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EFFECT OF AUDIT QUALITY ON EARNINGS MANAGEMENT OF LISTED CONSUMER GOODS COMPANIES IN NIGERIA

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Abstract

The study examines the effect of audit quality on earnings management of listed consumer goods companies in Nigeria. Ex-post facto research design and correlational research design was used for the study. Population of the study comprises of the 21 listed consumer goods firm on the Nigerian Exchange Group (NGX), and a sample of 17 firms was selected based on purposive sampling technique. Secondary data were extracted from the annual report and accounts of the 17 sampled firms. The study employed descriptive and inferential statistics to analyse data. Findings reveal that audit fee and audit industrial specialization have negative effect on earnings management. However, audit fee effect is significant while audit industrial specialization effect is insignificant. On the other hand, audit firm size has a positive but significant effect on earnings management. The implication of the findings is that firms should be more mindful of their audit fee budgets; as higher fees may incentivize auditors to perform more rigorous audits. Management teams should avoid seeing audit fees as a mere cost but as an investment in financial transparency and integrity. The insignificant effect of audit firm size and industry specialization suggests that firms should not rely solely on the size or specialization of audit firms when selecting auditors. Instead, focus should be placed on the auditor's independence and the quality of the audit process. The study recommended that financial managers and audit committees during the annual audit planning and budget allocation should allocate sufficient budget for audit fees to engage high-quality auditors.

Keywords: Real earnings management, Audit quality

Introduction

Earnings management refers to the deliberate manipulation of financial statements by company management to achieve specific financial results. This practice can be employed to meet internal targets, influence stock prices, or achieve other strategic objectives (Nyikyaa et al., 2019). It involves the use of accounting methods and practices to present an overly positive view of a company's financial position and performance. While not necessarily illegal, earnings management can mislead stakeholders about the true financial health of a company, thereby compromising the reliability of financial information (Orbunde et al., 2022). In addition, earnings management has been a critical issue in the corporate world, particularly in developing economies like Nigeria. It involves the manipulation of financial statements by company management to either meet certain financial targets or to present a favourable view of the company's financial health. This practice can undermine the integrity of financial reporting, leading to a loss of investor confidence and potentially disastrous economic consequences (Orbunde et al., 2022).

Additionally, in Nigeria, the consumer goods sector is one of the most vibrant segments of the economy, contributing significantly to the country's GDP and employment. However, the sector has also been

plagued by cases of financial misstatements and earnings management, which raises concerns about the effectiveness of corporate governance and audit practices (Adeyemi & Fagbemi, 2010). The role of audit quality in mitigating earnings management is crucial, as high-quality audits are expected to provide reasonable assurance that the financial statements are free from material misstatements, whether due to fraud or error (Kurawa & Ahmed, 2020).

In a similar manner, audit quality is a crucial factor in the integrity of financial reporting in consumer goods firms. High-quality audits provide reasonable assurance that financial statements are free from material misstatement, whether due to fraud or error (Nyikyaa et al., 2019). The quality of an audit depends on various factors, including the auditor's competence, independence, and adherence to auditing standards (Alu et al., 2022). Auditors play a critical role in detecting and deterring earnings management, thereby enhancing the reliability of financial reports. Audit quality is often assessed by the auditor's competence, independence, and adherence to professional standards, which are supposed to curb earnings management practices.

However, the effectiveness of audits in the Nigerian context has been questioned due to various challenges, including regulatory inefficiencies, low auditor independence, and the pressure to retain clients in a competitive market (Nwanyanwu, 2017). Recent scandals involving prominent firms in Nigeria have brought to light the pervasive nature of earnings management, despite the presence of supposedly stringent audit practices. This has led to calls for a reassessment of the role and effectiveness of audit quality in curbing earnings management within the Nigerian corporate environment (Enofe et al., 2015).

Additionally, despite the importance of audit quality in ensuring the reliability of financial statements, there is growing evidence that earnings management remains prevalent among listed consumer goods firms in Nigeria (Ojo, 2019). This situation raises critical questions about the efficacy of audits in detecting and preventing financial manipulations. The persistence of earnings management practices, even in the face of audits, suggests that there may be significant gaps in audit quality or that external auditors may not be exercising sufficient rigour in their examination of financial statements (Ijeoma, 2014).

One of the key problems is the potential conflict of interest that auditors face, especially when they are hired and paid by the firms they audit. This relationship can compromise auditor independence, making it difficult for auditors to objectively report financial irregularities (Ijeoma, 2014). Moreover, the competitive pressures within the audit industry may lead auditors to overlook or underreport earnings management in order to retain clients, particularly in a market like Nigeria where there is intense competition among audit firms (Okolie, 2014).

Despite the importance of audit quality in mitigating earnings management, there are few empirical researches focusing specifically on consumer goods firms in Nigeria (Alu et al., 2022; Sirajo et al., 2024; Yusufu, 2020). Existing studies on earnings management and audit quality have largely been conducted in developed countries, with relatively few examining the unique context of Nigeria (Alu et al., 2022; Sirajo et al., 2024; Yusufu, 2020). This gap in the literature underscores the need for localized studies to understand how audit quality affects earnings management within Nigerian consumer goods firms. Also, the literature on earnings management and audit quality has predominantly focused on broad sectors or industries, with limited attention given to consumer goods firms specifically. While some studies have explored the relationship between audit quality and earnings management in various sectors (Bala & Kumai, 2015; Ojo, 2019), there is a distinct lack of research that isolates consumer goods firms. This sector-specific focus is crucial given the unique challenges and dynamics faced by consumer goods firms in Nigeria.

Additionally, there is a significant knowledge gap regarding the specific mechanisms through which audit quality influences earnings management in Nigerian consumer goods firms. While it is generally understood that higher audit quality can deter earnings management, the specific factors and conditions that enhance this effect in the Nigerian context remain underexplored (Okenwa, 2020). Understanding these mechanisms is essential for developing targeted strategies to improve audit practices and financial reporting in this sector. Furthermore, most of the prior studies on audit quality and earnings management in Nigeria have measured earnings management using the estimated values for modified discretionary accruals Awa et al. (2018). However, this study would use Real Earnings Management (REM) since the study centre on consumer goods firms which activities are mostly production of goods. Therefore, this study will focus on the effect of audit quality on earning management with concern on the REM due to its importance as one of the monitoring mechanism of managers' opportunism and the domain for the study is firms that engaged in manufacturing of goods. Thus, the current review sheds light on audit quality and its effect on earnings management.

