**AUDIT QUALITY, OWNERSHIP STRCUTURE AND EARNINGS MANAGEMENT OF LISTED CONSUMERS’ GOODS FIRMS IN NIGERIA**

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**Abstract**

*This study investigated the effect of audit quality and ownership structure on earnings management of consumer goods firms listed in Nigeria. The study measured audit quality by audit committee diligence, audit firm size and auditor tenure; ownership structure was proxied by managerial ownership, foreign ownership with firm size, leverage & profitability used as control variables while earnings management employed as dependent variable, was measured by discretionary accruals using modified Jones model. The study extracted data from annual reports of the listed consumers’ goods firms selected using purposive sampling method for the periods of 2012 - 2021 and the data were analyzed with the aid of paneled regression technique. Findings reveal that audit committee diligence, audit firm size and auditor tenure have significant negative relationship with the earnings management of the selected firms, (β= -0.0241, p-value = 0.0005, β= -0.0724, p-value = 0.0062, β= -0.0013, p-value = 0.0424) and only audit committee independence has an insignificant positive relationship with earnings management (β= -0.0295, p-value = 0.6406). As regard ownership structure, the result shows that managerial ownership has negative and insignificant effect on earnings management (β = -0.0148, p-value = 0.6562) while foreign ownership sustained significant positive relationship with the explained variable. Finally, the findings of the study also show that firm size and profitability as control variables are negatively related with earnings management but only firm size has significant relationship with discretionary accrual (β= -0.0384, p-value =0.0001, β= -0.0352, p-value = 0.6018) while financial leverage has significant positive relationship with the earnings management (β= -0.1812, p-value =0.0008). The study therefore recommends among others that the governing board of listed consumers’ goods firm should encourage longer audit tenure to take advantage of the provision of FRCN (2018) code of corporate governance that permits Nigerian public companies to retain external auditors for a period of ten years consecutively. This would enable the auditor acquire client specific experience that could make him detect questionable financial reporting practices of the firm.*

**Keywords: Audit committee diligence, Auditor tenure; managerial ownership, foreign ownership, discretionary accruals.**

**Introduction**

Reported earnings of a corporate entity are a very significant performance indicator often used as a guide by both current and potential corporate investors to direct resource allocation in capital market. The earning is reported by corporate managers in the financial statement statutorily prepared as a stewardship report for the owners of the company. In achieving this, the managers are permitted to exercise judgment in adopting accounting methods that match the company’s business environment.Therefore, managers attempt to consciously act in accordance with the provisions of generally accepted accounting principles (GAAPs) to bring reported earnings up to the desired profit level (Omoye&Eriki, 2014). Accruals and cash items make up accounting earnings, and managers basically control accruals through the selection of accounting principles used in preparing the financial report. The freewill to make decisions often gives room for the corporate managers to exhibit opportunistic behavior to bloat performance of firms and future earnings predictions through manipulation of accruals resulting in earnings management.

Earnings management, according to Tyokoso*et al*. (2016), is a manipulative behavior of managers that is connected to the purposeful alteration of financial statements through the use of judgment in financial reporting and in structuring transactions to either deceive the firm's stakeholders about the firm's underlying economic performance or to achieve some contractual benefits that depend on reported accounting numbers. However, there are drawbacks to the approach of managing earnings for the reporting entity. Opportunistic earnings management practices provide unreliable accounting earnings that do not accurately reflect the financial success of the company, distorts earnings quality, and its relevance for investment decisions, which lowers investor confidence in the financial reports (Kurawi&Ishaku, 2020).

The demand for reliable reports gave rise to the statutory audit, which offers impartial certification of the financial accounts prepared by firm managers. The agency problems in respect of the separation of ownership and control, along with information asymmetry between management and shareholders necessitate the demand for quality audit.This is necessary since a quality audit is supposed to confirm whether or not the financial statements are accurately presented in accordance with GAAPs and that they accurately depict the entity's economic situation and operational outcomes. By law, the auditor is charged with carrying out statutory audits and playing a crucial role in providing a judgment on whether the financial statements are accurately and fairly stated (Nwoye, *et al*., 2021). Therefore, a quality audit will not only constrain opportunistic earnings management but will also enhance the credibility and reliability of the information presented in the financial report of a business entity.

In a similar vein, emphasis has been placed on ownership structure as one of the crucial corporate governance measures that can limit managers' methods of managing earnings (Ekpulu&Omoye, 2018). This takes into account the principal-agent conflict, in which managers act opportunistically and in their own self-interest, which typically has a negative impact on reported profitability. Oyebamiji (2021) also named ownership structure of a firmas one of the ideal control mechanisms for lowering agency costs and minimizing profits management incentives. In agreement with these claims, a company's ownership structure may equally prove to be a major tool in ensuring good corporate governance that is capable of restraining opportunistic practices of earnings management.

