whereas income and assets should be acknowledged only when assured. This approach ensures that financial statements depict a more conservative view of a company's financial condition and diminishes the likelihood of inflating financial performance.

Earnings management

Earnings management in this study is defined as both deliberate and inadvertent acts undertaken by managers that influence financial reporting by deceiving some information users. It entails the alteration of financial records by accounting options, estimates, and other procedures permitted by accounting regulations.

Accrual quality

Vafeas and Vlittis (2024) define accrual quality as the accuracy and reliability of accrual-based accounting estimations in representing a company's financial performance. Accruals are adjustments to a company's financial statements within financial accounting to represent income and expenses that have been earned or incurred but not yet recorded in cash. Consequently, accrual quality serves as an indicator of the extent to which these adjustments accurately reflect the true economic activities and conditions of an organization. Elevated accrual quality signifies that the financial statements and reported earnings accurately represent the company's genuine financial performance and condition, providing stakeholders with reliable and precise information for decision-making (Attia, Yassen, Chafai & Qotb, 2024).

Theoretical Review

The research focused on Friedman's (1970) stakeholder theory, which posits that ethical principles and business ethics are essential to organizational management. Wheeler et al. (2003) assert that the integration of organizational and social domains gave rise to this concept. Theorists assert that managers within firms maintain a network of connections with suppliers, employees, lenders, and other business partners invested in the company's success. They make significant decisions that impact the organization and its personnel to attain the organization's objectives, including the management and allocation of resources. Stakeholders has diverse interests in the organization, encompassing both economic and environmental aspects. The interests of the organization's proprietors, personnel, clientele, and local committees should govern its operations and guarantee its sustainability. Top management must safeguard the firm's viability and well-being by reconciling the diverse demands of conflicting stakeholders. The interests of diverse groups and individuals within the organization designate them as stakeholders, and it is presumed that all their interests possess inherent value for the company's sustained performance.

Empirical Review

Ntakiyimana (2024) examines the influence of internal audit on the quality of financial reporting in Rwandan government organizations. The results indicate that, while not statistically significant, the internal audit standard positively influences the quality of financial reporting. The study concludes that internal auditors enhance the quality of financial reports generated by Rwandan government organizations. Abdulhussein, Al-Refiay, and Wahhab (2023) evaluated the impact of internal auditing on corruption and the quality of financial reporting in Iraq. The finding was that internal auditing substantially reduces corruption levels and aids public sector entities in producing high-quality financial reports. Osman and Ronald assessed the influence of internal auditing procedures on the financial performance of the Mandera County Government in 2023. A descriptive design was utilized in the study. The study's target population comprised 432 workers of the Mandera County Government. The research involved a sample of 207 participants selected through stratified sampling methods. The study utilized structured and semi-structured questionnaires for data collection. Correlation analysis was employed to investigate the collected data. The analysis indicates that the financial performance of the Mandera County Government is positively and considerably influenced by internal audit standards and thoroughness. Negussie (2023) examined the impact of internal auditing on the efficacy of financial management within the Ethiopian commercial enterprise Alle Bejimila. Both primary and secondary information sources were utilized. The research indicated that reports and internal audits conducted per international standards substantially influence management decision-making. Usman, Rohman, and Ratmono (2023) investigated the traits of internal auditors, the reliability of external auditors, and the efficiency of audits in Indonesian public enterprises. According to the study's findings, audit efficiency is strongly impacted by how much external auditors rely on internal audit work Mohsin and Yahya (2023) examined the role of internal audit in improving the quality and scope of accounting data in Iraq. The research encompassed a quantitative analysis of data from commercial banks in Baghdad, the capital of the study's country, which employed 10 individuals. The research sample consisted of 140 workers from these banks. The correlational analysis indicates a positive and significant relationship between the quality of accounting information and internal audit. Zaidan and Neamah (2022) examined the influence of internal audit function quality on improving the operational efficiency of Iraqi enterprises, namely within the banking and industrial sectors. The study's findings indicate a positive correlation between operational efficiency and annual training programs on global internal auditing standards and the qualifications and professionalism of the internal audit department's personnel. In 2022, Ahmeti and Iseni conducted a study examining the impact of auditing on the financial performance of insurance companies in Kosovo. Financial success was assessed with ROA and panel data from 2015 to 2020. They utilized Gretl software to do OLS regression analysis for testing their theories. The data indicate that the audit mandate favorably and considerably influenced the performance of audit firms in Kosovo. Mohammed, Oluwaseyi, Wuraola, and Jumoke (2022) determined that audit quality significantly enhances financial reporting quality (FRQ), concluding that audit quality substantially elevates FRQ for Nigerian listed companies. Eskin (2021) identified a positive correlation between the independence and financial acumen of audit committee members and the quality of financial reporting. Furthermore, the personal attributes of audit committee members, including age and gender, influence the quality of financial reporting. Naase, Salakpi, and Iddrisu (2021) discovered that the inefficacy of the internal control system arises from inadequate execution of the control environment and information and communication processes. The effectiveness of auditing methods and fraud prevention indicators demonstrates a moderate level of fraud prevention in the internal audit, whereas the other indicators exhibit a high degree of fraud prevention.