Literature Review

Local Studies

Alu et al. (2022) examined the effect of quality of audit on management of earnings in Nigerian listed firms by ascertaining the effect of audit quality on discretionary accruals, determining the effect of audit quality on earnings smoothing, as well as establishing the effect of audit quality on earnings per share. The study follows an ex-post facto research design. It draws data from the annual reports of 10 firms. These consisted of five financial and five non-financial firms, purposively selected for a period of 10 years (2010-2019). Descriptive and inferential analyses were employed in data analyses. The findings indicate that audit quality significantly affected earnings smoothing. Moreover, audit quality did not significantly affect discretionary accruals and earnings per share.

Thomas (2022) examined the connection between audit quality, as one of the important features of good corporate governance and earnings management among listed consumer goods companies in Nigeria. Specifically, the study focused on audit firm size, audit fees, auditor tenure, auditors' industry specialization and audit engagement partner gender diversity as independent variables and earnings management as dependent variable proxied by discretionary accruals. Descriptive correlational research design is adopted. The population included all the 21 companies in the consumer goods sector, 17 out of which were purposively sampled for the purpose of data collection. The study covered the period 2011-2020 and utilized secondary data extracted from the annual accounts of the companies for the period of the study. The study employed the use of multiple regression analysis technique to analyse the data with the aid of STATA version16. From the regression results it was revealed that audit fees, audit firm size and auditor industry specialization have a statistically positive significant effect on earnings management while auditor tenure and audit engagement partner gender diversity was found to have no significant influence on earnings management of listed consumer goods companies in Nigeria.

Nwoye (2021) examined the effect of audit quality on earnings management in insurance companies in Nigeria with special consideration on accruals and performance measures of earning manipulations using insurance companies in Nigeria. Preliminary analyses were conducted, such as descriptive statistics and correlation matrix. In analysing the data, the study adopted panel multiple regression to identify the possible effects of audit quality on earnings management of financial institutions in Nigeria We interpreted fixed effect analysis after using Hausman test. The result shows that audit quality had a significant effect on earnings management.

Hassan et al. (2020) examined the impact of audit quality on earnings management of listed deposit money banks in Nigeria for the period of 2012-2019 The study adopted correlational research design. The study used data extracted from annual reports of listed deposit money banks in Nigeria. The study was anchored on the agency theory to establish conceptual relationship between the variables. The population of the study comprised of the 14 listed deposit money banks. The adjusted population was 12 listed deposit money banks in Nigeria. The data collected were analysed with the aid of panelled regression. The findings revealed that there is positive and significant relationship between audit industry specialization and earnings management of listed deposit money banks. However, audit tenure has negative and significant relationship with earnings management of listed deposit money banks.

Nyikyaa et al. (2019) examined the impact of audit quality on earnings management of listed conglomerates in Nigeria using secondary data collected from the annual report of sampled banks covering a period of 10 years from 2005-2016. The study analysed the panel data using both OLS and random effect regression. The findings from the study indicate that audit quality have positive and significant impact on earnings management which is an indication of audit failure in delivering their assurance service

Inua and Okoh (2019) examined the extent to which audit quality affects earnings management among financial companies in Nigeria. The ex-post facto research design was adopted for this research based on the fact that the study relies on historic accounting data obtained from financial statements of the sampled companies. A sample of 13 commercial banks and 37 insurance companies making a total of 50 quoted financial companies were employed for the study. The random sampling technique was used for selecting these companies. The period under study is 2013-2017. Audit quality as the independent variable is measured as: length of audit tenure; audit firm size; audit committee independence; audit fee. Earnings management was measured first by estimating total accruals and then the Jones Modified Model was used to get the discretionary accruals. Descriptive statistics, correlation matrix, ordinary least square regression using STATA 13 software were applied in the study. It was discovered that length of audit tenure, audit committee independence and audit fee were positively and significantly related to earnings management.

Eriabie and Dabor (2017) studied audit quality and earnings management of quoted banks in Nigeria. Data was gathered for the period 2005 to 2010. Cross-sectional year by year regression analysis was performed. Audit quality was measured by using audit fees and auditor change, and abnormal loan loss provision is used to measure earnings management. The result revealed that both audit fee and auditor change were positively related to abnormal loan loss provision.

Jayeola et al (2017) examined the relationship between audit quality and earnings management of deposit money banks in Nigeria using longitudinal research design, the study uses secondary data covering the period from 2005-2015 and panel data technique. The study revealed that there is a significant positive relationship between joint audit and earnings management which implies that a change to joint audit from single audit increases earnings management, so also there exist a positive relationship between audit independence and earnings management while negative but insignificant relationship between audit tenure and earnings management.

Ajekwe and Ibiamke (2017) investigated the association between audit quality and earnings management of listed firms in Nigeria from 2009-2014. The study used OLS in analysing the data. The study measures audit quality by audit firm size and earnings management by the absolute abnormal discretionary accruals

using the modified Jones model. The study was carried out in two parts, the first part is the comparative study using independent sample t-test and the Wilcoxon signed ranked test. The second part is the multivariate analysis where the association between audit quality and earnings management was investigated. Based on our analysis, we found that auditor size has restrained earnings management but the decrease is not statistically significant. This study adds to the literature on audit quality by showing that Big-Four auditors (proxy for audit quality) may not constrain earnings management of client firms in certain regulatory and institutional environments.

Aliyu et al. (2016) examined the effect of audit quality on earnings management of listed deposit money banks in Nigeria. The specific objectives were to examine the effect of audit firm size, joint audit and auditor financial dependence on earnings management. The study used a sample of seven deposit money banks for the period from 2006-2013. Data analysis was done using ordinary least square (OLS) regression technique. The study found that both audit firm size and joint audit have significant negative effect on earnings management of listed deposit money banks in Nigeria. Auditor financial dependence had a significant positive effect on earnings management of listed deposit money banks in Nigeria during the study period.

