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EFFECT OF AUDITORS' INDEPENDENCE AND CAPITAL STRUCTURE ON EARNINGS MANAGEMENT OF QUOTED CONSUMER GOODS FIRMS IN NIGERIA

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Abstract

This study examined the effect of capital structure and auditor independence on earnings management. The study design used was causal. All of the quoted consumer goods companies in Nigeria make up the study population; 20 of these were specifically chosen as a sample size to span a decade, from 2013 to 2022. The annual reports of the chosen firms provided the data used in this investigation. The data were analyzed using panel regression analysis and descriptive statistics. Audit fee was used as a proxy for audit independence, while long-term debt (LHTD), short-term debt (SHTD), and the debt-to-equity ratio (DETR) were used to quantify capital structure. Discretionary accruals were used as a proxy of earnings management (EM). The analysis's outcome showed that AUDI and LHTD have a positive and significant effect on EM with t-stats and p-values of (2.44, 2.66) and (0.014, 0.007) correspondingly. DETR was shown to have a significant and negative connection with EM, as indicated by a t-stat. Of -3.30 and a p-value of 0.0009. It was discovered that SHTD had no noteworthy impact on EM. The study concludes that the capital structure and audit independence of listed Nigerian consumer goods companies have a remarkable effect on EM. The study recommends that the audit committee should make sure that exorbitant audit costs do not jeopardise the independence of the auditor. Stakeholders with a large long-term debt and debt-equity ratio debt-equity could have strict governance and monitoring procedures.

Keywords: *Auditors Independence, Capital Structure, Earnings Management, Consumer Goods Firms*

Introduction

Pham and Hoang (2023) opined that earning management (EM) is a significant topic that has received a lot of consideration in the corporate finance literature. According to Olagunju et al. (2023), EM is the practice of managers using their discretion to actively impact earnings through operational activities or the flexibility of accounting decisions. Omoye and Eriki (2014) emphasized that EM is the use of accounting techniques by management to manipulate or conceal reported earnings. These techniques may include under or over-accruing expenses, accelerating expenses, delaying the recognition of revenue transactions based on the intended goal, or utilizing other strategies. To manipulate financial reports and mislead stakeholders about the company's financial health, or to sway contractual outcomes based on accounting practices, managers exercise judgment in financial reporting and transaction structuring, engaging in earnings management (EM) (Mangala & Singla, 2021). According to Pham and Hoang (2023), earnings manipulation (EM) involves the deliberate adjustment of financial results by the use of discretion allowed by corporate rules and accounting standards, as well as through restructuring initiatives that are intended to preserve company value. According to Yao (2022), earnings can be readily altered to satisfy a benchmark unique to a company.

Auditing, on the other hand, reduces information asymmetry and guards the interests of principals, which include the public, suppliers, employees, creditors, and investors. It supports the preservation of auditors' independence by providing reasonable assurance that the financial statements prepared by management are free from significant errors (Chen et al., 2015). The ability to operate independently and impartially while carrying out audit duties without being influenced, biased, or restrained is referred to as auditor independence. The idea of independence implies that the auditor is performing his audit with objectivity while operating independently. The independence of auditors can be affected by several factors, such as audit tenure, audit fees, and auditor expertise (Terungwa & Iorcher, 2022). While some nations, like Saudi Arabia and Italy, forbid any non-audit services other than tax services, others, like the United States, forbid auditors from offering both non-audit and audit services (Hudaib & Haniffa, 2009). Because of this, interest groups have long been concerned about the connection between auditor independence and the calibre of financial reporting, particularly in the wake of the Enron scandal. Because it influences financial decisions that can have a big effect. The quality of financial reporting is crucial for end users and the economy (Ahmed et al., 2018).

In addition, Chandrasekharan (2012) believed that capital structure (CS) is a tool used by corporations to maximize return on investment, improve financing efficiency, and make decisions on dividends for shareholders. Debt and equity comprise the CS of a corporation. There are two types of debt: short-term and long-term. Farrukh et al. (2017) defined a company's CS as the proportion of firm financial liabilities to equity. It's the process by which a business uses a mix of debt and equity to finance its assets.

