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Effect Of Audit Quality On Real Earnings Management Of Listed Consumer Goods Firms In Nigeria

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Abstract: *The study is concentrated on the effect of audit quality on real earnings management of listed consumer goods firms in Nigeria. Real earnings management, involves the manipulation of financial statements to mislead investors and other stakeholders about a firm's true financial performance while audit quality, is the degree of excellence and professionalism with which an audit is conducted. The study adopts a descriptive ex-post facto research design. The study covers a period of 2016- 2022. Population includes all the twenty (20) listed consumer goods firm on the floors of the Nigerian Exchange Group (NEG) throughout the period of the study as at December 2022. the results of the pooled Ordinary Least Square (OLS) regression conducted for the study show that audit fees have positive insignificant effect on audit quality of listed consumer goods firm in Nigeria. Again, the result on auditors' industry specialization indicates a negative but significant effect on real earnings management among listed consumer goods firm in Nigeria while the result on audit firm size showed a negative but significant relationship between audit firm size and real earnings management. The study concluded that audit firm size and auditors' industry specialization have a significant influence on real earnings management amongst listed consumer goods firms in Nigeria. It was recommended in the study that Consumer goods firm should consider hiring auditors with industry specialization since they have a better understanding of the specific industry peculiarities and operations distinct from other sectors.*

Keywords: **Audit Quality, Real Earnings Management, Consumer Goods Firms, Nigeria**

Introduction

Earnings management is a pervasive phenomenon in which firms manipulate their financial statements to present a more favourable financial performance (Bushman & Smith, 2001). Real earnings management, specifically, involves the manipulation of financial statements to mislead investors and other stakeholders about a firm's true financial performance (Brown, Caylor, & Craswell, 2007). In Nigeria, the issue of earnings management has been a subject of concern for regulators, investors, and other stakeholders (Akpa, 2013). According to Ojo, Oyedokun, and Ugoh (2020) they asserted that real earnings management is the manipulation of financial statements by managers to achieve certain objectives, such as meeting earnings targets or influencing stock prices. While, Audit quality, on the other hand, is the level of assurance provided by auditors regarding the accuracy and reliability of financial statements. This includes factors such as auditor independence, expertise, and professional skepticism.

Audit quality, is the degree of excellence and professionalism with which an audit is conducted (Knechel & Peck, 2006; Uwhejevwe-Togbolo, Okoli, & Ubogu, 2023). High-quality audits are characterized by a thorough and rigorous examination of financial statements, a clear understanding of the business and its risks, and the application of appropriate audit procedures (Knechel and Peck, 2006). The relationship between audit quality and real earnings management has been a topic of interest in accounting research. Several studies have examined this relationship in different contexts and have provided insights into the effect of audit quality on real earnings management practices such as Okolie, Izedonmi and Enofe (2013); Okolie (2014) and Ojo, Oyedokun, and Ugoh, (2020). Nevertheless, these studies focused more on accrual-based earnings manipulation as a proxy of earnings management. This approach limits the generalizability of findings concerning the effect of audit quality on real earnings management of firms in Nigeria in general and quoted deposit money banks which are a constant target of earnings manipulation. This constitutes one of the gaps in the literature that this study intends to fill.

it is important to understand how audit quality affects real earnings management due to the unique characteristics of the Nigerian business environment. Nigeria is known for its weak corporate governance practices and a history of financial reporting irregularities. Therefore, examining the effect of audit quality on real earnings management in this context can provide valuable insights into the effectiveness of auditing practices in mitigating earnings manipulation. Some studies have suggested that higher audit quality leads to lower levels of real earnings management, others argue for a positive relationship between audit quality and real earnings management. However, this study shows some specific dynamics at play in the Nigerian business environment and to provide more conclusive evidence on the effect of audit quality on real earnings management.

The question to be answered is; how does audit quality (proxied by audit firm size, audit

fees and auditor industry specialization) affect real earnings management of some selected Nigerian firms?