Tyokoso et al. (2016) investigated the impact of audit quality on earnings management of 8 oil marketing companies listed on the Nigerian Stock Exchange (NSE) from 2004 to 2013. Earnings management is represented by discretionary accruals estimated by the modified Jones Model while audit firm size, auditor industry specialization and auditor tenure as proxies for audit quality. The study reveals that both audit firm size and auditor industry specialization have negative but insignificant impact on earnings management of the sampled companies and evidence of a significant negative impact of auditor tenure on earnings management.

Okoh (2015) examined the relationship between audit quality and earnings management in the Nigerian chemical and paints sector over a period of seven years (2006-2012). The management of earnings was measured using Discretionary Accruals (a modified Jones model). Generalized Least squares technique was used to estimate the regression coefficients of the data obtained from the eight (8) listed chemical and paints firms using STATA 10. The results show that, audit firm size has a significant negative impact on the earnings management of the firms. The study also found that chemical and paints firms that engage the services of big-4 auditors engage less in earnings management, which implies that the bigger the audit firms, the lower these chemical and paints firms engage in earnings management.

Foreign Studies

Juan and David (2020) examined the effect of audit fees on audit quality, measured by how the level of earnings management, is affected by the type of audit (voluntary vs mandatory), as well as whether the effect of audit fees on audit quality is different depending on the type of audit. Using a sample of Spanish SMEs composed of both voluntarily and mandatorily audited companies, the study found that voluntary audits have higher quality when audit fees are lower, but the differences in audit quality between voluntary and mandatory audits reverse as audit fees increase, and mandatory audits are more effective at deterring earnings management when audit fees are high. Additional analyses showed that voluntary audits do not directly affect earnings management; instead, voluntary audits are associated with abnormal fees, which in turn negatively affect earnings management.

Medhat and Mohamed (2018) scrutinized the impact of audit firm tenure on earnings management (EM) to determine the conditional implications for using the same set of accounting standards. The UK listed

companies for five years formed the sample and FAME databases for audit tenure data. The study used discretionary accruals measures as the measure of EM. We measure total accruals and current accruals utilizing the cash flow movement approach. The article depicts that, following prior studies, a negative link between audit firm tenure and earnings management for the pooled UK sample besides, the pragmatic document outcomes that the impact of audit firm tenure on EM is subject upon the same set of accounting standards being used. The results agree with the recent trend of research that lengthy audit tenure does not compromise auditor independence but improves the audit quality.

Methodology

Ex-post facto research design was adopted for this study. It is the type of research design which is otherwise known as after-the fact. In addition, the study also employs correlational research design. The correlation design is appropriate because the study aims to examine the relationship between audit quality and earnings management without controlling or manipulating any of them. A Correlational research is effective in determining the strength and/or direction of the relationship between variables, which can be either positive or negative. This design is selected to describe the statistical association between the study's variables. This is consistent with Kibiya and Aminu (2019); Racheal and Meshack (2019); and Umeh, et al., (2020).

The population for this study comprises 20 consumer goods firms listed on the Nigerian Exchange Group (NGX, 2023) as at 31 December 2022. The consumer goods sector is chosen because it plays a significant role in Nigeria's economy and is subject to intense scrutiny regarding financial reporting practices. The sample size for this study consists of all listed consumer goods firms on the Nigerian Exchange Group (NXG) as of the end of the most recent fiscal year.

Variables and Measurement

The dependent variable for this study is earnings management. The absolute value of Real Earning Management was used as the proxy for earnings management. REM was used as the proxy for earnings management because it best captures the earnings management practices of the listed consumer goods companies in Nigeria and manufacturing firms (Almashaqbeh & Abdul-jabbar, 2018; Maigoshi & Tanko, 2023; Tanko, 2023).

For REM activities, the study uses the aggregate value of Roychowdhury (2006): the abnormal levels of cash flow from operations (ABCFO), the abnormal levels of production costs (ABPROD) and the abnormal levels of discretionary expenses (ABDISEXP). The following equations are used, respectively.

$$\frac{PROD_{it}}{Assets_{it-1}} = \alpha_0 + \beta_1\left(\frac{1}{Assets_{it-1}}\right) + \beta_2\left(\frac{Sale}{Assets_{it-1}}\right) + \beta_3\left(\frac{\Delta Sales}{Assets_{it-1}}\right)\beta_4\left(\frac{\Delta\Delta Sales}{Assets_{it-1}}\right) + \varepsilon_t \text{----- ABPROD}$$

$$\frac{CFO_{it}}{Assets_{it-1}} = \alpha_0 + \beta_1\left(\frac{1}{Assets_{it-1}}\right) + \beta_2\left(\frac{Sale}{Assets_{it-1}}\right) + \beta_3\left(\frac{\Delta Sales}{Assets_{it-1}}\right) + \varepsilon_t \text{----------ABCFO}$$

$$\frac{DISEXP_{it}}{Assets_{it-1}} = \alpha_0 + \beta_1\left(\frac{1}{Assets_{it-1}}\right) + \beta_2\left(\frac{Sale}{Assets_{it-1}}\right) + +\varepsilon_t \text{----------ABDISEXP}$$

is estimated as residuals proposed by Roychowdhury (2006) from the model below:

Where; PROD is production cost in firm i in year t calculated as the cost of goods sold plus inventory. Sales and Δsales reflect sales and change in sales, respectively while ΔΔsales for β_3 is changed in sales of

previous year change. CFO is cash flow from operations; DISEXP is the sum of R&D, advertising, selling, general and administrative costs. Lagged of total assets are scaled by all variables, excluding the intercept (Roychowdhury, 2006).

