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Audit Quality and Earnings management of Listed Consumer Goods Companies on the Nigeria Exchange Group.

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ABSTRACT

This study, anchored on Stewardship Theory and Stakeholder Theory, examined audit quality and earnings management of listed consumer goods companies in Nigeria. Audit quality was measured by Audit Firm Size (AFS), Audit Firm Tenure (AFT), Audit Fees (AF), Auditor Industry Specialization (AIS) and Audit Committee Independence (ACI), while earnings management was measured by discretionary accruals (DA). Firm age and profitability were included as control variables. The study adopted an ex-post facto research design, and data were obtained from the audited annual reports of 18 listed consumer goods companies for a period of 10 years (2015-2024). Panel regression analysis was used to analyze the data, and diagnostic tests for multicollinearity (Variance Inflation Factor), heteroskedasticity (Breusch–Pagan test), and model specification errors (Ramsey RESET test) were conducted. The Hausman test was further employed to determine the appropriate panel estimation technique, with the results favouring the fixed effects estimator over the random effects estimator; hence, the fixed effects model was adopted. The results indicated that AFS and AFT have a significant negative effect on earnings management, while ACI also has a significant negative effect on earnings management, indicating that audit committee independence restrains earnings management. Findings also revealed that AF has a negative insignificant effect on earnings management, while AIS has an insignificant positive effect on earnings management. The study concluded that AFS, AFT and ACI restrain earnings management, while AF and AIS do not significantly affect earnings management. The study recommended that Management should strengthen the effectiveness of audit committees beyond formal independence by ensuring members have strong financial expertise, clear authority, and access to timely information. Regular training, performance evaluations, and stricter enforcement of governance codes are also recommended to enhance oversight and reduce opportunities for earnings management and regulatory authorities should come up with policies that will formally encourage audit firms to create departments within their firms that specialize in auditing specific industries.

Keywords: Audit Quality, Audit Committee, Audit Tenure, Audit firm size, Audit industry Specialization, Earnings Management

INTRODUCTION

Business globalization has accelerated cross-border capital flows and market interconnectivity, intensifying competition while creating opportunities and challenges for firms worldwide. This global interdependence has driven standard-setting bodies to align on common principles, leading to the widespread adoption of International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA). In this era, reliable financial reporting has become critical to corporate governance, making external audits essential for rebuilding investor confidence (Cheng & Warfield, 2010; Ajape & Adelowotan, 2025). The International Auditing and Assurance Standards Board (IAASB) emphasizes auditor independence, professional skepticism, and ethical guidelines as foundations of global audit quality (IFAC, 2021). Despite this, a firm's drive to maximize profits and managers' incentives tied to profitability often motivate earnings management—the

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deliberate manipulation of financial statements to mislead stakeholders or achieve contractual benefits (Deva & Imam, 2025; Healy & Wahlen, 1999). Managers exploit loopholes in accounting methods to meet benchmarks, satisfy debt covenants, or influence market reactions. The practice, which often goes undetected by auditors, was central to major corporate scandals such as Enron, WorldCom, Parmalat, Cadbury Nigeria Plc, Afribank Plc, and Unilever Nigeria Plc (Ghosh, Marra, & Moon, 2010; Ali & Kamardin, 2018). These failures eroded investor confidence and highlighted weaknesses in audit effectiveness. Auditing provides credibility by ensuring financial statements are free from material misstatement due to error or fraud (Deva & Imam, 2025). Audit quality—defined as the auditor's ability to detect and report misstatements—is therefore vital for investor trust. However, auditor independence remains a persistent obstacle to effective audits, even with regulatory efforts like the Sarbanes-Oxley Act, PCAOB, Financial Reporting Council, and IAASB (Ahmad, Suhara, & Ilyas, 2016). In Nigeria, the indictment of Akintola Williams Deloitte for facilitating earnings management at Afribank and Cadbury Nigeria further raises doubts about audit effectiveness (Annisa, Aji, & Gehad, 2024). Prior studies identify audit firm size, tenure, fees, and industry specialization as key audit-quality determinants influencing earnings management (Jayeola, Taofeek, & Akinrinlola, 2018; Effiok & Eton, 2018). Audit committee independence is also recognized as crucial, acting as the bridge between auditors and management to enhance financial reporting quality (Fakhari & Pitenoei, 2017; Larcker & Richardson, 2004). Yet, literature examining the combined and interactive effect of external audit quality variables and audit committee independence on earnings management remains limited, especially in Nigeria. Most existing studies rely on cross-sectional data and OLS regression, which fail to capture cross-sectional and temporal dynamics, and few use data beyond 2022.Consequently, there is a clear gap for a study that employs panel regression techniques and recent data from 2015 to 2024 to examine how audit quality—measured by audit firm size, audit tenure, audit fees, auditor industry specialization, and audit committee independence—affects earnings management. This study focuses on Nigeria's consumer goods sector, a major industry that has witnessed notable earnings management cases, to provide contemporary evidence on strengthening audit effectiveness and investor confidence.

The purpose of this paper is to ascertain whether or not audit quality affect earnings management of listed firms in Nigeria. To achieve this objective, the following hypotheses were formulated in null form:

$H0_1$: Audit firm size has no significant effect on earnings management of listed consumer goods companies in Nigeria.

$H0_2$: Audit firm tenure has no significant effect on earnings management of listed consumer goods companies in Nigeria.

$H0_3$: Audit fee has no significant effect on earnings management of listed consumer goods companies in Nigeria.

$H0_4$: Auditor industry specialization has no significant effect on earnings management of listed consumer goods companies in Nigeria.

$H0_5$: Audit committee independence has no significant effect on earnings management of listed consumer goods companies in Nigeria.