Literature Review

Audit Quality

The controversy stems from the fact that there is no established definition of audit quality. But DeAngelo's (1981) definition is the one that is widely accepted and frequently utilized in research contexts. The market-estimated combined likelihood that the auditor will find and disclose a breach in the financial statement is how he defined audit quality. Based on this description, audit quality measures use indicators to measure audit quality in an indirect manner. However, DeAngelo's definition is the one that is most frequently used to describe audit quality. The problem with this definition is that audit quality cannot be seen, much less assessed. Both definitions placed emphasis on two of the most important aspects of audit quality, namely auditors' ability or auditors' effort, and auditors' independence. Additionally, Seyyed (2013) provided additional explanation that, audit quality could be a function of the auditors' ability to detect material misstatements and report the errors. Hope and Langli (2007) defined auditor independence as the auditor's objectivity and capacity to withstand client pressure. They also regarded audit quality as occurring when the auditor performs his or her duties with a better degree of independence and objectivity. According to them, this pressure comprises both financial and non-financial concerns that force the auditor to follow management wishes rather than his professional judgment. This will fit with DeAngelo's (1981) definition.

Audit Fees

According to Oladejo (2020), researchers have proposed that large auditors charge more because their greater resources make clients less likely to file lawsuits (the "profound pocket theory"); however, other researchers have countered that there is no real difference in audit performance and that rather large corporations have established a reputation and appreciation for quality. A serious issue in Nigerian corporate organizations is the compensation of auditors (Paradisa, & Yustrida 2020).

Audit fees are defined by the American Institute of Certified Public Accountants (AICPA 2012) as money payable to the auditor for audit services provided to the auditee. Professional accountants should cite any fee they think suitable in public practice when entering into contracts for professional services, according to the International Federation of Accountants' Code of Ethics for Professional Accountants (IFAC 2010).

Audit Firm Size

According to authorities and small business owners, audit standards shouldn't be determined only by the size of the largest public accounting firms (Abu, Mir, Rou, Md 2020). DeAngelo (1981), arguing that large audit firms were more adaptable and effective in their job, countered this accusation against small firms. Large accounting firms are more likely to find major irregularities in their financial accounts, according to Francis and Yu's (2009) research. When large audit companies have a reputation for having lax audit standards and independent decision-making, they run the danger of losing clients. These problems create a significant incentive to enhance audit performance. Researchers have found that an organization's size affects the performance of its auditors (Cheug, Liu, Chien 2009). Oladejo (2020) asserts that audit partners depend heavily on the reputation of audit firms. Researchers examined auditors' assessments of CPA multinational firms as major firms to auditors' assessments of local and regional firms as small and medium firms in the international environment (Utami 2017).

Auditor Industry Specialization

Solomon, Shields, and Whittington (1999) found that industry specialist auditors have more accurate knowledge of non-error frequency than non-industry specialists. According to Owhoso, Messier and Lynch (2002) they suggested that industry specialists can more effectively detect sown errors in staff work papers during the audit review process. According to Low (2004), industry specialization among auditors enhances their evaluations of audit risk. When given partial- or full-cue patterns as opposed to no-cue patterns, Hammersley (2006) finds that matched specialists (i.e., specialists in their industry) are able to create more thorough problem representations about the seeded misstatement, whereas mismatched specialists are unable to do so even when given full-cue patterns. Due to their increased industry-specific expertise, these behavioral auditing studies imply that auditor industry specialization can increase the effectiveness of auditors' job.

The impact of auditor industry expertise on the caliber of financial reporting is also a topic of archived auditing research. Customers of auditors who specialize in a certain industry had higher earnings quality than clients of non-specialists, according to Balsam, Krishnan, and Yang (2003) investigation on the relationship between earnings quality and auditor industry specialization. The analysts' rating of disclosure quality is higher for clients of industry specialist auditors than for clients of non-specialists in unregulated industries where enhanced disclosures add more value than in regulated industries, according to Dunn and Mayhew's (2004) analysis of the impact of auditor industry specialization on clients' disclosure strategy.

