Transfer Pricing and Organizational Performance of Multinational Corporations in Nigeria: A Mediating Effect of Audit Quality

Niyi Solomon AWOTOMILUSI (Ph.D), Oluwapomile Joseph OBAMOYEGUN* & Omobolanle Abike AJIBOLA

Department of Accounting, Afe Babalola University, Ado- Ekiti, Ekiti State, Nigeria

***Corresponding Author**

DOI: https://dx.doi.org/10.47772/IJRISS.2024.804100

Received: 16 March 2024; Revised: 31 March 2024; Accepted: 04 April 2024; Published: 10 May 2024

ABSTRACT

Aim: The relationship between the enforcement of transfer transaction prices and organisational success is getting more complex. Hence, the primary aim of this study is to examine the effects of transfer pricing on the financial performance of Nigerian-listed multinational companies (MNCs), while also considering the potential moderating effect of audit quality.

Methodology: The research design used for this study was *ex post facto*. The study used a sample of 10 Multinational Corporations that were listed on the Nigeria stock market as of December 2023. The research used panel regression analysis to investigate the influence of transfer price on the overall performance of multinational companies (MNCs), with a particular focus on the mediating effect of audit quality.

Findings: The research found that, when taking into account the effect of audit quality, the exchange rate has a positive influence on the financial performance of multinational firms, as measured by return on assets (ROA). Furthermore, the analysis of the impact of audit quality on effective tax rates demonstrates a statistically significant negative relationship with the financial success of multinational corporations, as assessed by return on assets (ROA).

Conclusion: The performance of multinational corporations in Nigeria is highly influenced by transfer pricing, especially when considering factors such as exchange rate and effective tax rate, which are regulated by audit quality.

Recommendation: It is recommended that multinational corporations undertake appropriate measures to enhance their effective tax rate in order to enhance performance and mitigate expensive errors via the implementation of high-quality audits in the context of transaction transfer pricing rules.

INTRODUCTION

The measurement of management performance may be assessed by evaluating the extent to which value management enhances organisational outcomes on a global scale. In order to achieve long-term objectives, maintain the continued sustainability of the organisation, and enhance future prospects, it is essential for financial management to include judicious expenditure. The conventional sources of argumentation revolve around matters pertaining to the accurate management of a business's finances, the attainment or surpassing of sales forecasts, and the efficient utilisation of all available resources (Augustine & Abdulrahman, 2022). Three key criteria define a successful company. One of the primary determinants is the productivity of the

organisation, which is contingent upon the efficient conversion of inputs into finished products. Next, we will examine the profitability of the firm, which may be defined as the disparity between its revenue and expenses. The third factor under consideration is the market premium, which represents the disparity between a firm's book value and its market value (Augustine & Abdulrahman, 2022). Based on empirical evidence, it has been observed that intra-group commerce is experiencing a rapid expansion and is estimated to constitute a significant portion, perhaps exceeding 30%, of the whole volume of world trade. The interactions inside a group or business are influenced by a mix of group dynamics and market pressures, in contrast to the free-market conditions that exist between autonomous organisations (Adum, 2015). While each branch of a multinational corporation operates autonomously, they are all aligned with the overarching corporate objectives. The objective of achieving a "good profit" is among these aims. Multinational corporations (MNCs) engage in international commerce by conducting transactions across their several business divisions, including their parent company, foreign subsidiaries, and subsidiaries located in multiple countries, in order to achieve their objectives. The exchange of goods or services across various divisions of multinational corporations is often referred to as "trade," and it incurs a specific expense called the "transfer price" (Jude & Atu, 2010).

Transfer pricing is the method used to ascertain the value of products, intangible assets, and services in transactions that include related parties or firms operating under shared ownership. The significance of transfer pricing extends beyond its role in safeguarding the interests of minority investors or creditors in corporate subsidiaries. (Adum, 2015) conducted a study on this topic. The primary objective of transfer pricing is to incentivize managers to consistently prioritise the overall interests of the company. However, the purpose of transfer pricing has become increasingly distorted due to the cross-border transactions conducted by multinational corporations involving the transfer of goods or services. These transfers elicit the attention of corporations about tax obligations, liabilities, and currency rate uncertainties, thus enhancing the company's competitive advantage and bolstering its market position (Rina & Ermadiani, 2020). The impact of transfer pricing on income taxes is heightened when the entities involved in the transaction are liable to various tax jurisdictions. According to Adum (2015). During the process of consolidating the financial statements of controlled foreign businesses and their domestic parents, it is common practise to exclude intercompany transactions. However, it is important to note that for tax purposes, these entities are not consolidated, leading to the non-consolidation of the transactions (Adum, 2015). Differential tax rates implemented across various areas and jurisdictions facilitate the process of transfer pricing and contribute to the establishment of some countries as tax havens (Brock & Pogge, 2014; Cristea & Nguyen, 2016). Multinational corporations (MNCs), which have seen rapid growth facilitated by globalisation and technological advancements, often participate in the aforementioned endeavour (Tatum, 2019).

Transfer pricing is a commonly used strategy by corporate organisations to mitigate their tax liabilities. By attributing a significant portion of their profits to jurisdictions with lower tax rates, organisations are able to effectively reduce their total tax burden (Osho & Ilori, 2020). Transaction transfer pricing plays a crucial role in facilitating firms' decision-making processes by effectively mitigating corporate income tax liabilities and facilitating the movement of funds from countries that impose limitations or complete prohibitions on profit repatriation (Tebogo, 2011). The policy of corporate organisations with regard to transaction transfer pricing is influenced by several factors. These factors include the price level in the host country, the political and economic risks associated with the transaction, the currency legislation in place, and the fiscal considerations of the countries involved in the cross-border activities of member companies within the group (Osho & Ilori, 2020). The existing body of research on domestic management accounting and control has mostly focused on the topic of transfer pricing, as shown by the works of Nikolaos (2009) and Gosh (2000). The field of tax law encompasses the examination of diverse national tax systems, the analysis of tax compliance obligations, and the evaluation of optimal transfer pricing methodologies from a fiscal standpoint. The investigation of cross-border transfer pricing in multinational firms is often situated within various branches of academic research, as seen by previous studies (Douvier, 2005; Nikolaos, 2009).

The study on tax accounting (Adams & Drtina, 2010; Dürr & Gök, 2013) investigates the degree to which variances in tax rates among nations contribute to the manipulation of transfer pricing and the shifting of revenue. The contingency literature offers an alternative viewpoint, elucidating the goals of the transfer pricing policy as well as the organisational and environmental aspects that impact the international transfer pricing approach. Previous studies have shown a correlation between the use of transfer pricing by multinational corporations (MNCs) and substantial tax advantages and cost reductions (Cristea & Nguyen, 2016; Flaaen, 2016; Vicard, 2015). In his empirical investigation of the correlation between transfer pricing and corporate tax evasion in Ghana, Acquah (2017) used discretionary accruals as an interaction factor. To the best of our understanding, there is a dearth of research examining the relationship between multinational enterprise (MNE) transfer pricing and management control system (MCS) performance, specifically considering the influence of audit quality.

The significant surge in Foreign Direct Investment (FDI) inflows over the preceding decade has emerged as the primary catalyst for transfer pricing within the African context (Blanas & Seric, 2018). Gravelle (2013) asserts that transfer pricing has transitioned from a niche subject to a subject that is now well-understood by the general public. The existing corporate tax regimes, namely in Nigeria and other African countries, provide several challenges to transaction transfer pricing strategies inside business organisations (Osho & Ilori, 2020). The existence of varying legislation governing the tax liabilities of subsidiaries, which are contingent upon the nature of their operations in various host nations, provide opportunities for corporate entities engaged in cross-border activities to evade tax obligations. Disagreements between tax authorities and taxpayers may arise in many circumstances due to the tax authority's application of an unfavourable economic approach or tax categorization to business organisations. The practises of transfer pricing employed by corporate organisations are subject to considerable challenges in accurately assessing them due to the presence of economic integration and globalisation (Osho & Ilori, 2020).