REVIEW OF RELATED LITERATURE

This section of the paper housed conceptual framework, theoretical review and empirical studies

Conceptual Framework

This section houses discussion on the concepts of audit quality and earnings management as seen thus:

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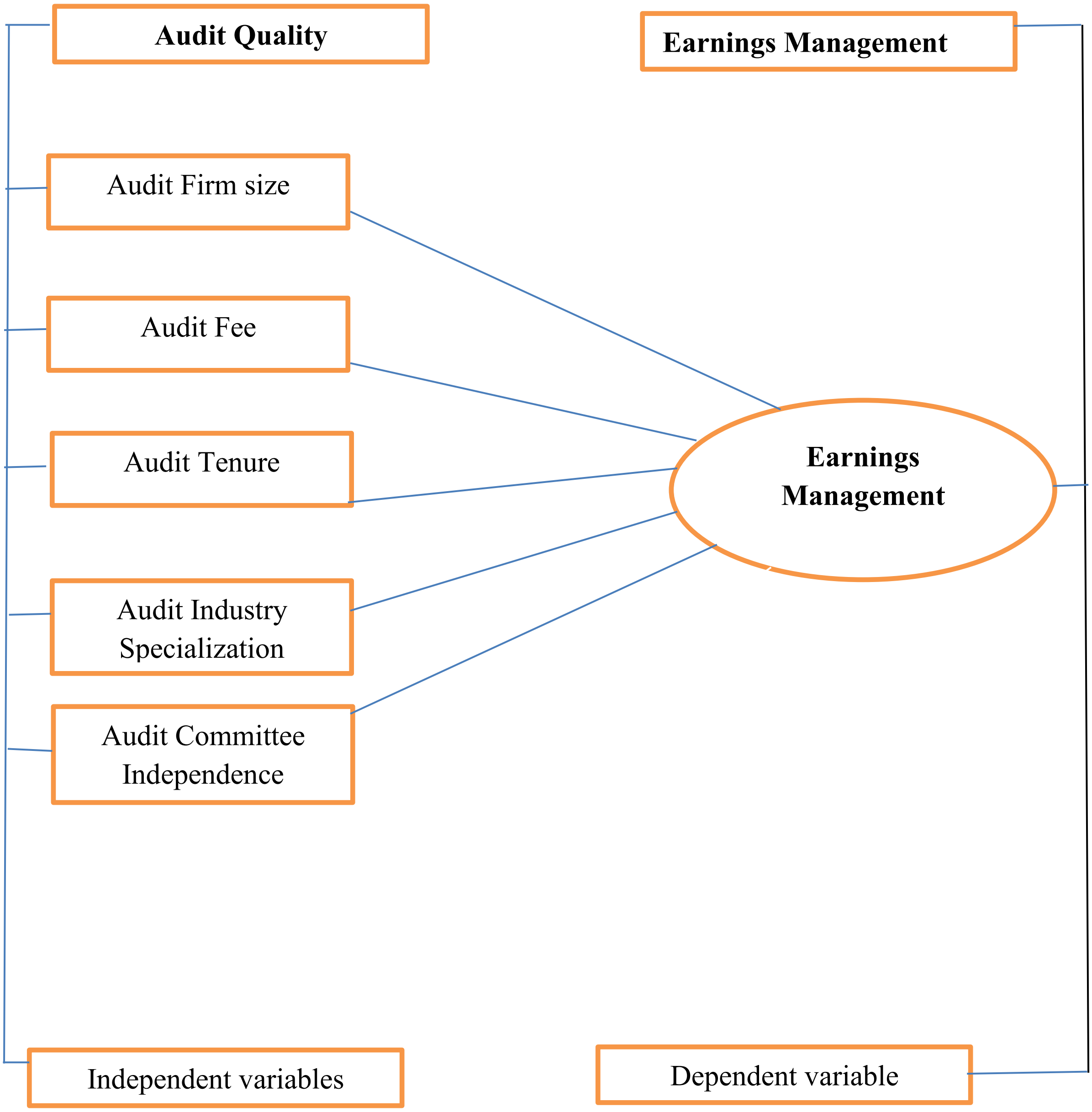

Figure 1.1: Conceptual framework

Source: Researchers compilation

Figure 1.1 presents the conceptual framework of the study. The figure shows the nexus between the dependent variable (Earnings Management, measured by Discretional Accruals and the independent variable (audit quality) measured by audit firm size, audit fee, audit Tenure, audit industry specialization and audit committee independence as well as control variables measured by profitability and Firm Age. From the framework, it can be deduced that the independent variables are expected to have a link (an effect) on the dependent variable. That is, Audit quality influences reduction in earnings management of listed companies in Nigerian. Also, as a firm grows older, it is likely to be concerned about its image hence the need to curb Earnings management.

Audit Quality

Audit quality is not a new concept in accounting literature; various empirical studies have offered different interpretations of audit quality. DeAngelo (1981) defined audit quality as the market's assessment of an auditor's ability to detect and report significant distortions discovered during an audit. This emphasizes both the auditor's competence and independence in performing their duties, requiring skill in identifying breaches in a client's accounting system and reporting them without interference.

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Similarly, Davidson and Neu (1993) described audit quality as the auditor's ability to uncover and disclose material misstatements and manipulations in reported net income, viewing it from both investors' need for a true financial picture and management's expectation of auditor independence.

Arens, Elder, Beasley, Best, Shailer, and Fielder (2011) defined it as the effectiveness of an audit in detecting and reporting material misstatements in financial statements, highlighting competence in identifying irregularities and independence in reporting.

Al-Mousawi and Al-Thuneibat (2020) saw audit quality as the degree to which an auditor provides an appropriate audit opinion, focusing on fulfilling professional responsibilities by applying auditing standards, using judgment, and reporting material misstatements.

From another perspective, audit quality indicates the absolute compliance with the Generally Accepted Auditing Standards (GAAS). Correspondingly, Francis, Michas and Seavey (2011) associated audit quality with the issuance of appropriate audit report on the compliance of the client with GAAP.

Audit Firm Size

Audit firm size refers to the scale and capacity of an accounting or auditing practice. De Angelo (1981) in his study on the size of the auditing firms, concludes that larger audit institutions are more motivated to maintain honest reports as a tool for their reputation. Consequently, the integration of four internationally renowned audit companies, also known as Big 4 comprising of Pricewaterhouse Coopers (PwC), Deloitte, Ernst & Young (EY) and KPMG, may have an impact on small-sized audit firms; in which merging is envisaged (DeAngelo, 1981). However, there are also studies that found that different sizes of audit firms do not significantly affect audit quality (Jeong & Rho, 2004).]

Audit Fee

An audit fee is the compensation or price paid by a company or organization to a professional accounting firm for conducting an audit. Quality to a great deal is attributed to cost. The fee charged by audit firms in consideration for their services to a great deal qualifies the level of competence of the firm. It is unarguable that larger audit firms charge higher audit fees than smaller firms. Studies have found that audit fee is negatively correlated with the possibility of financial statement manipulation. This means that the higher the audit fee, the better audit quality (Hoitash, Markelevich, & Barragato, 2007; Stanley & Dezoort, 2007).