Regulators and investors no longer trust financial statements, which is unfortunate given the recent accounting scandals. This is due to the fact that earnings management has been identified as the most significant ethical challenge facing the accounting profession (Nwoye*etal.,* 2021). Consequently, this has caught the attention of many researchers to investigate various mechanisms of corporate governance capable of restraining the practices of earnings management. Surprisingly, prior studies in this area from both developed and developing economies have documented inconsistent and conflicting empirical evidence (Tendeloo, 2005; Habbash, *etal.,* 2013; Okolie, 2014; Ahmad, *etal.,* 2016;Eriabie&Dabor, 2017;Obigbemi, *etal.,* 2017; Ekpulu&Omoye, 2018, Kurawa&Ishaka, 2020; Suleiman, *etal.,* 2020, Awuye, 2022). Besides, extant literatures establish that there is a dearth of empirical evidences in Nigerian investigating earnings management from the dimensions of both audit quality and ownership structure of a firm in a singular study. The mixed findings of previous studies and identified omission are major empirical gaps that provided a motivation for further research effort. Given the above state, this study attempted to investigate the effect of audit quality and ownership structure on the earnings management in consumers’ goods firms listed on Nigerian Stock Exchange (NSE). Thus, this study specifically provided answers to the following questions raised such as:

1. What effect does audit quality have on the earnings management of listed consumer goods firms in Nigeria?
2. What is the relationship between ownership structure and earnings management of listed consumer goods firms in Nigeria?

The results of the study would be of interest to shareholders and regulators to pay more attention to the measures of audit quality and ownership structure that are capable of constraining opportunistic activities of the corporate managers.

The study included only publicly traded consumer goods firms in Nigeria and spanned the years 2012 through 2021. The subsequent sections of this study were divided into the following sections: the literature review, theoretical issues, and empirical investigations were covered in Section 2. Section 3 described the study's methodology; Section 4 presented the findings and discussions; and Section 5 captured conclusion and recommendations.

**LITERATURE REVIEW**

**Conceptual Issues**

**Earnings Management**

Earnings management was described by Roychowdhury (2006) as "departure from normal operational processes, prompted by the manager's interest to deceive some stakeholders into believing that, specific financial reporting targets, have been achieved in the usual course of operations." Scott (2003) defines earnings management as the act of choosing accounting policies from a list of generally accepted accounting principles in order to achieve positive results. It is reasonable to assume that managers will make decisions that will increase either the market worth of the company or their own utility. Yaping (2005) stated that, the application of earnings management requires the managers’ judgment to change the accounting estimation and policies. This right given to managers to use their judgment and discretion in accounting gives the managers the power to choose which allowable accounting methods, policies and estimates encourages earnings manipulation because they are covered within the accounting law.

According to Roychowdhury (2006), there are two categories of earnings management: accrual earnings management (AEM) and real earnings management (REM). It is generally accepted in the literature that AEM relates to the modes in which the discretion permitted by accounting standards is utilized, whereas REM is a calculated operational plan that affects the timing and structuring of business operations. Isenmilaand Afensimi (2012) pointed out however, that earnings management is legal if the gains or profits are changed in accordance with GAAP, for example, by altering the method for inventory estimation and depreciation. Earnings management becomes illegal when earnings management deviates from GAAP, such example as expediting income recognition or delaying expense recognition. Isaac (2022) reported that managers are motivated to manipulate earnings by a number of compelling elements. These motivating elements may include things like expectations and valuations in the capital markets, contractual payments based on accounting information, and rules from the government. Therefore, one of the reasons why investors should be very interested in quality audits is the potential for earnings management operations to occur.

**Audit Quality and Earnings Management**

DeAngelo (1981) defined audit quality as “the joint probability that, an auditor will both discover and report a breach in the client’s accounting system”. Finding a misstatement assesses an auditor's knowledge and skill, while disclosing the mistake depends on the auditor's incentives to do so. According to Seyyed, Mahdi, and Mohsen (2012), the auditor's capacity to recognize serious misstatements and report them may influence the audit's overall quality. Together with other comparable definitions, they all focused on the two characteristics of audit quality that are most crucial: auditor independence and auditor skill.Zehri and Shabou (2011) asserted that, high quality audit are more likely to discover questionable accounting practices by clients and report material irregularities and misstatements compared with low quality audit.However, according to Schauer (2002) a higher quality audit increases the probability that the financial statements reflect more accurately the financial position and results of operations of the entity being audited.

