

The Impact of Audit Committee Effectiveness and Audit Quality on Earnings Management in Nigerian Consumer Goods Firms

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Abstract

Discretionary accruals involve managers using their judgement to adjust accounting information rather than following specific rules or guidelines for recording accounting transactions or events. When managers use their discretion to manipulate accounting choices or numbers through operational activities, it results in earnings management. This study examines the impact of audit committee effectiveness and audit quality on earnings management in listed consumer goods firms in Nigeria. The study utilizes correlational and descriptive research design, a positivist paradigm to analyze and align the independent variables on the dependent variable, focusing on listed consumer goods firms in the Nigerian Exchange Group (NGX) as of December 31, 2022, using secondary data from annual financial statements spanning from 2012 to 2022. The analysis includes twenty-one listed consumer goods firms, with sixteen firms qualifying as the final sample. Multiple regression and panel models are employed to analyze the data, with discretionary accruals used as a proxy for earnings management. The findings indicate that audit committee financial expertise, audit committee meetings, audit committee effectiveness, and auditor tenure reduce opportunistic behavior related to earnings manipulation. However, audit committee independence showed a negative but insignificant impact on earnings management indicating weaknesses in some of the governance mechanisms that the Nigeria SEC need to revise. Audit committee female members reveals also an insignificant findings on earnings management; the findings may be due to under-representation of female gender in the audit committees of Nigerian listed consumer goods firms. , and engagement by Big4 audit firms do not significantly impact earnings management. The study recommends revising audit committee requirements for financial expertise to more members with professional qualifications, strengthening enforcement of corporate governance principles, promoting audit committee independence, and encouraging engagement of both Big4 and non-Big4 audit firms. Future research should consider additional variables and sectors for more comprehensive results

Keywords: audit committee effectiveness, audit quality, earnings management, corporate governance, Nigeria.

1. Introduction

Earnings management is the intentional misrepresentation of financial reporting by managers using specific accounting techniques allowed under GAAP to achieve personal objectives. This practice can negatively impact a firm's performance and financial reports (Ahmad, Hamid, Ineizeh, Hussein, & Albawwat, 2022; Aryal & Dhesi, 2022), leading to negative economic

consequences (Gao & Gao, 2016). Opportunistic earnings management can lead to less reliable financial performance (Soliman & Ragab, 2014) and loss of investors' confidence (Anuonye et al., 2019; Shiyabola et al., 2020). Studies on earnings management are relevant and important due to the increasing attention to the quality of reported earnings after global financial scandals. Some of the world's largest firms' corporate failures can be attributed to earnings manipulation due to unethical accounting practices and weak governance practices.

Earnings management cases involving big firms around the world have highlighted the importance of audit committees and audit quality in ensuring the quality of corporate financial reporting (Soliman & Ragab, 2014). Nigeria has experienced corporate failure in various sectors listed in the Nigerian Stock Group (NGX) (Fodio, Ibikunle, & Oba, 2013; Akpan & Adebisi, 2014; Okoye, Okaro, & Okafor, 2015; Miko, 2016; Bala, 2018), highlighting the need for effective corporate governance practices globally. International accounting standards aim to eliminate bias, ensure transparency and objectivity in account measurement (Egbunike, Ezelibe, & Aroh, 2015; Ajekwe, 2021; Ilemona, 2022), but managers exploit these standards for personal objectives (Hassan & Ahmed, 2012; Ioana & Mariana, 2014; Anuonye, Mlanga, & Fasuyi, 2019; Otubelu, Onodugo, Ezeamama, & Akubuilu, 2021). This results in alternative accounting methods and estimates, (Bešlić et al., 2015), choosing accounting procedures or changing adopted ones to minimize, maximize, or smooth profit figures (Bala, 2018; Schoenmaker & Schramade, 2023).

Audit committees and external audit quality are crucial components of corporate governance mechanisms, aiming to align managers' interests with investors (Bala, 2018; Zgarni et al., 2016). Studies have shown that audit committees improve earnings quality by ensuring compliance with accounting standards, promoting transparency, accuracy, and mitigating potential financial misstatements (Soliman & Ragab, 2014; Albersmann & Hohenfels, 2017; Sulaiman, 2017; Hussaini, 2018), thereby safeguarding the integrity of financial reporting and boosting investor confidence. Audit quality can enhance the effectiveness of the audit committees in mitigating earnings management and improving the financial reporting process (Hussaini, 2018). The Nigeria Governance Code (2011) and its revised version in 2018 aim to improve investors safety and economic stability by addressing unethical behaviour and promoting transparency through committees with skills, diversity, and experience. Also, the Nigeria CAMA mandated the inclusion of at least one financially literate member, in CAMA Section 359(3) (4) emphasizing the need for high-quality financial reporting.

The effectiveness of an audit committee is influenced by various attributes such as size, independence, expertise, gender, and diligence (Ellwood & Garcia-lacalle, 2015; Constantatos 2018; Kapkiyai et al., 2020). Prior studies has documented that assessing the effectiveness of an audit committee based solely on individual factors such as size, independence, expertise, or meeting frequency is not sufficient (DeZoort et al., 2002; Lary & Taylor, 2012; Ellwood & Garcia-lacalle, 2015). These features are most impactful when considered together (Habbash, 2010; Zaman et al., 2011; Ellwood & Garcia-lacalle, 2015). A fully independent, sizeable, active, and financially literate audit committee constrains managerial opportunistic behavior, improving audit quality and credibility of reported accounting information (Habbash, 2012; Sulaiman, 2017). Gender diversity within the audit committee plays a significant role in its activities, potentially reducing earnings manipulation, enhancing the quality of earnings, and reducing discretionary accrual management (Farouk & Isa, 2018; Zalata et al., 2018).