Oladejo, Yinsu, Shittu, and Rutaro (2021) discovered that internal audit attributes such as business size, technical training proficiency, and internal audit fees significantly and positively influence the performance and quality of financial reporting in a sample of Nigerian food and beverage enterprises. Alyaarubi, Alkindi, and Ahmed (2021) examined the correlation between earnings management in Omani firms and the efficacy of internal auditing. The findings demonstrate a strong correlation between internal audit quality and earnings management in both sectors. This suggests that heightened audit quality can augment and refine earnings management in Omani publicly traded companies. Alabdullah and Ahmed (2020) examined the influence of internal audit features on the profitability of the non-financial sector in the Muscat Securities Market (MSM). The findings indicated that comprehensive audits and internal auditing enhance the ROA and ROE of publicly traded companies. Regression analysis served as the data analysis method in Nansamba's (2019) investigation of the influence of internal audit on the financial performance of commercial banks in Uganda, specifically focusing on a case study of the Stanbic Bank Kansanga branch. The study concluded that internal audit standards, independence of internal audit, professional competency, and internal control positively correlate with the financial performance of commercial banks. Eyenubo, Mohamed, and Ali (2017) examined the relationship between the quality of financial reporting in Nigeria and the degree of internal audits. The result illustrates the significance of corporate governance guidance in enhancing the internal audit's oversight and regulatory monitoring inside the financial reporting process. Finally, the study proposed recommendations for enhancing the quality of financial reporting disclosures. Caramanis and Lennox (2008) investigated the impact of audit effort on profit types by utilizing audit hours performed as a mediator. Directors exhibit increased vigilance in overseeing profits with the specific aim of meeting or surpassing income benchmarks when audit scrutiny is diminished. Furthermore, they identified a robust inverse correlation between audit hours and revenue-enhancing profits management. This indicates that a significant number of auditors can detect aggressive earnings management and dedicate additional hours to their work. Consequently, they determined that reduced audit effort enables directors to distort their reported profitability.

Method

This research used an ex-post facto design. The population comprises nine real estate and construction enterprises registered on the Nigerian Exchange Group (NGX) as of December 31, 2023. The total population count was utilized due to the limited size of the population. The research employs secondary data derived from the annual reports of selected real estate and construction companies listed on the NGX covering the period from 2014 to 2023. Descriptive statistics and ordinary least squares regression were utilized in the data analysis. Descriptive statistics, including mean, maximum, standard deviation, and minimum value, were employed to summarize the data. Ordinary least squares regression was employed to assess the study's hypotheses at a 5% significance level. The study's decision criterion is established at a significance level of 0.05. The null hypothesis is rejected when the p-value is below 0.05 (5%), signifying a significant effect; conversely, if the p-value exceeds 0.05 (5%), the null hypothesis is accepted.

Model Specification

The linear regression model analysed in the study is shown below:

$FRQ_{it} = a_0 + b_1IA + FMA + Ɛ_{it}$ ………………………………eqn

Economically, the model is presented as follows;

$ATC = a_0 + b_1IAS_{it} + b2FMA_{it} + Ɛ_{it}$ ………………………………………… [1]

$ESM = a_0 + b_1IAS_{it} + b2FMA_{it} + Ɛ_{it}$ …………………………………………[2]

$ACQ = a_0 + b_1IAS_{it} + b_2FMA_{it} + Ɛ_{it}$ ………………………………………[3]

Where:

IA = Internal Audit
IAS = Internal Audit Standards
FRQ = Financial Reporting Quality
ATC = Accounting Conservatism
ESM = Earnings Management
ACQ = Accrual Quality
FMA = Firm Age
i = the firm
t = time or year
Ɛ = error term
b = regression coefficient
a = constant/intercept term.
f = function.