Audit Tenure

Auditor tenure is defined as the length of an auditor-client relationship. A rather too long association between the auditor and his client may constitute a threat to independence as personal ties and familiarity may develop between the parties, which may lead to less vigilance on the part of the auditor and even to an obliging attitude of the latter towards the top managers of the company (Okolie, 2014). Aside from this threat to independence, the audit engagement may become routine over time, and if so, the auditor will devote less effort to identifying the weaknesses of internal control and risk sources. The question of whether audit firm tenure impacts audit quality has long been one of the major issues concerning auditing regulations. Some believe that lengthy auditor tenure undermines independence and objectivity, while others believe that long tenure increases auditor knowledge and competence (Okolie, 2014; Jayeola, Taofeek, & Akinrinlola, 2018).

Audit Industry Specialization

Auditor industry specialization refers to an auditor or audit firm's focused expertise and concentrated knowledge within a specific economic sector (e.g., healthcare, oil and gas, or technology). Auditor industry expertise has been associated with better auditor performance and higher audit quality by several researchers. For instance, Low (2004) opined that industry knowledge improves audit risk assessment and influences the perceived quality of audit-planning decisions. Again, Balsam, Krishnan and Yang (2003) found that clients of industry specialist

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auditors have lower discretionary accruals and higher earnings response coefficient than clients of non-specialist auditors, suggesting that auditor industry specialization reduces earnings management. Overall prior empirical evidence shows that auditor industry specialization seems to be positively associated with different proxies of audit quality.

Audit committee independence

Audit committee independence has been a widely researched audit committee characteristic by extant literatures. It has been widely argued as being one of the key characteristics associated with the effectiveness of the audit committee. According to Ali and Kamardin (2018), audit committee independence refers to the proportion of the independent directors in the audit committee. One prominent prediction here is that monitoring and supervisory functions tend to increase when the audit committee is more independent. Moreso, when the board includes more numbers of independent directors, it will better oversee and control the executive director's actions and connect the company with its external environment (Pfeffer & Salancik, 2003). A good number of studies have documented evidence on the relationship between audit committee independence and earnings management. Majority of their assertions tends to support that a fully independent audit committee is a very active mechanism against opportunistic earnings management practice (Xie, Davidson, & DaDalt, 2003; Saleh, Iskandar, & Rahmat, 2007).

Earnings Management.

According to Schipper (1989), earnings management is the process of taking deliberate steps within the constraints of Generally Accepted Accounting Principles (GAAP) to bring about a desired level of reported earnings. Earnings management is a deliberate action by managers to influence the earnings they report. A key thing to note from this definition is that earnings management occur within the confines of accounting standards and principles.

In the same vein, Healy and Wahlen (1999) define earnings management as the deliberate altering of financial information either to mislead investors on the underlying economic status of a firm or to gain some contractual benefits that depend largely on accounting numbers. The intent of earnings management is to mislead users of financial statement about the true economic status of a reporting entity. Earnings management is deliberate with intention to mislead users of financial statements with false information about the financial status of a firm at a given period of time.

Bergstresser and Philippon (2006) averred that earnings management is a management action taken in making profits and reflecting the interests of the management rather than an actual picture of company performance. This definition shows the existence of earnings management as an intent to cover for poor performances recorded by management of firms. The management of firms sometimes tend to concede to earnings management just to shield failures and poor performances away from the investing public.

Theoretical Review

This study is anchored on Stewardship Theory and Stakeholder Theory, as they relate to audit quality and earnings management.

Stewardship Theory

Stewardship theory presents a different model of management, where managers are considered good stewards who will act in the best interest of the owners (Donaldson & Davis, 1991). Stewards are motivated only by making the right decisions which are in the best interest of the organization, as there is strong assumption that stewards will benefit, if the firm is prospered. A steward protects and maximizes shareholders' wealth through firm performance, because by doing so, the steward's utility functions are maximized (Davis, Schoorman, & Donaldson, 1997). According to Caldwell and Karri (2005), stewardship is the behavior that places the long-term interest of the organization as well as the shareholders ahead of individuals' self-interest.

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Stewardship theory sees a strong relationship between managers and the success of the firm. Donaldson and Davis (1989) argued that stewardship theory ignores individualism, rather firm executives and managers play their role as stewards by aligning their interest along with the organization's goals. In the context of Nigerian consumer goods companies, managers are expected to account for their stewardship. High audit quality serves as a monitoring mechanism that ensures managers discharge this duty with integrity. By detecting material misstatements and curbing earnings management, audit quality reinforces managerial accountability and protects shareholders' wealth, which is central to the stewardship relationship.

Stakeholder Theory

Stakeholder theory, introduced by Freeman (1984), posits that the firm exists to create value for all groups that can affect or are affected by its operations, not just shareholders and managers. Clarke (2004) further describes the firm as a network of multilateral agreements between the enterprise and its stakeholders, including employees, customers, suppliers, and the community.

From a stakeholder perspective, the survival of a firm depends on satisfying both internal and external stakeholders. To secure this support, management must act with transparency and accountability in the discharge of its duties. Audit quality is central to this process. In the context of consumer goods companies in Nigeria, high audit quality reduces the opportunity for earnings management and enhances the reliability of financial reports. This protects stakeholders from the adverse effects of corporate failure, misstatement, and loss of confidence.

Therefore, by mitigating earnings management, audit quality aligns with the core tenet of stakeholder theory: safeguarding the interests of all parties connected to the firm.

Empirical Studies

This section reviews extant literature on the effect of firm characteristics on environmental disclosure of listed firms.

Meysam and Masumeh (2025) investigates the relationship between audit quality and earnings management, based on Loan Loss Provisions (LLPs), in 15 active banks listed on the Tehran Stock Exchange from 2010 to 2024 Using Econometrics software to analyze secondary data. The results indicate a significantly negative relationship between audit firm size and earnings management, suggesting that banks audited by larger firms are less likely to engage in earnings manipulation. Conversely, a positive and significant relationship was found between auditor tenure and earnings management, implying that prolonged auditor-client relationships may lead to a decline in auditor independence, thereby facilitating earnings management.

Ajape and Adelowotan (2025) examined the relationship between audit quality and earnings management strategies in publicly traded non-financial companies in Nigeria. An ex-post facto research methodology utilizing a purposive non-probability selection method was implemented to choose a sample of 30 publicly traded companies on the Nigerian Exchange Group (NGX). Data was extracted from the audited financial reports of the selected organizations for a ten-year period (2012-2021). The random effects regression model indicated that the audit quality criteria did not significantly influence the actual earnings management practices of the studied organizations

Efiong, Ibrahim and Ogar (2025) Studied the moderating effect of Chief Executive Officer (CEO) share ownership on the relationship between audit quality and earnings management in Nigeria's listed non-financial services firms, covering the period from 2013 to 2022. A sample of 72 firms was selected, with real earnings management employed as the proxy for the dependent variable. The study adopted a correlational and ex post facto research design, utilizing secondary data obtained from firms' annual reports and the Nigerian Exchange Group website. Descriptive statistics and panel multiple regression analyses were conducted, with the random effects model and generalized least squares estimation applied for robustness. The findings reveal that audit quality has a negative and significant effect on earnings management, while CEO share ownership exerts a

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positive and significant effect. However, the moderated regression model indicates that CEO share ownership does not significantly moderate the relationship between audit quality and earnings management.