Audits are crucial for building trust and confidence in capital markets and serve as a bridge between firms and their stakeholders (Michael, 2019). Audit quality can assist in aligning managers' and shareholders' interests and reducing earnings management (Almasarwah, 2015; Orbunde et al 2021). Agency problems arise from ownership and control segregation, leading

to external audits (Alzoubi, 2016). A high-quality audit gives greater assurance and improves the credibility of earnings in the financial reports, improving investors' protection and protecting economic interests (Sulaiman, 2017).

The study focuses on two important corporate governance actors, audit committees and audit quality, examines the relationship between audit committees and audit quality and the impact on earnings management in Nigerian listed consumer goods firms. This study examines audit committee attributes: expertise, gender diversity (female members), independence, meetings, and effectiveness as a component variable. It uses audit committee governance scores with these features (size, independence, expertise and meetings) as a variable, and aggregates the four audit committee governance scores to measure as an indicator for a firm's overall audit committee effectiveness. This study aims to determine whether audit committee variables function better separately or collectively. Big4 audit firms, and auditor tenure variables proxy for audit quality.

The study is driven by factors like past financial scandals, increased corporate failures in the sector, and the need for an effective audit committee and more audit quality. The study aims to address issues related to earnings management, the financial reporting reliability, and promoting good governance. This study highlights the importance of audit committees and audit quality in Nigerian business, affecting investors' trust, economic stability, regulatory effectiveness, and societal confidence. Effective audit committees ensure independence, while audit quality enhances financial information reliability, leading to better corporate governance, reduced economic distortion, and transparency. The primary objective of the study is to examine the impact of corporate governance on earnings management of listed consumer goods firms in Nigeria.

2. Literature and Theoretical Framework

This section reviews related and relevant literature for the study and the theoretical framework. The discussed items include the conceptualization of earnings management, audit committee effectiveness, and audit quality, and the empirical review of these variables using agency, prospect, resource dependence, and inspired confidence theories to underpin the study.

Healy and Wahlen (1999) defined earnings management as “an effort used by managers to alter the reported accounting earnings to either mislead some stakeholders about the underlying economic performance of the company or to influence the contractual outcomes of contracts, which can affect reported accounting numbers.” Safitri, Kustono, and Miqdad (2018) defined earnings management as the choice of accounting policy by a manager to achieve multiple goals. This study considered earnings management as the intentional misrepresentation of financial reporting by managers using specific accounting techniques allowed under GAAP to achieve their own personal objectives.

Audit committee effectiveness is a crucial aspect of a firm's financial reporting, risk management, and internal controls. It involves a competent committee with qualified members who can safeguard stakeholder interests through reliable financial reporting, robust internal controls, and diligent oversight efforts (DeZoort et al., 2002). This study defines audit committee effectiveness (ACE) as an independent audit committee with financial experts who are diligent in monitoring processes, responsible for overseeing a firm's financial reporting process, facilitating communication between the board and external auditors, and maintaining transparency and integrity in financial reporting, thereby improving the quality of the audit process.

Deangelo (1981) defined audit quality as the auditor's ability to detect and reveal misstatements in clients' financial reports through competence and independence. Ahmad, et

al. (2016) defines as “auditor skill and effort in detecting material misstatements in the financial statement. It also has to do with the auditor’s desire to issue a fair audit report based on findings.” Audit quality is considered in this study to be the ability of the auditor to recognize material misstatements in financial reports and disclose such misstatements within the audit process to minimize the risk of material misstatements by increasing confidence in the credibility of earnings in the financial reports.

Academics and professionals have emphasized the significance of the audit committee’s independence as a crucial tool in corporate governance to control earnings management activities in a firm, protect shareholders’ interest and monitor financial reporting. However, studies on audit committee independence in preventing earnings manipulation are inconclusive, with some studies documenting negative relationships and others showing positive relationships. Miko (2016) empirically examined the relationship between corporate governance and firm characteristics on earnings management, the study applied multiple regressions and modified Jones (1995) model to study 137 nonfinancial listed firm in the Nigerian stock market. The findings showed that audit committee independence had a negative correlation with earnings management. On the contrary, Sehrawat, et al. (2019) conducted empirical research on 1613 non-financial firms in the Indian subcontinent with financial data from 2004 – 2018 using the ordinary least squares (OLS) method and a modified version of Jones (1995) model was employed to assess discretionary accruals. The findings indicate a weak positive relationship between audit committee independence and discretionary accruals.

In another context, Handayani and Ibrani (2020) found no impact on audit committee independence on earnings management Indonesian listed manufacturing firms for the period 2016–2018. The study used multiple regression data analysis methods and the Stubben (2010) model to calculate earnings management. The findings may not be relevant in Nigeria. Garefalakis, et al. (2020) found a negative relationship audit committee independence and earnings management in Chinese listed firms using a sample of 9025 company-year reports from (Shanghai and Shenzhen) from 2010–2017. The study used OLS regression approach and a modified Jones (1991) model with cross-sectional data. The study documented that a high proportion of non-executives on the board of audit committee enhance the audit committee monitoring role over earning quality. Conversely, Abubakar, et al. (2021) found a significant negative correlation between audit committee independence and real earnings management in Nigerian listed nonfinancial listed firms from 2014-2016. The study use abnormal discretionary expenses as a proxy, similar to Cohen, et al. (2008), and a PCSE (Panel Corrected Standard Error) to test their model.

Audit committees are tasked with monitoring the financial reporting process and ensuring that the financial reports are accurate. The inclusion of financial experts in a firm’s audit committee is crucial for enhancing the quality of reported earnings and maintaining the integrity of financial reports, as mandated by policymakers and regulators for listed firms. Soliman and Ragab (2014) study also revealed a significant negative relationship between the audit committee’s financial expertise and discretionary accruals. The authors used Jones (1991) model to assess the level of discretionary accruals proxy for earnings management by looking at 40 non-financial firms listed on the Egyptian stock exchange from 2007-2010. In addition, the study by Alhassan, Gololo, and Islam (2019) indicates that audit committee expertise is significant and negatively affects earnings management in Nigerian listed manufacturing firms. The study used multiple correlation models, ordinary least square regression using STATA. The study recommends that the board should appoint more financial experts in audit committee to enhance their willingness to protect investments and improve monitoring and supervision, ultimately reducing earnings management.