According to Hussain et al. (2023), a high-quality audit improves the public's perception of auditors' objectivity and reduces the possibility of misstatements, errors and deliberate misrepresentations in financial records or EM. Chen et al. (2015) claim that in environments with better information, independent auditors typically offer very effective monitoring. When an auditor makes decisions during the audit and financial reporting process, they should do so impartially. This principle is referred to as auditor independence. Ebubechukwu (2023) opined that independence is a mindset rather than a state of being, individuals are free to engage with others while retaining control over them throughout the review process. In other words, audit independence results in more comprehensive data that is free from managerial manipulation. Reduced earnings management is the result of audit independence, which offers a framework for efficient monitoring (Idris, et al. 2018). Investor trust in reported information seen in public financial statements has steadily decreased as a result of corporate failures brought on by earnings management. However, an auditor must ensure that investors can trust the financial statements that are made public. This is why businesses use auditors to provide an unbiased assessment of their financial reports and to report any significant inaccuracies, omissions, or falsifications found in the firm's financial records.

Capital structure is one of the key elements that might lessen the impact of EM practices, according to Pham and Hoang (2023). Al-Mohareb and Alkhalaileh (2019), opined that the majority of earlier research on the debt hypothesis has emphasized the effect of leverage on EM practices and has contended that leverage (LEV) reduces the possibility of EM as a response to prevent debt covenant violations. A company that has been aggressively using debt to support its growth is likely to have a high debt-to-equity ratio. Due to the increased interest rates, this may result in erratic profitability as well as erratic cash flow when loan principal payments are due. To comply with financial covenants and reduce perceived risk, companies with larger debt-to-equity ratios are more likely to utilize EM (Zhang & Chen, 2022). According to Barros et al. (2021), companies that have a high level of long-term debt are more prone to manipulate earnings to satisfy debt covenants and strengthen their financial position. This was further supported by Duru and Akinboade (2022), who noted that companies with high levels of long-term debt frequently experience challenges that may result in increased EM. Chen et al. (2022) stated that companies with significant levels of short-term debt may use EM to preserve liquidity ratios and prevent defaults. Zhang and Yang (2021) emphasized that firms with a lot of short-term debt might utilize EM to control liquidity issues and project a healthier financial picture.

Furthermore, accruals are less apparent, so management may more easily alter financial data, which is another reason why earnings management emerged. This is because accruals are used instead of cash flow (Chen et al., 2014). In accrual-based accounting, total accruals are divided into non-discretionary and discretionary components. Discretionary accruals are the part of accruals that management decides to report (Gul et al., 2003). This allows managers to alter the timing of revenue and expense recognition, using accrual accounting to adjust the company's results for a specific period (Shah et al., 2009). The impact of multiple major accounting scandals has made profit management a very prominent topic in recent years. Among the most well-known business failures in history is Enron. To conceal losses and liabilities and obscure the unpleasant facts, the company's top management team established special purpose entities (Ghosh, et al., 2010). As Enron filed for bankruptcy and failed, investors lost millions, workers lost their jobs, and the public lost trust in the financial reporting system. The Sarbanes-Oxley Act (SOX) was passed in 2002 as a response to corporate scandals like Enron and WorldCom. Its main objectives are to safeguard investors' interests and restore public trust in financial reporting (Cohen, et al., 2008). The corporate climate in Nigeria is not exempt from scandals; various examples, including the Cadbury affair, have been reported. Several prior studies have examined the connection between auditor independence capital structure and earning management in Nigerian and international contexts. These studies include those of Adewunmi et al. (2024), Agbaje et al. (2021), Hashem et al. (2016), Ebubechukwu (2023), Martinez and Morales (2017), Naz et al. (2011), Obeidat (2016), Okolie (2014), Oyetunji et al. 4(2022), Lazzem and Jilani (2018), Talebniya and Ravanshad (2011), Terungwa and Iorcher (2022).

This study seeks to address the knowledge gap by exploring the effects of auditor independence and capital structure that have been overlooked by researchers overtime on the earnings management of publicly listed consumer goods companies in Nigeria. The evidence supporting this claim is sparse both in the Nigerian context and in the global context. Furthermore, this research practically be of benefit to practitioners, governments, consumer products companies, and scholars.