Given the foregoing, it is reasonable to assume that quality audit, as one of the mechanisms of corporate governance, has the power to prevent corporate managers from engaging in opportunistic methods of earnings management. Building on the extant literature, prior studies have simply adopted a variety of audit quality indicators, such as audit fee, audit firm size, auditor tenure, auditor industry expertise, internal audit independence, and audit committee measures (Kimberly & Brian, 2004; Miko&Kamardin, 2015; Tyokoso, *etal.,* 2016; Akinkoye&Agbogun, 2021). This study however employed only audit committee independence, audit committee diligence, audit firm size and auditor tenure as measures of audit quality in investigating earnings management of Nigerian listed consumers’ goods firms. These parameters were regarded as the most significant proxies of audit quality owing to their relevance to the manufacturing sector being investigated in this study.

**Ownership Structure and Earnings Management**

Ownership structure was defined by Obigbemi*etal.,* (2017) as the proportion of a company's shares held by a specific number of institutions, people, or families. This explains the type of ownership that exists within an organisation. Due to the conflicting interests between management and shareholders of a company caused by the separation of ownership and control (Jensen &Meckling, 1976), managerial decisions must be closely watched to preserve shareholders' interests and uphold accurate and complete financial reporting. However, it is known that some corporate governance practices discourage managers from managing their company's earnings (Ekpulu&Omoye, 2018; Osemene, *etal.,* 2018; Wati&Gultom, 2021). The majority of the studies identified ownership structure as an important corporate governance tool for moderating the practices of earnings management (Alves, 2012). Institutional ownership, foreign ownership, family ownership, government ownership, and ownership concentration are the different forms of ownership structure that have been categorized in previous empirical investigations. For the purpose of this study, institutional, foreign and managerial ownerships are considered as the most relevant measures of ownership structure in examining earnings management of Nigerian listed consumers’ goods firms.

**Theoretical Review**

The agency theory served as the foundation for this study, which examined the effect of audit quality and ownership structure on the earnings management of publicly traded consumer-goods firmsin Nigeria. The agency theory is based on the relationship between the principal (shareholder) and the agent (managers). In contemporary corporate enterprises, ownership is separated from management and control, which forms the basis of the function of agency theory. An agent (manager) may be appointed to oversee the day-to-day operations of the business as a result of this separation. This relationship however, creates the potentials for conflicts of interests between the agent and principal, and requires monitoring costs associated with resolving these conflicts (Jensen &Meckling, 1976).

Conflicts of interest typically arise when managers have incentives to control earnings, such as meeting or exceeding target earnings and performance-based compensation, and they manipulate the reported profit of the company. This manipulation reduces the relevance and reliability of the reported accounting earnings and the financial statements in general. How to reconcile the opposing managerial interests with those of shareholders is the basic goal of agency theory. To prevent owners’ interests from being jeopardized by the managers' self-interest, the agency theory proposes that shareholders exercise stringent control over managers through the use of high-quality audit and effective ownership structure as control mechanisms. The theory assumes that earnings management could be a sign of an agency problem and may be constrained by these control mechanisms in order to reduce conflicts and align the interests of managers and shareholders.

In the light of this analysis, the agency theory was selected since it explains the rationale for earnings management as well as the connections between audit quality, ownership structure, and earnings management.

**Empirical Review**

The debate on how earnings management interacts with audit quality and ownership structure has attracted great attention from accounting researchers within and outside the country. This is clear from the volume of empirical evidenceobtained from earlier relevant studies analyzed as follows:

Okolie (2014) looked into the connection between the audit quality and the accrual-based accounting practices used by Nigerian companies. The study found a substantial positive correlation between audit fees and discretionary accruals and a negative association between the auditor tenure and discretionary accruals, using a sample of 57 nonfinancial companies listed on the Nigeria Stock Exchange (NSE).The impact of audit quality on earnings management in Nigerian listed deposit money banks was also examined by Jayeola, *etal.,* (2017). Secondary data were obtained from six banks randomly selected from the population of fifteen (15) deposit money banks for the period of 2005-2014 and the study employed the use of panel data technique. According to the findings, earnings management has a significant positive association with joint audit and audit independence, a significant negative relationship with audit specialization, but an insignificant negative relationship with audit tenure.