Real Earnings Management

In essence, earnings management (EM) is divided into many categories. Real activities manipulation, also known as real earnings management (REM), is one of the activities used to manage earnings. Although it is a form of "within GAAP" profits manipulation, it differs from managing earnings through accounting decisions and receives less audit attention. Real activity manipulation for the purpose of managing earnings entails management actions that depart from standard business procedures with the main goal of achieving predetermined earnings thresholds (Roychowdhury, 2006). In order to change reported earnings in a specific direction, management (REM) as management operational activities overproduces inventory to reduce the cost of goods sold (COGS) or reduces discretionary expenses (such as advertising costs, R&D costs, and deferred taxes) to reach a target level of earnings. Earlier maintenance or research and development (R&D) spending when reported earnings are higher than projected to bring earnings number to desired level are only a few examples of real activity manipulation. Earnings management, according to Alu, Shiyanbola, Olurin, and Moses (2022), is any management move that impacts reported income but offers no real economic benefit to the business and may even be harmful over time.

Theoretical Framework

Agency theory

Jensen and Meckling (1976) popularized agency theory. The Agency theory, which has been extensively employed in the literature on finance and accounting, provided a solution to the conflict between owner and agent. It was adopted specifically to explain the connection between external auditor output and operation (Talat, & Mian 2013). There are issues when the interests of the agent and the owner are not matched, and knowledge Poorly addressing this type of risk would compromise market performance awareness. Financial outcomes were handled with the help of independent audits. Principals and agents do not share information symmetrically. The most common defense is that the agency makes costly and potentially hazardous decisions in order to benefit shareholders. As a result, Superior audits are more necessary the more information asymmetry there is, and vice versa (Enofe 2010). By balancing the interests of agents and shareholders, corporate governance tools like audit consistency aimed to enhance corporate performance (Jensen & Mecklin, 1976). Because it shows what drives an organization's managers and directors to keep revenues in check, this study's foundation is Agency theory. According to the agency theory, managers may attempt to maximize their own advantages and goals at the expense of investors. In order to reduce this behavior, managers are paid depending on their performance and results. They will do everything it takes to increase their revenue, including manipulating and managing their profits.

Empirical Review

Lopes (2018) investigated the connection between Portuguese non-listed companies' audit quality and earnings manipulation. A sample of 4,723 businesses over a three-year period between 2013 and 2015 was chosen. The secondary data obtained from the sampled companies' financial statements was analyzed using the multiple regression method. The outcome showed a strong inverse link between earnings manipulation and audit quality.

Using multiple regression analysis, Okolie (2014) looked at the effect of audit quality on the earnings response co-efficients of 57 companies traded on the Nigerian Stock Exchange (NSE) between 2006 and 2011. The test's findings demonstrated that Audit Quality has a considerable impact on Nigerian quoted businesses' ERC. However, this particular study is unique because it focuses on a particular industry. Additionally, the temporal gap is important since it makes it difficult to use the 2014 findings to make decisions about current concerns with earnings management.

For a period of six years, from 2005 to 2010, Eriabie and Dabor (2017) looked at the effect of audit quality (proxied by audit fees and auditors' change) on earnings management (proxied by abnormal loan loss provision) in quoted Nigerian banks. All 18 banks were employed in the study as a sample. Multiple regression was used to evaluate secondary data that was taken from the banks' annual reports and financial statements. The results demonstrated that irregular loan loss provision is positively correlated with audit fees and auditor changes.

Using panel data over a seven-year period (2010–2016), Junaidu and Olanrewaju (2018) evaluated the impact of audit firm size on the earning management of eight (8) quoted oil and gas marketing companies in Nigeria. For data analysis, the study employed the use of robust fixed regression, correlation matrix, and both descriptive statistics. The results showed that the size of the audit firm had no real impact on managing earnings. The current study, which focuses on the audit quality and revenue management of publicly traded deposit money institutions, raises the issue of sector-specific idiosyncrasies.

Alu, Shiyanbola, Olurin, and Moses, (2022) in an investigation conducted on audit quality and earnings management by listed firms in Nigeria. The ex post facto research design was used. This is because it includes incidents that have already occurred. A secondary source of data for this analysis was obtained from the financial statements and annual reports sourced from the websites of the companies chosen as samples between 2010 and 2019. The findings of this study showed that audit tenure and audit fees have positive but insignificant and significant effects on discretionary accruals while audit size has a negative, insignificant effect on discretionary accruals.