Description of Variables

Table 1 Operational Measurement of Variables

Name of Variable	Type of Variable	Measurement
Internal audit standards	Independent	"Change in internal audit findings – change in audit costs – change in internal controls + management actions addressing audit findings) / Lagged total assets. It provides guidelines for evaluating internal audit effectiveness and quality" (IIA - Institute of Internal Auditors, 2021)

Accounting Conservatism	Dependent	"Change in liabilities – change in assets – change in equity + depreciation) /Lagged total assets. Calculate the ratio of book value of equity to market value" (Beaver & Ryan, 2000).
Earnings management	Dependent	"Change in earnings – change in cash flow from operations – change in accruals + adjustment for non-recurring items) /Lagged total assets. Assess abnormal levels of operating cash flow, production costs, or discretionary expenses" (Roychowdhury, 2006)
Accrual quality	Dependent	"Change in current assets - change in cash - change in current liabilities + change in maturing long term debt included in current liabilities- depreciation) /Lagged total assets. It focuses on estimating discretionary accruals and comparing them to non-discretionary accruals to detect earnings management" (Jones, 1991)
Firm size	Control	"Logarithmic transformation of Total Asset" (Onyali & Okafor, 2018)
Leverage	Control	"The ratio of debt to equity as at the year-end (DEBT/EQUITY)" (Riahi- Belkaoui, 2003).

Source: Researchers Compilation, 2025

Findings

Descriptive Statistics

Table 2 below displays the descriptive statistics of the study. It describes the nature of the variables used, the number of observations of each variable and the description of their mean, standard deviation, maximum, and minimum values.

Table 2: Descriptive Statistics

Variable	**Obs**	**Mean**	**Std. Dev.**	**Min**	**Max**
accrual_qu~y	80	-.0337269	.1034315	-.4857302	.3623143
earningsma~t	80	-.3935	.3579835	-1.13	.5
basuaccoun~c	80	14.82537	93.03719	-539.73	179.78
ias	80	.7426503	.7780906	-.0025222	2.840457
firmsize	80	6.902318	.8957213	5.410929	8.51712
leverage	**80**	**2.671375**	**3.279216**	**.16**	**16.67**

Source: Analysis Output (2025)

Data Analysis

Ordinary least squares (OLS) regression was conducted, along with diagnostic tests for multicollinearity and heteroscedasticity, following tests for association or correlation between the dependent and independent variables of the study.

Regression Analysis results

Hypothesis one

H_{01}: Internal audit standard has no significant effect on accounting conservatism of quoted real estate and construction firms in Nigeria.

Table 3: OLS Regression Result for Hypothesis one

Source	**SS**	**df**	**MS**		
				Number of obs	**= 80**
				F(3, 76)	= 4.29
Model	98944.7838	3	32981.5946	Prob > F	= 0.0075
Residual	584872.742	76	7695.69398	R-squared	= 0.1447
				Adj R-squared	= 0.1109
Total	683817.526	79	8655.91805	Root MSE	= 87.725

basuaccoun~c	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
ias	-35.55313	14.10233	-2.52	0.014	-63.64036	-7.465906
firmsize	13.85555	14.76349	0.94	0.351	-15.54848	43.25959
leverage	.4216397	3.709142	0.11	0.910	-6.965756	7.809036
_cons	-55.53288	101.9266	-0.54	0.587	-258.5372	147.4715

Source: Analysis Output (2025)

The OLS regression model for Hypothesis One demonstrates statistical significance, evidenced by an F-statistic of 4.29 and a p-value of 0.0075. This signifies that the independent variables (internal audit standard, firm size, and leverage) collectively exert a considerable influence on Basu accounting conservatism. The R-squared value of 0.1447 indicates that the model accounts for 14.47% of the variance in Basu (1997) accounting conservatism. Upon accounting for the number of predictors, the corrected R-squared is 0.1109, indicating that the model's explanatory ability is limited. The internal audit standard (IAS) exhibits a coefficient of -35.5531 and a p-value of 0.014, signifying a statistically significant association at the 5% level. This indicates that with each unit rise in IAS, Basu accounting conservatism diminishes by 35.55 units, ceteris paribus. Stronger internal audit standards correlate with less cautious accounting procedures. Conversely, company size exhibits a coefficient of 13.8556 and a p-value of 0.351, indicating its lack of statistical significance in elucidating Basu accounting conservatism. Likewise, leverage, with a coefficient of 0.4216 and a p-value of 0.910, lacks a statistically significant impact on accounting conservatism. In conclusion, the regression model reveals that only the internal audit standard (IAS) exerts a substantial negative influence on Basu (1997) accounting conservatism, whereas business size and leverage do not significantly affect it. Despite the model's overall statistical significance, it accounts for only a minor fraction of the variance in Basu accounting conservatism.

Hypothesis two

H_{02}: Internal audit standard has no significant effect on earning management of quoted real estate and construction firms in Nigeria.