On a contrary, Garefalakis, et al. (2020) study revealed no significant correlation between the financial expertise of the committee and accrual earnings management. The study used OLS regression and a modified Jones cross-sectional model to measure the absolute value for accruals proxy by earnings management on a final sample size of 9025 firm-year observations of firms listed on the Chinese stock exchange from the period 2010 – 2017. The study only examines independence of the audit committee and the financial expertise as proxies for the effectiveness of audit committee in monitoring financial reporting quality. Akinola, Sanni, and Ogunsola (2021) found a significant positive correlation between financial expertise in the audit committee and earnings management. The study was conducted using a selected sample of ten (10) Nigeria Deposit Money Banks from 2013-2018. The authors used the ordinary least squares (OLS) regressions analysis technique to analyze data from the banks' audited financial reports, discretionary accruals to measure earnings management, and a modified Jones (1991) model.

Studies have provided evidence that regular meetings of the audit committees are crucial for effective monitoring during the fiscal year. Soliman and Ragab (2014) and Hussaini (2018) studies showed a significant negative relationship on discretionary accruals proxy for earnings management. The study a sample of 40 non-financial firms listed on the Egyptian stock exchange from the period 2007-2010, the result of this study may be different if a similar study is conducted on listed consumer goods firms in Nigeria with a more recent period.

Contrary to this, Katmon and Farooque (2015) found that a significant positive audit committee meetings relations between earnings management and audit commit meetings. The study explores how internal corporate governance affects the relationship between disclosure quality and earnings management in UK-listed firms from 2005-2008, using panel data on Stata. found that audit committee meetings had a significant negative correlation with discretionary accruals in a study on the mediating effect of audit quality on the relationship between audit committee characteristics and financial reporting quality and the proxy (discretionary accruals), in Nigerian listed firms. The study analyzed data from 88 firms listed in the Nigerian Stock Group. The study employed 440 firm-year observations for five years and used the Kothari et al. (2005) model to measure absolute discretionary accruals. The findings. This suggests that the committee holding meetings improves monitoring and strengthens the financial reporting process.

Studies have shown that the inclusion of female members in the audit committee is a key factor in enhancing its effectiveness, as it helps reduce earnings management (Zalata et al., 2018; Ali, 2024). For instance, Farouk and Isa (2018) finding showed that gender in audit committee playing a significant role. The model used was Chang, Shen, and Fang (2008) designed specifically for the financial industry. The study further indicated that enhancing diversity variables while also increasing audit committee variables had a positive effect and ensured the earnings quality of Nigerian banks in a sample of fifteen listed Nigerian Banks from 2008-2015. Furthermore, in a study conducted by Zalata, Tauringana, and Tingbani (2018), the findings revealed that financial expertise and gender serve as effective monitoring mechanisms. The result found that having a high percentage of female audit committees with financial expertise on the audit committee significantly reduces the risks of earnings manipulation, possibly due to the influence of female experts on the committees. This suggests that having female experts on the committee is crucial. Also, Ali (2024) indicated that audit commit gender has a significant and positive role on earnings management in a study insurance firms in Ethiopia from the period 2015 to 2022. The study concluded that all audit committee gender diversity improves monitoring and financial reporting quality.

However, Hussaini (2018) found a positive but insignificant relationship between discretionary accruals and female audit committee members. This suggests that the presence of at least one female director on the audit committee may not reduce the likelihood of unethical behavior by managers in manipulating earnings. Similarly, Bawuah (2024) affirmed that audit committee gender of the audit committee does not have a significant impact on earnings management in a study of 25 non-financial firms in Ghana on panel data. The study uses the modified Jones model.

Management opportunistic behaviour needs to be reduced by an effective audit committee. Some studies suggest that effective audit committee reduce earning management; others do not document this relationship. For instance, Kent et al. (2010) documented no significant relationship was found between audit committee effectiveness and discretionary accruals quality on a sample of 392 Australian public firms in 2004. Habbash (2012) and Constantatos (2018) conducted studies on audit committee effectiveness on earnings management. Habbash (2012) study used Kothari, et al. (2005) model and ordinary least squares (OLS) to estimates discretionary accruals, and audit committee variables on a sample of 448 firms' observations from UK firms' annual reports over four years from 2003-2006, and found a negative significant audit commit score and discretionary accruals. The study used four variables collectively as an aggregated audit committee score as follows; the audit committee with at least three independent members, with a financial expert, meet at least three times per year. The findings suggested that audit committees are better if they have all four effectiveness characteristics at the same time. Constantatos (2018) study on the other hand, documented mixed findings between audit committee effectiveness and earnings management in Greece. The study analyzed non-financial firms listed on the Athens Stock Exchange from 2006-2012 and used modified Jones (1995) model to measure discretionary accruals. The study also found that firms adhere more to the form of laws than to their substance, suggesting that the corporate governance mechanism is not effectively achieving its purpose in Greece.

External audits are crucial for monitoring stakeholders and ensuring financial information quality and reliability. Appointing top-class audit firms leads to high-quality audits (Ahmad et al., 2016; Lopes, 2018), as the firms maintain brand reputation and are less likely to yield to management pressure for earnings manipulation. Studies have shown that Big4 firms have a significant positive impact on earnings management, with some studies showing no difference in audit quality between Big4 and non-Big4 firms. For example, Rezaei and Roshani (2012) and Yaşar (2013) documented evidence from the Tehran Stock Exchange and Turkish Capital Market, respectively, that the use of quality auditors does not prevent a firm's managers from engaging in earnings management; there is no difference in audit quality between Big4 and non-Big 4 firms. In Nigeria, Big4 audits showed a positive impact on real earnings management (Mohammed et al., 2022), and African banks audited by Big4 audit firms managed earnings using loss loan provision estimates (Ozili, 2021). However, studies by Miko and Kamardin (2015); Alzoubi (2016), Ahmad et al. (2016) and Inaam and Khamoussi (2016), Abed et al. (2018); Guindy and Basuony (2018), Lopes (2018) and Burdeos (2021) documented negative findings. The studies documented that brand audit firms had lower discretionary accruals, suggesting more reliable financial statements.