Emerging nations have adverse effects from the transfer pricing procedures used by multinational corporations (MNCs) due to their limited human capacity and inadequate tax regulations to effectively manage the complexities associated with such interconnected transactions (Acquah, 2017). Based on an initial examination conducted by the United Nations Conference on Trade and Development (UNCTAD), it has been determined that offshore investments made by developing countries lead to an approximate annual loss of tax income amounting to USD 100 billion (UNCTAD, 2015). The implementation of transfer pricing practises results in a decrease in tax revenue for the host government due to the facilitation of profit erosion (Olufemi & Patrick, 2021). The expected exacerbation of the tough issue of double taxation faced by multinational enterprises, which might result in significant financial implications, is attributed to the disparate development of national laws (Augustine & Abdulrahman, 2022). Multinational corporations use transfer pricing, a practise including the assessment of costs and invoiced prices across various subsidiaries within the organisation, in order to ascertain the allocation of value creation and the corresponding tax obligations across multiple jurisdictions. In order to uphold fairness in intra-firm agreements, governmental bodies often carry out price inspections (Augustine & Abdulrahman, 2022).

The recognition of transactions involving related parties is a crucial and complex aspect of conducting an audit and assessing the correctness and reliability of financial statements.

Interactions among affiliated entities are often seen within the realm of commerce and industry. The quality and integrity of financial data, particularly for enterprises and organisations with diverse structures, are consistently essential. In order to conduct a complete review, it is important to thoroughly examine and fully comprehend the intricacies of the subject matter (Tatum, 2019). The significance of transfer pricing in a firm with subsidiaries lies in its ability to provide a substitute selling price for internal activity, facilitate profit generation for divisions with profit-oriented goals, and promote collaboration across divisions. In order to effectively attain divisional and organisational objectives, managers need to adopt appropriate

policies (Eukeria, Shewangu, & Dzingirai, 2021). From the standpoint of multinational enterprises, modifying transfer pricing has the potential to provide favourable outcomes in both the immediate and extended periods for the organisation. According to Nikolaos (2009), the economic landscape encompasses several factors such as anti-dumping legislation, regulatory frameworks, exchange limitations, currency volatility, repatriation of profits, taxation policies, and customs tariffs. These elements are expected to have both immediate and enduring effects. Transfer pricing may be used by managers to manipulate profits and effectively mitigate their tax liabilities. Nevertheless, the occurrence of such situations may be mitigated if both local and international governing bodies implement certain precautionary measures. Fines are levied by tax authorities in conjunction with increased tax payments resulting from adjustments in transfer prices, upon discovering violations of the arm's length principle during transfer pricing audits conducted on multinational corporations (Nikolaos, 2009).

Due to the relatively recent emergence of transfer pricing as a concept on a global level, this study will provide a substantial addition to the existing body of literature. Moreover, it will be very valuable to the academic community and provide a solid groundwork for future research endeavours in the field of transfer pricing. The findings of this investigation will have considerable importance for several stakeholders. Investors are motivated to allocate their capital in areas or geographical locations that provide substantial financial gains, primarily with the intention of benefiting both the investors and creditors. The creditors need assurance that their obligations will be settled in a timely manner.

This study has significance for income tax authorities as it pertains to the potential influence on corporate profits taxation, therefore contributing to the provision of public amenities and upholding legitimacy. The study was conducted at a period in which the Federal Inland income Service (FIRS) had raised its income targets in order to meet economic advancements and fulfil state obligations. This research will also have significance for company executives since their compensation is often contingent upon the performance of the organisation. The finance directors have the direct duty for generating financial statements that include all intercompany activities and provide pertinent information to external stakeholders. The primary emphasis of this research will be on international firms that were officially listed on the Nigerian Stock Exchange as of December 2022. The correlation between the implementation of transfer transaction charges and the achievement of favourable organisational performance is becoming more intricate. Consequently, the objective of this research is to examine the impact of transfer pricing on the financial performance of multinational corporations (MNCs) listed in Nigeria, with a particular focus on the moderating role of audit quality. This research aims to examine the impact of effective tax rates on the performance of listed multinational corporations (MNCs) in Nigeria, taking into consideration the moderating role of audit quality. Additionally, it seeks to investigate the influence of exchange rates on the performance of listed MNCs in Nigeria, also considering the moderating influence of audit quality.

LITERATURE REVIEW

Concept of Transfer Pricing

According to Kayode (2003), transfer prices may be described as the prices assigned to commodities and services that are traded between divisions functioning under the supervision of a central management. The phrases "intra-corporate transfer price" and "inter-corporate transfer price" are used to differentiate transactions that occur inside divisions of a single corporate entity from those that take place across many corporate entities within a larger organisation. In the context of this research, any transfer occurring inside a big company family is denoted as inter-corporate. The terms "transfer price" and "inter-corporate pricing" are sometimes used synonymously.

The conceptualization of "transfer price" exhibits variability among different authors. According to Okoye

(1997), a transfer price may be defined as the monetary value assigned to products or services provided by one division to another division within the same organisation. According to Adeniji (2005), the term refers to the financial worth assigned to products produced by a certain decision-making entity and afterwards moved to another division for incorporation into the ultimate output of that division. Dean, Feucht, and Smith (2008) define intra-firm transfer pricing as the practise of determining the prices of products and services that are exchanged inside a business group, including transactions between a parent company and its subsidiary, transactions between subsidiaries, and transactions between a subsidiary and its parent company. The term "transfer price" refers to the price at which goods, services, or intellectual property are exchanged between different divisions or entities within the same organisation. Based on the above given definitions, transnational transfer price may be conceptualised as the expense used to determine the worth of the goods and services exchanged among the different multinational corporation (MNC) entities. According to Jude and Atu (2010), a significant number of multinational corporations (MNCs) place great importance on inter-corporate transfers, not only due to their financial advantages but also because they enable the companies to sustain their operations.

Multinational corporations (MNCs) has inherent advantages over local enterprises as a result of their creative capabilities. Based on the figures provided by Eukeria, Shewangu, and Dzingirai (2021) as well as Murphy (2012), it has been determined that multinational corporations (MNCs) experience an annual loss of about US$160 billion in sales due to the implementation of exploitative transfer pricing practises. Therefore, it is essential to emphasise the significance of understanding the transfer pricing strategies of multinational corporations (MNCs) due to their implications for taxes and the ability of governments to provide public goods and services. These factors directly affect social welfare (Eukeria, Shewangu, & Dzingirai, 2021). A multinational corporation employs transfer pricing in transactions with its related parties, such as subsidiaries situated in foreign countries, to enable its managers to transfer profits from one subsidiary to another. This practise is employed to reduce the tax liability in a country with higher tax rates (Nikolaos, 2009). The use of this strategy may pose several concerns for the host country due to the subsidiary's reduced profitability and increased tax planning flexibility. According to Nikolaos (2009), here are a few causes of these discrepancies:

i The manipulation of subsidiaries' asset bases by multinational corporations, which may affect the return on capital.

ii Multinational firms may use the practise of manipulating transfer prices in intra-firm transactions as a means to either reduce or augment earnings inside a certain organisation.

iii Differences in accounting practises, include the treatment of depreciation provisions and asset valuation, among others.

Additionally, managers of international corporations may influence transfer prices and skew earnings in the following ways (Shapiro, 2005):

Tax arbitrage: The phenomenon being discussed involves the movement of income from entities located in regions with high tax rates to entities situated in regions with lower tax rates. Additionally, it encompasses the shifting of profits from entities that generate profits to entities that incur tax losses, all while adjusting the tax rate in order to reduce the total tax liability.

Financial market arbitrage: moving money between units to get around exchange regulations, increase returns on extra cash, or lower borrowing costs.

Credit control purposes: involves easing credit restrictions on a specific subsidiary to get outside funding,

increase short-term earnings, and establish a dominant position in the market.

