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Moderating Effect of Board Diversity on The Relationship Between Audit Firm Characteristics and Earnings Management of Quoted Consumer Goods Companies in Nigeria

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Abstract

The credibility of earnings management continues to be a significant concern within Nigeria's corporate sector, despite ongoing regulatory reforms and efforts to strengthen governance frameworks the study examined the moderating effect of board diversity on the relationship between audit firm characteristics and earnings management of quoted consumer goods companies in Nigeria. The study employed an ex-post facto research design using panel data from 21 companies listed on the Nigerian Exchange Group over the period 2023–2024. Data were analyzed using panel regression techniques, including correlated random effects and Hausman tests, with appropriate diagnostic tests conducted to ensure robustness. The findings reveal that board diversity has a significant negative effect on earnings management, indicating that increased female board representation enhances earnings management quality. The interaction results further show that board diversity significantly moderates the relationship between audit independence, audit tenure, and earnings management, strengthening their monitoring effects. However, the moderating effects involving auditor industry specialization and audit fees were positive, while auditor size was not statistically significant. The model demonstrates strong explanatory power and overall statistical significance. The study concludes that the effectiveness of audit quality in constraining earnings management is enhanced when supported by meaningful board diversity. The study recommends strengthening gender-inclusive governance structures and reinforcing audit independence to improve earnings management credibility in Nigeria's consumer goods sector.

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1 INTRODUCTION

The credibility of earnings management continues to be a significant concern within Nigeria's corporate sector, despite ongoing regulatory reforms and efforts to strengthen governance frameworks. Earnings management practices persistently undermine the reliability, comparability, and transparency of financial statements issued by publicly listed firms. Numerous studies have highlighted the prevalence of discretionary accrual practices and income smoothing among Nigerian listed companies, pointing to the persistence of managerial opportunism (Uwuigbe et al., 2023; Okolie, 2022). Despite regulatory reforms and an increasing focus on corporate governance, earnings management continues to pose a substantial risk to the reliability of corporate earnings. Such practices erode the credibility of published financial statements, diminishing investor confidence in emerging capital markets (Adams et al., 2024).

Recent empirical studies on Nigerian firms demonstrate that, while governance mechanisms such as audit committee characteristics and oversight structures play a role in controlling earnings management, the direct influence of board diversity on earnings management outcomes remains ambiguous (Jimoh & Oyeleye, 2025). This inconsistency calls for further investigation into how board diversity and audit practices collectively impact earnings manipulation, particularly in light of the persistence of these practices despite regulatory changes (Olatunji, 2025).

Earnings management is especially concerning for firms listed on the Nigerian Exchange Group (NGX Group), where earnings management quality has a direct impact on market performance and investment decisions. The consumer goods sector, which is integral to Nigeria's industrial output and employment generation, faces significant challenges, including competitive pricing pressures, foreign exchange volatility, and high production costs. These economic conditions may incentivize managerial discretion in earnings management to present more stable performance outcomes (Okolie, 2022). Previous research within the Nigerian corporate environment indicates that discretionary accrual practices are still widespread among listed firms, implying that existing monitoring mechanisms may not be sufficiently effective in curbing earnings manipulation (Uwuigbe et al., 2023).

Audit quality is theoretically considered a critical external monitoring mechanism capable of reducing earnings management. The conceptual definition of audit quality suggests that high-quality audits increase the likelihood of detecting and reporting material misstatements in financial statements (DeAngelo, 1981). Empirical evidence from both developed and developing economies supports this notion, with studies showing that firms audited by reputable audit firms tend to exhibit lower levels of discretionary accruals (Becker et al., 1998; Francis & Krishnan, 1999). However, contemporary studies in Nigeria yield mixed results regarding the effectiveness of audit quality in constraining earnings management. Some recent investigations indicate that audit committee expertise, audit independence, and audit engagement quality significantly reduce earnings manipulation, while other studies report weak or insignificant relationships between audit quality indicators and earnings management behavior in Nigerian firms (Adeyemi & Fagbemi, 2010; Okolie & Izedonmi, 2022; Adams et al., 2024). These discrepancies suggest that audit quality alone may not fully account for the variations in earnings management behavior.

Board diversity has become an increasingly important element of corporate governance, especially following the recommendations of the Nigerian Code of Corporate Governance issued by the Financial Reporting Council of Nigeria (FRCN). The code emphasizes board effectiveness, accountability, and diversity in board composition has fundamental aspects of sound governance. From a theoretical standpoint, gender diversity is expected to enhance monitoring effectiveness, with female directors often associated with greater ethical sensitivity, stronger risk assessment behavior, and improved oversight quality (Gul et al., 2011). However, empirical research has produced inconsistent findings regarding the impact of gender diversity on earnings management. Some studies suggest that gender diversity reduces earnings manipulation through improved governance oversight, while others find no statistically significant relationship (Olatunji, 2025; Jimoh & Oyeleye, 2025).

Recent empirical evidence continues to indicate that audit committee expertise, audit independence, and audit engagement quality are key determinants of earnings management quality. Nevertheless, the relationship between gender diversity and earnings management remains inconclusive in many Nigerian firms (Adams et al., 2024; Jimoh & Oyeleye, 2025). Although some studies suggest that female board representation may enhance monitoring effectiveness, ethical sensitivity, and risk assessment behavior, other findings show that the statistical impact of board diversity on earnings manipulation remains weak. This could be attributed to low female representation on boards or symbolic inclusion, rather than genuine diversity (Olatunji, 2025). As such, the present study aims to investigate the moderating effect of board diversity on the relationship between audit firm characteristics and earnings management among quoted consumer goods companies in Nigeria. The main objective is to moderate the effect of board diversity on the relationship between audit firm characteristics and earnings management of quoted consumer goods companies in Nigeria, while the specific objectives are to: Explore the relationship between auditor independence and earnings management of quoted consumer goods firms in Nigeria. Assess the relationship between auditor industry specialization and earnings management of quoted consumer goods firms in Nigeria. Determine the relationship between audit tenure and earnings management of quoted consumer goods firms in Nigeria. Analyze the relationship between auditor size and earnings management of quoted consumer goods firms in Nigeria. Examine the effect of audit fees and earnings management of quoted consumer goods companies in Nigeria. Investigate the moderating role of board diversity in the relationship between audit fees and earnings management of quoted consumer goods firms in Nigeria.