Abid, et al. (2018) findings showed that there was no significant difference between the earnings management activities of the firms audited by Big4 when compared to firms audited by the non-Big4 on 183 Pakistani firms listed on the Karachi Stock Exchange over a five-year period (2009-2013). This was affirmed by Firnanti et al. (2019) that the Big Four auditors did not reduce discretionary accounting practices in Indonesian small and medium firms, 64 manufacturing firms listed on the Indonesian Stock Exchange between 2013 and 2015 with 192 firm-year observations wad used as data. Looking at the findings above, similar study can

be replicated on listed consumer goods firms in Nigeria, and duration of the study can be extended. Abubakar, Mazadu and Yusuf (2020) also documented a positive but insignificant impact on earnings management of listed insurance firms in Nigeria over a five-year period (2015-2019). The study recommends or make it mandatory for listed insurance firms in Nigeria to employ both the service of Big4 and local audit firms for audit assignments to protect earnings from unwanted management manipulation.

Okolie (2014) indicated that audit tenure is negatively and significantly related to discretionary accruals of quoted Nigerian firms by examining 57 quoted firms from the years 2006 to 2011 (6 years), with 342 company-year observations. The study by Guindy and Basuony (2018) affirmed it by revealing a negative relationship with the audit firm tenure and earnings management in UK listed firms from 2003 to 2007 (5 years) with 2,799 company-year observations, which represented 688 firms. However, the outcome indicated that the negative relationship only holds for those firms that have not changed their accounting standards. They further argued that the empirical findings depend upon the application of accounting standards. Contrary to the findings of Okolie (2014), Guindy and Basuony (2018), Yasser and Soliman (2018) documented a positive correlation between auditor tenure, a proxy for audit quality, and earnings management in Egypt. In addition, Soyemi and Olufemi (2020) showed evidence of a significantly positive impact on discretionary accruals on 30 quoted non-financial firms in Nigeria from 2008-2018. Rahmina and Agoes (2014) documented a no significant relationship between auditor tenure and audit quality.

2.1 Theoretical Review

This study uses these theories: agency theory, prospect theory, resource dependence theory and the theory of inspired confidence, to examine the study of the relationship between audit committee effectiveness, and external audit quality on earnings management.

Agency theory is an economic theory that emphasizes the separation of control and ownership, addressing conflicts of interest, and reducing agency costs. It was first applied by Michael Jensen and William Meckling in 1976 to the separation of principal and agent in firms. It suggests that corporate governance aligns managers actions with shareholders' decision, reducing agency cost (Jensen & Meckling, 1976; Hassan & Ahmed, 2012) and protects shareholders' interest. Earnings management practices may indicate agency cost due to managers' pursuit of interests. The theory proposes the election of board of directors to resolve conflicts of interest between managers and shareholders through monitoring activities through committees like audit committee. This can improve financial reporting quality and control managers' opportunistic behaviour. The use of high-quality accounting information can help reduce information asymmetry between managers and shareholders. Managers may exercise discretion over accrual accounting, which can make the reported earnings less meaningful and unreliable, making earnings management a type of agency cost. Jensen and Meckling (1976) argue that corporate governance can solve the agency problem between management and shareholders by creating a board and appointing an external auditor (third party), which can enhance principal benefits, reduce costs, and potentially reduce earnings management. Agency theory suggests that an effective audit committee improves financial reporting quality by reducing information asymmetry between managers and external shareholders.

Prospect theory developed by psychologists Daniel Kahneman and Amos Tversky in 1979, focuses on human decision-making under risk, particularly in financial contexts. It suggests that individuals are more likely to take risks to avoid losses than to pursue equivalent gains, as losses are generally more disliked (Alam, 2022). Prospect theory provides a descriptive framework for determining the optimal decisions individuals make in real-life scenarios, particularly in the financial realm, it evaluates investors' prospects by analyzing a firm's

financial performance and future market outlook. Managers make choices-based gains and losses and not on the consequences. Managers use earnings management to please shareholders or personal gains. Hsu and Chiang (2014) applied the theory to explain earnings management using discretionary accruals. Managers manipulate earnings to enhance the firm's market value, which has implication for investors investments, deceiving investors into making the wrong decision.

Resource dependence theory was developed by Pfeffer and Salancik in 1978, focuses on power relations in the relationships between managers, the board, and the external environment. The theory suggest that a board of directors manages resources to achieve strategic objectives, acting as a "cooptative" tool, providing access to essential resources and buffering against external charges (Hendry & Kiel, 2004; Okpara, 2011). They contribute to a firm's long-term performance goals by providing strategic resources, networking and intelligence (Daily et al., 1999). Audit committee board members possess valuable qualities such as industry expertise, knowledge in evaluating business activities, potential risks, access to accounting methods, and knowledge in defining firm strategy (Cohen et al., 2008). The proponents of resource dependency theory argue that effective audit committee influence greater monitoring, enjoy the advantage of having members with diverse experience and expertise that can enhances the quality of the board in making decisions which will eventually increases the firm value. Resource-dependent theory suggests the use of external auditors, and audit committee financial expertise with experiences as a tool to earnings management.

The theory of inspired confidence, developed by Professor Theodore Limperg in 1932 (Limperg, 1985), links users' demand for credible financial statements to the audit process's ability to meet those demands. It emphasizes the importance role of auditors in the society, both expert and independent audits, and the need for low audit failure rates. Auditors must plan and conduct audits to minimize the risk of material misstatements and maintain their self-confidence, and live up to public expectations. If the trust of society in the effectiveness of audit procedure and audit report is misplaced, the audit's value is lost (Carmichael 2014). The external auditor's role is crucial, as they must reassess and monitor a firm's internal control system during auditing. They should be able to detect and report financial misstatements during the audit. Accountants should avoid unethical reporting methods and resist the urge to "manage" earnings. An effective audit committee should inspire confidence in the accuracy of financial reports and instilling confidence in the firm's stakeholders and the general public about the credibility of the financial reports.