Hegazy (2015) investigated the impact of audit firm specialization on Egyptian firm earnings management in a related study. The study's conclusions showed that industry specialists do not restrain earnings management any more effectively than non-specialist auditors. Memis (2012) used a sample of 1507 firm-year observations for the years 2008–2009 to look at the relationship between audit quality and earnings management in eight emerging nations. According to the study's findings, there is a considerable correlation between discretionary accruals and audit quality as determined by the Big 4 auditors, with the exception of Brazilian and Mexican corporations.

Additionally, Inaam, Khmoussi, and Fatma (2012) used 319 firm year data for the years 2000–2010 to explore the connection between audit quality and earnings management of Tunisian enterprises. The study's findings demonstrate that auditor industry specialization and audit firm size, as determined by the Big 4 auditors, are adversely related to the management of earnings of the tested enterprises. The sampled firms' discretionary accruals were negatively but not significantly correlated with the auditor tenure.

The effect of audit quality on preventing the occurrence of accrual-based profits management among Nigeria's 30 publicly listed non-financial enterprises from 2008 to 2018 was examined by Soyemi, Olufemi, and Adeyemi (2020). The sample's defined model was roughly approximated using the panel ordinary least squares technique. However, the multivariate fixed effects of the ordinary least square revealed that the audit's quality variables are statistically and mutually significant in explaining 49% of changes in earnings management, despite descriptive statistics showing that there is no accrual-based earnings exploitation among Nigeria's listed non-financial companies. Additionally, total assets, the control variable, had a negative and substantial impact on earnings management whereas audit tenure and independence had a positive and significant association. Surprisingly, albeit statistically insignificant, the audit firm's scale appeared positive.

The relationship between audit quality and earnings management in Nigerian consumer products companies was investigated by Oladejo (2020). The study made use of first-hand information from 2008 to 2017. Based on their relative size, financial standing, data accessibility, and usability, the study selected 15 of the 22 consumer products businesses. The study used a technique called purposive sampling. According to the description, leverage had a favorable association with earnings management while the size of the audit firm, audit laws, the legal system, and the type of business all had negative relationships.

Methodology

The study adopts a descriptive ex-post facto research design. The study covers a period of 2016 - 2022. Population includes all the twenty (20) listed consumer goods firm on the floors of the Nigerian Exchange Group (NEG) throughout the period of the study as at December 2022. Secondary data were extracted from the annual accounts of the firms for the period of the study. The study employs the use of multiple regression technique to analyze the data with the aid of STATA version13. The econometric model of the study is stated below.

$$REM_{it} = \beta_{0it} + \beta_1 AudF_{it} + B_2 AudIS_{it} + \beta_3 AudFS_{it} + \beta_4 CGFS_{it} + \beta_5 LEVit + \mu_{it}$$

Where:

REM = Real Earnings Management

AudF = Audit Fees

AudIS = Auditor Industry Specialization

AudFS= Audit Firm Size

CGFS= Consumer Goods Firm Size

LEV= Leverage

β_0 = is the intercept

$\beta_1 - \beta_5$ = are the parameters estimate or coefficients in equation

μ = random error

Control Variables:

Certain exogenous factors may impact on earnings management of a firm. Such control variables to be examined in this study will include; Leverage (LEV), and Consumer goods firm Size (CGFS).

Estimation of Real Earnings Management

The variables of the study consist of dependent variable which is accrual quality measured by discretionary accruals using Sarawornrawanich (2011) cited in Ojo, Oyedokun, and Ugoh, (2020). This was done by conducting the analysis in two stages-extracting the residuals from the model first and then run the regression with the model of the study. Certain exogenous factors may impact on earnings management of a company. Such control variables to be examined in this study will include; Leverage (LEV), and Consumer Goods Firm Size (CGFS).

TCA= β0it + β1CFOit-1 + β2CFOit + β3CFOit + £it

All variables are scaled by average total assets (Assetsj,t + Assetsj,t-1) / 2

Where: WC= Change = f (CAj,t - CLj,t - Cashj,t + STDEBTj,t)

CAj,t = firm j's change in current assets between year t-1 and year t

CLj,t =firm j's change in current liabilities between year t-1 and year t

Cashj,t = firm j's change in cash between year t-1 and year t

STDEBTj,t = firm j's change in short-term debt between year t-1 and year t

CFOit-1= preceding year cash flow from operation

CFOt= current year cash flow from operation,

The measurement and construct validity of all the variables and the specific review of the various proxies for estimating audit quality are contained in table 1 below.