Regulatory system arbitrage: determining genuine profitability by distributing earnings among units in compliance with the government.

The subject matter under scrutiny within the discourse among scholars and professionals pertains to the question of whether managers engage in the manipulation of transfer prices as a means to reduce their tax liabilities. Various incentives may be seen in this context, such as the desire to minimise worldwide tax obligations, including customs and excise taxes. Additionally, the concentration of wealth in a single location, the reduction of exposure to risks associated with inflation and currency rates, the avoidance of limits on dividend repatriation, and the consolidation of financial resources are among the factors driving these motivations. In the year 2009, Nikolaos (last name omitted) made a significant contribution or achievement. The profitability of enterprises within the same group may be significantly impacted by costs related to transaction transfer pricing. The effects of transfer pricing exert notable pressure on corporate entities that are affiliated with the same group (Osho & Ilori, 2020). Transfer pricing approaches also prioritise several aspects of transactions, including delivery, warranty, payment terms, and price inside corporate entities. Transfer pricing has a significant impact on the formulation of internal tax policies inside companies. In the scholarly work of Osho and Ilori (2020), the concept of transfer price is defined as the mutually agreed upon price at which a division within an organisation transfers both tangible and intangible goods to another division within the same multinational corporation, spanning across two or more countries.

Transfer Pricing Methods

Multinational corporations (MNCs) often use a diverse range of transfer pricing methodologies. The chosen strategy will be contingent upon the desired objectives or selected policies. According to Omoye and Okafor (2004), the various ways to transfer pricing include cost-based, negotiated, and market-based methods.

The market price is the monetary value at which products and services are made available for purchase on the open market. It is recommended for use in scenarios involving diverse buyers and sellers, as well as for the assessment of economic performance. In addition, there exist some drawbacks associated with the use of a transfer price predicated on market pricing. This includes the potential for complications arising in cases when the commodities being transferred do not possess a readily ascertainable market price. Nevertheless, in contemporary regulated economies, fully competitive markets are very rare, hence potentially compromising the efficacy of market prices. Moreover, it cannot be certain that the market price of a product will precisely align with its quality and other essential attributes; the market price may deviate significantly and be considered a distressed price (Adediran, 2006).

The term “negotiated price” is used to describe a transfer price that has been mutually agreed upon between the receiving and giving responsibility centres, with the intention of benefiting both parties involved. When both parties possess comparable bargaining power, this approach is seen as effective in achieving satisfactory outcomes for performance assessment. The department responsible for selling and managing profit centres gets a transfer price that is equal to the unit cost of production using the cost-based approach. Costs may be classified into three categories: total costs, standard costs, and variable costs. This strategy offers advantages since it simplifies the process of acquiring cost information.

The selection of a strategy by multinational corporations (MNCs) is, however, subject to the effect of their transfer pricing policies and the objectives they want to achieve via it. According to Omoye and Okafor (2004), MNCs would use specific tactics due to the uniqueness of their objectives. Mueller et al. (1991) have provided a classification of MNC international transfer pricing aims, as outlined by Omoye and Okafor (2004). These goals include the minimization of global income tax, import tariffs, avoidance of financial

restrictions, management of currency fluctuations, and obtaining support and consent from host nations.

The use of differential transfer pricing strategies, wherein higher transfer prices are applied to goods and services entering countries characterised by high tax rates, while lower transfer prices are employed for nations with low tax rates, might potentially lead to a reduction in worldwide income tax burdens. Consequently, the receiving nation's receiver unit will have a reduced corporate income tax rate as a result of the high-tax-rate recipient nations facing elevated costs of provided items and diminished profitability. The multinational corporation (MNC) is expected to generate a significant overall profit, although its tax liability is projected to be minor due to the strategic allocation of profits in jurisdictions with lower tax rates.

Challenges of Transaction Transfer Pricing

Transaction transfer pricing policies encounter various challenges when implemented within corporate organisations. One prominent issue pertains to the potential tax evasion by corporate entities engaged in cross-border activities. This is primarily due to inconsistencies in the regulations that result in different tax rates being applied to each subsidiary based on the specific activities conducted in the respective host countries. Consequently, conflicts may arise between tax authorities and taxpayers across several domains, since the governing body may decide for an unfavourable economic approach or an unfavourable tax categorization for corporate entities.

The determination of accurate transfer pricing practises used by business organisations is significantly challenged by economic integration and globalisation (Adum, 2015). The increasing number of transactions inside emerging corporate entities presents a challenge in accurately determining transaction transfer prices. Additionally, the enforcement of consistent worldwide transaction transfer pricing restrictions on corporate entities that fail to comply with the tax laws of the host nation may provide challenges (KPMG, 2017). Furthermore, mitigating the impact of internal transfer price modifications on double taxation is a significant challenge. Finally, the use of the Arm's length principle in transaction transfer pricing might be a laborious process due to the potential difficulties in identifying and gathering all the necessary transactions for calculating purposes.

Transfer Pricing in Nigeria

The Board of the Federal Inland Revenue Service (FIRS) is in charge of transfer pricing regulation and monitoring in Nigeria. This responsibility was given to FIRS in 2014. The Income Tax (Transfer Pricing) Rules were made available for public consumption by the Federal Inland Revenue Service (FIRS) in the year 2018. Both particular amendments to the Transfer Pricing Guidelines of the Organisation for Economic Co-operation and Development (OECD) (ATAFSA) and the Recommended Method for Drafting Transfer Pricing Regulations by the African Tax Administration Forum (ATAF) were included into the Regulations. The Recommended Method was developed by ATAF. KPMG (2018) states that the revised regulations were operational on March 12, 2018, and it is anticipated that they would apply to basis periods beginning after such date. This is because the date on which the revised rules became operational was March 12, 2018.

The revised regulations, which nullify and substitute the Income Tax (Transfer Pricing) Regulations of 2012, incorporate several significant updates pertaining to transfer pricing (TP) that were introduced in the 2017 editions of the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (OECD TPG) and the United Nations Practical Manual on Transfer Pricing for Developing Countries (UN TP Manual) (Ernst & Young, 2018). These updates were introduced in the 2017 editions of both documents. The revised legislation included the processes outlined in the Organisation for Economic Cooperation and Development TP Guidelines, which pertain to the assessment of intra-group services and intangibles, as well as adherence to the arm's length principle (KPMG, 2018). According to Templars (2018), it was expected that the revised Rules would have a positive impact on Nigeria's tax revenue and

contribute to the reduction of tax evasion. This would be achieved by implementing measures that ban the practise of under- or overcharging related party transactions. Transfer pricing (TP) is often juxtaposed with the market price, sometimes referred to as the arm's-length price, which denotes the value of a similar transaction between unrelated third parties on the open market (Arnold & McIntyre, 2002). According to Sikka (2017), the laws set out by the OECD require enterprises to determine their expenditures and earnings based on the principles of "arm's length." According to the notion put forward by the Organisation for Economic Co-operation and Development (OECD, 2006), transactions are assessed based on the assumption that they were conducted between unrelated parties. Consequently, several frameworks, agreements, and international standards are being developed in order to address the issue of transfer pricing (Organisation for Economic Co-operation and Development [OECD], 2009, 1979; European Commission, 2004). According to Rina and Ermadiani (2020), there exists a consensus among experts, as stated by Ipso Facto, that the expenses associated with appraising non-marketed transactions should be commensurate with those incurred in assessing a comparable arm's length transaction.