3. Methodology

This study examines the impact of audit committee effectiveness and audit quality on earnings management of listed consumer goods firms in Nigeria. The study uses a correlational research design to examine the relationship and the impact of corporate governance and audit quality on the earnings management and to achieve the objectives of this study, focusing on listed consumer goods firms in the Nigerian Exchange Group (NGX) as at December 31, 2022. The data for the analysis is secondary data, sourced from the annual financial statements of these firms for eleven (11) years from 2012 to 2022. The fact book shows that twenty-one (21) listed consumer goods firms were listed on the Nigerian Exchange Group (NGX) as at 31st December 2022. The study adopted census sampling technique. The study applied a filter to exclude five firms with incomplete data, and sixteen firms qualified as the final sample. Bua Foods Plc, DN Tyre & Rubber, Golden Guinea Brewery Plc and Multi-Trex Integrated Foods Plc and Union Dicon Salt Plc were excluded due to incomplete financial statements and the study variables.

3.1 Variable Measurement and Model specification

This study employs multiple regressions technique and a panel model to analyze the extracted data using Stata to carry out tests, since it allows for testing and evaluating the relationship between the dependent and independent variables. Discretionary accruals is used as a proxy for earnings management, consistent with prior studies Miko (2016), Zgarni et al. (2016) and Hussaini (2018). The performance-matched discretionary accruals model by Kothari et al. (2005) is considered suitable for the study. The Kothari, et al. 2005 model is an extended version of the modified Jones model (1995), adds return on assets (ROA) as an additional regressor (variable) by controlling for corporate past performance The consumer goods sector relates to past and current performance, which makes the Kothari et al. (2005) model more suitable to calculate the discretionary accruals by using the residuals in the following cross-sectional model.

$$TAC_{it} = \beta_1 \left(\frac{1}{TA_{it} - 1} \right) + \beta_2 \left(\frac{\Delta REV_{it} - \Delta REC_{it}}{TA_{it} - 1} \right) + \beta_3 \left(\frac{1PPE_{it}}{TA_{it} - 1} \right) + \beta_4 ROA_{it} - 1 + \varepsilon_{it}$$

Where; TAC = total accruals for firm *i* in year *t* (net income – cash flow from operations);

TA = total assets at beginning of the year for firm *i* in the year *t*;

ΔREV = change in sales revenue for firm *i* in the year *t*; (current year to previous year)

ΔREC = change in accounts receivable for firm *i* in the year *t*; (current year to previous year)

PPE = gross property, plant and equipment for firm *i* in year *t*.

ROA = net income for firm *i* to total assets at the beginning of the year *t*;

β₁- β₄ = estimated coefficients

ε_{it} = residual (prediction error)

The study uses ordinary least square (OLS) regression (STATA statistical package) to estimate coefficients for each industry and year; enabling the calculation of both non-discretionary and discretionary accrual using the above model. The residuals in the model represent the absolute discretionary accruals as estimated above. The panel data model is described below as follows:

$$DAC_{it} = \beta_0 + \beta_1 ACI_{it} + \beta_2 ACFE_{it} + \beta_3 ACM_{it} + \beta_4 ACFM_{it} + \beta_5 ACE_{it} + \beta_6 BIG4_{it} + \beta_7 AT_{it} + \varepsilon_{it}$$

Where:

β₀ = constant term

β₁₋₇ = coefficient of the independent variable

DAC = Discretionary accruals

B₀ = Constant

β₁ = audit committee independence

β₂ = Audit committee expertise

β₃ = Audit committee meetings

β₄ = Audit committee female member

β₅ = Audit committee effectiveness

β₆ = Big4 audit firm

β₇ = Auditor Tenure

β₁-β₇ = coefficient of the variables

ε = term error & residuals

it = indicator of panel data

Table 1
Variables Measurement

Variables	Acronyms	Measurement	Source
<i>Dependent:</i>			
Earnings Management	EM	Discretionary Accruals (DA) proxy for Earnings management, measured as the absolute discretionary accruals model.	Kothari et al. (2005)
<i>Independents:</i>			
Audit Committee independence (Independent	ACI	Number of non-executive directors serving on the committee by number of board of directors in the audit committee.	(Hussaini & Gugong, 2015; Miko, 2016)
Audit Committee Expertise	ACFE	Number of audit committee with accounting professional qualification to the total number of audit committee.	(Miko & Kamardin, 2015; Hussaini, 2018)
Audit Committee Meetings	ACM	Number of meetings held by the audit committee within an accounting period.	(Soliman & Ragab, 2014; Hussaini, 2018)
Audit Committee female members	ACFM	Number of female member serving on the audit committee by number of audit committee.	(Ali, 2024; Bawuah, 2024)
Audit Committee Effectiveness	ACE	A dichotomous variable, whereby, if the firm meet all these four AC attributes (independence; financial expertise; meetings; and size), then, ACE is denoted as (1) and (0) otherwise.	Kent, et al (2010); Zaman, et al. (2011); Constantatos (2018)
Big4 Audit Firms	BIG4	Dummy variable of 1, if firm is audited by Big4, otherwise, 0.	Alzoubi (2016)
Audit Tenure	AT	Auditor tenure as the no of years an auditor conduct an audit of a firm.	Rahmina & Agoes (2014)

Source : Compiled by the Author (2024)

4. Results and Discussions

This section discusses and analysis the results obtained from the descriptive statistics table, correlation matrix table, and post estimation test results.

4.1 Descriptive Statistics

The descriptive statistics of the sampled firms are shown below as: mean, standard deviation, minimum, and the maximum value.