Tayo (2025) examined the impact of audit quality and financial indicators on corporate earnings management practices: A case study of Nigerian financial institution selected Nigerian deposit money banks from 2013 to 2023. The study uses multiple regression analysis technique to analyze data. The result revealed that Earnings Per Share is significantly predicted by annual revenue and audit tenure. However, the study made use of only audit tenure as an indicator of audit quality thereby necessitating another study to be conducted using other audit quality indicators.

Ogiriki and Egberibin (2025) investigated the relationship between earnings management and audit quality in publicly traded Nigerian industrial goods companies between 2012 and 2022 proxied by discretionary accruals and audit firm size, audit fees, auditor industry specialty, and auditor tenure. 12 firms operating in the industrial goods were considered part of the study's samples. The analysis relied on secondary data gathered from the firms' annual reports over the time frame. Information was analysed using STATA Version 16 and various regression methods. At the 5% significance level, the regression result showed that company size (Big 4), audit fees, auditor industry specialty, and audit tenure all had a substantial and favourable influence on earnings management. The study concluded that industrial goods industries in Nigeria should hire the Big4, and as well adhere strictly to the mandatory rotation policy of auditors.

Indrayati1, Nurafni, Widi, Kuni, Sugiharto and Basuki (2025) Evaluated the influence of audit quality and Earnings management on auditors' opinions with company performance as a mediating variable in mining companies in Indonesia. Data analysis technique employed for the study was partial least square (PLS) with the population of mining companies listed on the Indonesian Stock Exchange in 2020-2024 with a sample of 35 companies and 175 observations. Secondary data from the Annual Report of the Indonesian Stock Exchange was utilized for the study. The results of the study show that audit quality and earnings management have a significant effect on auditors' opinions and successful performance as a mediation variable.

Okumoh (2023) investigates the correlation between audit quality and earnings management of industrial goods sector in Nigeria. The primary objective is to scrutinize the influence of audit quality, as indicated by auditor tenure, audit firm size, and audit fees, on the practices of earnings management. The study formulates hypotheses to systematically explore the impact of external audit quality dimensions on earnings management. Employing a research design based on secondary data from annual reports and financial statements of selected industrial goods firms in Nigeria. Data analysis involved both regression analysis and descriptive statistics. The study found a non-significant negative correlation between audit fees and discretionary accruals, implying that higher fees might be associated with a minor drop in discretionary accruals.

Selasi (2022) assessed the relationship between financial reporting quality and audit quality within the context of French listed companies. The sample of the study comprises of 1532 firm- covering a period of 2009 to 2016 using the non-probability sampling technique. The study utilized Regression analysis techniques for data analysis. The auditor brand name (Big4) is used as a proxy for audit quality and earnings management is ascertained through real and accruals earnings management estimation. The results indicate that clients of Big4 audit firms record higher levels of accruals and real earnings management. This assertion could be attributed to the low level of auditor litigation risk in France.

METHODOLOGY

The ex-post facto method is adopted for this investigation. The population of the study comprises 20 listed consumer goods companies in Nigeria as at 2024. Data were sourced from 18 of these listed consumer goods companies that met the sample selection criteria, for the period 2015 to 2024. The regression model is specified to incorporate the study's variables as shown below:

$$\text{Discretionary accruals} = f(\text{audit quality}) \qquad (1)$$

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$\mathrm{DA} = f(\mathrm{AFS}, \mathrm{AFT}, \mathrm{AF}, \mathrm{AIS}, \mathrm{ACI})$ (2) $\mathrm{DA} = f(\mathrm{AFS}, \mathrm{AFT}, \mathrm{AF}, \mathrm{AIS}, \mathrm{ACI}, \mathrm{FS}, \mathrm{Age}, \mathrm{Profit})$ (3)

$$\mathrm{DA}_{it} = \beta_0 + \beta_1\mathrm{AFS}_{it} + \beta_2\mathrm{AFT}_{it} + \beta_3\mathrm{AF}_{it} + \beta_4\mathrm{AIS}_{it} + \beta_5\mathrm{ACI}_{it} + \beta_6\mathrm{Age}_{it} + \beta_7\mathrm{Profit}_{it} + e_{it} \quad (4)$$

Where;

DA = Discretionary accruals

AFS = Audit firm size

AFT = Audit firm tenure

AF = Audit fee

AIS = Auditor Industry Specialization

ACI = Audit Committee Independence

Age = Firm age

Profit = Firm Profitability

β_0 =Model constant

$\beta_1 - \beta_8$ = Model coefficients

$_{it}$ = firm i at time t

e = error term.

RESULTS AND DISCUSSION OF FINDINGS

Descriptive Statistics

The descriptive statistics of the dataset from the sampled listed firms are presented in table 4.1.

Table 4.1: Descriptive Statistics of the Variables

Variable	Obs	Mean	Std Dev	Min	Max
DA	180	1.3225	1.771442	0.03	10.829
AFS	180	0.6611111	0.4746523	0	1
AFT	180	0.877095	0.3292491	0	1
AF	180	411919.9	1152293	1409	5000000
AIS	180	0.35	0.4783001	0	1
ACI	180	0.5110778	0.0930059	0.	0.8
AGE	180	50.25	20.2669	12	103
PROFIT	180	0.1077314	0.1455748	0.0002597	0.920939

Source: STATA output, 2026.

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Table 4.1 presents the descriptive statistics of the study variables showing the number of observations, mean values, standard deviation, minimum and maximum values of the data set. The number of observations is 180 for all the study variables. This implies that all the needed data were accessible by the researcher.

For the dependent variable, Discretionary Accruals (DA) revealed a mean, standard deviation, minimum and maximum values of 1.3225, 1.771442, 0.03 and 10.829 respectively. This means that, during the period of investigation, on an average, the firms carried out earnings management through an average discretionary accrual of 1.3225 with variations to the tune of 1.771442. This implies that, discretionary accrual was highly reported by the firms during the period.