Ordinary Least Squares (OLS) is used to estimate the coefficients of and it for each equation. To calculate ABCFO, ABPROD and ABDISEXP to obtained the residuals. After running equations Importantly, studies confirmed that firms involved in increase-earnings manipulation are likely to show low ABCFO, high ABPROD and/or low ABDISEXP, or vice versa. Therefore, the values of ABCFO and ABDISEXP are multiplied by –1 to achieve consistency among variables (Maigoshi et al., 2016; Maigoshi & Tanko, 2023). The following equation was then used to combine the values of ABCFO, ABDISEXP and ABPROD to reflect the total value of the abnormal real earnings management (ABREM).

$$REM = ABPROD + ABCFO^{*-1} + ABDISEXP^{*-1}.$$

Table 1: Measurement of Variables

Variable	Definition	Type	Measurement	Source
REM	Earnings management	Dependent	The residual of REM	Almashaqbeh and Abdul-jabbar, (2018); Maigoshi andTanko, (2023)
ADT	Audit tenure	Independent	Number of years the auditor has audited the firm's financial statements.	Henk-jan olthof (2017) Nawraiseh (2016)
ADF	Audit Fee	Independent	Measured with natural logarithm of total fees.	Abdul-Rahman et al. (2017)
AFS	Audit Firm Size	Independent	This will be measured by a binary variable where 1 indicates a Big Four audit firm, and 0 otherwise.	Tahir (2017); Kartiningsth et al. (2020).
AIS	Audit Industrial Specialization	Independent	Measured by a binary variable where 1 indicates specialization in the consumer goods sector, and 0 otherwise	Tyokoso et al. (2016); Inaam et al. (2012).
AIN	Audit independent	Independent	Ratio of total fees paid to the audit firm / Non-audit fees in a financial year	Tepalagul and Lin(2015) Sadiq and Emmanuel (2017)
LEV	Leverage	Control	Measured by the sum total debt/total assets	Ernawati et al. (2019); Putraet al. (2020); Hussain et al. (2022)
ROA	Profitability	Control	proxied with return on Assets ROA, and is measured by profit after before interest and tax/total assets	Rani et al, (2018); Kalbuana et al. (2022).

Source: Literature Reviewed (2024).

Methods of Data Collection

This study used secondary data extracted from the annual reports and accounts of consumer goods companies listed on the Nigerian Exchange Group. The use of secondary data is justifiable because the annual reports are publicly available and provide reliable and comprehensive financial information. These

reports contain detailed data on audit quality and earnings management, directly relevant to the research questions.

Method of Data Analysis

Descriptive statistics serve as a crucial analytical tool that allows researchers to summarise and interpret data in a comprehensible manner. The primary purpose of this analysis is to simplify the research data, providing a clearer interpretation based on the level of measurement. This is achieved through a combination of tabulated descriptions (such as tables). In this study, descriptive statistics was applied to summarise the dependent and independent variables over a ten-year period from 2013 to 2023, using measures such as the mean, maximum, minimum, and standard deviation (Medhat & Mohamed, 2018).

Correlation analysis employed to examine the strength and direction of the relationship between audit quality and earnings management. This is justified as it helps to understand whether and how strongly the variables are related, which is fundamental to the study's objectives (Kothari, 2011). Regression analysis utilised to determine the variation in the dependent variables as influenced by changes in the explanatory variables. This approach is particularly effective for explaining how changes in the dependent variable are driven by changes in the explanatory variables, with multivariate linear regression being the preferred method (Kibiya, 2016). Given the panel nature of this study, a suitable regression technique for panel data, as suggested by Edirin (2016), the study applied, specifically using the fixed effect and random effect models. The regression analysis will be used to test the study's hypotheses, employing the Hausman test to choose between the Random Effect and Fixed Effect models.

Before proceeding with the regression analysis, key assumptions underlying the regression model, such as Multicollinearity and Serial Correlation, will be tested. Multicollinearity occurs when one or more independent variables are highly correlated, which can increase the standard errors of the coefficients and lead to either Type I or Type II errors. Specifically, the researcher might incorrectly reject a significant result or accept an insignificant one. According to Gujirati, (2010), if the Variance Inflation Factor (VIF) is less than 10, multicollinearity is present, and the results are deemed acceptable. However, if the VIF exceeds 10, significant collinearity is present, rendering the results unacceptable.

Model Specification

The study adapts the models below with modification, consistent with prior studies on EM (Abdul-Rahman et al., 2017; Rani et al., 2018; Maigoshi & Tanko, 2023;)

$$EM_{it} = \beta_0 + \beta_1 ADT_{it} + \beta_2 ADF_{it} + \beta_3 AFS_{it} + \beta_4 AIS_{it} + \beta_5 AIN_{it} + \beta_6 LEV_{it} + \beta_7 ROA_{it} + \varepsilon_{it}$$

Where:

EM = earnings management

ADT = audit tenure

ADF = audit fees

AFS=audit firm size

AIS= audit industrial specialization

AIN = audit independence

LEV= leverage

ROA= return on assets

i= firm 1-20

t= financial years 2013-2023

$\beta 0$ = constant of the model

$\beta 1 - \beta 4 + \beta 5, \beta 6$ = coefficients of the study model
ε = error term

Results and Discussion

Descriptive Statistics
Descriptive statistics provide a summary of the data used in the analysis, including the mean, standard deviation, minimum, and maximum values of the variables. These statistics help to understand the general characteristics of the data set.

Table 2: Descriptive Statistics

Variables	Observations	Mean	Std. Dev.	Minimum	Maximum
REM	220	0.0253	0.0135	0.0033	2.1472
ADT (Number)	220	0.7108	0.4545	0	1
ADF (₦)	220	35450.46	44165.49	401	339590
AFS(Number)	220	0.6847	0.2174	0	1
AIS	220	0.4274	0.1375	0	1
AIN	220	0.2089	0.1278	0.0021	0.3124
LEV	220	0.4824	0.1847	0	0.7220
ROA	220	0.0547	0.0274	-2.3540	6.1932

Source: STATA 15Output (2024)

Table 2 displays the calculated values for the mean, the standard deviation, the minimum and the maximum for each of the research variables for the 20 consumer goods firms during the period of the study from 2013 to 2023. The Table also shows that the study has 220 firm-year observations for the study. The results on Table 2 shows the mean of REM at 0.0253and standard deviation of 0.0135, the mean value indicates that on average consumer goods firms engaged less in earnings management. The standard deviation indicates a wide variation around the mean. This is supported by the minimum and maximum of 0.0033 and 2.1472.

In addition, audit tenure has the mean of 0.7108 which means that the average 71% of firms stayed for about three to five years in auditing the sampled firms while 29% of audit firm tenures are less than three years in auditing the sampled firms. The study also shows that there is not wide variation in the audit tenure during the period of the study since the standard deviation is less than the mean at 0.4545. The minimum stood at 0 and maximum is 1. “1” indicates that some firms were audited by an audit firm for over three to five years while the “0” indicates otherwise.