Table 2: Descriptive Statistics

Variables	Obs	Mean	Std. Dev.	Min	Max
DAC	176	0.601	0.195	-0.096	1.871
ACI	176	0.477	0.116	0.000	0.667
ACFE	176	0.316	0.101	0.167	0.667
ACM	176	3.330	1.093	0.000	5.000
ACFM	176	0.179	0.145	0.000	0.500
ACE	176	0.761	0.427	0.000	1.000
BIG4	176	0.597	0.492	0.000	1.000
AT	176	5.909	1.633	1.000	10.000

Source: STATA output, 2024

Table 2 reveals that the normal value of discretionary accruals (DAC) proxy for earnings management in Nigerian listed consumer goods firms is at 60%, with no dispersion of data. It has a mean value of 0.601 with a corresponding standard deviation value of 0.195 and a minimum and maximum value of -0.096 and 1.871, respectively. The higher the discretionary accruals, the higher the practice level of earnings management and the lower the discretionary accruals, the lower the earning management in the sector. The discretionary accruals level controls the earnings quality. The audit committee independence (ACI) mean value is 0.477 with a with a corresponding standard deviation value of 0.116 and a minimum and maximum value is 0.000 and 0.667 respectively, suggesting an average firms' compliance with SEC code of corporate governance and CAMA standards. The mean value financial expertise (ACFE) is 0.316, indicating an average of one audit committee member with financial knowledge. The standard deviation value of 0.101, the minimum and maximum value of 0.167 and 0.667, respectively, this indicates that listed consumer goods firms in Nigeria comply with the standards set by CAMA and SEC code. Audit committee meetings (ACM) have an average value of 3.330, with a minimum and maximum of 0.000 and 5.000, respectively. Audit committee female member (ACFM) mean value is 0.179, standard deviation value of 0.145, with a minimum and maximum of 0.00 and 0.500, respectively. This shows that 18% of all audit committee members in Nigeria listed consumer goods firms are female, indicating 72% of listed consumer goods firms have male-dominated audit committees. Audit committee effectiveness (ACE) contributes an average value of 0.761, representing a score of 76% and a corresponding standard deviation of 0.427. The Big4 audit firms (BIG4) have an average value 0.597; indicating 60% of the listed consumer goods sector engages the services of the Big4 audit firms. The auditor tenure (AT) of the listed consumer goods sector in Nigeria has an average value of 5.909 and a standard deviation of 1.633, implying that the average period which sector firms engage auditors is 6 years.

4.2 Correlation Coefficient Matrix

The correlation matrix shows the relationship between dependent and independent variables and that among the independent variables.

Table 3: Correlation Matrix

Variables	DAC	ACI	ACFE	ACM	ACFM	ACE	BIG4	AT
DAC	1.000							
ACI	-0.0373	1.000						
ACFE	-0.1327	0.3122*	1.000					
ACM	-0.0373	0.5826*	0.2767*	1.000				
ACFM	0.0489	0.3389*	0.4437*	0.2889*	1.000			
ACE	-0.1401	0.3054*	0.0151	0.3529*	0.1999*	1.000		
BIG4	0.3126*	0.4128*	0.1259	0.5889*	0.2989*	0.2461*	1.000	
AT	-0.0915	-0.2602*	-0.2860*	-0.3739*	-0.1238	-0.0558	-0.2238*	1.000

Source: STATA output, 2024

Table 3 shows that the relationship between discretionary accruals and audit committee independence (ACI), expertise (ACFE), meetings (ACM), effectiveness (ACE) and auditor tenure (AT) were all negative and insignificant. However, Big4 audit firms (BIG4) showed a significant positive relationship at 5% level of significance. Based on the coefficient values of -0.0373, -0.1327, -0.0373, -0.1401, and -0.0915, respectively, and with Big 4 audit having a value of 0.3126, this shows that the independent variables in the model are within acceptable levels. But, further tests for tolerance values (1/VIF) and variance inflation factors may be needed to confirm the absence multicollinearity. The absence of multicollinearity is indicated

by a variance inflation factor (VIF) below 10 and the tolerance value under 1/VIF (Gujarati, 2004; Hair et al., 2010).

Table 4: Result of Multicollinearity

Variable	VIF	Tolerance
ACM	2.19	0.4559
ACI	1.66	0.6040
BIG4	1.61	0.6197
ACFE	1.42	0.7048
ACFM	1.41	0.7107
AT	1.23	0.8153
ACE	1.21	0.8281
Mean VIF	1.53	

Source: STATA output, 2024

The multicollinearity test aims to determine the presence of relationships among independent variables that may mislead the findings of the study. The findings presented in Table 4 showed there is absence of multicollinearity among the independent variables. The VIF test results show that all variables have a VIF lesser than 10, with audit committee meeting having the highest VIF value of 2.19 and audit committee effectiveness having the least VIF of 1.21. The mean VIF is 1.53.

Table 5: Test for Heteroskdasticity

Breusch Pagan	chi2(1)	Prob > chi2
Value	0.07	0.7915

Source: STATA Output Extract, 2024

The heteroscedasticity test in Table 5 reveals the non-existence of heteroscedasticity based on the Breusch-Pagan/Cook-Weisberg test. This test was used to assess whether there was a violation of the assumption and if the regression model met the requirement for "constant variance." The Breusch-Pagan/Cook-Weisberg test shows that $\chi^2(1) = 0.07$ with a probability value greater than $\chi^2 = 0.7915$, indicating the absence of heteroscedasticity.

Table 6: Test for Hausman

Model	chi2	Prob > chi2
Value	15.64	0.0286

Source: STATA Output Extract, 2024

The Hausman test result indicated that the value of $\chi^2(10)$ is 15.64, with a probability value of (prob>chi2) of 0.0286. The insignificant value of the p-value figure of 0.286 suggests that the Hausman test supports the random effect model.