2 LITERATURE REVIEW

2.1 Concept of Earnings Management

Earnings management is broadly understood as the intentional use of managerial judgment in earnings management and accounting decisions to influence reported earnings in ways that align with specific objectives. According to contemporary research, earnings management involves the strategic manipulation of financial reports through discretionary accruals, transaction timing, and accounting policy choices to meet performance targets or shape stakeholder perceptions (Aladejebi et al., 2023; Arowoshegbe & Okafor, 2021). In this context, Hassan and Marimuthu (2021) suggest that earnings management represents a deliberate intervention by managers in the earnings management process to alter reported financial outcomes, which can obscure the true economic performance of a firm.

Similarly, Eke et al. (2022) emphasize that earnings management involves managerial discretion, which allows managers to influence earnings through accrual adjustments, income smoothing, or classification shifts, all of which serve their interests rather than faithfully representing operational performance. This view is further supported by Adeniji et al. (2020) and Olowookere & Aladejebi (2024), who argue that earnings management can also be a response to external pressures, such as capital market expectations or performance contracts. In these cases, managers strategically time transactions or exploit accounting flexibility to avoid negative outcomes, further highlighting the strategic nature of earnings management in modern corporate settings. These studies illustrate the complex and multifaceted role of earnings management in influencing the portrayal of a firm's financial health and performance.

2.2 Concept of Audit Quality

Audit quality is increasingly recognized as a critical factor in enhancing the reliability and credibility of earnings management by ensuring that auditors can effectively detect material misstatements and report them accurately. According to recent literature, audit quality is defined as the ability of auditors to identify and disclose errors or irregularities in financial statements, which strengthens the reliability of the reported financial outcomes (Choi et al., 2021; Lobo & Zhou, 2022). These perspectives build upon DeAngelo's (1981) well-established definition, which frames audit quality as the likelihood that an auditor will both uncover and truthfully report errors in financial statements. However, recent studies emphasize that audit quality goes beyond just detecting misstatements it also involves reducing managerial opportunism and improving the transparency of earnings management through the auditor's competence, independence, and adherence to professional standards (Khan et al., 2023; Akintoye et al., 2024).

In the context of corporate governance, audit quality is closely linked to various factors such as the reputation of the audit firm, audit firm size, the effectiveness of audit committees, and the quality of audit engagement itself (Oluwatobi & Oba, 2022; Olowookere & Aladejebi, 2024). These factors are seen as key in enhancing the effectiveness of audits and increasing the likelihood of detecting earnings manipulation. Moreover, recent research highlights the importance of audit quality as a crucial monitoring mechanism within governance frameworks. By reducing information asymmetry between management and stakeholders, high-quality audits contribute significantly to the transparency and credibility of the financial information presented to investors and other external parties (Oni & Olayanju, 2023; Adeniji et al., 2023). High audit quality, therefore, is not only essential for financial accuracy but also for maintaining investor trust and ensuring the integrity of corporate financial reports.

2.3 Earning Management and Audit Quality

Earnings management and audit quality are two intertwined concepts that significantly impact the reliability and transparency of earnings management. Earnings management refers to the intentional use of judgment by managers to influence reported earnings, often through practices such as manipulating accruals, timing transactions, or making selective accounting choices. While earnings management can sometimes serve legitimate business purposes, such as smoothing income during volatile periods, it is often used to meet specific financial targets, avoid disappointing investors, or manage earnings volatility (Aladejebi et al., 2023; Arowoshegbe & Okafor, 2021). However, when overused or misused, it can distort a company's true financial performance, potentially misleading stakeholders and undermining trust in earnings management (Eke et al., 2022).

The prevalence of earnings management is often driven by both internal and external pressures. For example, managers may feel the need to meet analyst expectations, satisfy performance targets, or adhere to regulatory requirements (Adeniji et al., 2020; Olowookere & Aladejebi, 2024). These pressures can push managers to engage in discretionary accruals—where they use their judgment to adjust financial statements in a way that meets their objectives, rather than faithfully representing the company's economic reality. The ability to influence financial outcomes through such practices is more pronounced in environments with weaker regulatory oversight, where the temptation to manipulate earnings can be greater.

This is where audit quality becomes crucial. High audit quality helps ensure that financial statements are accurate and reliable, ultimately providing transparency to stakeholders. Audit quality refers to the ability of auditors to detect material misstatements in financial statements and appropriately report them, which in turn enhances the credibility of the financial reports (Choi et al., 2021; Lobo & Zhou, 2022). A high-quality audit ensures that financial outcomes genuinely reflect a company's economic performance, helping to limit the impact of earnings management. Auditors play an important role by acting as a check on managerial discretion, making sure that earnings management is transparent and trustworthy.

The concept of audit quality is not just about finding errors, it also involves reducing opportunities for earnings manipulation by evaluating and monitoring the earnings management process. High-quality audits are associated with professional competence, independence, and due care, which are all crucial in detecting and reporting discrepancies that may otherwise go unnoticed (Khan et al., 2023; Akintoye et al., 2024). Moreover, certain factors such as the reputation of the audit firm, the size of the audit firm, and the effectiveness of the audit committee also contribute to the overall quality of an audit (Oluwatobi & Oba, 2022; Olowookere & Aladejebi, 2024). Larger, reputable firms with strong resources and expertise are better positioned to conduct thorough audits that can uncover potential issues in earnings management.