Table 2 shows that audit fee has mean of 34,289.23, which indicates that on the average of audit fee is ₦35,450.46 The results also show the standard deviation of audit fee at 44,165.49 which shows level of deviation around the mean. The minimum and the minimum value for audit fee are ₦401 and ₦339,590 respectively. Additionally, audit firm size has a mean of 0.7451 with a minimum of 0 and a maximum of 1. The standard deviation of 0.4367shows that there is no wide variation around the mean, and shows a low level of dispersion in engaging of the Big 4s for audit service among the sampled firms. Also, the mean indicates that on the average 75% of the sampled firms engaged the service of the Big 4s while only 25% that engaged the service of non-Big 4s.

The result furthered shows that audit industrial specialization has mean of 0.4274;the mean of 0.4274 shows moderate industry expertise, but the variation suggests that not all firms prioritize industry-specialized auditors. It also indicates that the audit firms are knowledgeable in the auditing consumer goods firms. The standard deviation of 0.1375 implies that the level of AIS tends to deviate from the mean. The study also shows minimum value for AIS of 0 and maximum of 1.The study shows the mean of audit independence as 0.2089 and standard deviation of 0.1278. A high mean of 0.2089 suggests most audit firms in the sample maintain a robust degree of independence, supporting objective financial reviews. The standard deviationof 0.1278 indicates a slight deviation around the mean. The study furthered revealed minimum value of 0.0021 and maximum of 0.3124.

In addition, Table 2 shows that on average sampled consumer goods firms financed their assets with 48% debts while the remaining 52% of their assets was financed by equity. The standard deviation indicates wide deviation around the mean which is 0.1665. The table shows minimum and maximum value of 0 and 0.7220 respectively. The minimum indicates that some firm does not have debt as part of their liabilities and some firm incurred debt of over 72.20%. The Table also shows that ROA has a mean of 6% with a minimum of -2.3540 which about and maximum of 6.1932. The standard deviation of0.0103 indicates low dispersion in profitability among the sampled companies.

Correlation Analysis

This section examines the strength of the association between each of the explanatory variables and the dependent variables. It also shows the extent of the relationship between explanatory variables themselves to test the presence of multicollinearity. This section presents the correlation coefficients in Table 3.

Table 3 Correlation Matrix

VAR.	REM	ADT	ADF	AFS	AIS	AIN	LEV	ROA
REM	1.0000							
ADT	0.4323	1.0000						
ADF	-0.5387	-0.5234	1.0000					
AFS	0.4218	0.4768	0.5487	1.0000				
AIS	0.5512	0.3373	0.4039	-0.4892	1.0000			
AIN	-0.3288	0.2957	0.3571	0.4184	0.3216	1.0000		
LEV	-0.1344	0.1285	0.1872	0.2049	-0.1648	0.1493	1.0000	
ROA	-0.1016	-0.0981	0.1085	0.1578	0.1185	0.1238	0.1738	1.0000

Source: STATA 15 Output (2024)

Table 3 shows the correlation coefficients between the dependent variable and the independent variables in the study. Furthermore, it shows the correlation matrix with the values displaying the Spearman correlation coefficient between all the pairs of the study variables. The choice of the spearman rank

correlation, over the Pearson correlation, is because the outcome of Shapiro Wilk test for normality indicates that most of the data are not normally distributed except ADT, AFS and AIS which are normally distributed at 0.23305, 0.05086 and 0.08298 probability value respectively. While the Shapiro Wilk tests for REM, ADF, LEV and ROA are 0.0000 which is significant at a 1% level of significance (See Table 4.4). More so, Spearman rank correlation was chosen because it is non-parametric, making it robust to outliers and not requiring assumptions about normality of data distribution. This is valuable considering the potential presence of outliers in financial data.

Table 3 shows a negative and weak correlation between audit fee, audit independence, leverage, ROA and REM at correlation coefficient of -0.5387, -0.3288, -0.1344 and -0.1016 respectively. This suggests that audit fee, audit independence, leverage and ROA tend to reduce earnings management. This implies that quality audit firm with better audit remuneration are likely to scrutinize financial statements more rigorously, potentially reducing earnings management. Also, leverage and high profitability tends to reduced earnings management. In addition, audit firm fee, audit independence, leverage, ROA and earnings management moved in separate directions.

On the other hand, the study shows that audit tenure, audit firm size and audit industrial specialization has positive and weak relationship with REM at correlation coefficient of 0.4323, 0.4218 and 0.5512 respectively, However, audit industrial specialization has moderate and positive relationship with REM. The relationship between audit tenure, audit firm size and audit industrial specialization suggests that shorter audit firm tenure, bigger audit firm and audit firm with specialization is associated with slightly higher earnings management. This could be due to lack knowledge and experience in the client's firms or in consumer goods firms leading to higher earnings management.

Pre and Post Estimation Tests

The study conducted several diagnostic tests to ensure the validity and reliability of the regression models. These tests include normality test for dependent variable residual, model specification, heteroscedasticity test, multicollinearity test, Hausman specifications test, and Langragiane multiplier test. The results of these tests confirm the appropriateness of the models and the reliability of the findings.

Model Specification

The study uses linktest to detect model specification errors likely attributable to the research variables. This is because the linktest can detect misspecification errors relating to omitted variables and check the exactness of link function specification in the model.

Table 4: Linktest Result for Model Specification

Variables	Coeff.	T	p>t
_hat	3.5735	1.62	0.106
_hatsq	-.3151	-1.17	0.243
_cons	-5.1877	-1.17	0.244

Source: STATA 15 output (2024)

The results from the linktests on table 4 show that the variables _hatsq is insignificant, which implies appropriateness in models' specification. This is also supported by the p value of the _hatsq that are not significant at 5 percent threshold. Thus, it is apt to say that the research model has been properly specified in line with the CLRM assumptions.

Normality Test

The results in Table 4 shows that most of the data are not normally distributed except for audit tenure, audit firm size and audit industrial specialization which are insignificant at probability values of 0.23305, 0.05086 and 0.08298 respectively. However, real earnings management, audit firm size, audit independence, leverage and return on assets are significant at 1% level of significance. This suggests that they are not normally distributed.