For the independent variables, audit firm size (AFS) has a mean of 0.661111. This implies that, on average, each of the studied firm tilt towards the Big 4 firms. AFS has a deviation from the mean of 0.4746523 which is below the mean and implies that not much difference in the AFS choice of the firms. Although, there is the presence of non-Big 4s ("0" as minimum) and the presence of the Big 4s ("1" as maximum).

Audit Tenure (AFT) has a mean score of 8.77095, which men that, on average the audit firms are retained for more than 3 years. AFT shows a standard deviation of 3292491, depicting that there is not much difference from what the firms practice in terms of audit service retainment. Additionally, AFT shows minimum and maximum values of 0 and 1 respectively.

The mean value of audit fee (AF) is N411,919,900 while the standard deviation is N115,229,300. The mean shows the average sector audit fee paid by consumer goods companies in Nigeria, with less sector wide variation. Nonetheless, the minimum and maximum values of audit fee paid are N140,900,0000 and N5,000,000,000 respectively.

Audit industry specialization (AIS) has a mean value of 0.35 and a standard deviation of 0.4783001. The minimum and maximum values of AIS remain 0 and 1. The mean value of 0.35 means that the audit firms that operate in the consumer goods sector have less industry specialization, while the high variation shows that only few consumer goods companies engage audit firms that have industry specialization.

Audit committee independence (ACI) has a mean value of 0.5110778 with a standard deviation of value of 0.0930059. ACI reveals minimum and maximum values of 0 and 0.8 respectively. The mean value reveals that on an average, the consumer goods firms ensure that 51% of their audit committee is made of shareholders representative, while the minimum value of 0 depicts that at least 1 firm at a particular time did not include shareholders representative on the audit committee.

Lastly, for the control variables, the mean of age (AGE) which is measured by the year of incorporation of the company, is shown as 50.25 years, with a deviation of 20.2669. AGE further shows a minimum and maximum values of 12 and 103 respectively. Additionally, the mean profit (PROFIT) which is measured by the return on assets of the company, is shown as 0.1077314 ratio, with a deviation of 0.1455748. PROFIT further shows a minimum and maximum values of 0.0002597 and 0.920939.

Data normality tests

To ascertain the normality of data, the histogram of residuals, pnormal distribution and qnormal distribution were carried out and the results are as presented.

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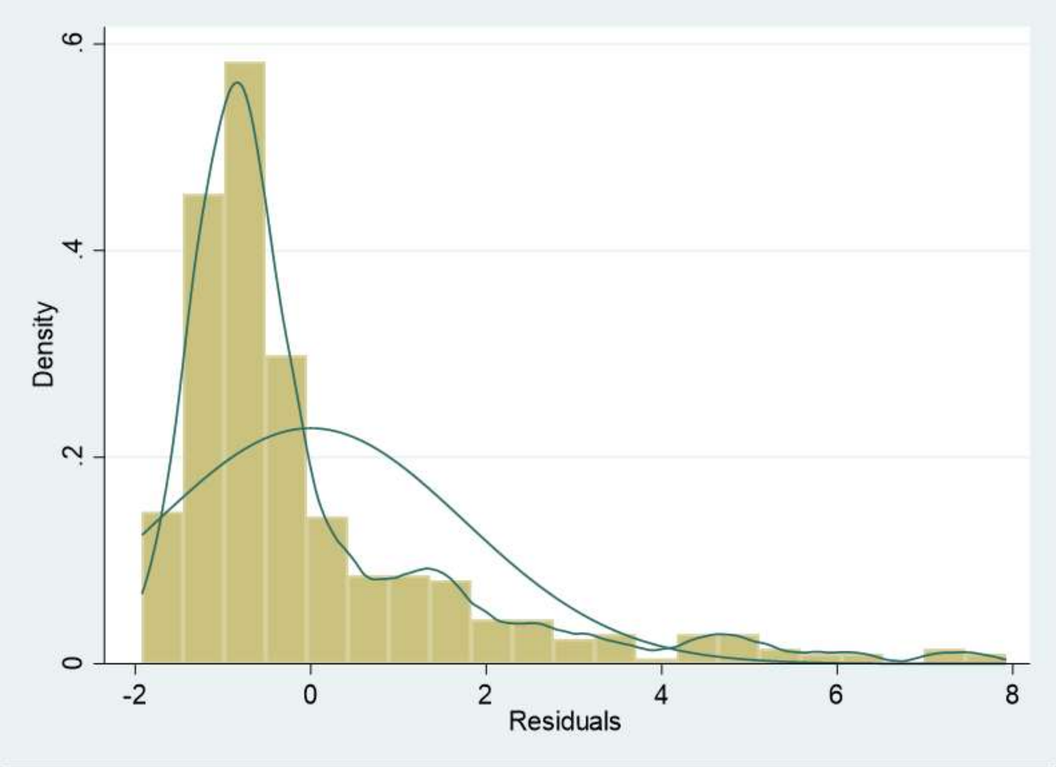
Figure 4.1: Histogram of residuals



Source: STATA Output 2026

From figure 1.1, it can be seen that the highest point of the histogram falls within the region of the uniform distribution of the data set implying the uniformity of the residuals.

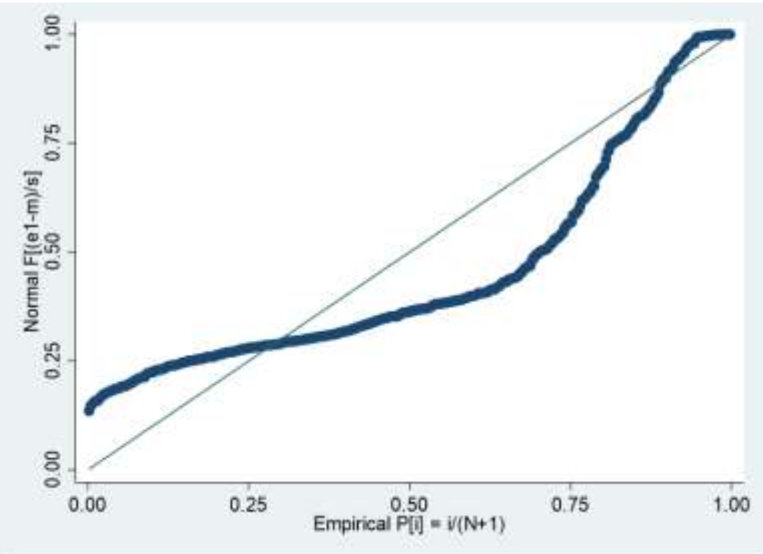


Figure 4.2: Probability normal distribution

From figure 4.2, the distribution of the probabilities aligns with the straight line where the meeting point is almost at the middle of the line of best fit (0.50). This shows that the residuals and of course the data set used are normally distributed.