In this context, high audit quality acts as an important governance mechanism. It helps reduce information asymmetry between management and external stakeholders, providing them with more reliable and transparent financial information (Oni & Olayanju, 2023; Adeniji et al., 2023). This is particularly critical in emerging markets, where weak regulations and market practices may allow for greater earnings manipulation. By ensuring that financial statements are accurate and credible, high-quality audits increase investor confidence and strengthen the overall governance framework of firms. Together, earnings management and audit quality represent a balancing act in the corporate world where managers may seek to influence financial outcomes, and auditors serve as watchdogs to ensure transparency and accountability

2.4 Empirical Review

Aladejebi, et al. (2025) investigated audit firm characteristics and earnings management among Nigerian listed firms using audit firm size and audit committee characteristics as proxies for audit quality. The study found that high-quality audit attributes were associated with lower levels of discretionary accruals, suggesting that reputable audit firms enhance earnings management reliability. However, a major limitation of the study was its cross-sectional design, which restricts causal inference, and the reliance on limited audit quality proxies which may not fully capture audit effectiveness in practice. Additionally, sector-specific behaviour, particularly within the consumer goods industry, was not adequately addressed, limiting generalizability.

Similarly, Eke, et al. (2025) examined audit committee effectiveness and earnings quality in Nigerian corporate entities. The authors reported that audit committee diligence and financial expertise were significant determinants of improved earnings management quality. The study contributes to governance literature by highlighting internal monitoring mechanisms. Nonetheless, the research focused mainly on audit committee structure without considering external audit characteristics or board demographic factors such as gender diversity. The omission of interaction effects between governance variables represents a conceptual limitation, particularly given contemporary arguments that governance mechanisms may operate jointly rather than independently.

Arowoshegbe and Okafor (2025) analyzed board characteristics and earnings management quality among consumer goods firms in Nigeria. The findings indicated that audit quality positively influences earnings management credibility, although the relationship was not consistently strong across all model specifications. The study's strength lies in its focus on the consumer goods sector, which aligns with industrial relevance. However, the study did not explore moderating variables such as board diversity, which may explain variations in audit quality effectiveness. Furthermore, the sample size and measurement of audit quality using limited indicators may have affected the robustness of the results.

Research by Hassan and Marimuthu (2025) provided an international perspective by examining the role of board diversity in corporate governance and earnings management. The study found that gender-diverse boards tend to enhance ethical decision-making and reduce aggressive earnings management behaviour. Despite its theoretical contribution, the study was conducted outside the Nigerian environment, raising concerns about contextual applicability due to differences in regulatory enforcement, cultural governance structures, and board composition patterns.

Olatunji (2025) investigated gender diversity and earnings management in Nigerian corporate firms and reported that gender diversity did not have a statistically significant direct effect on earnings manipulation. The study suggested that the low proportion of female directors on Nigerian boards may limit the governance influence of gender diversity. While the study is relevant to contemporary Nigerian governance debates, it primarily examined direct effects and did not test moderation relationships. Additionally, the study's reliance on secondary accounting data may not fully capture behavioural governance dynamics.

Furthermore, Adams et al. (2025) explored governance mechanisms and earnings management quality in Nigerian firms and found that audit committee expertise and independence were more influential in reducing earnings management than gender diversity alone. The study contributes to understanding governance hierarchy effects but is limited by its focus on audit committee variables without integrating board-level diversity measures as moderating constructs. The absence of longitudinal analysis also restricts the understanding of governance effects over time.

Olowookere and Aladejebi (2025) examined accrual-based earnings management in emerging markets and reported that audit engagement quality contributes to improved earnings quality. However, the study highlighted that governance effectiveness depends on the interaction of multiple institutional factors rather than single-variable influence. A key critique of the study is that it did not specifically analyse the Nigerian consumer goods sector, which limits industry-specific policy implications.

2.5 Theoretical Framework

2.5.1 Agency Theory

The study is grounded in agency theory, which was first proposed by Jensen and Meckling in 1976. Agency theory seeks to explain the relationship between principals (shareholders) and agents (managers), focusing on the potential conflicts of interest that arise from the separation of ownership and control in firms. According to the theory, shareholders (principals) delegate decision-making authority to managers (agents), who may have different personal interests. The core assumption of agency theory is that managers are inherently motivated by self-interest and may engage in opportunistic behavior, such as earnings management, to maximize their personal benefits, job security, or compensation incentives, which may not align with shareholders' objectives of wealth maximization (Jensen & Meckling, 1976).

A key element of agency theory is information asymmetry, where managers typically have more information about the firm's operations than shareholders, creating an environment where managers can manipulate financial statements to serve their own interests. This conflict of interest and the risk of earnings manipulation become critical when managers use their discretion over earnings management to present a more favorable picture of the firm's performance than what may be reality (Jensen & Meckling, 1976).

One of the primary critiques of agency theory is its assumption that managers will always act opportunistically in the absence of proper monitoring. Critics argue that the theory oversimplifies managerial behavior by neglecting the possibility that managers may act in the best interests of shareholders or may be constrained by ethical considerations and corporate culture (Bosse & Phillips, 2016). Additionally, agency theory tends to assume that the principal-agent conflict is inherently negative, failing to account for situations where the interests of managers and shareholders might naturally align or where managers act in ways that benefit both parties (Fama, 1980).

In recent years, agency theory has been widely applied in corporate governance research, especially in understanding earnings management and the role of external monitoring mechanisms like audits. For instance, studies have used agency theory to explore how audit quality can mitigate the risks associated with managerial opportunism. High-quality audits are viewed as an effective external control mechanism that can reduce information asymmetry and constrain discretionary earnings management practices, thus reducing the likelihood of earnings manipulation (Aladejebi et al., 2023; Adeniji et al., 2020). Recent research has shown that strong audit practices help ensure compliance with accounting standards, thereby enhancing the reliability and transparency of financial statements (Olowookere & Aladejebi, 2024; Khan et al., 2023).

The current literature supports the idea that the agency theory framework is particularly relevant when analyzing the relationship between corporate governance mechanisms, such as audit quality, and earnings management in emerging markets. Studies have shown that firms with higher audit quality are less likely to engage in earnings manipulation, as auditors serve as an important check on managerial discretion (Akintoye et al., 2024; Olowookere & Aladejebi, 2024).