The impact of ownership structure on the earnings management techniques of Nigerian companies was further examined by Obigbemi*etal.,*(2017). Data was collected from the financial statements of 137 sampled organizations, and OLS regression approach was used to evaluate the data. The study established that earnings management has a negative significant link with block ownership of businesses in Nigeria but is positively associated with managerial ownership and family ownership. Eriabie&Dabor (2017) also examined the effect of audit quality on earnings management in the same year. Data was obtained from the financial statements of 137 sampled companies and analyzed using OLS regression technique. Audit quality was assessed using audit fees, auditor changes while earnings management was measured using abnormal loan loss provision. Thefindings of study show that abnormal loan loss provision was positively significant relationship with both audit fee and auditor tenure.

Ekpulu&Omoye (2018) conducted a study to determine how ownership structure affected earnings management in Nigeria. The study used secondary source data from a sample of 75 listed companies in Nigeria for the years 2009 to 2014. The results of the study showed that managerial ownership has a negative significant relationship with earnings management, but institutional ownership and foreign ownership have a positive, insignificant relationship.

Building on earlier research, Yusuf (2020) examined the impact of audit quality on profits management of listed consumer goods firms in Nigeria for a period of thirteen years, from 2006 to 2018. The statistics were taken from the annual accounts of 17 firms that were specifically chosen from 21 publicly traded consumer goods companies in Nigeria. An analysis of the dataset was done using panel adjusted standard error regression. The results showed that audit fees significantly impacted earnings management negatively, while audit firm size, audit tenure, and joint audit all significantly impacted earnings management positively.

Oyebamiji, (2021) also identified the impact of ownership structure on the profitability of Nigerian listed financial enterprises. Data were taken out of the ten firms' annual reports and financial statements for the years 2012 to 2018 and evaluated using pooled ordinary least square, fixed effect, and random effect estimation approaches. The findings revealed that institutional ownership had a statistically significant positive link with profits quality while ownership concentration had a substantial negative relationship. Similarly, Abubakar, *etal.,* (2021)explored the impacts of audit committee attributes on earnings management in Nigeria. For a five-year period, data was taken from the annual reports of a sample of 72 non-financial companies (2014-2018).The results of the analysis demonstrated that the audit committee size, independence and financial knowledge deter managers from manipulating earnings. The result established that the presence of the examined independent variables on the audit committee is capable of curtailing managers’ opportunistic behaviourin the selected companies.

Furthermore, Nwoye, *etal.,* (2021) looked at the impact of audit quality on the management of earnings at Nigerian insurance firms. The annual financial reports of the chosen insurance companies listed on the NSE for the years 2012 to 2017 were the source of the study's data, which was then analyzed using panel multiple regression. The study documented that independent audit committee, audit committee financial knowledge, and audit fees maintained a positively significant relationship with earnings manipulation while audit firm size played a negative influence.

Empirical evidence was also obtained from other nations as Yanga, *etal.,* (2009) explored the effect of board structure and institutional ownership structure on the earnings management of Malaysian listed companies. For this study, data were collected between the years of 2001 and 2003 from a sample of 613 companies. In this study, a modified Jones Model with a cross-sectional methodology was used. The findings established that there was no relationship between the degree of earnings manipulation and the percentage of institutional shareholders and board independence. Similar to this, Ahmad *etal.,* (2016) investigated how managers of industrial companies listed on the Indonesia Stock Exchange engage in earning management. For a four-year period, from 2010 to 2013, the study collected data from the annual reports of 105 sampled manufacturing companies.The association between audit quality and earning management was estimated in this study using a multiple regression analysis. The results of the study therefore confirmed that audit quality and earning management are negatively related.

Additionally, Lopez (2018) explores whether there is a link between Portuguese non-listed businesses' audit quality and profit manipulation. The study gathered data from the annual reports of 4723 sampled companies between 2013 -2015. Multiple linear regression was usedto explain the relationship between the explained and explanatory variables of the study. The findings showed that, when compared to corporations utilizing a non-Big 4 audit company, organizations hiring a Big 4 audit firm had much lower levels of earnings management.

In a similar vein, Shahwan (2021) empirically examined how the corporate governance, audit quality, and business characteristics affect the management of earnings for listed industrial firms in Amman. Multiple regression analysis was used to examine the data taken from 39 companies that were purposefully sampled between 2017 and 2019. The findings show that firm’s attributes all have impact on earnings management but audit quality, firm size, audit committee, the board size, institutional ownership, and managerial ownership do not have impact on earnings management. Susanto, *etal.,*(2021) analyzed the effect of institutional and managerial ownership on earnings management of manufacturing companies listed in Indonesia Stock Exchange. The data were extracted from 107 manufacturing companies and analysed using multiple regression method. The finding shows that significant negative relationship exists between earnings management and institutional ownership. However, there was no significant relationship between managerial ownership and earnings management.