Table 7: Regression Result

Variable	Coef.	Std. Err.	z	p> [z]	[95% Conf. Interval]
ACI	-0.050	0.162	-0.31	0.757	-0.368 0.267
ACFE	-0.381	0.181	-2.10	0.036	-0.736 -0.026
ACM	-0.046	0.020	-2.34	0.019	-0.084 -0.007
ACFM	0.144	0.123	1.17	0.240	-0.097 0.385
ACE	-0.073	0.040	-1.82	0.070	-0.153 0.006
BIG4	0.185	0.035	5.23	0.000	0.116 0.255
AT	-0.024	0.009	-2.51	0.012	-0.042 -0.005
Constant	0.957	0.111	8.62	0.000	0.740 1.175
R2 (overall)	0.230				
Wald	43.900				
Prob. chi2	0.000				
F-Sig	0.000				

Source: Regression Result Output Extracted from STATA, 2024

$$DAC_{it} = \beta_0 + \beta_1 ACI_{it} + \beta_2 ACFE_{it} + \beta_3 ACM_{it} + \beta_4 ACFM_{it} + \beta_5 ACE_{it} + \beta_6 BIG4_{it} + \beta_7 AT_{it} + \epsilon_{it}$$

$$DAC = 0.957 -0.050 -0.381 -0.046 +0.144 -0.073 +0.185 -0.024$$

The random-effects GLS regression results show a positive Wald value of 43.900, indicating a significant impact on discretionary accruals of listed consumer goods firms in Nigeria. The constant coefficient is positive with 0.957 value with an overall statistical significance value of 0.000 which is significant at the 1% level. The R² value of 0.230, the cumulative explanatory power of the model is 23%, with 23% variation in discretionary accrual proxy for earnings management (dependent variable) due to changes in the individual explanatory variables: audit committee independence (ACI), audit committee financial expertise (ACFE), audit committee meetings (ACM), audit committee female member (ACFM), audit committee effectiveness (ACE), Big4 audit firms (BIG4), and auditor tenure (AT). The remaining 77% is accounted for by other factors not included in the study model. Error terms are introduced to address misspecification in the model. The audit committee attributes and the audit quality attributes are appropriate for studying the effect of audit committee effectiveness and audit quality on earnings management of listed consumer goods in Nigeria.

Table 7 shows that audit committee independence is insignificantly related to earnings management, with a coefficient value of -0.050 and a corresponding negative p-value of 0.757. This result reveals that audit committee independence does not significantly impact earnings management in Nigerian of listed consumer goods firms. The composition of the committee does not affect the committee’s activities towards proper monitoring, contradicting the study’s expectations. However, the negative coefficient signifies that as the committee composition increases, the earnings management level decreases.

Additionally, the result reveals a negative coefficient of 0.381 with a corresponding p-value of 0.036 which is significant at 5% between audit committee financial expertise (ACFE) and earnings management in listed consumer goods firms in Nigeria. The result implies that as a member with financial knowledge is added to the audit committee, earnings management will decrease by 38%. This suggests that audit committee financial expertise can curb manager’s earnings management practices. The result is line with the a priori expectations of the study.

The regression results also showed a negative coefficient value of -0.046 and a significant p-value of 0.019, which is at a 5% significance level between audit committee meetings (ACM) and earnings management. This implies that for every unit increase in meetings, there is a 0.019

decrease in earnings management practices, indicating that audit committee meetings directly impact earnings management in listed consumer goods firms in Nigeria.

Furthermore, the result revealed a positive but insignificant relationship with a coefficient of 0.144 with a corresponding p-value of 0.240 between audit committee female member (ACFM) and earnings management. This study reveals that audit committee female member (ACFM) do not significantly impact earnings management practices in Nigerian listed consumer goods firms.

The regression table shows a negative coefficient value of -0.073 and a significant p-value of 0.070, which is at a 10% significance level relationship between audit committee effectiveness and earnings management a practice. This implies that for every unit increase in audit committee effectiveness, earnings management practices decrease by 7.3%. This indicates that audit committee effectiveness has a direct and significant impact on earnings management Nigerian listed consumer goods firms.

The regression table found a positive coefficient value of 0.185 and a p-value of 0.000 at a 1% significance level, suggesting that hiring a Big4 audit firm does not necessarily decrease earnings management. However, this does not align with a priori expectations.

Lastly, the result also indicates that auditor tenure has a negative coefficient value of -0.024 and a p-value of 0.012 which is significant at 5% significance level on discretionary accruals, suggesting that auditor tenure reduces opportunities for managers to manage earnings.

4.3 Hypothesis Testing

Audit committee independence and earnings management

The result reveals that audit committee independence has a coefficient value of -0.050 and a corresponding negative p-value of 0.757, which revealed that audit committee independence, does not significantly impact earnings management in Nigerian of listed consumer goods firms. The composition of the committee does not affect the committee's activities towards proper monitoring. This contradicts the study's expectations that audit committee composition will ensure proper monitoring due to the current CAMA (2020) provision on audit committee composition, which favors shareholders, also requires that a member with diverse financial knowledge and experience be part of an audit committee. However, the negative coefficient signifies that as the committee composition increases, the earnings management level decreases. The study also finds no significant statistical evidence to reject **hypothesis (1)**, which suggest that audit committee independence has no significant impact on earnings management practices. The result of the study is in line with the studies of Handayani and Ibrani (2020). In Nigeria, similar negative, insignificant relationship between the board audit committee and discretionary accruals were documented Fodio, et al. (2013) and (Bala, 2018). But it is not consistent with the views Miko (2016), Garefalakis et al. (2020) and Abubakar et al. (2021) that audit committee independence negatively affects earnings management. The study result is suggesting that the audit committee independence do not mitigate earnings management practices. A possible explanation for this could be attributed to the connection between independent directors and CEOs may have impaired their independence and reduced their monitoring ability in the financial reporting process (Bala, 2018). The findings indicate weaknesses in some of the governance mechanisms that the Nigeria SEC need to revise.