Table 5: Normality Test for Study Variables

Variables	Obs.	W	V	Z	Prob>z
REM	220	0.72382	41.919	8.604	0.00000
ADT	220	0.99096	1.372	0.729	0.23305
ADF	220	0.91606	12.740	5.861	0.00000
AFS	220	0.98659	2.035	1.637	0.05086
AIS	220	0.98798	1.825	1.385	0.08298
AIN	220	0.98123	2.947	2.982	0.00213
LEV	220	0.89751	15.556	6.321	0.00000
ROA	220	0.33200	101.390	10.638	0.00000

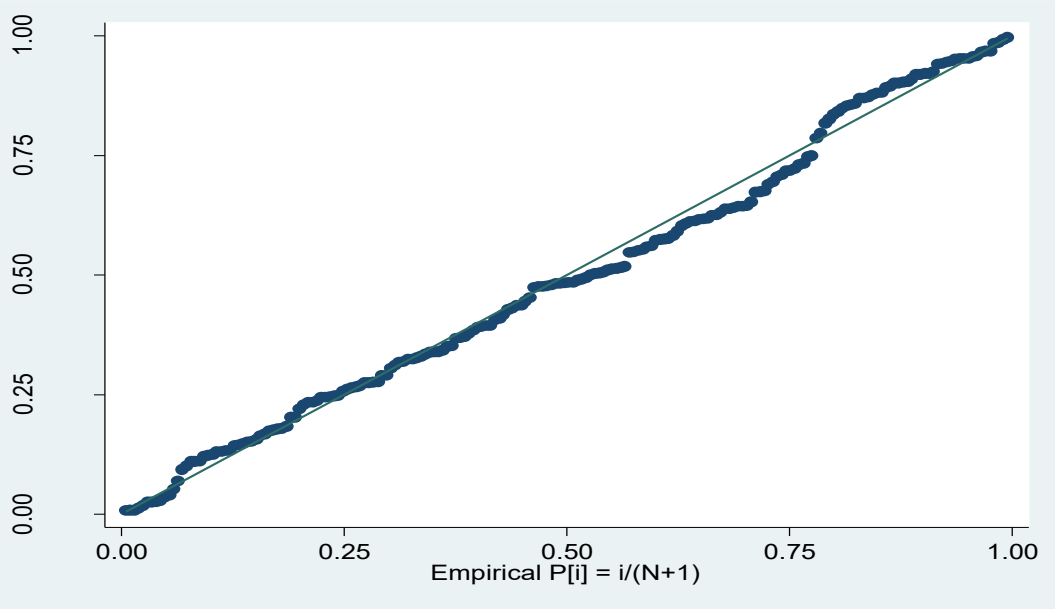
Source: STATA 15 Output (2024)

Table 6: Shapiro-Wilk W test for Normal Data

Variable	Observation	W	V	Z	Prob>z
Model	220	0.99891	0.976	0.162	0.09914

Source: STATA 15 Output (2024)

The result as displayed in Table 5 and 6 shows that the p-value for the study variables and the residual model respectively. The normality for the variables are all significant indicant level abnormal distribution. However, the study uses GLS for regression and Spearman Rank correlation to correct the abnormality. The normality for the residual is insignificant; indicating that the residual is of the study is normally distributed. In addition to the Shapiro Wilk test, the study uses the standardised normal probability plot (p plot). The plot as presented below show that the pnorm show normality at the centre of the distribution this shows that the residual's does not deviates from normality is negligible. The study used the Shapiro Wilk test and p plot to validate the normality assumption of CLRM on the residuals obtained from the model.



Source: STATA 15 output (2024).

Multicollinearity

The correlation coefficients and VIF in Table 7 shows that there is an absence of harmful relationship among the predictors. The highest VIF is 3.47 for audit fee and minimum VIF is 1.33 for leverage. Addition, the correlation matrix also shows absence of multicollinearity since none of the explanatory has relationship of 0.8.

Table 7: Multicollinearity

Variables	VIF	1/VIF
ADT	2.98	0.3352186
ADF	3.47	0.2884731
AFS	2.65	0.3769093
AIS	1.83	0.5457996
AIN	1.75	0.5731695
LEV	1.33	0.7527184
ROA	1.56	0.6397218
Mean	2.22	

Source: STATA 15 output (2024)

Heteroskedasticity of the residuals

The study uses Breusch–Pagan–Godfrey Test to affirm the compliance of the research model with the assumption of CLRM. The results obtained from the Breusch-Pagan-Godfrey test for heteroscedasticity is 0.4683. The results show that the probability value is insignificant, which implies that the variance of the residuals is constant in the Model.

Hausman Specification Test

The Hausman Specification tests were carried out in the model of the study to choose a more consistent estimator between the GLS fixed effect and random effect. The results are shows that in the model unique error is not correlated with the regressors because the chi-square probability is 0.4621 which is

insignificant. In addition, the results of the study were interpreted using the estimated values obtained through the random-effects model.

Breusch-Pagan Lagrange multiplier test for Random Effects

The study uses the Breusch and Pagan Langrangian multiplier (BPLM) test for random effects to choose between OLS and a random effect for the models, since the Hausman results are insignificant. Random effects assume that the change across entities is random and not correlated with the independent variables included in the model. The result was presented in favour of the random effects model estimation since the probabilities of the chi-square are 0.0000.

Generalized Least Square Regression

The Generalized Least Square (GLS) regression was employed to account for any heteroscedasticity and other exogenous variables present in the panel data. The regression results are presented in Table 8.

Table 8 Panel Data Regression Results

Variables	Coefficient	Z	P>|z|
Constants	-0.2294	-3.36	0.000
ADT	-0.0030	-5.94	0.000
ADF	-0.0143	-4.09	0.001
AFS	0.0263	3.46	0.005
AIS	-0.0108	-4.82.	0.000
AIN	-0.0049	-4.00	0.001
LEV	0.0530	1.25	0.153
ROA	-0.0813	-3.46	0.000
Within R^2		0.6894	
Between R^2		0.5638	
Overall R^2		0.6294	
Wald Chi(7)		129.1458	0.0000

Source: Stata 15 output (2024)

Table 8 shows R-squared Values; the within R-squared (0.6894) indicates that 68.94% of the variation within the groups (firms) is explained by the model. The between R-squared (0.5638) indicates that 56.38% of the variation between groups (firms) is explained by the model and overall R-squared (0.6294) suggests that 62.94% of the total variation in earnings management is explained by the model. This implies that a high within R-squared implies that the model explains a significant portion of the variation within firms over time. The lower between R-squared suggests there are substantial differences between firms not explained by the model.