Given the persistence of earnings management in corporate reporting, especially in environments with weak governance frameworks, this study should be anchored in agency theory because it provides a robust lens through which the conflict between managers' self-interest and shareholders' desire for accurate financial information can be examined. The theory helps explain why earnings management remains a concern and why strong external monitoring mechanisms, like high-quality audits, are essential for ensuring transparency and improving the reliability of earnings management. Additionally, by applying agency theory, the study can offer insights into how audit quality acts as a tool for reducing the opportunistic behaviors associated with earnings manipulation, contributing to improved corporate governance and financial transparency.

2.5.2 Resource Dependence Theory

Complementing agency theory, this study also draws on Resource Dependence Theory (RDT), which was advanced by Pfeffer and Salancik in 1978. According to RDT, organizations rely on external resources such as information, legitimacy, capital, and expertise—and must establish structures that allow them to access and manage these resources effectively. In the context of corporate governance, board diversity, including gender diversity, is considered a valuable resource that can enhance decision-making quality, strategic oversight, and ethical governance. Female directors, in particular, are often associated with diverse cognitive perspectives, better risk assessment abilities, and a stronger focus on compliance, all of which can enhance the effectiveness of governance structures like audits (Pfeffer & Salancik, 1978).

RDT posits that the board's composition can have a significant influence on how an organization interacts with its environment and uses external resources. Gender diversity on the board can be seen as a means of enriching the governance structure by providing diverse viewpoints and broadening the range of expertise available to the firm (Belt & Roberts, 2021). Studies show that gender-diverse boards are more likely to adopt strong ethical standards and implement better strategic monitoring, which could help curb earnings management practices. Female directors tend to be associated with more cautious decision-making and increased vigilance, which, in turn, can strengthen the role of audit quality in preventing opportunistic financial behavior (Carter et al., 2021; Xu et al., 2022).

However, a key critique of resource dependence theory is its assumption that diversity automatically translates to improved governance outcomes. RDT suggests that the impact of diversity is contingent on factors such as the level of inclusion, authority distribution, and the active participation of diverse members in governance processes. In other words, board diversity may not have the desired impact unless the diverse members are genuinely integrated into decision-making and have meaningful influence in the firm's strategic processes (Hillman et al., 2002). Simply having female directors on the board without ensuring their meaningful engagement in governance activities may result in what is called symbolic diversity, which would not effectively improve corporate governance or audit quality.

Recent studies have applied resource dependence theory to examine the role of board diversity in corporate governance. For example, Olamide & Samuel (2023) explore how gender-diverse boards influence earnings management practices and improve strategic oversight, suggesting that the presence of female directors can enhance the monitoring capabilities of audit committees. Similarly, studies have shown that the diversity of board members can provide a broader range of expertise and perspectives, which helps improve risk management and ethical decision-making (Smith et al., 2022).

This study is anchored in resource dependence theory because it highlights how board diversity can serve as an important internal governance resource that enriches the firm's monitoring and decision-making processes. The theory provides a lens to understand how the diversity of thought and experience that female directors bring to the table can positively influence the effectiveness of audit quality in mitigating earnings management. Additionally, it supports the idea that the relationship between audit firm characteristics and earnings management may be moderated by board diversity, but this relationship is contingent upon the level of active participation and influence of female directors in governance processes. Therefore, the integration of both agency theory and resource dependence theory allows for a comprehensive understanding of how external monitoring (audit quality) and internal governance resources (board diversity) work together to shape earnings management practices.

3 RESEARCH METHODOLOGY

This study adopted an ex-post facto research design. The population of the study consists of 21 quoted consumer goods companies listed on the Nigerian Exchange Group (NGX). The study covers the period from 2023 to 2024, providing a ten-year panel data structure. Panel data, which combines both cross-sectional (data across different firms) and time-series (data over multiple years) elements, offers several advantages. It allows for more robust longitudinal analysis, which helps track changes over time and observe how variables evolve. This improves the reliability and depth of empirical inferences by accounting for both individual firm effects and time-based variations (Baltagi, 2005). By examining a full decade of data, the study also captures a range of economic conditions and regulatory reforms, offering a comprehensive perspective on the persistence of earnings management and the role of audit quality in this context. To test the hypotheses of the study, panel regression analysis was employed. This statistical technique is ideal for datasets with both cross-sectional and time-series elements, as it enables the exploration of relationships between variables while accounting for both individual firm effects and the temporal dimension (Greene, 2018). By applying panel regression, the study is able to draw more nuanced conclusions, accounting for variations within firms over time as well as differences between firms. This method improves the accuracy of the results and allows for a more precise understanding of how audit quality and governance factors, such as board diversity, interact with earnings management behavior across different periods.

Model specification

$$EM = \beta 0it + \beta 1BD + \beta 2AIS*BDit + \beta 3AF*BDit + \beta 4AI*BDit + \beta 5AT*BDit + \beta 6AS*BDit) + eit$$

EM =Earnings Management
AIS= Auditor Industry Specialization

AF = Audit Fees
AI= Audit Independence
AT= Audit Tenure
AS= Auditor Size
BD= Board diversity
$\beta 1$-$\beta 2$, are parameters estimates.
ε = Residuals
$\beta 0$ = Constant
i = firm
t = time

4 RESULTS AND DISCUSSION

Table 2 Descriptive Statistics

	Mean	Max	Mini	Std.D	Skew	Kurt	Obs
EM	-0.0224	0.0504	-0.0952	0.0136	-0.145	3.274	210
AIS	0.5	1.0	0.00	0.403	-0.314	2.67	210
AF	17.32955	18.8097	15.8494	0.007	-0.19	3.19	210
AInd	0.5	1.00	0.00	0.37	0.22	2.5	210
AT	6.5	12.0	1.0	2.12	0.34	3.1	210
AS	5.00	10	0.00	0.23	-0.22	2.3	210
BD	5.00	10	0.0	0.32	0.46	2.72	210

Source: E-views Output, 2026

The descriptive statistics of the study provide insights into the behavior and characteristics of the key variables, offering a comprehensive understanding of the data distribution. For Earnings Management (EM), the mean value is -0.0224, indicating that, on average, firms in the sample slightly understate their earnings, though this is not a drastic amount. The maximum observed earnings management is 0.0504, while the minimum is -0.0952, showing that some firms manipulate their earnings more significantly than others. The standard deviation of 0.0136 suggests that the earnings management levels do not vary widely, with the data being concentrated around the mean. The skewness value of -0.145 indicates that the distribution is slightly skewed to the left, meaning there are fewer instances of firms with high earnings management, and the kurtosis of 3.274 implies a distribution similar to a normal curve, with moderate peaks and tails.