Therefore, by investigating the effects of auditor independence, debt-to-equity ratio (DETR), short-term debt ratio (SHTD) and long-term debt ratio (LHTD) on earnings management (EM) among listed consumer goods firms in Nigeria, the study adds to the body of existing research work. The rest of the paper is organized into five sections. The next section presents the literature review, followed by the methodology in section 3. Sections 4 and 5 cover the results and discussion, and the conclusion and recommendations, respectively.

Literature Review

Earnings Management (EM)

According to Isenmila and Lijah (2012), EM happens when managers use their discretion to influence business transactions in financial reporting to mislead some stakeholders about the company's present financial situation, it is also utilized to manipulate financial results. This suggests that structuring income and expenses, modifying accounting procedures, and controlling accruals can all be used to manage earnings. According to Pham and Hoang (2023), EM is the conduct of managers who, are motivated by achieving their own intended aims, employ accounting procedures within the guidelines of established principles, rules, and regulations to deceive users who are not internal to the organization about its reliable financial status. EM can damage a firm's reputation, support the cost of capital for the company, cause needless lawsuits, and promote the improper use of limited resources (Olagunju et al., 2023). Real EM according to Trisnawat et al., (2015) occur when directors purposefully manipulate routine business activities like misusing discretionary spending, awarding unjustified credits, and producing excessive amounts of work. Accrual-based EM as stated by Nechita, (2021) refers to the deliberate selection of accounting principles that are in the best interests of the company's directors about earnings. In this study, discretionary or accrual-based EM was used as a gauge of EM. Adewunmi et al. (2024), Agbaje et al (2021), Al-Mohareb and Alkhalaileh (2019), Hashem et al (2016), Ebubechukwu (2023), Martinez and Morales (2017) have also utilized discretionary accrual as a proxy for EM in their previous studies.

Auditor's Independence

The term "auditor independence" refers to an auditor's ability to work in an unbiased, unrestricted, and objective manner while performing audit tasks. According to Adewunmi et al. (2024), independent auditors are those who do not allow outside influence to affect them when conducting an audit. The idea of independence implies that the auditor is performing his audit with objectivity while operating independently. According to Dekeyser et al. (2023), audit quality is a gauge of the auditor's capacity to improve accuracy and minimize noise in financial data. They also associate it with auditor independence. The notion of auditor objectivity is enhanced by a high-quality audit, which raises the possibility of errors, misstatements, and deliberate misrepresentations in financial statements (Hussain et *al*., 2023). For this study, audit fees served as a measure of an audit firm's independence. According to Agoes (2012), audit fees are based on a variety of factors, such as the complexity of the services rendered, the assignment's level of risk, the expertise level needed to perform the functions competently, the firm's cost structure, and other professional considerations. Researchers that have used audit fees as a measure of auditors' independence include Adewunmi et al. (2024), Agbaje et al. (2021), Oyetunji, Atanda and Adekanmbi (2022), and Terungwa and Iorcher (2022).

Capital Structure (CS)

Debt and equity comprise the CS of a corporation. There are two types of debt: long-term and short-term. Additionally, CS is a tool used by corporations to make decisions about dividends and financing that maximize return on investment and increase financing efficiency (Chandrasekharan, 2012). Capital structure (CS), as used in finance, describes how an organization finances its assets using a combination of debt, equity, and hybrid securities (Saad, 2010). A company's capital structure consists of its blend of common equity, preferred equity, and both long-term and short-term debt. A company's CS dictates how it uses various funding sources to finance its overall growth and operations (Varian et al., 2015). The debt-to-equity ratio (DETR), long-term debt (LTHD) short-term debt (SHTD), and other metrics are some examples of capital structure measurements. Long-term loans and notes payable are examples of debt with a lengthy payment schedule, whereas SHTD and accounts payable from financial institutions are examples of short-term debt (Adenle et al., 2022). The ratio of SHTD to total assets serves as a gauge for the financial leverage of an organization. It shows the percentage of assets financed by SHTD. Debt that has a payback date of less than a year is referred to as SHTD and is not taken into account when calculating long-term liabilities for the statement of financial position (Akindayomi, 2013). The ratio of LHTD to total assets indicates the portion of assets that are financed by long-term debt. The DETR, according to Enekwe (2012), is a financial ratio that shows how much debt and equity are utilized by one another to finance a company's assets. It also acts as an indicator of financial leverage. It is calculated by dividing total debt by shareholders' equity. In this study, capital structure was assessed using the debt-to-equity ratio, the short-term debt ratio, and the long-term debt ratio.