In addition, the random effect Wald chi2(7) is used to test the significance of the coefficients in a random effects model. In this case, the Wald chi2(7) test has a value of 129.1458 with 7 degrees of freedom (7 independent and control variables). The probability value associated with this test is 0.0000. With a probability value of 0.0000, which is less than the conventional threshold of 0.05, the study concludes that there is statistically significant evidence to suggest that at least one of the independent variables has a significant effect on the earnings management of listed consumer goods firms in Nigeria.

Furthermore, the study revealed that audits tenure has negative and significant effect on earnings management at coefficient value of -0.0030 and p-value of 0.000. The coefficient for audit tenure is negative and significant, indicating that a one-year increase in audit tenure reduces real earnings

management by 0.0029 units. This suggests that longer auditor-client relationships contribute to enhanced oversight and mitigate earnings manipulation. Furthermore, the negative and significant coefficient suggests that longer audit tenure is associated with lower levels of earnings management. This could be due to the familiarity with firm operation,

This finding aligned Ilaboya and Ohiokha (2014); Tepalagul and Lin (2015) who documented that audit tenure decreases earnings management. However, the finding disagreed with the finding of Mgbame et al. (2012) who studies shows that audit tenure increases earnings management. Additionally, the study also partially agreed with positive accounting theory which state that higher audit quality aligns with incentives to provide reliable financial reports.This aligns with agency theory, where reduced information asymmetry fosters trust and accountability between management and stakeholders.

More so, the result shows that audit fee has negative and significant effect on earnings management. The negative coefficient indicates that higher audit fees are associated with lower levels of earnings management. Also, 1% increase in audit fee would reduce earnings management by 0.0143 units. This suggests that higher audit quality, reflected in higher fees, may deter earnings management practices. This finding agreed with the findings of Paradise and Yustrida (2020) and disagreed with the findings of Oladejo (2020) who document that audit fee has positive effect on earnings management.

Similarly, the result validates aspects of agency theory and positive accounting theory, contributing to the academic discourse on the determinants of audit quality. However, the finding partially disagreed with the part which posits that managers may exploit information asymmetry to manipulate earnings, especially when auditing costs are high. It contrasts with studies like DeAngelo (1981), which argue that higher fees typically indicate better audit quality. This finding supports the agency theory, which posits that higher audit quality reduces information asymmetry between managers and stakeholders. It suggests that as audit fees increase, indicating higher audit quality, earnings management decreases.

Additionally, the results show that audit firm size has positive but significant effect on earnings management with coefficient value and p-value of 0.0263 and 0.005 respectively. The positive coefficient indicates that 1% increase in audit firm size would increase earnings management by 0.0263. The positive but significant coefficient indicates that the size of the audit firm has a significant effect on earnings management but increase earnings management. This implies that the reputation associated with larger audit firms may not necessarily translate into better audit quality in deterring earnings management.

The result is in line Lawrence et al. (2011) who found that audit firm size has positive effect on earnings management. However, the result contracted the findings of Utami (2017) who found that audit firm size has negative effect on earnings management. This finding disagrees with the agency theory that larger audit firms, presumed to offer higher quality audits, would lead to decreased earnings management. This also finding aligns with some studies in the positive accounting theory framework, which suggest that firm size alone is not a determinant of audit quality. It indicates to policymakers that merely mandating audits by larger firms may not be sufficient without ensuring overall audit quality.

On the other hand, the study documented a negative but significant effect of audit industrial specialization on earnings management. The coefficient value of -0.0108 indicates that 1% increase of audit industrial specialization would decrease earning management by 0.0108 units. The negative and significant coefficient indicates that auditors with industry specialization are effective in reducing earnings management. Audit industry specialization has a negative coefficient, showing a 0.0108 reduction in real

earnings management for each unit increase in specialization. This reflects the critical role of industry expertise in improving audit quality.

Additionally, this finding supports positive accounting theory, emphasizing the value of industry-specific expertise and industry expertise enhances audit quality and financial reporting accuracy.It underscores the importance for firms to select auditors with relevant industry experience and for policymakers to consider encouraging industry specialization within the audit profession. The study also agreed with agency theory which implies that specialized auditors provide higher quality audits, reducing earnings management. This aligns with stewardship theory, emphasizing the importance of accountability through specialized audits. Consequently, the finding is consistent with the findings of Lopez and Vega (2019); Prayogi et al. (2022) who found negative effect of audit industrial specialization on earnings management. On the other hand, it disagreed with the study of Aliyu et al. (2015); Jayeola et al. (2017) who revealed a positive effect of audit industrial specialization on earnings management.

Consequently, the study shows that audit independent has negative and significant effect of real earnings management at coefficient value of -0.0049 and probability value of 0.001. This suggests that 1 unit increase of audit independence would decrease earnings management by 0.0049 units. It also implies that audit independence significantly reduces real earnings management by 0.0049 units per unit increase. This underscores the critical role of auditor impartiality in ensuring transparent financial reporting.

Interestingly, the results show a positive and insignificant effect of leverage on earnings management. This is revealed by 0.0530 coefficient value and probability value of 0.153. This indicates that 1% increase of leverage would lead to insignificant increase of earnings management by 0.0530 units. Higher leverage has a weak and statistically insignificant positive impact on earnings management. This suggests that leverage might be a strong driver of earnings management. Furthermore, the results reveal a negative and significant effect of ROA on earnings management at coefficient value of -0.0813 and probability value of 0.000. This suggests a 1% increase in ROA is associated with a 0.0813 decrease in earnings management, implying potentially lower earnings management.

The findings generally support agency theory, emphasizing the role of audit quality in reducing information asymmetry and deterring earnings management. However, the positive but significant effect of audit firm size challenges the assumption that larger firms inherently provide higher quality audits. The results align with positive accounting theory by highlighting the importance of specific attributes such as audit fees and industry specialization over general characteristics like firm size.