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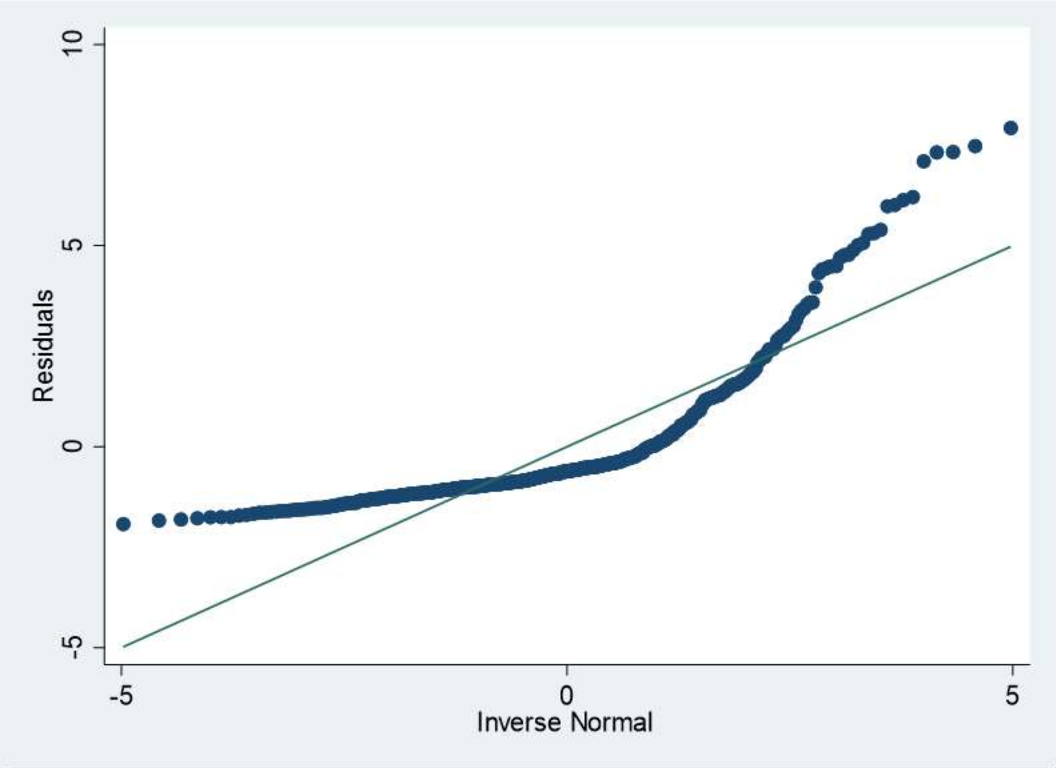

Figure 4.3: Quartile normal distribution

Figure 4.3 shows that the residuals of the data set fall within the exact quartile distribution necessary to help in ascertaining the normality of the data residual and hence, the normality of the data. This is because, the intercept of the quartile and line of best fit occurs at 0.

Collinearity and Multicollinearity tests

These tests were conducted to ascertain whether the data set used (especially the independent variables) are correlated such that the study's result can be affected. The result is presented below:

Table 4.3: Correlation Matrix

Variable	AFS	AFT	AF	AIS	ACI	AGE	PROFIT
AFS	1.0000						
AFT	-0.1255	1.0000					
AF	0.1715	-0.0400	1.0000				
AIS	0.5234	-0.1209	0.0491	1.0000			
ACI	0.1748	-0.0629	0.4181	-0.0032	1.0000		
AGE	0.0592	-0.0890	0.1399	0.0206	0.0836	1.0000	
PROFIT	-0.1646	0.0485	-0.2562	-0.1606	-0.1354	-0.0776	1.0000

Source: STATA output, 2026.

Result of Table 4.3 shows low correlation coefficients for all the independent variables. This connotes absence of collinearity issues among the variables.

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Table 4.4 VIF Test for Multicollinearity

Variable	VIF	TV
AFS	1.46	0.685593
AIS	1.42	0.705413
AF	1.30	0.770929
ACI	1.24	0.803240
PROFIT	1.10	0.907264
AGE	1.03	0.970859
AFT	1.03	0.971149
Mean VIF	1.23	

Source: STATA output, 2026.

VIF values above 5 are said be a cause of concern (Gujirati and Sangheetha, 2007). Since none of the values of VIF is up to 5, they are considered not harmful to the result.

Heteroskedasticity test

To further examine the homogeneity of the error terms in the regression model, Breusch and Pagan test for heterokedasticity was performed on the transformed data before applying the actual regression analysis technique. The result is as presented:

Table 4.5: Test for Heteroskedasticity

Chi2(1)	2.26
Prob>chi2	0.1331

Source: STATA output, 2024.

Result of Table 4.5 signals heteroskedasticity issue. To mitigate this, the regression model was run with a variation of the robust standard error version to neutralize the consequences of the error terms on the outcome of the result.

Model Specification

Table 4.6: Ramsey RESET

f(3, 441)	38.55
Prob>f	0.0000

Source: STATA output, 2024.

Result of table 4.6, shows that the model of the study is correctly specified.

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Hausman Test

Table 4.7: Result of the Hausman test

Chi2(5)	14.89
Prob>chi2	0.0211

Source: STATA output, 2024.

From table 4.7, the prob>chi2 of 0.0211 is less than 0.05, indicating that the difference in coefficients between the fixed and random effects estimators is systematic. The null hypothesis of the Hausman test (that the random effects estimator is consistent and efficient) is therefore rejected, and the fixed effects regression model was adopted for this study.

Regression Result

Table 4.8: Fixed effects result

Fixed effects result

DA	Coefficient	Std Error	T	Prob>/t/
AFS	-4.9245	1.136106	-4.33	0.000
AFT	-0.1698552	0.4200611	-4.40	0.027
AF	-0.2559031	0.382654	-0.67	0.505
AIS	0.0506611	0.4575061	0.11	0.912
ACI	-0.348815	1.840548	2.19	0.050
AGE	0.2589723	0.0773535	3.35	0.001
PROFIT	0.2179799	0.783333	4.44	0.005
Constant	5.554925	1.897971	2.93	0.004
Obs	180			
R-square	0.1442			
Prob>chi2	0.0004			

Source: STATA output, 2026.