Audit committee financial expertise and earnings management

The model provides evidence that audit committee financial expertise has a significant negative impact earnings management with a coefficient of 0.381 and a corresponding p-value of 0.036. The result found significant statistical evidence to reject **hypothesis (2)**; hence, hypothesis H2

is rejected. The outcome is in line with a priori expectation, it is expected that audit committee expertise can decrease earnings management of listed consumer goods firms. This finding is in line with studies Hussaini (2018) and Alhassan et al. (2019). However, the result contradicts Garefalakis et al. (2020) and Akinola et al. (2021) who reported a positive relationship.

Audit committee meetings and earnings management

Similarly, the finding also indicates that audit committee meetings (ACM) significantly negatively impact the earnings management of listed consumer goods firms. The result revealed a negative coefficient value of -0.046 and a significant p-value of 0.019. This implies that there is significant statistical evidence to reject **hypothesis (3)**, which states that H3 audit committee meetings do not have any significant impact on the earnings management of listed consumer goods firms in Nigeria hence, hypothesis H3 is rejected. The result is consistent with a priori expectation; it is expected that audit committee meetings do mitigate earnings management. This finding is in line with studies Soliman and Ragab (2014) and Hussaini (2018). But contrary to the findings of Katmon & Farooque (2015) who documented a positive relationship.

Audit committee female member and earnings management

The model showed a positive but insignificant impact with a coefficient of 0.144 with a corresponding p-value of 0.240 between audit committee female member and earnings management of listed consumer goods firms in Nigeria. The insignificant relationship implies that audit committee female member does not significantly impact discretionary accruals of listed consumer goods firms in Nigeria. The results do not find significant statistical evidence to reject **hypothesis (4)** of the study. The result is consistent with Hussaini (2018) and Bawuah (2024). However, Farouk and Isa (2018) and Ali (2024) studies found a positive and statistically significant relationship. The insignificant relationship in audit committee female members could be attributed being deprived of such compared to men, stemming from discrimination and systemic barriers that hinder their access to important resources, such as leadership position in the business world, business education and relevant experience. It is observed that within the study period covered, some of the listed consumer goods firms in Nigeria do not have female board members or audit committee female members, which could potentially impact the findings.

Audit committee effectiveness and earnings management

The regression table shows a negative coefficient value of -0.073 and a significant p-value of 0.070 between audit committee effectiveness and earnings management. It implies that audit committee effectiveness is significant at 10% and has a significant impact on earnings management, the result is in consistent with a priori expectation. This implies that the study has a statistical basis to reject **hypothesis (5)**, which states that audit committee effectiveness has no significant impact on the earnings management of listed consumer goods firms in Nigeria. The result is in line with the study of Habbash (2012) who also documented a negative finding between the audit committee effectiveness proxy and AUDSCORE. However, Constantatos (2018) documented a mixed findings between audit committee effectiveness and earnings management.

Big4 audit firms and earnings management

The regression table reveals a positive coefficient value of 0.185 and a p-value of 0.000 at a 1% significant impact on audit engagement by Big4 audit firms and discretionary accruals management. This further suggests that the finding is significant and serves as a basis to reject **hypothesis (6)**, which states that the Big4 audit has no significant impact on the earnings management of listed consumer goods firms in Nigeria. Hence, H₄ is rejected. The finding is

supported by results from Ozili (2021) and Mohammed et al. (2022). However, Alzoubi (2016), Inaam and Khamoussi (2016) and Lopes (2018) studies documented a negative and significant relationship between the two variables. Abid et al. (2018), Firnanti et al. (2019) documented a negative insignificant relationship, while Abubakar, Mazadu and Yusuf (2020) and Magaji et al. (2020) documented a positive but insignificant relationship between Big4 audit and earnings management.

Auditor Tenure and earnings management

The regression result also indicates that auditor tenure has a negative coefficient value of -0.024 and a p-value of 0.012 which is significant at 5% significance level impact on discretionary accruals of listed consumer goods firms in Nigeria. This provides evidence to reject **hypothesis (7)**, which states that auditor tenure has no significant impact on the earnings management of listed consumer goods firms in Nigeria. Based on this evidence, H_0 is rejected. The result consistent with the findings of Okolie (2014), Alzoubi (2017), Guindy and Basuony (2018). This result however, is inconsistent with the findings of Yasser and Soliman (2018), Soyemi and Olufemi (2020) documented a positive and significant impact between auditor tenure and earnings management.

5. Conclusion and Recommendation

The study found that audit committee financial expertise (ACFE), audit committee meetings (ACM), audit committee effectiveness (ACE) and auditor tenure (AT) reduced managers' opportunistic behaviour towards earnings manipulation. The results validate agency, prospect and resource dependence theories. However, the study found that audit committee independence (ACI) and diversity (AC female member) did not significantly impact on earnings management of listed consumer goods firms in Nigeria. The study also found no impact on audit engagement by Big4 audit firms to decreasing managers' opportunistic behavior through discretionary accruals. The study findings cannot be generalized due to its limited to Nigerian listed consumer goods firms, and use of seven independent variables and the study's focus on a few audit committee effectiveness and audit attributes. Future studies should consider including other variables and studying other sectors for more robust results.

The study suggests revising the audit committee requirement for financial expertise to include more members with professional qualifications. Regulators and policymakers should strengthen enforcement of compliance with corporate governance principles and accounting standards, and panelize firms for noncompliance. More policies that will strengthen the audit committee independence of listed consumer goods firms in Nigeria for effective monitoring role should be introduced. Effective audit committee contributes to earnings quality in financial reports, policymakers should ensure that policies put in place are adhered to, and strengthened. Regulators and policymakers should encourage listed firms in Nigeria to engage both Big4 and nonBig4 audit firms for audit assignments who are compete and independent in carrying out the audit exercise effectively in order to safeguard earnings and prevent earnings manipulation. The study also suggests a downward review of the auditor's tenure to maximum of eight years with two-terms tenure of four years, which is enough to give the auditor a better understanding of the client's business and insight into the internal control operations and business environment, and also to get familiar with the firm's financial activities, which can give a better understanding of the financial statements presented to the auditors by the management.

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