S/n	Variables	Definition	Type	Measurement	Construct Validity Source
1	REM	Real Earnings Management	Dependent	Discretionary Accruals	Soyemi, Olufemi, and Adeyemi (2020), Okolie (2014).
2	AudF	Audit Fees	Independent	Natural Log of the Audit Fees Paid by the company.	Eriabie and Dabor (2017), Li & Lin, (2005).
3	AudIS	Measure by Auditor independence	Independent	Measured by dichotomous variable 1 for thefirms audited by industry specialist auditors and 0 for nonspecialist auditors.	Hegazy (2015), Zhou and Guan (2014).
4	AudFS	Audit Firm Size	Independent	Dichotomous: 1 if firm is audited by a Big4, 0 otherwise	Jayeola, Toofeek, and Toluwalase, (2017); and Krishnan, (2003).
5	CGFS	Consumer goods firm size	Independent	Natural log of Firms Total Assets	Oladejo (2020), Inaam, Khmoussi, and Fatma (2012).
6	LEV	Leverage	Independent	Total Debts Equity	Becker, DeFond, Jiambalvo, and Subramanyam (1998), Watts and Zimmerman, (1986)

Results

In order to analyse the hypotheses posed earlier in the study and represented in the model, this section deals with the analysis and interpretation of data taken from the annual reports and accounts of the sampled consumer goods firm. Descriptive statistics from the sample and data were analyzed in this part. This section also includes a discussion of the results and the results of the various robustness tests.

Variables	Obs.	Mean	Std. Dev.	Min	Max
REM	140	.5103685	.1582313	.108921	.787597
AudF	140	3.204531	.6529123	.476654	7.6789
AudIS	140	.5362625	.4955245	0	1
AudFS	140	.6362537	.4340893	0	1
CGFS	140	5.717636	1.441327	4.6881	12.3274
LEV	140	.4236041	.1540132	.132786	.713746

Source: Researchers Computation, 2023

A total number of twenty (20) consumer goods firm were sampled over a period of seven (7) years yielding a total of 140 firm-year observations. In respect to real earnings management, table 1 shows a mean of 51%. This showed the real earnings management for the consumer goods firm stood at an average 51% and standard deviation of 16% and hence, it can be said that the data had little variations. The study showed that the minimum REM was 11% and the maximum within the period was 78%.

The table also, showed that the result on audit fee depicted a mean of 3.204531 which signal that on average the industry paid 3.204531 billion in audit fees. The value of SD stood at 65% which signifies the variance in individual fees charged by different firms within the period. Result shows that .476654 million and 7.6789 billion were the minimum and maximum audit fees paid respectively. Again, the study showed that auditors industry specialization has a mean of 54% indicating that 54% of the firms used industry specialist auditors within the period of the study. The result also, indicated that at least one firm used industry specialist auditors every year within the period of the study. The standard deviation of 50% shows the levels of difference in compliance level from the mean. The result on audit firm size has an average of 64% and an SD of 43% signifying that within the period of the study about 64% of the consumer goods firm used Big4. The percentage of the standard deviation showed that there were no much variations in the data. The study observed that average consumer goods firm size stood at 5.717636 and a standard deviation of 1.441327. The study shows that the minimum assets value within the period was 4.6881 trillion and the maximum was 12.3274 trillion. Finally, the study showed that average total debt equity was 42% which shows that 42% of capital for the firms within period of the study was debt equity. The minimum was 13% while the maximum debt equity capital was 71% while the SD was 15% respectively.