Table 4.8 presents the result of the fixed effect regression of the study. It shows that there are 180 firm-year observations which is not too small to use a regression technique since there are more than 30 observations. This is in line with the conclusion made by Deva and Imam (2025). The R^2 of 0.1442 implies that 14.42% of variations in discretionary accruals of the sampled consumer goods companies are attributable to audit quality while 85.58% of such variations are caused by factors not captured in this study. The prob>chi2 value of 0.0004 indicates that the fixed effect regression model used to analyse this study is fit at a significance level of 5%, thus can provide reliable result.

From the coefficients of the fixed regression equation, the table shows that a unit increase in AFS will result to a 4.9245 decrease in the DA of the sampled listed companies in Nigeria. This implies that increased AFS is capable of decreasing DA of the companies. The table also shows that a unit increase in AFT will lead to a 0.1698552 reduction in the DA of the sampled listed companies in Nigeria. This implies that audit tenure has the tendency of reducing DA as the more years an audit firm is retained, the more probability they can detect discretionary accruals.

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On audit fee, a naira increase in AF will lead to a 0.2559031 unit decrease in DA by the companies. This suggests that as higher audit fee is paid to the big audit firms, it has the potentials of reducing DA reported by the firms.

A unit increase in the AIS of the sampled listed companies will lead to a 0.050661 unit increase in DA. This suggests that as the audit firms engaged become more specialized, they turn to understand why certain discretionary items are reported and may allow it leading to such increase.

On ACI, the result reveals that a unit increase in the ACI will lead to a 0.348815 unit decrease in the DA of the sampled companies. This suggests that greater audit committee independence reduces the likelihood of discretionary accruals, indicating that independent audit committees are more effective in protecting shareholders' interests by constraining earnings management.

However, if the audit quality variables are held constant (not used), other variables outside this study are capable of influencing discretionary accruals to increase by 5.554925 units, thereby confirming the low predictive power of this model (14.42%).

Test of Hypotheses

The hypotheses stated in their null forms in chapter one are tested in this section.

Independent Variable	**P-Values**	**Significant or insignificant @ 5%**	**Remarks**
Audit firm size	0.000	Significant	Reject Null Hypothesis
Audit Fee	0.505	Insignificant	Accept Null Hypothesis
Audit Tenure	0.027	Significant	Reject Null Hypothesis
Audit industry Specialization	0.912	Insignificant	Accept Null Hypothesis
Audit committee Independence	0.050	Significant	Reject Null Hypothesis

Discussion of Findings

This section discusses the findings of the study in line with the tested hypotheses as follows:

Audit Firm Size and Earnings Management

The test of hypothesis one which cantered on the effect of audit firm size on earnings management of listed consumer goods companies in Nigeria revealed that audit firm size has a significant negative effect on earnings management of listed consumer goods companies in Nigeria. The negative effect of audit firm size on earnings management in this study corresponds with the study conducted by Pham and Dang (2025), Meysam and Masumeh (2025), Blessing and Uwakwe (2025), and Ogiriki and Egberibin (2025). However, the result of this study disagrees with that of Deva and Imam (2025), as well as, Ajape and Adelowotan (2025) who found that audit firm size does not significantly affect earnings management of companies. The reason for the disagreement could be the difference in the sectors studied by both studies. The current study relied on data from the consumer goods sector while the studies by Deva and Imam (2025), and Ajape and Adelowotan (2025), where conducted outside the consumer goods sector.

The finding that audit firm size significantly reduces earnings management implies that stronger regulatory emphasis should be placed on audit quality and capacity. Also, firms need to engage reputable, well-resourced audit firms with proven independence and technical expertise. Additionally, this shows that, policies promoting auditor training, peer review mechanisms, and firm-level transparency can help improve audit quality across the sector.

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Audit Tenure and Earnings Management

The test of hypothesis two which pertains to the effect of audit tenure on earnings management of listed consumer goods companies in Nigeria revealed that audit tenure has significant negative effect on earnings management of listed consumer goods companies in Nigeria. The negative significant effect of audit tenure on earnings management in this study does not align with the study conducted by Ajape and Adelowotan (2025), Blessing and Uwakwe (2025), Okeke-Muogbo and Egungwu (2019). The reason for the contradiction could be the geographical locations and sectors studied by both studies. The current study relied on data from the Nigerian consumer goods sector. However, the result of this study conforms to that of Meysam and Masumeh (2025), Ogiriki and Egberibin (2025), and Kalabeke et al., (2019) who found that audit tenure significantly affects earnings management of companies.

The significant negative effect of audit tenure on earnings management suggests that longer auditor-client relationships may enhance auditors' familiarity with the firm and improve monitoring efficiency, such benefits are strong enough to produce a statistically significant reduction in earnings management. This outcome may reflect a balance between competence and independence and extended tenure can improve audit quality through accumulated knowledge.

Audit Fee and Earnings Management

The test of hypothesis three which concerns the effect of audit fee on earnings management of listed consumer goods companies in Nigeria revealed that audit fee has an insignificant negative effect on earnings management of listed consumer goods companies in Nigeria. The negative and insignificant effect of audit fee on earnings management in this study is in consonance with the study conducted by Mustapha et al., (2019) and Martinez and Morales (2018). On the other hand, the result of this study is not in consonance with that of Ajeba (2023), Gandía and Huguet (2020), and Bala et al., (2018), who found that audit fee significantly affects earnings management of companies. The reason for the disagreement could be the difference in the sectors studied by both studies. The current study relied on data from the consumer goods sector while the studies by Ajeba (2023), Gandía and Huguet (2020), where conducted outside the consumer goods sector and not in Nigeria.

The insignificant negative effect of audit fee on earnings management suggests that higher audit fees does not translate to diligence but expertise and professional integrity coupled with good training may enhance audit effort and diligence, thereby discouraging opportunistic financial reporting. While increased fees can reflect greater audit scope, complexity, and risk assessment, they do not automatically guarantee improved audit quality or stricter monitoring. In the Nigerian consumer goods sector, institutional factors such as regulatory oversight and internal controls may play a more dominant role. Consequently, although higher audit fees slightly constrain earnings management, their overall influence remains limited and insufficient to produce significant outcomes.

Audit Industry Specialization and Earnings Management

The test of the fourth hypothesis which concerns the effect of audit industry specialization on earnings management of listed consumer goods companies in Nigeria revealed that audit industry specialization has an insignificant positive effect on earnings management of listed consumer goods companies in Nigeria. The positive but insignificant effect of audit industry specialization on earnings management in this study does not align with that of Uthman et al., (2022), Lopez and Vega (2019), and Assawer and Anis (2019), who found that audit industry specialization significantly affects earnings management of companies. The reason for the disagreement could be the difference in the sectors studied by both studies. The current study relied on data from the consumer goods sector while the studies by Uthman et al., (2022), Lopez and Vega (2019), Assawer and Anis (2019) where conducted outside the consumer goods sector and not in Nigeria.