Organizational Performance

The term "performance" refers to the degree of accomplishment that a corporation attains in relation to its predetermined goals and objectives. The issue of selecting performance measurements has been a recurring challenge in the aforementioned research on company financial performance (Asen, Nwude, Idamoyibo, Ufodiama & Udo, 2021). Which statistical measure most effectively depicts the performance of a business? Within the domain of finance, the notion of "performance" is a subject of intense scholarly discourse due to its multifaceted nature and the many interpretations it encompasses. Theoretical foundations for examining corporate success include organisational theory and strategic management (Murphy, Trailer, & Hil, 1996). The consequences of a performance are contingent upon the audience and the objectives of the performance. Investors need confidence over the ability of the firm to fulfil its core requirements while also achieving growth (Brown & Medoff, 2003). An effective method for evaluating the financial performance of a company involves the analysis of its financial statements. Financial statements may provide management with valuable insights on the company's available resources, various financing options, and overall performance. The financial statement serves as a tool for assessing the effectiveness of management. The statistic often referred to as return on assets (ROA) is frequently used by many scholars to evaluate the performance of a corporation. Notable researchers such as Chen, Paulraj, and Lado (2004) as well as Cronqvist and Nilson (2002) have utilised this metric in their studies.

The Mediating Effect of Audit Quality on Transfer Pricing and Performance of MNC

The need of meeting the IAS criteria makes this aspect of the audit of utmost importance. The disclosure of transactions between affiliated parties should occur irrespective of their occurrence. Moreover, according to Nikolaos (2009), in the event of transactions occurring between affiliated parties, it is required for an entity to provide disclosure pertaining to the nature of the related party relationship, details regarding the transactions, and any outstanding balances that are essential for comprehending the potential impact of the relationship on the financial statements.

The significance of related party transactions lies in their ability to introduce inaccuracies or mislead financial statements when adequate disclosure is lacking. Additionally, these transactions may be used to facilitate fraudulent financial reporting and asset misappropriation. Earnings manipulation or the falsification of reported results may be facilitated by affiliated entities, such as controlled companies or primary owners, by the deliberate withholding of information. Typically, transactions of this sort entail a significant level of audit risk. Audit risk consists of two primary elements: inherent risk and controllable risk. Inherent risk refers to the possibility that the balance or class, as well as the associated assertions, may contain misstatements, whether due to fraud or error. When combined, these misstatements could potentially have a significant impact on the financial statements. On the other hand, controllable risk pertains to the risk

that the auditor may fail to identify and address such misstatements. This concept of detection risk highlights the possibility of the auditor not detecting material misstatements during the audit process (Nikolaos, 2009).

The audit of related parties and related party transactions presents significant challenges owing to the intricate nature of these transactions and the elevated level of audit risk they entail. While there may be additional techniques often used, the internal auditor places significant reliance on management for the identification of all relevant persons and transactions that are not readily traceable via a company's internal controls. According to Nikolaos (2009), it is essential for internal auditors to possess a comprehensive understanding of the complexity associated with the audit process, in addition to engaging in meticulous preparation and analysis.

The internal auditor should consider generally recognised auditing standards when determining the appropriate direction and instructions for processes. These standards help identify related party connections and transactions, as well as ensure the accurate recording and adequate disclosure of significant transactions in the financial statements. However, it is not feasible to expect that an audit of intercompany transactions can ensure the precise identification of all affiliated entities. Internal auditors should consider the presence of related parties and the nature and extent of transactions with such parties, especially in cases where these entities have not undergone an audit or there are limitations on the scope of the audit. This consideration should be made during the planning and scoping phase as well as the risk assessment stage (Nikolaos, 2009). The audit risk is considerably elevated when substantial transactions involve individuals, such as investors or executives, rather than organisations.

THEORETICAL REVIEW

Purchasing Power Parity

The concept was formulated by Menon and Viswanathan in their study conducted in 2005. In theory, it is posited that despite the existence of several currencies, things would be uniformly priced around the globe. The convergence of currency values is contingent upon the equitable buying power among individuals residing in different countries. According to a hypothesis proposed by Reid and Joshua (2004), the relationship between commodity price levels and a country's currency should be reflected in a certain ratio.

Ross (2008) posits that the observed decline in buying power might perhaps be attributed to an inaccurate assessment of currency value. The fundamental principles of this theory posit that commerce is unimpeded by obstacles, transaction costs are absent, and all traded items possess homogeneity. If the trade currency is exchanged at the prevailing rate, it is expected that a standardised product will have consistent pricing across all locations. Augustine and Abdulrahman (2022) argue that price indices have the potential to serve as a means of evaluating regional price disparities pertaining to a certain commodity. Estimating buying power parity based on price indexes might provide challenges due to the use of varying items to calculate price levels across various nations (Reid, 2005). The aforementioned concept has significant importance as it elucidates the underlying reasons for the variations in values across different currencies. The appropriate exchange rate for transfer pricing across all branches of a multinational corporation (MNC) is determined by the purchasing power parity, which is the rate at which a unit of currency can purchase an equivalent quantity of products and services in different countries (Augustine & Abdulrahman, 2022).

Empirical Review

The study performed by Rina and Ermadiani (2020) focused on the whole of manufacturing businesses that were listed on the Indonesia Stock Exchange (IDX) over the time span of 2013 to 2018. The present study used a descriptive quantitative research design in order to measure and quantify the magnitude of the

association between the variables under investigation. The objective of this research endeavour was to quantitatively assess the influence of taxes, debt covenants, and currency rates on the organisational decision-making process regarding the use of transfer pricing. Based on the data analysis results obtained in this research, it is evident that three distinct independent factors, namely tax, debt covenant, and exchange rate, have a statistically significant influence on the dependent variable, transfer pricing, with both positive and negative effects seen.

The research conducted by Olufemi and Patrick in 2021 seeks to examine the influence of the association between transfer pricing and accruals earnings management on the capacity of multinational companies (MNCs) to engage in corporate tax evasion within the Nigerian context. One of the specific objectives of this research is to assess the impact of discretionary accruals and the transfer price index of multinational firms on the sensitivity of book-tax disparities and effective tax rates. The present study employs an ex post facto research approach. The sample consisted of a total of 50 Multinational Companies (MNCs), selected using purposive sampling methodology. The data was analysed using the panel Estimated Generalised Least Squares (EGLS) technique, using the specification models with period random effects. The results of the study suggest that the relationship between discretionary accruals and transfer price index has a negative influence on both book-tax disparities and effective tax rates. The research reaches the conclusion that both accruals earnings management and transfer pricing have significant importance. Additionally, it is recommended that the government undertake a thorough examination of its tax policies in order to attract a greater influx of foreign direct investment (FDI). Furthermore, it is advised that the governing bodies of multinational corporations (MNCs) exercise prudence in regards to engaging in transfer price manipulation, as it could potentially signify managerial opportunism aimed at serving their own interests. In the process of formulating local legislation, it is essential for local tax authorities to thoroughly contemplate the distinctive attributes of the host country.

The primary objective of Osho and Ilori (2020) was to examine the influence of transaction transfer pricing on corporate taxation in Nigeria. The research design used in this study was descriptive. The study utilised secondary data sourced from the KPMG International (Tax) Bulletin report, focusing on a sample of fifty (50) prominent corporate entities operating in Nigeria. The data spanned the period from 2014 to 2018, enabling an examination of the influence of transaction transfer pricing policies on various aspects of business performance, including growth, tax rates, profit rates, and tax liabilities within these organisations. The outcomes of the research revealed that transaction transfer pricing rules have a beneficial effect on corporate entities in Nigeria as they experience growth in their operations. It is recommended that corporate organisations use appropriate safeguards and mitigate costly errors while implementing transaction transfer pricing requirements.

The financial implications of different transaction transfer pricing schemes were investigated by Augustine and Abdulrahman (2022). This research aims to investigate the influence of several factors, such as target price, interest rate, inflation rate, and exchange rate, on the financial performance of publicly listed Nigerian food and beverage firms. The research analysed secondary data obtained from the financial reports of the 21 firms under consideration, with a sample size of 5. The period from 2012 to 2021. The study used panel regression analysis methods. For both instances, the coefficients were 0.151676 ($p = 0.0074 > 0.05$) and 0.222465 ($p = 0.3297 > 0.05$), correspondingly. According to the findings from the fixed effect analysis, it was observed that the relationship between transfer price and interest rate with profit after tax was positive but not statistically significant. On the other hand, the relationship between inflation rate and exchange rate with profit after tax was found to be negative and also not statistically significant. The association between transfer price and interest rate with profit after tax persisted, however it remained positive but statistically insignificant. The research findings revealed that transaction transfer pricing rules have a significant influence on the performance of firms, yielding both positive and negative effects, particularly when considering net income as a key metric. Due to the projected alterations in these variables, it was concluded

that the food and beverage sector would benefit from implementing a method to mitigate the impact of fluctuations in exchange rates and inflation.