Table 2: Correlation Matrix

Variables	REM	AudF	AudIS	AudFS	CGFS	LEV
REM	1.0000					
AudF	0.0544	1.0000				
AudIS	-0.1408	-0.1034	1.0000			
AudFS	-0.0146	0.2446	0.0236	1.0000		
CGFS	0.0817	0.0784	0.2010	0.4302	1.0000	
LEV	-0.2437	0.0257	0.1025	0.1263	0.4374	1.0000

Source: Researchers Computation, 2023

The correlation matrix table 2 revealed that the correlation coefficient between real earnings management and audit fees have a coefficient of 0.0544 which indicate that audit fees have a 5% relationship with REM. The study also indicated that correlation coefficient of between REM and audit industry specialization is -0.1408. This means that auditor industry specialization relates with REM to the level of -14%. The correlation coefficient between REM and audit firm size stood at -0.0146. The result implied that audit firm size has a negative relationship with REM of consumer goods firm in Nigeria. The coefficient between REM and consumer goods firm size stood at 0.0817. This means that 8% of REM can be guaranteed by firm size. The study result, finally, shows that leverage has a negative relationship with REM to the tune -0.2437 which is 24%. This result shows there is no positive relationship between real earnings management and leverage.

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Table 3: Tolerance and Variance Inflation Factors

Variables	VIF	I/ VIF
AudF	1.29	0.775194
AudIS	1.07	0.934579
AudFS	1.10	0.909091
CGFS	1.52	0.657895
LEV	1.21	0.826446
Mean VIF	1.24	

Source: Researchers Computation, 2023

Table 3, shows that VIF values for all the independent variables were consistently below the benchmark of 10 which is considered harmful for regression analysis. This is supported by a mean VIF value of 1.24 which is above the benchmark of 1 considered suitable for regression analysis. Also, the I/VIF for all the variables was above 0 and close to 1 which is recommended for regression analysis. The table shows good indicators that multicollinearity is not a problem among independent variables. Meanwhile, the Breusch-Pagan/Cook-Weisberg test for heteroscedasticity shows a chi2(1) of 0.21 and a Prob > chi2 of 0.124 which means there is no problem of heteroscedasticity among the data inferring that the data is homogeneous in nature.

Hausman Specification Test

The Hausman Specification test was conducted to ascertain between the fixed and random effect models which was more appropriate for interpretation. The result of the Hausman Test revealed that the value of chi2 is 1.22 and a corresponding prob>chi 0.956. The significant value as reported by the probability of chi2 that the Hausman test favours the random effect model. However, since the hypotheses for study are stated in null form, the study went further to conduct the Lagrange multiplier test to ascertain whether is appropriate to interpret the pool OLS or random effect model. The Breusch-Pagan and Lagrangian multiplier test for random effects shows a chi2 of 0.11 and a corresponding probability of 0.0740 which indicates that the pooled OLS is appropriate for the study.

Table 4: Summary of pooled OLS Result Regression Result

Variable	Beta Coef.	t	Prob.>t
AudF	.0232721	0.76	0.536
AudIS	-.085072	-2.34	0.034
AudFS	-.0637483	-2.61	0.042
CGFS	.0348429	2.24	0.043
LEV	-.4338818	-3.60	0.002
R-squared			0.1942
Adj R-squared			0.1345
Prob > F			0.0052

The result presented in table 4 shows that the R^2 value is 0.1942 which indicates that the audit quality attributes along with the control variables (consumer goods firm size and leverage) can explain only about 19% of the total systematic variation of earnings management among quoted deposit money banks in Nigeria. This implies that about 81% of the total systematic variation in the dependent variable has been left unaccounted for by the model hence captured by the stochastic error term. This implies that other factors not included in the model mostly accounts for earnings management in the area covered by the study. On the basis of the overall statistical significance of the model, it was observed that the probability of F-statistics is 0.0052 which is significant at 5% level of significance.

Audit Fees and Real Earnings Management

Table 4 above describes the results of the pooled Ordinary Least Square (OLS) regression conducted for the study. As shown in table 4, the result indicates that audit fees have positive insignificant effect on audit quality of listed consumer goods firm in Nigeria as evidence from the coefficient value of .0232721 with a p-value of 0.536 which is insignificant at 5% level of significance. This implies that if the percentage of audit fees increases, there is likelihood of having improved earnings management. However, it will be insignificant as depicted by the result of the study. In this particular circumstance the study accepts the null hypothesis which states that audit fees have no significant effect on real earnings management of listed consumer goods firm in Nigeria.