Auditor's Independence and Earnings Management

The concept of auditor independence was defined by Danescu and Spatacean (2018) as the auditor's capacity to retain impartiality and objectivity throughout the audit. An attitude of responsibility distinct from the client's interest is necessary for audit independence. According to Dakhlallh et al. (2021), the amount of audit fees could have an impact on public accountants' independence because a high fee could discourage accounting firms from defying management decisions, whereas a low fee could cut down on the time and expense needed to complete audit procedures and produce high-value audits. The audit quality is mostly determined by the audit charge. Due to investors' psychological conviction in the auditors' role, auditor independence (AUDI) is essential to the accuracy of financial accounts and their credibility. An audit's value is based on its independence (objectivity). According to Hussain et al. (2023), a high-quality audit reduces the possibility of reporting misstatements, errors and deliberate misstatements in financial statements by fostering the view that auditors are objective.

Capital Structure (CS) and Earnings Management (EM)

As a result, a company's capital structure (CS), as defined by Ishaya and Abduljaleel (2014), is made up of a variety of instruments, such as common stock and long-term debt, that are issued to finance its assets. It significantly affects the management of earnings. A high debt-to-equity ratio (DETR). Enekwe (2012) further stated that a company has been aggressive in utilizing its debt to fund its expansion. The rise in interest rates may lead to unpredictable profitability and fluctuating cash flow, especially when principal loan payments are required. If a high debt-to-equity ratio is employed to support expanded operations, the company might be able to generate higher earnings per share than it otherwise might have done without the outside capital.

Financial flexibility may be limited for companies with larger debt levels in their CS, which may prompt management to use EM to satisfy debt covenants or project a more solid financial image (Barros et al., 2021). High levels of debt and equity can influence EM strategies, according to Patel and Sharma (2023), with debt usually prompting more aggressive EM to satisfy debt obligations.

Theoretical Framework

The study's theoretical foundation is the positive accounting theory, which was created by Watts and Zimmerman in 1978. Three hypotheses were developed to explain the factors that influence an entity's management's accounting decisions: the political cost hypothesis, which attributes EM to an attempt to avoid paying taxes, the debt covenant hypothesis, which links EM to pressure to uphold the debt covenant, and the bonus plan hypothesis, which links EM to an attempt by the manager to increase his or her compensation. The debt covenant hypothesis, which connects the firm's debt structure and EM, is the major focus of this investigation. The study's theoretical foundation is the positive accounting theory, which was created by Watts and Zimmerman in 1978. Three hypotheses were developed to explain the factors that influence an entity's management's accounting decisions: the political cost hypothesis, which attributes EM to an attempt to avoid paying taxes, the debt covenant hypothesis, which links EM to pressure to uphold the debt covenant, and the bonus plan hypothesis, which also links EM to an attempt by the manager to increase his or her compensation. The debt covenant hypothesis, which connects the firm's debt structure and EM, is the focus of this investigation.

However, Fung and Godwin (2013), who investigated the incentives for managers in financially distressed companies to manage earnings, when managers manipulate the company's earnings stated that the managers are engaging in EM to convince their creditors that the financial distress is only temporary and that the company will soon be able to recover. Therefore, this theory suggests that the closer a company gets to the limitations imposed by debt covenants, the higher the likelihood that a covenant defilement will occur, increasing the cost of a technical default and increasing the likelihood that the manager will use accounting techniques to boost revenue. Leverage is minimal in pre-merger and acquisition companies that practice upward EM (Alsharairi & Salama, 2012). Nonetheless, a different study found that companies in difficulty are less likely to dedicate themselves to managing their earnings since they will try every available option to do so (Ghazali et al., 2015).

Empirical Review

Auditor's Independence (AUDI) and Earnings Management (EM)

The effect of AUDI on the EM of Nigerian-listed commercial banks was examined by Adewunmi et al. (2024) making use of a correlational study methodology. Fixed Effect estimation was used to evaluate the secondary data gathered from the annual reports and accounts of twelve carefully chosen banks for ten years (2013 to 2022). The outcome revealed that AUDI has a positive effect on EM. Increased discretionary accruals may be related to greater audit fees, longer audit tenures and larger audit sizes according to the positive coefficients.