**Methodology**

The study used an ex post facto quantitative research design, which was deemed appropriate for this study. Twenty-one (21) consumer goods firms listed on the NSE made up the population of the study as at 3rdJuly, 2022. The study used a purposive sampling technique to pick just fourteen (14) listed firms that have continuously traded on the NSE in the past 10 years, from 2012 to 2021. The study used secondary data which were taken from the financial reports of the chosen listed firms.The variables of the study were measured as applied by prior related articles on quality audit and ownership structure as follows:

1. **Dependent Variable:** Discretionary accruals

The study employed modified Jones model as the most commonly used model to estimate discretionary accrual being proxy of earnings management (Fagbemi*etal.,* 2020; Yusuf, 2020; &Shahwan, 2021). The modified Jones model (MJM) is presented below:

**Modified Jones Model**

TA/Ait-1 = β1 (1/Ait-1) + β2 (Δ in Revit- Δ in Recit) /Ait-1 + β3 (PPEit/Ait-1) + eit

TA = Operating income - Cash from operating activities

***Where:***

TA = Total Accruals (Non-discretionary accrual (NDA) + discretionary accrual (DAC)), Ait-1 = Total Assets at the beginning of the year, Δ Revit = Change in sales from year t-1 to t , Δ Recit = Change in receivables from year t-1 to t, PPEit = Plant, property and Equipment , β1, β2, β3 = Represents firms specific parameters, eit = Residual value here represents the firm specific discretionary portion of accruals.

1. **Independent Variables**

The study used audit committee independence, audit committee diligence, audit firm size and auditor tenure as measures of audit quality while managerial and foreign ownerships as measures of ownership structure. The measures of the two independent variables are defined as follows:

1. **Audit Quality Proxies**

Audit Committee independence is defined by Hamid*etal.,* (2015)as the number of non-executive directors divided by the total members of the audit committee. Audit committee Diligence is defined by Lisic, *etal.,* (2016)as number of audit committee meeting held during the fiscal year. Audit firm size is defined as dichotomous variable as measured by Nwoye*etal.,* 2021; Krishnan and Schauer (2000), where 1 is assigned if financial statement of the company is audited by any of the Big 4 and 0 if otherwise. Auditor’s tenure was defined as the proportion of number of consecutive years the client has retained a particular audit firm to the maximum number of 10 years allowed by the codes of corporate governance as captured the SEC and FRCN.

1. **Ownership Structure Proxies**

Managerial ownership was measured using proportion of shares owned directly (shares own by the director only) or indirectly (When the director represents the interest of others) by directors to total number of shares issued, expressed in percentage (Oyebamiji, 2021). Foreign ownership was defined as the sum of foreign ownership shares divided by the total outstanding shares (Kablan, 2020; Osemene*etal.,* 2018).

1. **Control Variables Proxies**

The study included three control variables as firm’s attributes that may influence earnings management practices. In this study, the control variables were firm size proxied by natural log of total assets and financial leverage proxied by total total debt divided by total assets ((Tyokoso*etal.,* 2016), Firnanti&Pirzada, 2019;Taiwo*etal.,* 2022) and profitability measured by return on total assets ratio (Almarayeh*etal.,* 2020; Taiwo*etal.,* 2022).

**Model Specification**

Extant literatures examined in this study indicate there are different models used in examining earnings management of listed firms. However, this study adopted the model used by Shahwan (2021) with a slight modification. The functional specification of the model takes the following form:

DAC = f (ACIND, AUD, AUDFS, AUDTEN, MOWN, FOWN, FS, LEV, ROA)

The econometric specification is as follows:

DACCit = b0 + b1(ACIND) it + b2(AUD) it + b3(AUDFS) it + b4(AUDTEN) it + b5 (MOWN)it ++ b6 (FOWN)it + b7(FS) it + b8(LEV) it + b9(ROA) it + ɛit

**Where:**

DAC = Accrual based Earnings Management, ACIND = Audit Committee Independence, AUD = Audit Committee Diligence, AUDFS = Audit Firm Size, AUDTEN = Auditor’s Tenure, MOWN = Managerial Ownership, FOWN = Foreign Ownership, FS = Firm Size, LEV= Financial Leverage, ROA = Return on Assets, b0 = Intercept for X variable of firms, b1 – b9 = Coefficients for the independent and control variables of firms, denoting the nature of relationship with dependent variable (or parameters), ɛit = ui + vit (one way error component model), ui = The unobservable individual specific effect of the cross-sectional unit

vit = The stochastic disturbance term, i = individual unit (e.g. a consumer goods firm) in a cross section, t = time dimension. A *priori* expectation: There is an expectation of a significant negative relationship between corporate governance and earnings management and also a significant negative relationship with control variables i.e. b1, b2, b3, b4, b5, b9 > 0.