The present result is inconsistent with the finding of Nawraiseh (2016) who documented evidence of a negative association between audit fees and earnings management of firms. The result is, however, consistent with those of Eriabie and Dabor (2017) who documented a positive relationship between audit fees and earnings management of firms.

Auditors' Industry Specialization and Real Earnings Management

The result in table 4 again indicates that auditors' industry specialization has a negative but significant effect on real earnings management among listed consumer goods firm in Nigeria. This is evidenced by a coefficient of -.085072 and p-value of 0.034 which is significant at 5% level of confidence. This implies that irrespective of the circumstance that auditors' industry specialization has a negative effect on earnings management; it is significant in influencing real earnings management. The study rejects that null hypothesis which states that auditors' industry specialization has no significant effect on earnings management of listed consumer goods firm in Nigeria.

The result supports the finding of Zhou and Guan (2014) and Hegazy (2015) who found a positive relationship between auditor industry specialization and earnings management of firms. The result however, contradicts the finding of Inaam, Khmoussi and Fatma (2012), Ahmadzade, Hassanzadeh, Pooryegane and Ebrahimi (2012), Karimi and Gerayli (2014), Tyokoso and Tsegba (2015), and He (2015) who documented a negative association between industry specialist auditors and earnings management of firms.

Audit Firm Size and Real Earnings Management

The analysis in table 4 shows a negative but significant relationship between audit firm size and real earnings management with a coefficient value of -.0637483 and probability of F-statistics of 0.042 which is considered significant at 5% level of confidence. This implies that the Big4 audit firms have a negative influence on real earnings management of listed consumer goods firm in Nigeria. Although they are still significant according to the result of the study in affecting earnings management. Based on the result of the pooled OLS regression, the study rejected null hypothesis. Implying that audit firm size is a good indicator of real earnings management.

This finding is consistent with those of Yasar (2013), Pouraghajan, Tabari, Emamgholipour and Mansourinia (2013) and Molik, Mir, Mclver and Bepari (2013) who found a positive association between audit firm size and earnings management of sampled firms. The result however, contradicts the findings of Inaam, Khmoussi and Fatma (2012), Okolie, Izedonmi and Enofe (2013), Zhou and Guan (2014), Tyokoso and Tsegba (2015), Aliyu, Musa and Zachariah (2015) and Ching, Teh and San (2015) who documented a negative relationship between audit firm size and earnings management of firms.

Control Variable CGFS, Leverage and Real Earnings Management

The control variables CGFS has a significant positive effect on real earnings management of listed consumer goods firm in Nigeria with a coefficient value of .0348429 and p-value of 0.043. While leverage has a negative coefficient value of -.4338818 and a positive significant p-value of 0.002 these implies effect on real earnings management of listed consumer goods firm in Nigeria.

Conclusion

This study examined the effect of audit quality on real earnings management of listed consumer goods firms in Nigeria. The study focused on audit firm size, audit fees and auditors' industry specialization as independent variables and real earnings management as dependent variables proxied by discretionary accruals.

Based on the findings, the study concluded that audit firm size and auditors' industry specialization have a significant influence on real earnings management amongst listed consumer goods firms in Nigeria. Upon this assertion, this implies that these variables are determinants of real earnings management. The study also, concluded that audit fees do not exercise any significant influence on real earnings management of consumer goods firms in Nigeria. Consequently, this result implies that audit fees cannot be exploited as a replacement for reported earnings quality in the consumer goods industry.

Recommendations

Based on the findings and conclusion, it was recommended that;

1. It was also noted that consumer goods firms should not be consider the increased-on auditors' fees as a way on improving audit quality and ultimately earnings quality.
2. Consumer goods firm should consider hiring auditors with industry specialization since they have a better understanding of the specific industry peculiarities and operations distinct from other sectors.
3. Due to the findings of the study, it was recommended that consumer goods firm should employ the services of Big4 auditors since it is found to significantly influence earnings management. This could be that Big4 auditors have the resources, experience and expertise alongside that comes to play in improving reported earnings quality.

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