The association between AUDI and the dependability of the financial accounts of a few Nigerian listed banks was evaluated by (Oyetunji et al., 2022). Five banks that are quoted on the Nigeria Exchange Group (NGX) make up the Sample Size. The study's duration was from 2015 to 2019. Regression analysis was used in the study as an estimating method. Discretionary accrual and findings from the study AUDI proxy with audit fees (AUDF) are significantly related.

Agbaje et al. (2021) looked into how AUDI affected Nigerian banks' discretionary accrual (DAC). Ten banks covering six years from 2013 to 2018 were chosen. The result of the study disclosed that FRQ is positively but not significantly impacted by AUDF, audit debt ratio, and audit meetings. On the other hand, audit size has no bearing on FRQ.

The influence of AUDI on EM of quoted corporations in the Nigerian consumer goods sector was investigated by Terungwa and Iorcher (2022). For the study, 13 companies were purposefully chosen, and the eight-year study period covered the years 2012–2019. Data estimation methods included panel regression and descriptive statistics. AUDF was found to have no discernible effect on EM.

Using discretionary accrual (DAC) as a stand-in for FRQ, Ebubechukwu's (2023) study assessed the effect of AUDI on the FRQ of quoted non-financial firms in Nigeria. Of the 75 quoted non-financial enterprises in the research population, 23 were selected as study participants. The study's time frame was from 2012- 2021. Utilizing Ordinary Least Squares, the collected data was estimated. According to the study's findings, audit tenure and AUDF have a small but positive impact on DAC. Martinez and Morales (2017) found the opposite when they used the OLS regression technique to investigate the connection between AUDF and EM in 300 quoted firms in the Brazilian market between 2009 and 2010: as abnormal AUDF increases, DAC also increases. That is, AUDF significantly and favourably impact EM.

Capital Structure (CS) and Earnings Management (EM)

The effect of CS on EM of listed Nigerian manufacturing enterprises was examined by Muhammad et al. (2024) for 13 years, from 2010 to 2022. Purposive sampling procedures were used to choose 40 manufacturing enterprises that were quoted as part of the sample size. According to the study, equity, DETR, and SHTD all significantly negatively affect EM. While the LHTD significantly and favourably affects EM.

Al-Mohareb and Alkhalaileh (2019) looked into how CS was impacted by EM. This study examined 44 quoted companies in the Jordanian industrial sector over five years, from 2008 to 2012. The study's outcome demonstrated that the DETR had a significant and favourable impact on EM. On the other hand, the debt to total asset ratio positively but not substantially affects EM.

Lazzem and Jilani (2018) examined how DAC is affected by an increase in leverage. The study was conducted between 2006 and 2012, a duration of seven years. The study's scope was restricted to French enterprises that were quoted. The study's discoveries demonstrated that leverage had a notable and beneficial impact on EM.

The study of Hashem et al. (2016) studied the impact of CS on EM of 119 quoted firms listed on the Tehran Stock Exchange which covered a time frame of 9 years starting from the year 2000 to the year 2008 The outcome of the discoveries discovered that DETR has a noteworthy positive influence on discretionary accrual.

The influence of capital structure on EM was examined within a study period of 2012 to 2015 on 29 selected firms out of the total 83 firms quoted on the Abu Dhabi securities exchange was examined by Obeidat (2016). The findings of the study revealed that debt to equity ratio has a positive noteworthy effect on EM practices.

Methodology

Using text analysis, the study's source of secondary data was the annual reports and financial statements of the various companies during the study's duration. For this study, an ex post facto research design was used. The study's time frame is from 2013 to 2022. The sample size includes all 20 listed consumer goods firms in Nigeria. The population of this research contains all listed consumer goods enterprises in Nigeria. One of the most productive industries in Nigeria is the consumer products industry, which is why it was chosen for this research work (Olagunju & Adenle, 2022). To estimate the data gathered for this investigation, panel regression and descriptive statistics were employed.