**RESULTS AND DISCUSSION**

The analysis covered fourteen listed consumers’ goods firms in Nigeria selected based on the availability of data. Table 1 presents the descriptive statistics of the variables used in this study. It embodies mean, median, standard deviation,maximum, minimum and no of observations of the variables used.

**Table 1: Descriptive Statistic**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **VARIABLES** | **DACC** | **ACIND** | **ACD** | **AUDFS** | **AUDTEN** | **MOWN** | **FOWN** | **FS** | **LEV** | **ROA** |
|  Mean |  0.1241 |  0.4152 |  3.2511 |  0.8142 |  0.5100 |  0.0622 |  0.4265 |  7.7213 |  0.1436 |  0.0462 |
|  Median |  0.1008 |  0.5000 |  3.5000 |  1.0000 |  0.5000 |  0.0043 |  0.5427 |  7.8778 |  0.1278 |  0.0373 |
|  Maximum |  0.5781 |  0.5000 |  5.0000 |  1.0000 |  1.2000 |  0.7474 |  0.8729 |  8.7361 |  0.5035 |  0.2649 |
|  Minimum |  0.0729 |  0.1666 |  0.8333 |  0.0000 |  0.1000 |  9.74E- |  0.0000 |  6.2404 |  0.0068 | -0.1965 |
|  Std. Dev. |  0.0658 |  0.1007 |  0.8808 |  0.3902 |  0.2685 |  0.1667 |  0.3092 |  0.6615 |  0.1006 |  0.0764 |
| NO of Observation | 140 | 140 | 140 | 140 | 140 | 140 | 140 | 140 | 140 | 140 |

**Author’s Computation, 2022**

Table 1 shows that the average earnings management as measured by discretionary accrual of the sampled listed consumer goods firms in Nigeria is 12.41%, with a minimum of 7.29% and a maximum of 57.81% and a standard deviation of 6.58 percent, indicating that the discretionary accrual significantly deviates from the mean on both sides by 6.58%.

The mean values for audit committee independence (ACIND), audit committee diligence, audit firm size, auditor tenure, managerial ownership, foreign ownership, firm size, firm age, financial leverage, and return on assets range from 41.52% to 4.62%, with standard deviations of 0.1007, 0.8808, 0.2685, 0.1667, 0.3092, 0.6615, 0.1006, and 0.0764, respectively.The results indicate that among the selected listed consumer goods firms in Nigeria, there is a pretty large difference in the metrics of audit quality, ownership structure, and control variables.

**Correlation Analysis**

The relationship between independent variables, control variables, and the dependent variable is shown in the correlation matrix presented in Table 2 of this study. The table also displays the strength of the relationships between the independent variables as depicted by the coefficient values obtained from the Pearson correlation of two-tailed significance,.

**Table 2: Correlation Matrix of all variables (2012 -2021)**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **VARIABLES** | **DACC** | **ACIND** | **ACD** | **AUDFS** | **AUDTEN** | **MOWN** | **FOWN** | **FS** | **LEV** | **ROA** |
| **DACC** |  1.0000 |  |  |  |  |  |  |  |  |  |
| **ACIND** | -0.0149 |  1.0000 |  |  |  |  |  |  |  |  |
| **ACD** | -0.3564 |  0.0083 |  1.0000 |  |  |  |  |  |  |  |
| **AUDFS** | -0.2033 | -0.0799 |  0.0529 |  1.0000 |  |  |  |  |  |  |
| **AUDTEN** |  0.0398 | -0.1328 | -0.1034 |  0.0247 |  1.0000 |  |  |  |  |  |
| **MOWN** | -0.0558 |  0.2654 |  0.0548 | -0.3185 | -0.1076 |  1.0000 |  |  |  |  |
| **FOWN** |  0.0443 | -0.2248 |  0.3914 |  0.0602 | -0.0972 | -0.2198 |  1.0000 |  |  |  |
| **FS** | -0.4710 |  0.1824 |  0.4695 |  0.3041 | -0.1590 |  0.1832 |  0.0610 |  1.0000 |  |  |
| **LEV** |  0.0791 |  0.1989 |  0.3224 | -0.1323 | -0.0854 |  0.2811 |  0.0940 |  0.2879 |  1.0000 |  |
| **ROA** | -0.1960 | -0.0555 |  0.1430 |  0.1928 |  0.1481 | -0.0934 | -0.0067 |  0.3204 |  0.0861 |  1.0000 |

**Author’s Computation, 2022**

The correlation matrix is also used to assess the possibility of multicollinearity. The correlation coefficients between the independent variables, which are shown in the table, range from -47.10% to 0.67%, reflecting the relative strength of their linear association. According to Gujarati (2022), multicollinearity is only a concern if the pair-wise correlation coefficient among the independent variables is more than 0.80. The majority of the cross correlation coefficients for the explanatory variables are rather low, as shown in Table 2, giving little cause for concern about the problem of multicolinearity among the independent variables.