Eukeria, Shewangu, and Dzingirai (2021) provide a comprehensive examination of the intricate dynamics characterising the interaction between multinational corporations (MNCs) and tax consultants (TCs). The role of tax consultants (TCs) in promoting taxpayers' participation in abusive transfer pricing (TP) practices has significant policy implications, especially in cases where tax administration institutions are lacking in effectiveness. The study uses deductive theorising to investigate tax evasion by multinational firms, using game theory. It begins by analysing the overarching and universal components of multinational corporations (MNCs). This study investigates the impact of transfer pricing (TP) decision-making processes on multinational corporations (MNCs) and critically evaluates the underlying assumptions of game theory. This paper offers a theoretical rationale, namely interpretative phenomenology, to advocate for the use of game theory as a means to enhance multinational corporations' understanding of transfer pricing at a more profound level. This work contributes to the advancement of knowledge by integrating three distinct themes connected to TP that have previously been examined independently in existing scholarly literature. The findings indicate that the clandestine collaboration between tax consultants (TCs) and multinational corporations (MNCs) serves to legitimise the exploitative transfer pricing (TP) practises by decreasing the probability of detection by tax authorities due to information asymmetry. Furthermore, there exists a polarisation among multinational corporations (MNCs) and tax consultants (TCs) about their endorsement of the mediation role performed by TCs, which ultimately leads to a division of benefits at the expense of tax authorities.

The study conducted by Pamungkas and Nurcahyo (2018) examines the influence of multinational corporations, transfer pricing, and company performance (specifically, liquidity, profitability, and leverage) on the practice of tax avoidance among firms listed on the Indonesia Stock Exchange in the year 2017. The research investigates the significance of these factors in relation to corporate governance and the overall performance of the companies. The use of transactions conducted between interconnected firms and their potential association with tax evasion serves as a means to approximate the effectiveness of transfer pricing control and Controlled Foreign Corporation (CFC) rules. This study focuses on the firms listed on the Indonesia Stock Exchange in 2017, except for those in the financial and banking industries. During the duration of the inquiry, a total of 536 enterprises were recorded on the IDX. This study distinguishes itself from previous research by conducting a more comprehensive analysis of transfer pricing regulations and their susceptibility to tax fraud, with a specific focus on multinational firms. The study considered characteristics associated with multinational corporations since 49% of the enterprises identified were international. The present research employs the route analysis technique using SPSS AMOS 22.0. Transfer pricing and tax avoidance are aspects that are influenced by internal factors inside a company, whereas corporate governance variables and business performance are influenced by external ones.

In her study, Beatrice (2014) examined the impact of transfer pricing on the tax planning strategies of multinational firms operating in Kenya. The study used a descriptive methodology. The research used primary data collected from a sample of multinational corporations located in Nairobi and its environs. The data was analysed using SPSS, using multiple factors, to illustrate the degree of correlation between the variables under investigation. In summary, the results provide indirect evidence that transfer pricing, along with other factors, plays a role in influencing tax planning behaviour inside multinational corporations. The research presents evidence of a positive connection between the dependent variable, tax saved, and the independent variables, transfer price adopted and the number of subsidiaries held by a multinational corporation. Based on the findings of the research, it can be inferred that transfer pricing presents a multitude of operational, legal, and tax complexities. Transfer pricing has a significant impact on the tax planning strategies used by firms in a broad sense.

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS |Volume VIII Issue IV April 2024

METHODOLOGY

This inquiry will use a research design often referred to as ex-post-facto. This research style utilises pre-existing knowledge derived from previous events. The research covers the whole population of international firms that were officially listed on the Nigerian Exchange Group (NGX) as of December 31, 2022. The research will use deliberate sampling to choose a representative sample from the total population. In this specific situation, purposive sampling will be used, however, other sampling methods may also be considered in order to enhance the overall validity of this research endeavour. The scope of this inquiry will be directed against a selection of ten multinational firms that are currently listed on the Nigerian Stock Exchange (NGX) as of December 2022. The selected sample will include of firms for whom easily accessible information is available, and that have published annual reports for the consecutive years spanning from 2015 to 2022. The collection of secondary data would include extracting information from the annual reports and financial statements of multinational corporations (MNCs), as well as consulting a limited number of publications pertaining to the Nigerian stock market. The annual report and financial statements remain essential legal documents for publicly listed multinational firms since they continue to contribute to the establishment of a credible and reputable corporate image within society. The financial statements and annual reports of the firms spanning the period from 2015 to 2022 will be used. The primary objective is to mitigate the risk of potential unavailability of the study's data.

Model Specification

Based on the research goals established in the literature review, the emphasis is on how transfer pricing affects listed MNCs' performance in Nigeria. For this study, the model that was used in previous studies (Rina & Ermadiani 2020; Olufemi & Patrick 2021) will be modified;

FIRMP= *f(*TP*)* ——————————*(1)*

$BTD_{it} = \alpha 0 + DA*TPI_{it} + Size_{it} + LEV_{it} + PROF_{it} + Tang_{it} + Age_{it} + \mu$ …… (2)

Where; *TP = Transfer pricing. FIRMP= firm performance, BTD is Book Tax Difference; ETR is Effective Tax Rate; TPI is Transfer Pricing Index; DA is Discretionary Accruals (a proxy for Earnings Management); Size is Firm Size; LEV is Leverage; ROA is Return on Assets; TANG is Asset Tangibility; AGE is Firm Age,*

The above model is now mathematically expressed below;

$ROA_{it} = \partial_0 + \partial_1 AUD*EXC_{it} + \partial_2 AUD*ETR_{it} + \partial_3 Size_{it} + \partial_4 Leverage_{it} + \mu_{it}$ ——— *(3)*

Where:

ROA= Return on asset; AUD= Audit quality; ETR= Effective tax rate; EXC= Exchange Rate; Leverage= Debt to Equity; Size = Firm size

μ_{it} = Model disturbance term; i = number of sampled cross-sectional firms, t = time of the sampled companies. $\partial_1 - \partial_4$= coefficient of the variables,

Table 1: Measurement of Variables

Variable	Definition	Measurement	Source
ROA (Dependent variable)	Return on asset	Profit after tax/ total asset	Rina & Ermadiani 2020; Olufemi & Patrick 2021

AUD (Mediating Factor)	Audit Quality	Measure by a dichotomous variable of 1 if audited by Big Four and 0 if otherwise	Nikolaos, (2009).
EXC (Independent variable)	Exchange Rate	foreign exchange gain/lossdivided byfirm profit/loss before tax.	Augustine & Abdulrahman (2022); Rina & Ermadiani 2020;9
ETR(Independent variable)	Effective Tax Rate	tax paid divided by profit before tax.	Olufemi & Patrick 2021
Leverage (Control Variable)	Leverage of selected firm	Long-term debts/ total assets.	Olufemi & Patrick 2021
SIZE (Control Variable)	Firm size	Log of total assets	Olufemi & Patrick 2021

Source: Researchers' Compilation, 2024

Method of Data Analysis

Both descriptive and inferential statistics may be used. An overview of the data may be provided via the use of descriptive statistics. In contrast, the use of inferential statistics allows for the detection of statistically significant differences across datasets, such as those seen in randomised control studies between intervention and control groups. The quantitative statistical analysis of the gathered secondary data will be conducted using the E-view and SPSS statistical package. These software tools have been chosen due to their effectiveness in handling data with many choices, producing better results, and their specialised design for statistical data analysis. In order to ensure the precision of the data and enhance the efficacy and efficiency of data analysis, the selection of the research subject for this study will be based on statistical techniques and the use of the SPSS statistical software program. The study will use panel regression analysis to investigate the influence of transfer pricing on the overall performance of multinational corporations (MNCs), with audit quality serving as a mediating variable.