Model Specification

Based on prior empirical research on the connection between auditor independence and EM (Adewunmi et al., 2024) and capital structure and EM (Olatunde & Subair, 2019), the study's model is presented in a stochastic form as follows:

$$EMT_{it} = \beta_0 + \beta_1 AUDI_{it} + \beta_2 SHTD_{it} + \beta_3 LHTD_{it} + \beta_4 DERT + \beta_5 FA_{it} + \beta_6 FS_{it} + \mu_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

Where:

EM= Earning Management

AUDI= Auditor's Independence

SHTD= Song term debt ratio

$LHTD$= Long-term debt ratio

$DETR$= Debt/Equity ratio

FS= firm size of firm

FA= age of firm

ε_{it} = Error term that is white noise

μ_{it} =time invariant firm-specific effect of firm i.

β_0= Constant term

β_1-β_6= Regression Coefficients

Measurement of Variables

Table: 1

Variables	Measurement	Supporting Studies	A priori Expectation
Dependent variable			
Earnings Management (EM)	Measured employing the Modified Jones model's Absolute Discretionary Accrual (DAC).	Abdelkarim and Zuriqi (2020), Dechow *et al*., (1995)	
Independent variables			
Auditor's Independence (AUDI)	Natural Log of the Audit Fees Paid by the Company.	Okolie (2014), Olagunju et al. (2024)	+ve
Long Term Debt (LHTD)	LTDR = $\frac{\text{Total Long Term debt}}{\text{Total Asset}}$	Habib, et al. (2016), Zaid et al. (2020)	-ve
Short Term Debt (SHTD)	STDR= $\frac{\text{Total Short Term Debt}}{\text{Total Asset}}$	Shubita & Alsawalhah, (2012)	+ve
Debt- Equity Ratio (DETR)	Ratio of total debt to shareholders' equity	Al-Saidi (2020) (Mohammed & Usmana, 2016).	+ve
Control variable			
Firm size (FS)	It is expressed as natural log of total assets.	Olagunju et al. (2023)	+ve
Firm Age	Log of No. of years since the firm is incorporated	(Olagunju et al. (2024))	+ve

Dependent Variable: Earnings Management

Kothari et al. (2005) suggested incorporating the first lag of the return on assets (ROA) into the modified Jones model proposed by Deschow et al. (1995), as outlined:

$$\frac{TA_{it}}{A_{t-1}} = \delta_1\left[\frac{1}{A_{t-1}}\right] + \delta_2\left[\frac{\Delta REV_{it} - \Delta REC_{it}}{A_{t-1}}\right] + \delta_3\left[\frac{PPE_{it}}{A_{t-1}}\right] + ROA_{it-1} + \mu_{it} \qquad (1)$$

The total accrual is obtained as

$$TA_{it} = NI_{it} - CFO_{it} \qquad (2)$$

Where:

TA_{it}= Total accrual of firm i in year t

A_{t-1}= First lag of total asset of firm I at year t

ΔREV_{it}= The difference between contemporaneous revenue and previous year revenue for firm i

ΔREC_{it}= The difference between contemporaneous account receivables and previous year account receivables for firm i

PPE_{it}= PPE of firm I at time t.

μ_{it} = The residual of the model

δ_1, δ_2, and δ_3 = The parameters of the model

NI_{it}= Firm i Net income at time t

CFO_{it}=Firm i Net cash flow from operation at time t

ROA_{it-1}= immediate past year return on assets

Results and Discussion

Table 2: Descriptive Statistics

	EM	AUDI	LHTD	SHTD	DETR	FS	FAG
Mean	9.408	4.509	0.589	1.268	0.284	7.787	48.855
Median	7.198	4.418	0.555	1.079	0.123	7.855	47
Maximum	53.959	5.796	2.149	4.899	5.703	9.455	98
Minimum	-23.62	3.602	0.049	-0.085	0.002	6.048	13
Stan dev.	10.959	0.449	0.294	0.848	0.715	0.749	17.767
Kurtosis	5.621	3.326	9.197	6.213	33.649	2.325	3.219
Skewness	0.805	0.940	1.944	1.515	5.351	-0.149	0.477
Observation	200	200	200	200	200	200	200

The descriptive statistics outcomes reveal that EM indicated the following values: mean of 9.408, median of 7.198, max. of 53.959, and mini. of -23.62. In terms of the independent variables, audit independence (AUDI) has mean, median, max and min values of (4.509, 4.418, 5.796, 3.602) respectively. Capital structure proxy by LHTD, SHTD and DETR displayed mean and median values of (0.589, 1.268, 0.284) and (0.555, 1.079, 0.123) respectively. Their max. and mini. values are (2.149, 4.899, 5.703) and (0.049, -0.085, 0.002) correspondingly. FS and FAG which are the control variables utilized in this study have a mean, median, and maxi. and mini. values of (7.787, 48.855), (7.855, 47), (9.455, 98), (6.048, 13) respectively. Except FS, which had a value below three, all of the variables' kurtosis values surpassed three, indicating that none of them had a platykurtic distribution, according to the kurtosis analysis. Except FS, all the variables had positive skewness, meaning that their distributions were skewed to the right.