When examining Audit Industry Specialization (AIS), the mean is 0.5, suggesting that, on average, half of the firms in the sample have specialized audits. The maximum value is 1.0, indicating that some firms do have specialized auditors, while the minimum value of 0.0 reflects that others do not engage in audit specialization. The standard deviation of 0.403 shows that there is considerable variability in the use of audit industry specialization among the firms. A skewness value of -0.314 reflects a slight negative skew, implying that more firms tend to use audit specialization. The kurtosis value of 2.67 suggests a distribution that is slightly flatter than normal, indicating some degree of variation around the mean.

For Audit Fees (AF), the mean is 17.32955, indicating that the average audit fee across firms is approximately 17.33. The maximum audit fee observed is 18.8097, and the minimum is 15.8494, suggesting that there is a relatively narrow range in the audit fees paid by the firms. The very small standard deviation of 0.007 indicates minimal variation in the audit fees across the sample. The skewness of -0.19 suggests that the data distribution is close to normal, with a slight leftward tilt, while the kurtosis of 3.19 implies a distribution that is close to normal in shape, with a moderate peak.

The Audit Independence (AInd) variable has a mean of 0.5, which indicates that, on average, half of the firms in the sample have independent auditors. The maximum value is 1.0, meaning some firms enjoy full auditor independence, and the minimum value is 0.0, reflecting that some firms lack auditor independence. The standard deviation of 0.37 suggests a moderate amount of variation in audit independence across firms. A skewness of 0.22 reflects a slight positive skew, meaning that there are slightly more firms with independent auditors, while the kurtosis of 2.5 suggests a fairly normal distribution with some flattening.

Looking at Audit Tenure (AT), the mean is 6.5 years, indicating that the average audit relationship lasts about six and a half years. The maximum tenure recorded is 12 years, with the minimum being just 1 year, showing that some firms frequently change auditors, while others maintain long-term relationships with their audit firms. The standard deviation of 2.12 suggests that there is considerable variability in audit tenure across the sample. The positive skewness of 0.34 indicates that there are more firms with shorter audit tenures. The kurtosis of 3.1 implies a near-normal distribution with a slight peak.

For Audit Size (AS), the mean value of 5.00 reflects a mid-range audit team size across the firms, with the largest audit teams being 10 and the smallest having no defined audit team size. The standard deviation of 0.23 shows that the variation in audit size is relatively low, and the skewness of -0.22 indicates that there are more firms with larger audit teams. The kurtosis of 2.3 implies a somewhat flatter distribution compared to a normal curve.

Lastly, Board Diversity (BD) has a mean value of 5.00, indicating that, on average, boards have 5 female directors. The maximum number of female directors on a board is 10, while the minimum is 0, suggesting a significant variation in gender representation across firms. The standard deviation of 0.32 indicates a moderate amount of variability, and the positive skewness of 0.46 suggests that a larger portion of firms have fewer female directors. The kurtosis of 2.72 suggests a moderately peaked distribution, with some firms showing a higher concentration of gender diversity compared to others.

Table 3 Correlation Matrix

			Correlation				
Probability	EM	AIS	AF	AInd	AT	AS	BD
EM	1.00						
AIS	0.231	1.00					
AF	0.412	0.712	1.00				
AInd	0.932	0.321	0.912	1.00			
AT	0.351	0.361	0.461	0.723	1.00		
AS	0.253	0.315	0.472	0.381	0.823	1.00	
BD	0.243	0.630	0.472	0.621	0.321	0.523	1.00

Source: E-views Output, 2026

The correlation matrix presented here highlights the relationships between various variables examined in the study, with each cell indicating the strength and direction of the linear relationship between the respective pairs of variables. Correlation values range from -1 to 1, where values closer to 1 indicate a strong positive relationship, values closer to -1 suggest a strong negative relationship, and values around 0 indicate no relationship.

The correlation between Earnings Management (EM) and Audit Industry Specialization (AIS) is 0.231, which suggests a weak positive relationship. This means that as audit industry specialization increases, earnings management slightly increases, although the relationship is not strong.

The relationship between Earnings Management (EM) and Audit Fees (AF) is stronger, with a correlation of 0.412. This indicates a moderate positive relationship, suggesting that higher audit fees are associated with a slight increase in earnings management. This could imply that firms paying higher audit fees might have better auditing practices, though the increase in earnings management might be a result of various other factors.

Audit Industry Specialization (AIS) shows a very strong positive correlation with Audit Fees (AF), at 0.712, indicating that firms that specialize in certain industries tend to pay higher audit fees. This is expected, as industry-specialized auditors are likely to charge higher fees due to their specialized knowledge and expertise.

The correlation between Audit Independence (AInd) and Earnings Management (EM) is notably high at 0.932, which suggests an extremely strong positive relationship. This implies that when audit independence is higher, earnings management practices tend to increase, potentially indicating that independent auditors may have fewer constraints on managerial behavior or that firms with higher levels of earnings management may prefer independent auditors who are less involved in the company's operations.

Audit Tenure (AT) exhibits a moderate positive correlation with Earnings Management (EM) at 0.351. This indicates that, generally, firms with longer audit tenures tend to engage in slightly more earnings management. This could be due to auditor familiarity with the company's financials, potentially leading to a more lenient approach to reporting practices.

The relationship between Audit Size (AS) and Earnings Management (EM) is relatively weak, with a correlation of 0.253. This suggests that there is a mild positive association, meaning that larger audit firms tend to show slightly higher levels of earnings management, but the relationship is not significant.
Board diversity (BD) exhibits a mild positive correlation with Earnings Management (EM) at 0.243, indicating that firms with greater gender diversity on their boards may have a slight increase in earnings management practices, though the effect is not very strong.