**Multicollinearity Test**

When employing the panel least squares estimation method, it is implicitly assumed that there is a lack of perfect or nearly perfect correlation between the independent variables. If the explanatory variables don't interact with one another, they are said to be orthogonal to one another. Through the use of the variance inflation factors (VIF) test, a further investigation was conducted to look into any potential multicollinearity among the regressors.

**Table 3: Variance Inflation Factor**

|  |  |  |
| --- | --- | --- |
| **VARIABLES** | **VIF** | **1/VIF** |
| ACIND |  1.19  |  0.8399  |
| ACD |  1.63  |  0.6133  |
| AUDFS |  1.37  |  0.7313  |
| AUDTEN |  1.43  |  0.6992  |
| MOWN |  1.41  |  0.7105  |
| FOWN |  1.36  |  0.7347  |
| FS |  1.85  |  0.5393  |
| LEV |  1.28  |  0.7804  |
| ROA |  1.21  |  0.8257  |
| **Mean VIF** |  **1.41**  |  |

**Author’s Computation, 2022**

The variance inflation factor is shown in Table 3 to illustrate the association between the study's independent and control variables. According to the general rule, any variable with a VIF larger than 10 is extremely collinear, and vice versa. The VIF of each independent variable is less than 10, as shown in the table, showing that multicollinearity is not an issue. Similar to the average VIF, it is under 10.

**Regression Analysis**

The findings of panel data regression analysis for the impact of audit quality and ownership structure on earnings management of the listed consumer goods firms in Nigeria are shown in Table 4. The regression line displayed approximately 49% fitness, as indicated by the adjusted R2value of 0.4919. This proves that the independent and control variables (ACIND, ACD, AUDFS, AUDTEN, MOWN, FOWN, FS, LEV and ROA) of the study can account for about 49% of the overall variation in the earnings management, as measured by discretionary accrual, of the selected firms. The study's model is well-designed and reliable according to the F-statistic of 7.5845, which with a P-value of 0.0000 implies considerable statistical significance of the model at the 1% level of significance.

**Table 4: Regression Result for Effect of Audit Quality and Ownership Structure on Earnings Management of Listed Consumers Goods Firms in Nigeria.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Variable | Coefficient | Std. Error | t-Statistic | Prob.   |
|  |  |  |  |  |
|  |  |  |  |  |
| C | 0.454204 | 0.065683 | 6.915086 | 0.0000 |
| ACIND | 0.029536 | 0.050621 | 0.583474 | 0.6406 |
| ACD | -0.024107 | 0.006776 | -3.557539 | 0.0005 |
| AUDFS | -0.072370 | 0.140070 | -0.516698 | 0.0062 |
| AUDTEN | -0.013200 | 0.182520 | -0.072335 | 0.0424 |
| MOWN | -0.014837 | 0.033257 | -0.446129 | 0.6562 |
| FOWN | 0.036568 | 0.017634 | 2.073676 | 0.0401 |
| FS | -0.038398 | 0.009623 | -3.990418 | 0.0001 |
| LEV | 0.181172 | 0.052558 | 3.447100 | 0.0008 |
| ROA | -0.035213 | 0.067311 | -0.523135 | 0.6018 |
|  |  |  |  |  |
|  |  |  |  |  |
| R-squared | 0.544299 |     Mean dependent var | 0.124115 |
| Adjusted R-squared | 0.491905 |     S.D. dependent var | 0.065823 |
| S.E. of regression | 0.055115 |     Akaike info criterion | -2.890050 |
| Sum squared resid | 0.394892 |     Schwarz criterion | -2.679933 |
| Log likelihood | 212.3035 |     Hannan-Quinn criter. | -2.804665 |
| F-statistic | 7.584583 |     Durbin-Watson stat | 2.160838 |
| Prob(F-statistic) | 0.000000 |  |  |  |

**Author’s Computation, 2022**

The t-value for audit committee independence (ACIND) as a gauge of audit quality is 0.5834 with a coefficient of 0.02954 and a probability value of 0.6406 as shown in table 4. This means that at the 5% level of significance, the association between audit committee independence (ACIND) and earnings management of the listed consumer goods corporations in Nigeria is positive but statistically insignificant. Therefore, an increase in audit committee independence may not translate into an increase in the earnings management for publicly traded consumer products companies. Although the study acknowledges that audit committee independence is a good variable in explaining profits management, it is not a significant component that can prevent corporate managers of the chosen firms from acting opportunistically.The study supports Shahwan (2021) findings which showed that managerial ownership failed to maintain a strong association with earnings management. However, this result deviates from that of Abubakar*et al.,* (2021), who discovered a statistically significant inverse link between audit committee independence and earnings management.