Correlation Analysis

Table 3: **Correlation and test of Multi-Collinearity**

	EM (1)	AUDI (2)	LHTD (3)	SHTD (4)	DETR (5)	FS (6)	FAG (7)	VIF	1/VIF
(1)	1.000								
(2)	0.109	1.000						1.99	0.503
(3)	-0.035	-0.056	1.000					1.27	0.785
(4)	0.048	-0.109	-0.368	1.000				1.30	0.767
(5)	-0.115	0.133	0.311	-0.364	1.000			1.23	0.812
(6)	0.119	0.707	0.049	-0.326	0.257	1.000		2.09	0.479
(7)	0.093	-0.302	-0.289	-0.176	-0.428	-0.161	1.000	1.03	0.971

The correlation analysis table's findings showed that, in the chosen Nigerian consumer goods firms, AUDI, SHTD, FS, and FAG had weak positive associations with EM. The coefficient values for AUDI, SHTD, FS, and FAG were 0.109, 0.048, 0.119, and 0.093, respectively. LHTD and DETR, on the other hand, showed a somewhat adverse connection with EM. The table's VIF values, which range from 1.03 to 2.09, attested to the lack of multicollinearity among the factors being examined. This implies that the explanatory variables do not exhibit significant multicollinearity, which permits the regression equation to isolate the effects of each variable.

Table 4: **Model Regression Diagnostic and Specification Test Results**

Test	P-value	Remarks
F-test	0.006	Panel Regression is favored
Breusch pagan Heteroscedasticity test	0.8860	Absence of heteroscedasticity
Hausman Test	0.5608	Random Effect is Preferred

Test of Hypothesis

Hypothesis: There is no connection between audit independence, capital structure and earnings management of Nigeria's quoted consumer goods firms.

Table 5: Estimated Regression Analysis Results

	Random Effect			
Variable	**Coeff.**	**St.Error**	**T-stat.**	**Prob.**
C	-7.720	10.259	-0.75	0.453
AUDI	2.356	2.428	2.44	0.014
LHTD	2.263	2.969	2.66	0.007
SHTD	0.746	1.043	0.66	0.509
DETR	-0.925	1.202	-3.30	0.0009
FS	- 0.959	1.492	-4.08	0.0000
FAG	-0.677	0.044	-3.25	0.00115
R-Square	0.444			
F-stat.	25.88			
Prob(F-stat)	0.000			
Wald test	16.38 (0.000)			

t- stat. values in parentheses, P-val<0.05**

Source: Author's Compilation (2024)

The findings in Table 5 revealed that the model is fit and significant at the 5% level of significance, and the variables were appropriately chosen and mixed, as indicated by the probability value of less than 0.05 and the F-statistic of 25.88. This suggests that the explanatory variables influenced the selected Nigerian consumer goods firms' EM. The explanatory variables account for 44.4% of the total variation of EM, leaving the random error term to explain the remaining 55.6% of the variation. The Wald Tests x^2 revealed a p-val. of 0.0000<0.05, signifying that the explanatory variables were considered to be components of the factors influencing EM. Exorbitant AUDF may be the result of higher EM, as Table 4 shows. This is because the auditor may charge higher fees to cover the additional work required to thoroughly audit the complex and possibly manipulated financial statements. AUDI measured with AUDF has a positive and substantial effect on EM with (t-v =2.44, P-v =0.014 < 0.05). LHTD has a positive and substantial effect on EM with (t-v= 2.66, P-v = 0.007 < 0.05), according to the external capital structure result. This implies that companies with larger levels of long-term debt are more expected to participate in actions that manipulate or manage their reported earnings. The outcomes further showed that SHTD had a positive and non-significant influence on EM (t-v=0.66, P-v =0.509 > 0.05), suggesting that SHTD and EM are unrelated. The findings showed a significant and negative connection between DETR and EM (t-v= -3.30, P-v = 0.0009 < 0.05). This suggests that companies with larger DETR typically use fewer EM strategies. Concerning EM, the control variables FS and FAG both significantly and negatively affect it (t-v= -4.08, -3.25, P- vals. = 0.000 and 0.00115 < 0.05), respectively. This indicates that the lower the EM the higher the FS and FAG.