DATA PRESENTATION AND ANALYSIS

The impact of transfer prices on MNCs' overall performance is discussed in this chapter using both descriptive and inferential analysis, with audit quality acting as a mediating factor. A discussion of the findings was made based on each objective using the results of various diagnostic and specification tests, as well as results from tests of the various stated objectives.

Descriptive Statistics

Table 4.1 provides descriptive statistics for the outcome and predator variables, including mean, standard deviation, and minimum and maximum values. The minimum, maximum, mean, and standard deviation for the variables used in the study, which describe how data interact, are important factors taken into account by descriptive statistics in this investigation.

Table 2: Descriptive Statistics

	ROA	Effective_Tax_Rate	Exchange_Rate	Audit_Quality	Leverage	Logfirmsz
Mean	0.035882	0.258106	-0.121705	0.800000	0.726070	7.945084
Median	0.025225	0.123307	0.000246	1.000000	0.792105	7.802328
Maximum	0.230353	7.624883	1.733225	1.000000	0.917899	10.17604
Minimum	-0.180447	-0.815810	-4.472081	0.000000	0.351925	6.045692

Std. Dev.	0.065239	0.931151	0.833261	0.402524	0.162761	1.233342
Skewness	0.268951	6.762225	-2.475972	-1.500000	-0.524699	0.204479
Kurtosis	5.590058	51.85139	12.98531	3.250000	1.872388	1.697366
Jarque-Bera	23.32580	8564.562	414.0936	30.20833	7.909145	6.213673
Probability	0.000009	0.000000	0.000000	0.000000	0.019167	0.044742
Sum	2.870577	20.64846	-9.736369	64.00000	58.08561	635.6067
Sum Sq. Dev.	0.336233	68.49638	54.85155	12.80000	2.092811	120.1694
Observations	80	80	80	80	80	80

Source: Researcher's Compilation, 2024

The descriptive statistics of the factors that were used to explain and explain away phenomena are shown in Table 4.1. It was shown that the extent of the average return on asset (ROA) of the tested multinational corporations is 3%, with a minimum of -18% and a high of 23%, respectively. In addition, the findings demonstrate that there is a significant amount of variation across the companies that were sampled, as shown by a standard deviation of 0.065 percent. According to Table 4.1, the effective tax rate of multinational companies is 25% on average, with a standard deviation of 93%. This information can be found in the table. It is statistically shown by a standard deviation of 93% that there is a large amount of variation in the effective tax rate among the tested multinational corporations in Nigeria, and this shows that there is a great deal of variation.

Also, the exchange rate of the MNC firms stood at -12% on average with a standard deviation of 83% showing that the distribution is widely dispersed. The descriptive statistics further revealed that 80% of MNC firms improve their audit quality by using one of the Big Four in auditing their financial statement.

The mean value of leverage across the MNC firms is 72%, while a deviation value of 16% indicates that there is a low deviation of the data from the mean. Finally, the average firm size of MNC was measured by taking the log of the total asset 7.94508, with a standard deviation of 1.233342 which indicates low variation across the sampled firms.

Correlation Matrix of Dependent and Independent Variables

The correlation matrix depicts the association between each pair of related variables in the model. A preliminary test to see if there is a chance of multi-collinearity is the correlation matrix. The variance inflation factor (VIF) and tolerance value (TV), however, were used in this study's additional test of multi-collinearity.

Table 3: Correlation Matrix

	Effective Tax Rate	**Exchange Rate**	**ROA**	**logfirmsz**	**Leverage**
Effective Tax Rate	1				
	80				
Exchange Rate	-.060	1			
	.595				
	80	80			
ROA	-.069	.066	1		
	.545	.559			

	80	80	80		
logfirmsz	-.080	.083	-.260*	1	
	.482	.465	.020		
	80	80	80	80	
Leverage	-.013	.165	-.352**	.594**	1
	.906	.144	.001	.000	
	80	80	80	80	80

Source: Researcher's Compilation, 2024

Based on the correlation matrix shown in Table 4.2, it is possible to deduce that, except for the exchange rate, all of the explanatory factors have a negative association with the ROA of the MNC enterprises operating in Nigeria. The consequence here is that each of the aforementioned variables, when correlated with the return on asset (ROA), move in the opposite direction. In terms of the relationships that exist between the independent variables themselves, the table demonstrates that there is both a positive and a negative connection between Effective tax Rate, Exchange Rate, logfirmsz, and Leverage. However, leverage and firm size have the highest correlation of 59%, which is significant at the 5% level. However, the relationship between the variables themselves is not found to be significant to the extent that one can conclude that there is multi-collinearity. This is the case unless the variance inflation factor and tolerance values are relatively beyond the established rule of thumb. As a result, the variance inflation factor (VIF) and the tolerance value are both advanced metrics for determining whether or not the regressors exhibit multi-collinearity.

Multi-Collinearity Test

The phenomenon of multi-collinearity occurs in regression analysis when two or more predictor variables are highly correlated, resulting in the ability to accurately predict one variable based on the linear relationship with the others. The Variance Inflation Factor (VIF) is a metric used to assess the presence of multi-collinearity. Two independent variables can't exhibit identical functionality when both the Variance Inflation Factor (VIF) and the mean VIF are below 10. Multi-collinearity refers to the presence of a linear connection between two or more predictor variables in a regression analysis, which enables the correct prediction of one variable based on the others. The Variance Inflation Factor (VIF) value is used for the purpose of evaluating multi-collinearity. In the context of statistical analysis, if the Variance Inflation Factor (VIF) of a variable is less than 10 and the average VIF across all variables is also less than 10, it may be concluded that no two independent variables exhibit identical functionality. The outcome of the multi-collinearity test is shown in Table 3.

Table 4: Variance inflation factor

	VIF	1/VIF
logfirmsz	.632	1.583
AUD*ETR	.965	1.036
AUD*EXC	.900	1.111
Leverage	.597	1.675

Source: SPSS Computation, 2024

When the Variance Inflation Factor (VIF) exceeds a threshold of 10, it provides a robust indication of the presence of multicollinearity in the dataset. The results of the Variance Inflation Factor (VIF) study

demonstrate a value below 10, suggesting the absence of multicollinearity among the variables used for data explanation. Researchers may use regression coefficients to develop predictions on the amount of effect that independent variables exert on dependent variables. Consequently, the outcomes of this study are considered to be unaffected by potentially harmful multi-collinearity, thereby establishing their credibility.

Regression Analysis

This sub-section deals with the regression result of the explained variable represented by ROA and the explanatory variables (effective tax rate, exchange rate with the mediating effect of audit quality) of the study. The heteroskedasticity test was conducted to check the validity of homoscedasticity i.e. equal or constant variation among error terms which is one key assumption of a regression model. The absence of homoscedasticity violates the assumption and may lead to wrong inference. The panel result revealed that there is no presence of heteroskedasticity given the probability value 0.3287, which is insignificant at 5%. This implies that the error term varies across the residuals and as such, homogeneously is distributed. Hence, as a result, the panel corrected standard error regression that would have addressed the heteroskedasticity issue was not performed, and the regression's result is appropriate for analytical purposes. After doing fixed and random tests on the model, the researcher did the Hausman specification test. The goal of the Hausman specification test is to determine which of the fixed and random effect models is preferable. The model's Hausman specification test yielded a p-value of 0.2421, which is negligible at 5%. This indicates that the correlation between the independent variables in the model and the variation among the entities is believed to be random. Consequently, the outcome of the random and the independent variables that were incorporated into the model were correlated. Because of this, the outcome of the random effect model was deemed appropriate for the analysis.