Table 4: OLS Regression Result for Hypothesis two

Source	**SS**	**df**	**MS**	**Number of obs**	**= 80**
				F(3, 76)	= 4.52
Model	1.53392513	3	.511308376	Prob > F	= 0.0057
Residual	8.59009487	76	.113027564	R-squared	= 0.1515
				Adj R-squared	= 0.1180
Total	10.12402	79	.128152152	Root MSE	= .3362

earningsma~t	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
ias	-.1935798	.0540455	-3.58	0.001	-.3012206	-.0859389
firmsize	-.0361667	.0565793	-0.64	0.525	-.1488541	.0765206
leverage	-.0025843	.0142148	-0.18	0.856	-.0308956	.025727
_cons	.0067999	.3906211	0.02	0.986	-.7711895	.7847893

Source: Analysis Output (2025)

The OLS regression model for Hypothesis Two indicates statistical significance, evidenced by an F-statistic of 4.52 and a p-value of 0.0057. This signifies that the independent variables (internal audit standard, business size, and leverage) jointly exert a considerable influence on earnings management. The R-squared score is 0.1515, indicating that the model accounts for about 15.15% of the variance in profits management. The adjusted R-squared is 0.1180, indicating that the model explains 11.80% of the variance in earnings management, while accounting for the number of predictors. The coefficient for the internal audit standard (IAS) is -0.1936, with a p-value of 0.001, signifying a statistically significant link at the 1% level. This indicates that a one-unit rise in IAS results in a decrease of 0.1936 units in profits management, assuming other variables remain constant. Consequently, more robust internal audit requirements correlate with diminished earnings management. The coefficient for firm size is -0.0362, and with a p-value of 0.525, it lacks statistical significance. This indicates that firm size does not significantly influence earnings management in this model. Likewise, leverage possesses a coefficient of -0.0026 and a p-value of 0.856, signifying that leverage does not exert a significant influence on earnings management. The regression model indicates that internal audit standards (IAS) considerably mitigate earnings management, although business size and leverage exert no significant influence. Despite the model's overall statistical significance, it accounts for just a minor fraction of the variance in earnings management.

Hypothesis three

H_{03}: Internal audit standard has significant effect on accrual quality of quoted real estate and construction firms in Nigeria.

Table 5: OLS Regression Result for Hypothesis three

Source	SS	df	MS		
				Number of obs	= 80
				F(3, 76)	= 3.89
Model	.112445394	3	.037481798	Prob > F	= 0.0122
Residual	.732702659	76	.009640824	R-squared	= 0.1330
				Adj R-squared	= 0.0988
Total	.845148053	79	.010698077	Root MSE	= .09819

accrual_qu~y	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
ias	.0337964	.0157843	2.14	0.035	.0023593	.0652335
firmsize	.0054121	.0165243	0.33	0.744	-.0274988	.038323
leverage	-.0080453	.0041515	-1.94	0.056	-.0163137	.0002232
_cons	-.0746898	.1140829	-0.65	0.515	-.3019057	.152526

Source: Analysis Output (2025)

The OLS regression outcome for Hypothesis Three indicates that the model is statistically significant, exhibiting an F-statistic of 3.89 and a p-value of 0.0122. This signifies that the independent variables (internal audit standard, business size, and leverage) jointly exert a considerable influence on accrual quality. The R-squared value is 0.1330, indicating that the model accounts for about 13.30% of the variance in accrual quality. The adjusted R-squared is 0.0988, indicating that, after considering the number of predictors, the model accounts for 9.88% of the variation in accrual quality. The internal audit standard (IAS) exhibits a positive coefficient of 0.0338, accompanied by a p-value of 0.035, indicating statistical significance at the 5% level. This indicates that for each unit rise in IAS, accrual quality enhances by 0.0338 units, assuming all other factors remain constant. Consequently, enhanced internal audit standards result in superior accrual quality. The coefficient for firm size is 0.0054; nevertheless, with a p-value of 0.744, it lacks statistical significance. This indicates that business size does not significantly influence accrual quality in this model. Leverage has a coefficient of -0.0080 and a p-value of 0.056, indicating marginal significance at the 10% level. This indicates that increased leverage correlates with a minor decline in accrual quality, while the effect lacks strong significance. The regression model indicates that internal audit standards (IAS) significantly enhance accrual quality, suggesting that more robust audit standards lead to improved accrual quality. Nonetheless, business size does not substantially influence accrual quality, whereas leverage exerts a slight negative effect. Despite the model's overall statistical significance, it accounts for only a limited fraction of the variability in accrual quality.