Discussion of Findings

Audit tenure fosters familiarity with firm's financial operations, enabling auditors to identify and challenge questionable accounting practices. However, excessive tenure can risk complacency, highlighting the need for a balanced tenure period. Regulators may adopt audit rotation policies that balance the benefits of familiarity and independence. Mandatory auditor rotation after a specified tenure could be a viable solution. For practitioners and regulatory bodies, this emphasizes the need for policies promoting auditor rotation to maintain audit independence and quality.

The positive coefficient for audit fee shows that a unit increase in audit fees leads to a 0.0135 increase in real earnings management. This suggests that higher fees may incentivize auditors to overlook irregularities or indicate higher-risk firms requiring extensive auditing. The implication of the study is that, for practitioners, this highlights the importance of investing in high-quality audits to ensure accurate financial reporting. For policymakers and regulatory bodies, it suggests the need for guidelines that encourage transparency in audit fee structures.The study suggests regulatory measures like enforcing

auditor rotation and encouraging transparency in audit fee structures. It also supports the development of standards that recognize and promote industry specialization within the audit profession.Also audit fees are often correlated with audit complexity and risk. In some cases, high fees reflect the firm's complexity, increasing opportunities for earnings management. Conversely, it may also signal auditor complacency due to financial dependence.

In addition, large audit firms (e.g., Big Four) often have more resources, industry expertise, and stringent quality control, reducing opportunities for earnings manipulation. This underscores the importance of engaging reputable auditors.This finding indicates to policymakers that merely mandating audits by larger firms may not be sufficient without ensuring overall audit quality. For firms, it suggests that selecting an audit firm should consider more than just size.Policymakers should encourage firms to engage larger audit firms or mandate minimum quality standards for all auditors.

Auditors with industry specialization possess deeper insights into sector-specific risks and practices, enabling them to detect irregularities more effectively. This study highlights the value of tailored audits.Regulatory frameworks should encourage or require auditors to have industry-specific knowledge, particularly in high-risk sectors like consumer goods.This suggests that specialized knowledge in a particular industry enhances audit quality and financial reporting accuracy.This suggests that specialized knowledge in a particular industry enhances audit quality and financial reporting accuracy. In addition, auditors with industry-specific expertise are more effective at detecting and deterring earnings management due to their specialized knowledge and experience.

Also, independent auditors are less likely to succumb to management pressure, ensuring more objective evaluations. However, independence may be compromised by long tenure or excessive fee dependence. More so, strengthening policies on non-audit services and auditor independence will enhance audit reliability. For example, limiting the proportion of fees from a single client can reduce dependence.

Conclusion and Recommendations

This study investigated the effect of audit quality on the earnings of listed consumer firms in Nigeria, with a focus on understanding how specific audit quality attributes influence financial performance and earnings management practices. The findings revealed that key elements of audit quality, such as audit tenure,audit fee, audit firm size,audit firm industrial specialization and auditor independence, significantly impact the reliability and integrity of reported earnings.

Longer audit tenure is associated with higher levels of earnings management, indicating potential familiarity threats that compromise auditor independence. This finding supports agency theory, which posits that prolonged relationships between auditors and clients can impair audit quality.

Similarly, higher audit fees are associated with lower levels of earnings management, supporting the notion that higher audit quality deters earnings manipulation. This aligns with agency theory, suggesting that higher fees reflect more rigorous and effective audits.

On the other hands,the size of the audit firm positively but significantly affects earnings management. This challenges the assumption that larger audit firms inherently provide better audits, as suggested by agency theory, and aligns with positive accounting theory, emphasizing other quality attributes over size.

More so, auditors with industry-specific expertise are more effective in reducing earnings management. This supports both agency theory and positive accounting theory, highlighting the importance of specialized knowledge in enhancing audit quality.

Independent auditors are less likely to succumb to management pressure, ensuring transparent and reliable financial reporting. This underscores the need for robust independence frameworks to prevent conflicts of interest.

In conclusion, the research contributes to the growing body of literature on audit quality and financial reporting by providing empirical evidence from the Nigerian consumer goods sector. It advocates for a robust auditing framework to strengthen corporate accountability and protect stakeholder interests. Future research could explore the impact of audit quality in other sectors and assess how emerging technologies in auditing could further enhance earnings quality.

Based on the findings and conclusion of the study, the following recommendations were put forward by the study; firms should implement mandatory auditor rotation every 6–10 years to balance familiarity and independence. Regulatory bodies such as the Financial Reporting Council of Nigeria (FRCN) should enforce this policy through audit firm registration guidelines. This should be done within the next three years to allow firms and auditors to transition. Also, audit committees during the periodic review of auditor performance should implement policies promoting auditor rotation to maintain independence of external auditors in order to reduce earnings management. In addition, Regulatory bodies during the drafting of audit regulations should revisit the guideline for tenure for audit rotation and enforce mandatory auditor rotation policies.

Financial managers and audit committees during the annual audit planning and budget allocation should allocate sufficient budget for audit fees to engage high-quality auditors. Regulatory bodies and professional accounting organizations during the establishment of auditing standards should develop sound guidelines that encourage transparency in audit fee structures. To enhance the quality of financial reporting and reduce earnings management, firms should adopt a hybrid audit approach by engaging either a large audit firm or two smaller audit firms for their audit work.Because large audit firms typically have extensive resources, industry-specific expertise, and well-established methodologies, enabling them to detect complex earnings management practices effectively. While two smaller audit firms can pooled their resource and served as a larger audit firm and also due to their relatively focused client portfolios, can provide a fresh perspective and greater attention to detail. This can add an additional layer of scrutiny, reducing the likelihood of oversight and mitigating risks of earnings manipulation.

Regulatory bodies should mandate that audit firms allocate industry-specific and experience teams for audits in specialized sectors. Audit firms should establish training programmes to build sector expertise, with oversight from professional bodies. The implementation should be done within five years to allow training and specialization development. Regulatory bodies should enforce limits on non-audit services and restrict fees from a single client to enhance auditor independence. The FRCN should amend its code of ethics to incorporate these limits, with compliance audits conducted annually. There should be immediate enforcement, with penalties for non-compliance.

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