The findings of the analysis also show that audit quality, as measured by the audit committee's diligence, audit firm size, and auditor tenure, significantly negatively affect the management of the selected firms' earnings, as shown by their respective marginal effect coefficients (-0.0241, (-0.0724), (-0.0132), and p values (0.0005, (0.0062), (0.0424) at 5% level of significance.The result demonstrates that a unit increase in audit quality as measured by the diligence of the audit committee, the size of the audit firm, and the tenure of the auditors of the chosen firms will decrease the earnings management practices of listed consumer goods firms by 2.4%, 7.2%, and 1.3%, respectively. This outcome is in line with the role that auditing is supposed to play in reducing information asymmetry between managers and shareholders. The results of this study corroborate those of Okolie, (2014), Ahmad *etal.,* (2016), Lopez, (2018), Yusuf, (2020), and Nwoye*etal.,* (2021), who found that the public companies' freewill to manipulate their earnings is restricted by the audit committee's diligence, the Big 4 audit firms, and the tenure of their auditors. The study concurs with agency theory's submission, which suggests using high-quality audits as a control tool to lessen conflicts of interest and align managers' interests with those of shareholders. Therefore, it can be affirmed that audit quality is a crucial control mechanism that the board of directors might employ to constrain corporate management of the chosen enterprises' self-interest.

The research also shows a t-value of 0.4461 for managerial ownership with a coefficient of -0.0148 and a prob. value of 0.6562 in terms of ownership structure. This implies that managerial ownership and earnings management of the chosen enterprises are negatively and significantly related. This signifies that ownership of shares by managers does not stop them from manipulating a company's reported earnings. This finding is in line with findings made by Shahwan (2021) and Susanto*etal.,*(2021) who showed that managerial ownership and earnings management techniques had no causal association. The result suggests that, even though managerial ownership is a useful variable for explaining the opportunistic behavior of corporate managers, the results of this study confirm that managerial ownership is not a crucial factor to consider in restraining earnings management practices of listed consumer goods firms in Nigeria. It was also presented by the table result that foreign ownership has a t-value of 2.0737 with a coefficient of 0.0366 and a probability value of 0.0401. This indicates that, at a 5% level of significance, the ownership structure as assessed by foreign ownership has a substantial positive association with the earning management of listed consumer goods firms in Nigeria. As a result, a 3.7% increase in management of earnings will result from a unit increase in foreign ownership of listed consumer goods corporations. This shows that foreign ownership of the sampled enterprises does not restrict but rather encourages earnings management. This finding failed to concur with Osemene, *etal.,* (2018); Ekpulu&Omoye, (2018) and Oyebamiji (2021) who established that ownership structure has significant relationship with opportunistic behavior in the sampled firms. Likewise, the study does not support the agency theory that recommends the use of ownership structure as control mechanism to prevent owners’ interests from being jeopardized by the managers' self-interest.

**Conclusion and Recommendations**

This study examined how audit quality and ownership structure affected the management of earnings at Nigerian consumer goods companies that are publicly traded. Based on the empirical results, the study comes to the conclusion that there is a significant relationship between audit quality, ownership structure, and earnings management of listed consumer goods firms in Nigeria. This stance was made clear by inferential statistics that supported the existence of a significant relationship with a p-value of less than 1% and 5% level of significance. The study thus recommends that the governing board of consumer goods companies should encourage more frequent audit committee meetings above the minimum statutory four times per annum as this will boost the committee's diligence in lowering corporate managers' self-interested behavior. The Board should also promote engagement of the Big 4 audit firms as listed firms audited by these auditors are usually engaged in less earnings management. In addition, higher audit tenure is recommended for the Board to take advantage of the provision of FRCN (2018) code of corporate governance that permits Nigerian publicly listed firms to retain external auditors for a period of ten years consecutively. This would give the auditor the opportunity to gain client-specific experience that might help him spot the company's dubious financial reporting.

The results of this study will help policymakers and business investors understand the value of ownership structure and audit quality in preventing profits manipulation in Nigeria. This study also fills a gap left by previous studies' inconsistent findings regarding the connection between audit quality, ownership structure, and earnings management.

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