The insignificant positive effect of audit industry specialization on earnings management suggests that although industry-specialized auditors possess deeper knowledge and expertise, this advantage does not necessarily translate into stricter constraints on managerial discretion. In some cases, specialized auditors may develop close relationships with clients within the same industry, creating familiarity that could subtly weaken professional

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skepticism. Additionally, managers in consumer goods firms may exploit complex industry-specific accounting practices that even specialized auditors find difficult to fully constrain. However, the lack of statistical significance indicates that these opposing forces, enhanced expertise and potential familiarity threats, largely offset each other, resulting in no significant effect on earnings management.

Audit Committee Independence and Earnings Management

The test of the fifth hypothesis which concerns the effect of audit committee independence on earnings management of listed consumer goods companies in Nigeria revealed that audit committee independence has significant negative effect on earnings management of listed consumer goods companies in Nigeria, indicating that audit committee independence restrains earnings management. The negative and significant effect of audit committee independence on earnings management in this study does not align with that of Egbe et al., (2019). The reasons for the contradictions could be the difference in the sectors studied and timeframe by both studies. While the current study relied on 10 years (2014 to 2024) data of companies in the consumer goods sector, the study by Egbe et al., (2019) used data that is not current and conducted their studies outside the consumer goods sector. On the other hand, it aligns with that of Auwalu et al., (2023) and Juniarti et al., (2022) who found that audit committee independence significantly affects earnings management of companies. The significant and negative effect of audit committee independence on earnings management suggests that independent audit committee members are more effective in constraining opportunistic financial reporting, consistent with their monitoring role over management. Their effectiveness is further strengthened when independence is backed by firm-specific knowledge, enforcement powers, and genuine (rather than merely symbolic) compliance with governance codes. In the Nigerian consumer goods sector, this finding suggests that audit committee independence exists both in form and in substance, thereby enhancing its practical impact on financial reporting quality.

Some of the findings of this study are at variance with those of prior studies largely due to differences in methodologies adopted, the institutional and regulatory frameworks of the countries where such studies were conducted as well as the absence of a financial accounting framework that can guide the way and manner disclosure of non-financial information should be contained in the financial statements and the quantum and quality of information that needs to be disclosed. The differences across sectors with dissimilar modes of operations and preparing financial statements could also lead to differences in results of analysis across these sectors. This has the tendency of making research investigations have inconclusive, inconsistent and mixed results among scholars and researchers as shown in this study.

CONCLUSION AND RECOMMENDATION

Based on the result of the analysis, the study concludes that:

i. Audit firm size influences reduction in earnings management of listed companies in Nigerian consumer goods sector.

ii. Audit tenure significantly translates to curbing of earnings management practices by listed companies in the consumer goods sector in Nigeria.

iii. Audit fee does not influence earnings management of listed consumer goods companies in Nigeria.

iv. Audit industry specialization does not reduce earnings management of listed consumer goods companies in Nigeria.

v. Lastly, audit committee independence reduces the level of earnings management of listed consumer goods companies in Nigeria.

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Recommendations

Based on the findings of this study, the following recommendations are advanced:

i. Managers should prioritize engaging large, reputable audit firms to enhance financial reporting credibility and reduce earnings management. Such firms possess greater expertise, resources, and independence, which strengthen monitoring and transparency. Adopting this approach can improve investor confidence, ensure compliance with standards, and promote sustainable corporate governance practices within the Nigerian consumer goods sector.

ii. Policy makers should strengthen audit quality beyond tenure by enforcing stricter auditor performance evaluations and periodic external reviews. Rotation rules should be complemented with robust audit oversight frameworks and enhanced audit effectiveness to ensure independence, skepticism, and accountability in financial reporting within the consumer goods sector.

iii. Management should ensure that audit fees are not treated as a routine compliance cost but are aligned with audit scope, complexity, and risk exposure. Firms should engage auditors based on quality and independence, while strengthening internal controls to complement external audit effectiveness in curbing earnings management.

iv. Management should ensure that industry-specialized auditors are actively engaged in rigorous, independent audit processes rather than relying solely on their expertise. Firms should strengthen audit oversight mechanisms, enhance auditor rotation policies, and reinforce internal controls to complement specialization and ensure it translates into effective reduction of earnings management practices.

v. Management should strengthen the effectiveness of audit committees beyond formal independence by ensuring members have strong financial expertise, clear authority, and access to timely information. Regular training, performance evaluations, and stricter enforcement of governance codes are also recommended to enhance oversight and reduce opportunities for earnings management.

vi. Regulatory authorities, such as the Financial Reporting Council of Nigeria and the Nigeria Exchange Group, should institute mandatory, periodic training and certification programmes for audit committee members, strengthen compliance monitoring of corporate governance codes across listed firms, and design incentive schemes (such as reduced compliance levies or public recognition schemes) that encourage audit firms to develop industry-specialized audit departments.

Limitations of the Study and Suggestions for Further Research

This study is subject to certain limitations that should be considered when interpreting its findings and that provide opportunities for future research. First, the study focused exclusively on listed consumer goods companies in Nigeria. Although this sector-specific approach was appropriate for the study's objectives, the findings may not be generalizable to firms operating in other sectors of the Nigeria Exchange Group or to other emerging economies. Future research could extend the analysis to firms across multiple sectors or undertake comparative studies across industries to enhance the generalizability of the findings.

Second, the study covered the period from 2015 to 2024. As corporate governance practices, regulatory frameworks, and economic conditions evolve over time, the observed relationships may differ across other periods. Future studies could employ longer or more recent time horizons to examine the consistency and stability of the findings under different regulatory and economic environments.

Third, earnings management was measured solely using discretionary accruals. Although this proxy is widely accepted in the accounting literature, it primarily captures accrual-based earnings management and may not fully reflect real earnings management practices. Future studies should consider combining accrual-based measures with real earnings management proxies, such as abnormal cash flows from operations, abnormal production

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costs, and abnormal discretionary expenses, to provide a more comprehensive assessment of managerial reporting behaviour.

Finally, while this study examined key audit quality attributes and controlled for firm age and profitability, other corporate governance and firm-specific factors were beyond its scope. Future research may incorporate variables such as board independence, board diversity, audit committee financial expertise, ownership structure, CEO characteristics, and institutional ownership to provide deeper insights into the determinants of earnings management.

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