Discussion-Conclusions

Discussion

This study's findings indicate that internal audit standards significantly influence accounting conservatism, earnings management, and accrual quality in publicly listed real estate and construction companies in Nigeria. This section examines these findings within the framework of the empirical reviews presented in the study.

The discovery that internal audit standards substantially influence accounting conservatism is consistent with previous research. Mohsin and Yahya (2023) discovered that internal audit enhances the quality and breadth of accounting information in Iraqi commercial banks, aligning with the principle of accounting conservatism, wherein firms implement cautious financial reporting methods. Ntakiyimana (2024) demonstrates that internal audit standards positively influence the quality of financial reporting in government entities, a characteristic closely associated with accounting conservatism. In these instances, internal audits foster conservative accounting procedures by guaranteeing compliance with financial reporting standards, so averting the inflation of profits. Zaidan and Neamah (2022) examined the function of internal audit in operational efficiency, highlighting that proficient internal audit departments enhance efficiency via strategic decision-making, which likely promotes conservative accounting practices as a facet of prudent financial management.

Research substantiates the substantial impact of internal audit standards on earnings management, highlighting the need of audit diligence in mitigating earnings manipulation. Caramanis and Lennox (2008) established that auditors who invest greater effort in their tasks might significantly reduce earnings management. This corresponds with the discovery that stringent internal audit standards in real estate and construction companies mitigate earnings management by fostering transparency and deterring aggressive financial methods intended to inflate earnings. Alyaarubi, Alkindi, and Ahmed (2021) identified a favorable correlation between internal audit quality and earnings management in Omani firms. The results indicate that enhancing internal audit quality can aid in detecting and regulating opportunistic behaviors associated with earnings manipulation, corroborating the current study's conclusions on the efficacy of internal audit standards in managing earnings.

The substantial impact of internal audit standards on accrual quality corresponds with the findings of Abdulhussein, Al-Refiay, and Wahhab (2023), which indicated that internal auditing is essential in mitigating corruption and enhancing the quality of financial reporting. High accrual quality is a characteristic of trustworthy financial reports, and robust internal audit standards guarantee that accruals (both revenues and expenses) are precisely documented and devoid of manipulation. Usman, Rohman, and Ratmono (2023) highlighted the significance of internal auditors' attributes in augmenting audit efficiency, thereby enhancing accrual quality as auditors guarantee the accurate documentation of revenue and expenses, thereby diminishing the likelihood of earnings manipulation via accruals.

Conclusion

This study investigates the influence of internal audit requirements on the financial reporting quality of Nigerian listed real estate and construction companies, specifically focusing on key aspects such as accrual quality, earnings management, and accounting conservatism, which are significantly affected by internal audit standards. The empirical reviews significantly support the findings of this study. Internal audit requirements strengthen accounting conservatism, restrict earnings management, and improve accrual quality, while also significantly contributing to the overall quality of financial reporting. The stringent implementation of internal audit standards in Nigerian real estate and construction companies corresponds with global research trends that highlight internal audit as an essential instrument for enhancing transparency, accountability, and the quality of financial reporting. These findings underscore the essential function of internal auditing processes in enhancing transparency, improving financial report precision, and deterring earnings fraud. The analysis aligns with other empirical studies that highlight the importance of robust internal audits in enhancing the quality of financial reporting and ensuring superior corporate governance. To maintain financial integrity, it underscores the necessity for construction and real estate firms to adhere to stringent internal auditing protocols. Ultimately, the study provides valuable insights for practitioners and policymakers aiming to enhance the financial reporting processes of Nigerian corporations.

Recommendations

Based on the above findings, the study therefore makes the following recommendations:

i. Augment Internal Audit Training and Standards: Real estate and construction firms should invest in comprehensive training programs to ensure its internal auditors are well-versed in the latest auditing standards and methodologies. This will enhance the overall quality of financial reporting by improving the effectiveness of internal audits and aiding in the detection and prevention of accounting issues.

ii. Establish Comprehensive Monitoring Systems: By instituting more rigorous oversight and monitoring frameworks aligned with internal audit standards, including regular evaluations of internal audit processes and their impact on financial reporting, organizations can ensure ongoing compliance with best practices and enhance the reliability of their financial statements.

iii. Foster a Culture of Transparency and Accountability: Cultivating an environment that prioritizes accountability and transparency in financial reporting is essential for organizations. This can be achieved by promoting ethical conduct, maintaining transparent communication, and exhibiting leadership dedication. By fostering such a culture, companies can mitigate the risks of profits management and guarantee that financial reporting accurately represents the organization's genuine economic status.

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