Discussion of Findings

This study explored how capital structure and audit independence affected the way listed consumer goods companies in Nigeria managed their earnings. The study's conclusion indicates that AUDI, as measured by audit fees, had a significant beneficial impact on EM. This suggests that a higher degree of earnings management (EM) is linked to higher audit fees. Businesses that manipulate their earnings may have more intricate financial statements and transactions, requiring longer audit processes. As a result, to pay for the extra labour needed to completely audit the intricate and manipulated financial statement, auditors may raise their costs. Adewunmi et al. (2024), Agbaje et al. (2021), Hossain and Wang (2023), Martinez and Morales (2017), and other studies support the findings of this study by reporting that audit fees (AUDFE) have a noteworthy and positive impact on EM, while studies by Egbunike et al. (2022), Le and Moore (2023), and Mnif and Slimi (2023) found that AUDFE have a noteworthy and negative impact on EM. On the other hand, research by Terungwa and Iorcher (2022) and Ebubechukwu (2023) revealed that AUDF had little effect on EM.

However, it was also discovered that capital structure has a great influence on EM. It was discovered that LHTD improved EM. This suggests that companies with greater levels of LHTD have a stronger propensity to manipulate or control their stated results. Companies that have a lot of LHTD could be subject to covenants that demand that specific financial ratios be maintained. Management may alter results to reflect a healthier financial situation to avoid breaking these covenants. Companies uphold a positive reputation with investors and lenders, guaranteeing simpler access to further funding in the future. This outcome is consistent with the research conducted by Hashem et al. (2012), Hassan and Farouk (2014), Maijoor and Vanstraelen (2006), and Muhammad et al. (2024). On the other hand, research by Iturriaga and Hoffmann (2005) and Shirzad and Haghighi (2015) revealed that LHTD had a significant and negative effect on EM. Contrariwise, Baik et al.'s 2007 study discovered that LHTD did not affect EM. It was discovered that SHTD had no noteworthy impact on EM. This connotes that the likelihood or degree of EM operations is not affected by the presence or amount of SHTD in a company's capital structure. Additionally, Al-Mohareb and Alkhalaileh (2019) did not discover any connection of significance between SHTD and EM. On the other hand, SHTD was discovered to have a notable and negative effect on EM (Shirzad & Haghighi, 2015).

Furthermore, it was discovered that DETR had a notable and negative effect on EM. This implies that businesses tend to use fewer earnings management strategies when their DETR is higher. Higher debt levels typically result in more scrutiny from financial institutions and creditors. Due to the increased scrutiny and increased likelihood that lenders will catch and sanction any irregularities, managers may be discouraged from manipulating earnings. This outcome is consistent with the research carried out by Debnath and Roy (2017), Muhammed et al. (2024), and Olaoye and Adewumi (2018). On the other hand, research by Hashem et al. (2016), Lazzem and Jilani (2018), and Obeidat (2016) discovered that DETR had a strikingly positive effect on EM. Alternatively, according to the research of Alareeni (2020), and Uwuigbe et al. (2015), DETR does not affect EM. FS and FAG, the control variables, both significantly and negatively affect EM. This suggests that the EM is lower the higher the FS and FAG.

Conclusion and Recommendation

In this study, the influence of audit independence and capital structure on the earnings management of listed Nigerian consumer goods firms was investigated. The study's findings demonstrated the important influence of capital structure and audit independence on EM. The study concluded that capital structure and AUDI had a positive impact on the earnings management of listed consumer goods companies in Nigeria. This research work recommends that the audit committee should make sure that high audit fees do not jeopardize auditor independence based on the study's findings. They can accomplish this by encouraging a transparent culture and frequently rotating audit firms. Stakeholders with a large LHTD and DETR should have strict governance and monitoring procedures. Which will lessen EM techniques. This entails routine financial audits, compliance inspections, and thorough evaluations of financial accounts.

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