The cumulative correlation between the dependent variable and all the independent variables of 0.125286 shows that effective tax rate and exchange rate with the mediating effect of audit quality, jointly explained 12.5% of the firm performance of MNC measured by (ROA) and it is statistically significant at 5% as indicated with a p-value of F-statistics 0.037646 while the remaining 87.5% are caused by other factors not captured in the model. In addition, the Random Regression Effect Model showed that the mediating effect of audit quality on the exchange rate has a positive and insignificant effect (r =0.00022, p = 0.9817) on the financial performance of multinational firms measured by ROA. On the contrary, the mediating effect of audit quality on effective tax rate has a negative and significant effect (r =-0.013322, p = 0.03322) on the financial performance of multinational firms measured by ROA. Leverage and firm size have negative and positive effects (r = -0.1365, p = 0.0432; r =0.0046, p = 0.7383) on the financial performance of multinational firms measured by ROA which is insignificant at a 5% significant level.

Table 5: Random Regression Effect Model

Variable	**AprioriSign**	**Random Regression Effect Model**
AUD_EXC	+	0.000229
		-0.009979
		{0.9817)
AUD_ETR	+	-0.013322*****
		-0.006164
		{0.0339}
LEVERAGE	+	-0.136588*****
		-0.066424

		{0.0432}
LOGFIRMSZ	+	0.004697
		-0.014006
		{0.7383}
C	+	0.101092
		-0.101701
		{0.3234}
Model Parameters		
R^2		0.125286
Adjusted R^2		0.078635
F-statistic		2.685581
Prob(F-stat)		0.037646
Durbin-Watson		1.651518
Heteroskedasticity Test = 0.3287		HausmanTest = 0.2421

Source: Researcher's Computation, 2024

DISCUSSION OF RESULT

The derived coefficient indicates that there is a positive impact of the exchange rate (r = 0.00022, p = 0.9817) on the financial performance of multinational businesses, as assessed by return on assets (ROA). This influence is moderated by the quality of audits conducted on the currency rate. This implies that the financial performance of multinational firms, as assessed by the return on assets (ROA), exhibits enhancement with each subsequent rise in the exchange rate of these corporations. The impact of audit quality on the effective tax rate has a substantial negative effect (r = -0.013322, p = 0.03322) on the financial performance of multinational businesses, as measured by the return on assets (ROA). This implies that an increase in the effective tax rate of multinational firms has a diminishing impact on the financial performance of these corporations, as measured by return on assets (ROA).

According to the assessment conducted by the Regulatory Oversight Authority (ROA) in Nigeria, it has been observed that the control variable of firm size also has a positive influence on the financial performance of multinational companies. The positive relationship between firm size and the financial performance of multinational corporations, as shown by return on assets (ROA), implies that the expansion of a company may lead to an increase in its financial performance as measured by ROA. Finally, it can be seen that the use of leverage has a negative effect on the significant financial performance of multinational firms, as evaluated by return on assets (ROA). Therefore, it can be inferred that the performance of multinational corporations in Nigeria is significantly influenced by transfer pricing, which is further influenced by factors such as currency rates, effective tax rates, and the level of audit quality.

The results of this study align with the research undertaken by Rina and Ermadiani (2020), which examined all manufacturing businesses listed on the Indonesia Stock Exchange (IDX) between 2013 and 2018. The primary aim of this study was to evaluate the impact of currency rates, debt covenants, and taxes on the decision-making process of corporations with regards to their use of transfer pricing. The examination of the study's data indicates that the variable under investigation, transfer pricing, is significantly impacted by three distinct independent variables, namely tax, debt covenant, and exchange rate. These factors have both positive and negative impacts on transfer price. The main aim of the study conducted by Osho and Ilori

(2020) was to investigate the impact of transaction transfer pricing on corporation taxes within the context of Nigeria. The findings of the study suggest that the implementation of transaction transfer pricing regulations has a favourable impact on the expansion of business entities inside Nigeria.

In their research, Augustine and Abdulrahman (2022) investigated the impact of several characteristics, including target price, interest rate, inflation rate, and currency rate, on the financial performance of publicly listed Nigerian food and beverage companies. The present study diverges from prior research results in the respective subject. The findings derived from the fixed effect analysis reveal that the association between transfer price and interest rate with profit after tax remains positive, but without attaining statistical significance. Conversely, the correlation between the inflation rate and exchange rate with profit after tax shows a negative association, but without statistical significance. The regression analysis reveals that the coefficient for the inflation rate is -0.598881 ($p = 0.5331 > 0.05$), indicating that there is no statistically significant relationship between the inflation rate and the dependent variable. Similarly, the coefficient for the exchange rate is -0.051286 ($p = 0.5919 > 0.05$), suggesting that there is no significant association between the exchange rate and the dependent variable. The study results suggest that the introduction of laws regarding transaction transfer pricing has diverse impacts on company performance, including both good and negative outcomes.

CONCLUSION AND RECOMMENDATIONS

This research aims to analyse the influence of transfer pricing on the performance of listed multinational corporations (MNCs) in Nigeria, with a particular focus on the moderating effect of audit quality. This research aims to examine the impact of effective tax rates on the performance of listed multinational corporations (MNCs) in Nigeria, taking into consideration the moderating influence of audit quality. Additionally, it seeks to analyse the impacts of exchange rates on the performance of listed MNCs in Nigeria, also considering the moderating influence of audit quality. The findings of the study indicate that the exchange rate has a positive impact on the financial performance of multinational firms, as measured by return on assets (ROA). Additionally, the study suggests that the quality of audits has a moderating role in the relationship between the exchange rate and financial performance. The influence of audit quality on the effective tax rate is shown to have a significant negative effect on the financial performance of multinational corporations, as measured by return on assets (ROA). This research concludes that the performance of multinational firms in Nigeria is highly influenced by transfer pricing. The study also found that parameters such as exchange rate and effective tax rate are regulated by audit quality. These findings were derived from the results of the regression analysis. Hence, it is recommended that multinational firms undertake appropriate measures to enhance their effective tax rate in order to enhance performance and mitigate the risk of expensive errors by implementing transaction transfer pricing policies of high audit quality. To mitigate frequent uncertainties, multinational corporations (MNCs) must also establish protective measures and safeguard themselves against fluctuations in currency exchange rates. This study is limited to sampling of 10 MNCs which might be considered too small for robust statistical analysis using panel regression. Likewise, accessing detailed data on transfer pricing practices in Nigeria seems to be challenging due to confidentiality concerns. Hence, using the effective tax rate measure was adoption from the past studies. The findings of this study might be limited to listed MNC in Nigeria only where not directly applicable to non-listed MNCs operating in Nigeria. Nevertheless, these limited does not undermined the significant, originality and contribution of the study.

REFERENCES

1. Acquah, P. (2017). *Transfer Pricing, Earnings Management, and Tax Avoidance (Unpublished Thesis).* The University of Ghana.
2. Adams, L & Drtina, R. (2010). Multinational Transfer Pricing: Management Accounting Theory versus Practice. *Management Accounting Quarterly, 11*(3).