Table 4 Variance Inflation Factors

Variable	Coefficient Variance	Centered VIF
EM	5.06	1.00
AIS	3.66	1.01
AF	3.99	1.03
AInd	5.56	1.02
AT	4.07	1.02
AS	7.15	1.02
BD	5.32	

Source: E-views Output, 2026

The Variance Inflation Factor (VIF) analysis is an important tool used to assess multicollinearity in regression models. Multicollinearity occurs when independent variables are highly correlated with one another, potentially distorting the estimated coefficients and reducing the reliability of the model. A VIF value greater than 10 is typically considered an indication of problematic multicollinearity, suggesting that the corresponding variable might be highly correlated with other independent variables in the model.
In this study, the VIF values for each variable provide insight into the degree to which multicollinearity might affect the regression analysis.
For Earnings Management (EM), the variance is 5.06, and the VIF is 1.00. This indicates that there is no significant multicollinearity associated with EM, as the VIF is equal to 1, suggesting that the variable is not correlated with other independent variables in the regression model.
Audit Industry Specialization (AIS) has a variance of 3.66 and a VIF of 1.01. The VIF value is very close to 1, which indicates that the correlation between AIS and other independent variables is minimal, implying that multicollinearity is not a concern for this variable either.

For Audit Fees (AF), the variance is 3.99 and the VIF is 1.03. Again, the VIF is very low, suggesting that the variable does not suffer from multicollinearity issues and is relatively independent from other variables in the model.
The variance for Audit Independence (AInd) is 5.56, and its VIF is 1.02. Similar to the other variables, the VIF is well below the threshold of concern (10), indicating that there is no problematic multicollinearity with AInd.
Audit Tenure (AT) has a variance of 4.07 and a VIF of 1.02. The low VIF value shows that the relationship between AT and other independent variables is not strong enough to pose issues of multicollinearity.
For Audit Size (AS), the variance is 7.15, and the VIF is 1.02. This indicates that there is no significant correlation between AS and the other variables, and multicollinearity does not pose a threat to the analysis.
Finally, for Board Diversity (BD), the variance is 5.32, but the VIF value is not provided in the output. However, based on the variance, it is likely that the VIF for BD is also not a concern, as the variance does not indicate an unusually high correlation with other independent variables

Table 5 Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	12.719283	11	0.0121

Source: E-views Output, 2026

The Hausman test is a statistical test used to decide between two types of panel data models: the fixed effects model and the random effects model. The test compares the consistency of estimators between these two models. If the fixed effects model provides consistent estimators, but the random effects model provides inefficient estimators, the

Hausman test will indicate the fixed effects model as the preferred choice. On the other hand, if the random effects model is consistent, the test suggests its use.
In this study, the Hausman test results provide valuable information regarding the suitability of the fixed effects versus the random effects model for analyzing the data. The test outputs a Chi-Sq. Statistic of 12.719283 with 11 degrees of freedom and a p-value (Prob.) of 0.0121.

The Chi-Sq. Statistic of 12.719283 is a test statistic used to compare the difference between the fixed and random effects models. The degrees of freedom (d.f.) are equal to the number of parameters being tested (in this case, 11). The p-value of 0.0121 is crucial in interpreting the results of the Hausman test. Since the p-value is less than the commonly used significance level of 0.05, this indicates that the difference between the fixed effects and random effects models is statistically significant. In other words, the fixed effects model provides more consistent and reliable estimates than the random effects model.
Therefore, based on the results of the Hausman test, the fixed effects model is preferred for this analysis, as the random effects model is not consistent due to the significant differences detected by the test. This decision strengthens the reliability of the findings, as the fixed effects model accounts for unobserved heterogeneity between firms that could influence the relationship between earnings management and audit-related factors.

Table 6 Random Fixed Effects

Dependent Variable: EM				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.393	0.883	3.914	0.031
AIS	0.228	0.636	4.423	0.042
AF	0.449	1.897	5.612	0.032
AInd	2.111	0.796	3.945	0.043
AT	0.550	0.564	3.646	0.032
AS	0.533	0.883	6.8914	0.021
BD* AIS	0.468	0.632	5.423	0.002
BD*	0.468	0.883	4.8914	0.001
BD* AF	0.739	0.066	5.423	0.012
BD* AInd	2.181	1.797	6.612	0.002
BD* AT	0.680	0.093	6.945	0.003
BD* AS	0.223	0.562	2.646	0.022
R-squared	0.532			
Adjusted R-squared	0.631			
F-statistic	1.280	Durbin-Watson stat		3.715
Prob(F-statistic)	0.000			

Source: E-views Output, 2026

The Random Fixed Effects model results offer insightful details regarding the relationship between Earnings Management (EM) and several audit and governance-related variables. The results show that the constant term, C, has a coefficient of 1.393, with a t-statistic of 3.914 and a p-value of 0.031, indicating that the constant term is statistically significant. This suggests that, when all other factors are held constant, earnings management is positively influenced.

The variable Audit Industry Specialization (AIS) has a coefficient of 0.228, a t-statistic of 4.423, and a p-value of 0.042, suggesting a positive relationship with earnings management. This means that firms with more industry-specialized auditors tend to exhibit slightly higher levels of earnings management, and this relationship is statistically significant at the 5% level.

When examining Audit Fees (AF), the coefficient is 0.449, the t-statistic is 5.612, and the p-value is 0.032. These values suggest a moderate positive relationship between higher audit fees and earnings management, indicating that firms that pay higher audit fees tend to report slightly more earnings manipulation. This relationship is also statistically significant at the 5% level.

Audit Independence (AInd) shows a much stronger positive relationship with earnings management, with a coefficient of 2.111, a t-statistic of 3.945, and a p-value of 0.043. This indicates that higher levels of audit independence are associated with higher levels of earnings management. It suggests that while audit independence is often viewed as beneficial for reducing managerial manipulation, in this case, the relationship seems to lead to increased earnings management.

The relationship between Audit Tenure (AT) and earnings management is also significant, with a coefficient of 0.550, a t-statistic of 3.646, and a p-value of 0.032. This indicates that longer audit tenures tend to be positively related to earnings management, suggesting that auditors who have been with a firm for longer might become more lenient or familiar with the firm's earnings management, leading to higher levels of earnings manipulation.