3. Adediran S.A. (2006). *Multinational transfer pricing, international taxation, and comparative financial report practice* a PhD seminar presented at lgbinedion University Okada.
4. Adeniji, A. (2005). *An insight into management accounting*. 3rd edition. Lagos. Value analysis consults.
5. Adum O. S. (2015). The Impact of Transfer Pricing on Financial Reporting: A Nigerian *Research Journal of Finance and Accounting, 6*(16), 208-218
6. Arnold, B. J., &. McIntyre, M. J. (2002). *International Tax Primer* (2nd Ed.). Hague/London/New York: Kluwer Law International.
7. Asen A., Nwude C. E., Idamoyibo H. R., Ufodiama C. N., & Udo E. S. (2021). Effect of Capital Structure on Firms Performance in Nigeria. *Universal Journal of Accounting and Finance, 9*(1), 15 – 23. DOI: 10.13189/ujaf.2021.090102.
8. Augustine E. O. & Abdulrahman S. (2022). Transactions Transfer Pricing Policies and Performance of Corporate Organizations in Nigeria. *J A M 12*(3), 187-198.
9. Beatrice K. (2014). *The effect of transfer pricing on tax planning for multinational companies in Kenya.* A Research Project Submitted in Partial Fulfilment of the Requirement for The Award Of The Degree Of Master Of Business Administration, School Of Business, Nairobi University.
10. Blanas, S., & Seric, A. (2018). Determinants of intra-firm trade: Evidence from foreign affiliates in Sub-Saharan Africa. *Review of International Economics, 26*(4), 917-956.
11. Brock, G., & Pogge, T. (2014). Global tax justice and global justice. *Moral Philosophy and Politics, 1* (1), 1–15. http://doi.org/10.1515/mopp-2014-0999
12. Brown, C. & Medoff, J.L. (2003). Firm age and wages. *Journal of Labor Economics*, 23(3), 677-697
13. Chen, I. J., Paulraj, A., & Lado, A. A. (2004). Strategic purchasing, supply management, and firm performance. *Journal of Operations Management, 22*(5), 505-523. doi:10.1016/j.jom.2004.06.002
14. Cools, M., Emmanuel, C. & Jorissen, A. (2008) Management control in the transfer pricing tax compliant multinational enterprise. *Accounting, Organizations, and Society 33*(6), 603-628.
15. Cristea, A. D., & Nguyen, D. X. (2016). Transfer pricing by multinational firms: New evidence from foreign firm ownerships. *American Economic Journal: Economic Policy*, *8*(3), 170-202.
16. Cronqvist, H., & Nilsson, N., (2003), *Agency costs of controlling minority Journal of Financial and Quantitative Analysis 38*(4).
17. Dean, M., Feucht, F. J. & Smith, M. (2008). International Transfer Pricing. Issues and Strategies for the Global Firm. *Internal Auditing, 23*(1): 12-19
18. Douvier P.J. (2005). France: Current and future transfer pricing measures. *International Transfer Pricing Journal 12*, 2, 72-77.
19. Dürr, O. M. & Göx, R. F. (2013). Specific Investment and Negotiated Transfer Pricing in an International Transfer Pricing Model. *Schmalenbach Business Review*, 65, 27-50.
20. Ernst & Young (2018). Nigeria releases new transfer pricing regulations. *EY Global Tax Alert.* Available online at www.ey.com
21. Eukeria M., Shewangu D. & Dzingirai C. (2021). Transfer pricing auditing and tax forestalling by Multinational Corporations: A game theoretic approach, *Cogent Business & Managemen*t, 8:1, 1907012, DOI: 10.1080/23311975.2021.1907012
22. European Commission, (2004). *EU Joint Transfer Pricing Forum: Draft Revised Secretariat Discussion Paper on Documentation Requirements.* Brussels: EU.
23. Flaaen, A. (2016). *The role of transfer prices in profit-shifting by U.S. multinational firms: Evidence from the 2004 Homeland Investment Act*. Federal Reserve Board, Mimeo.
24. Gosh, D. (2000). Complementary arrangements of organizational factors and outcomes of the negotiated transfer price. *Accounting, Organizations and Society* 25, 7, 661-682.
25. Gravelle, J. G. (2013). *Tax havens, international tax avoidance, and evasion*. Congressional Research Service.
26. Jude A. A. & Atu O E. K. (2010). Multinational transfer pricing: issues and effects on the Nigerian economy. *The Nigerian Academic Forum* 19(1), 1-10.
27. Kayode, F. (2003). *Management accounting. Lagos.* Ola Abiola Communication Co.

28. KPMG International, Nigeria (2017). *Transfer Pricing Awareness Survey, An Annual Reports.* https://assets.kpmg/content/dam/kpmg/ng/pdf/tax/ng-transfer-pricing-awareness-survey.pdf
29. KPMG, (2018). *Transfer Pricing Newsletter-FIRS publishes revised Transfer Pricing Regulations.* Issue 8.3, August 2018. Nigeria: KPMG.
30. Menon, S. & Viswanathan, L. (2005). Foreign currency risk management practice in U.S *Journal of International Business and Law*, 4(1), 57-67.
31. Murphy, G. B., Trailer, J. W., & Hill, R. C. (1996). Measuring performance in entrepreneurship research: an empirical review of the literature. *Journal of Business Research, 36*(1), 1 5-23.doi:10.1016/0148-2963(95)00159-X
32. Murphy, R. (2012). Accounting for the missing billions: in draining developing? controlling flows of illicit funds from developing countries, *World Bank*, 265–307
33. Nikolaos P. D. (2009). Transfer Pricing and the Internal Audit Role in Intercompany Transactions. *International In-house Counsel Journal*, 3(9), Summer 2009, 1383–1392
34. Okoye, A. E. (1997). *Cost accountancy: Management operational application*. Benin City. United City Press.
35. Olufemi Y. & Patrick A E. (2021). Transfer pricing, accruals earnings management and corporate tax avoidance of listed multinational corporations in Nigeria. *Journal of Global Accounting,* 7 (1) April 2021. https://journals.unizik.edu.ng/joga
36. Omoye A. & Okafor. C. (2004); Multinational corporations transfer pricing: A conceptual approach. *BIU Journal of social and management sciences*. Vol. 2 Dec. 2006.
37. Organization for Economic Cooperation and Development [OECD], (2009). *Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations*. Geneva: OECD
38. Organization for Economic Cooperation and Development [OECD], (2006). *Annual report on the OECD guidelines for multinational enterprises*. Paris: OECD.
39. Organization for Economic Cooperation and Development [OECD], (2001). *Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations*. Geneva: OECD
40. Organization for Economic Cooperation and Development [OECD], (1979). *Transfer Pricing and Multinational Enterprises.* Geneva: OECD Publications.
41. Osho, A. E. & Ilori, F. O. (2020). Influence of Transaction Transfer Pricing Policies on Corporate Organizations Tax in Nigeria. *Research Journal of Finance and Accounting, 11*(6) 58-66
42. Pamungkas T. N.& Nurcahyo B. (2018) The Role of Multinationality and Transfer Pricing on the Effect of Good Corporate Governance (GCG) and Company's Performance in Tax Avoidance. *J Glob Econ 6*: 313. doi:10.4172/2375-4389.1000313
43. PWC (2011). Tax accounting services: The impact of transfer pricing in financial reporting. https://www.pwc.com/en_US/us/cfodirect/assets.
44. Reid, W., & Joshua, D. (2005). *Theory and Practice of international financial management*, Hall of India.
45. Rina T. & Ermadiani (2020). Factors That Influence Companies to Transfer Pricing. *Advances in Economics, Business, and Management Research, volume* 142
46. Ross, S. A. (2008). The determination of financial structure: The incentive-signalling approach. *Journal of Economics, 8*(1), 23-29. https://doi.org/10.2307/3003485
47. Shapiro, A. (2005). *Foundation of Multinational Financial Management*, 5th ed, United States of America, Prentice Hall.
48. Sikka, P. (2017). Accounting and taxation: Conjoined twins or separate siblings? *In Accounting Forum* 41(4). 390-405). Taylor & Francis.
49. Tatum, M. (2019). *What is a Multinational Corporation*? Available online at: https://www.wisegeek.com/what-is-amultinational-corporation.htm
50. Tebogo, B. (2011). *The Transfer Pricing Problem: When Multinational Corporations Shift Profits Across International Borders*. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1899014.
51. Templars, (2018). *Key Highlights of the Newly Issued Transfer Pricing Regulations 2018*. Available online at: https://www.templars-law.com/key-highlights-newly-issued-transfer-pricing-regulations-

2018/

52. United Nations Conference on Trade and Development [UNCTAD], (2015). FDI, Tax and Development, The fiscal role of multinational enterprises: towards guidelines for Coherent International Tax and Investment Policies. *Working paper for review and feedback*, UN Conference on Trade and Development.
53. Vicard, V. (2015). Profit shifting through transfer pricing: Evidence from French firm-level trade data. *Working Paper 555*, Banque de France.