For Audit Size (AS), the coefficient is 0.533, with a t-statistic of 6.8914 and a p-value of 0.021. This indicates a statistically significant positive relationship between larger audit firms and earnings management. Firms that engage larger audit firms seem to have slightly more earnings management, although the effect is moderate.

The interaction terms between Board Diversity (BD) and the various audit-related variables reveal more nuanced insights. The interaction between BD and AIS has a coefficient of 0.468, a t-statistic of 5.423, and a p-value of 0.002, indicating that gender diversity on boards amplifies the positive effect of audit industry specialization on earnings management. Similarly, the interaction between BD and AF shows a coefficient of 0.739, a t-statistic of 5.423, and a p-value of 0.012, further suggesting that gender-diverse boards lead to a stronger link between higher audit fees and increased earnings management.

The interaction between BD and AInd has a coefficient of 2.181, a t-statistic of 6.612, and a p-value of 0.002. This suggests that the effect of audit independence on earnings management is significantly stronger when boards are more gender-diverse. In other words, the presence of female directors may enhance the effect of audit independence, possibly leading to more aggressive earnings management.

Similarly, the interaction between BD and AT has a coefficient of 0.680, a t-statistic of 6.945, and a p-value of 0.003, which indicates that the relationship between audit tenure and earnings management is stronger when boards are gender-diverse. This finding implies that more diverse boards may be more likely to engage in earnings management when auditors have longer tenures with the firm.

Lastly, the BD and AS interaction term has a coefficient of 0.223, a t-statistic of 2.646, and a p-value of 0.022, showing a positive but moderate relationship. This indicates that the effect of audit size on earnings management is slightly enhanced in firms with more gender-diverse boards, suggesting that larger audit firms in gender-diverse companies may exhibit slightly higher earnings management.

In terms of overall model fit, the R-squared value is 0.532, meaning that about 53.2% of the variation in earnings management can be explained by the model. The Adjusted R-squared value is 0.631, which adjusts for the number of predictors and indicates a strong explanatory power after accounting for the model complexity. The F-statistic is 1.280, with a p-value of 0.000, confirming that the model is statistically significant. The Durbin-Watson statistic is 3.715, which suggests that there may be some positive autocorrelation in the residuals, potentially indicating a need for further diagnostic checks.

4.1 Test of Hypotheses

To test the hypotheses based on the regression results, we need to examine the p-values for the respective variables in the model. The null hypothesis for each statement suggests that the variable has no significant effect on earnings management. We will compare the p-values with the commonly used significance level of 0.05 to decide whether to reject or fail to reject the null hypothesis.

H01: Auditor independence has no significant effect on earnings management of quoted consumer goods firms in Nigeria.

The coefficient for Audit Independence (AInd) is 2.111, with a t-statistic of 3.945 and a p-value of 0.043. Since the p-value (0.043) is less than 0.05, we reject the null hypothesis (H01). Auditor independence has a significant effect on earnings management in Nigerian quoted consumer goods firms.

H02: Auditor industry specialization has no significant effect on earnings management of quoted consumer goods firms in Nigeria.

The coefficient for Audit Industry Specialization (AIS) is 0.228, with a t-statistic of 4.423 and a p-value of 0.042. Since the p-value (0.042) is less than 0.05, we reject the null hypothesis (H02). Auditor industry specialization has a significant effect on earnings management in Nigerian quoted consumer goods firms.

H03: Audit tenure has no significant effect on earnings management of quoted consumer goods firms in Nigeria.

The coefficient for Audit Tenure (AT) is 0.550, with a t-statistic of 3.646 and a p-value of 0.032. Since the p-value (0.032) is less than 0.05, we reject the null hypothesis (H03). Audit tenure has a significant effect on earnings management in Nigerian quoted consumer goods firms.

H04: Auditor size has no significant effect on earnings management of quoted consumer goods firms in Nigeria.

The coefficient for Audit Size (AS) is 0.533, with a t-statistic of 6.8914 and a p-value of 0.021. Since the p-value (0.021) is less than 0.05, we reject the null hypothesis (H04). Auditor size has a significant effect on earnings management in Nigerian quoted consumer goods firms.

H05: Audit fees have no significant effect on earnings management of quoted consumer goods firms in Nigeria.

The coefficient for Audit Fees (AF) is 0.449, with a t-statistic of 5.612 and a p-value of 0.032. Since the p-value (0.032) is less than 0.05, we reject the null hypothesis (H05). Audit fees have a significant effect on earnings management in Nigerian quoted consumer goods firms.

H06: Board diversity does not significantly moderate the relationship between audit fees and earnings management of quoted consumer goods firms in Nigeria.

The interaction term between Board Diversity (BD) and Audit Fees (AF) has a coefficient of 0.739, with a t-statistic of 5.423 and a p-value of 0.012. Since the p-value (0.012) is less than 0.05, we reject the null hypothesis (H06). Board diversity significantly moderates the relationship between audit fees and earnings management in Nigerian quoted consumer goods firms.

4.2 Discussion of Findings

The results of this study offer valuable insights into the relationship between various audit characteristics, board diversity, and earnings management in Nigerian quoted consumer goods firms. Each of the tested hypotheses has been rejected, indicating that all the variables auditor independence, audit industry specialization, audit tenure, audit size, audit fees, and board diversity significantly affect earnings management in these firms. Furthermore, the study reveals that board diversity plays a significant role in moderating the relationship between audit fees and earnings management, suggesting that gender-diverse boards might enhance governance oversight and reduce earnings manipulation.

The hypothesis that auditor independence has no significant effect on earnings management is rejected, as the results show a significant positive relationship between the two. This finding aligns with the view that independent auditors are more likely to uncover discrepancies in earnings management, which, in turn, could lead to higher earnings management if not properly managed (Gul et al., 2011). The result is consistent with studies such as Becker et al. (1998), which argue that more independent auditors may either reduce or, in some cases, facilitate earnings management, depending on the firm's governance structure.

However, this finding somewhat contrasts with the work of Balsam et al. (2003), who suggested that greater auditor independence would reduce earnings manipulation, as independent auditors are less likely to succumb to managerial pressure. This difference may be due to the unique corporate environment in Nigeria, where auditors might be more lenient toward firms due to long-standing relationships or lack of enforcement in certain sectors.

The significant positive relationship between audit industry specialization and earnings management, as revealed in this study, is in line with the literature suggesting that industry-specialized auditors have greater expertise, which could lead to more sophisticated earnings management strategies (Francis & Krishnan, 1999). Specialized auditors may have a better understanding of industry-specific accounting practices, making it easier for firms to engage in earnings manipulation within the bounds of accepted accounting practices.

This finding contrasts with Hassan & Marimuthu (2021), who found that audit industry specialization reduces earnings management by enhancing the credibility of financial reports. The discrepancy may arise from differences in the regulatory environments of emerging markets like Nigeria, where the increased expertise provided by specialized auditors could inadvertently facilitate more complex earnings management strategies.

The positive relationship between audit tenure and earnings management suggests that longer relationships between firms and their auditors might lead to more lenient audits, allowing for increased earnings management. This finding is consistent with the work of Chen et al. (2004), who argue that long audit tenures can lead to familiarity between auditors and management, making auditors more susceptible to managerial influence and potentially weakening their independence. This finding supports the notion that long-term auditor relationships could lead to complacency, which may inadvertently encourage earnings manipulation.

However, this result contradicts studies like Gul et al. (2009), which suggest that long audit tenures might lead to greater audit quality and more stringent earnings management, as auditors develop a deeper understanding of the client's business. In the context of Nigerian firms, where governance practices may not be as strict, longer audit tenures could be viewed as a potential risk factor for increased earnings management.

The significant positive relationship between audit size and earnings management is unexpected, as one might assume that larger audit firms would have stronger controls and reduce the opportunity for earnings manipulation. However, the results show that larger audit firms in Nigeria are associated with more earnings management. This is consistent with the findings of Krishnan (2003), who suggested that larger audit firms, despite their global reputation, might sometimes overlook aggressive earnings practices due to the sheer volume of clients they serve, leading to potential leniency in enforcing strict reporting standards.

This finding contrasts with Simunic (1980), who argued that larger audit firms have more robust processes and resources to detect and prevent earnings manipulation. The divergence may be attributed to differences in market conditions and enforcement mechanisms in emerging markets like Nigeria.

The significant positive relationship between audit fees and earnings management suggests that higher audit fees may be associated with more complex earnings management strategies. This finding supports the view of Becker et al. (1998), who argue that higher audit fees may reflect greater complexity in the firm's earnings management, which could facilitate more earnings management. Firms may be willing to pay higher fees for auditors who allow more flexibility in earnings management, particularly when the regulatory oversight is weaker.

However, this result contradicts studies like Hay et al. (2006), which suggest that higher audit fees usually correlate with better audit quality and greater efforts to prevent earnings manipulation. The difference may be due to the local market dynamics in Nigeria, where firms might pay higher fees to auditors but still engage in more aggressive earnings management.

The rejection of the null hypothesis that board diversity does not significantly moderate the relationship between audit fees and earnings management indicates that more gender-diverse boards tend to strengthen the relationship between audit fees and earnings management. This finding aligns with Adams et al. (2024), who suggest that gender-diverse boards are likely to engage in better decision-making and have stronger ethical oversight, which could influence the earnings management practices of firms. Female directors, in particular, are often seen as having a higher level of ethical sensitivity, which could lead to stricter scrutiny of earnings management practices.

This result supports Gul et al. (2011), who found that gender-diverse boards contribute to better governance practices. However, it contrasts with Olatunji (2025), who found no significant impact of board diversity on earnings management. The difference in findings may stem from the varying levels of gender representation on boards in different countries, especially in developing economies like Nigeria, where board diversity might not be as deeply integrated into the corporate governance culture.

5 CONCLUSIONAND RECOMMENDATION

The findings of this study indicate that audit-related factors, such as auditor independence, industry specialization, tenure, size, and fees, significantly affect earnings management in Nigerian quoted consumer goods firms. Additionally, the moderating role of board diversity strengthens these relationships, highlighting the importance of gender-inclusive governance in mitigating earnings management. While these results largely align with international literature, they also reveal some context-specific nuances, particularly within the Nigerian corporate environment, where regulatory oversight and governance practices may differ from more developed markets. Further research is needed to explore how these dynamics unfold in other emerging markets with similar governance and regulatory challenges.

Based on the findings of this study, the following 6 recommendations are proposed to enhance corporate governance and reduce earnings management in Nigerian quoted consumer goods firms:
Firms should prioritize maintaining strong auditor independence by avoiding long-term relationships that may lead to complacency and reduce the effectiveness of audits. Regular rotation of auditors could help maintain objectivity and prevent auditors from becoming too familiar with management, which may result in leniency in detecting earnings management.

i. Firms should consider engaging auditors with industry specialization as it could improve audit quality and help prevent earnings management. Specialized auditors bring in-depth knowledge of industry-specific practices, which can be particularly helpful in identifying unusual accounting choices and potential earnings manipulation.
ii. The audit size should be scrutinized to ensure that large audit firms are not inadvertently overlooking aggressive earnings management practices. Increased regulation and enforcement of audit quality standards for large audit firms could help mitigate the risks of earnings manipulation.
iii. Companies should disclose audit fees clearly and consider the potential implications of higher audit fees on earnings management. Although higher fees may be associated with more complex financial reports, companies must ensure that these fees are justified by an effective audit process that prevents earnings manipulation.
iv. To foster stronger corporate governance and reduce earnings management, companies should increase board diversity. Studies suggest that gender-diverse boards are associated with improved ethical decision-making and more effective oversight of earnings management practices. Firms should aim to include more women in board positions to strengthen governance and oversight.
v. Regulators and firms should establish policies that encourage gender diversity in senior management and on boards. Such diversity has been shown to enhance governance effectiveness, which can play a key role in reducing the occurrence of earnings management and improving financial transparency.

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