



FIRMS LEVERAGE AND EARNINGS MANAGEMENT OF LISTED CONSUMER GOODS FIRMS IN NIGERIA: THE MODERATING EFFECTS OF AUDIT COMMITTEE FINANCIAL EXPERTISE

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Abstract: This paper investigates the impact of leverage on earnings management, using audit committee financial expertise as a moderating variable among selected Nigerian listed corporations. The study is based on the panel data of 15 consumer goods firms covering the years 2018-2024 and Fixed Effects Model was used. The proxy for earnings management was discretionary accruals, while leverage was defined as the total debt over total assets ratio. The findings indicate that leverage shows a positive but statistically insignificant contribution to the game of earnings management, thus making it clear that financial risk by itself is not a major determinant of the reporting behavior of the management. Nevertheless, the Audit committee financial expertise plays a crucial role in the relationship between leverage and earnings management, implies that the presence of the highly skilled professionals in the committee could create the opportunity for the earnings to be manipulated sophisticatedly rather than being restricted. The size of the firm negatively impacts the management of earnings, while profitability and audit quality have a positive effect. The study recommends that the independence of the audit committee and the regulatory oversight should be strengthened so as to achieve transparency in financial reporting.

Keywords: *Earnings Management, Firm Leverage, Audit Committee Financial Expertise, Audit Quality, Corporate Governance, Nigeria.*

1. Introduction

Earnings management has remained a focus of scholarly and regulatory interest because of its implications on financial transparency, investor confidence and corporate sustainability. It encompasses the use of discretion in financial reporting by managers to realize certain goals, e.g. raising earnings or cutting covenant breaches (Martínez-Ferrero et al., 2020). Even though it is not always illegal, the earnings management misrepresents the actual economic performance of the firms and undermines the credibility of financial statements. The threat of



earnings manipulation is quite high in Nigeria, where capital markets are not yet well-developed and regulation is sometimes not highly enforced, particularly in non-financial industries like consumer goods companies (Olayinka & Adefemi, 2021).

Financial leverage is a key firm-level predictor of the earnings management and it is the ratio of debt to fund assets of a firm. The connection between leverage and earnings management is complicated and situational. On the one hand, increased leverage as a disciplinary tool can minimize the agency problems between managers and shareholders since debt can be financially disciplining and imposes external discipline on creditors (Jensen and Meckling, 1976; Mutmainnah et al., 2020). Conversely, high leverage exposes managers to more risks of financial distress and debt payment that can induce managers to inflate earnings to evade covenant violations or to communicate financial health to investors (Al-Hiyari et al., 2020).

The recent empirical evidence is inconclusive. According to some studies, more highly leveraged firms are more likely to use earnings management to portray a positive financial picture (Muttakin et al., 2021; Adeyemi and Abiola, 2022), although others also conclude that an obligation to debt monitoring and firms being contractually obligated will reduce the tendency of opportunism in managers (Ocheni, 2020). Such ambivalent results suggest that the leverage earnings management relationship can be contingent on contextual factors, including corporate governance systems and industry features.

Audit committee financial expertise in this context comes out as an important governance tool that can buffer the correlation between leverage and earnings management. The audit committees are intended to improve the control over the process of financial reporting as well as to verify adherence to standards and improve the credibility of the corporate reports. Financially skilled members, including certified accountants or finance professionals, are in a better position to identify anomalies, criticize management estimates, and have a clear reporting (Al-Mamun et al., 2021). Empirical research has revealed that companies where the members of the audit committee have superior knowledge of finance are less prone to earnings manipulation because of the technical expertise of these professionals to interpret intricate accounting challenges (Akpan and Amodu, 2022; Uwuigbe et al., 2023).

But there is still contradicting evidence especially in third world economies such as Nigeria. Some studies indicate that the earnings management decrease with the audit committee



financial expertise (Okolie & Adekoya, 2021), whereas other studies refer to the fact that the effectiveness of the financial expertise also depends on the other governance terms, including board independence, firm size, and ownership concentration (Aminu & Yusuf, 2022). Dominating corporate boards by controlling holders are also the norm in the Nigerian context, and the inefficacy of audit committees is encouraged by the lack of a robust enforcement mechanism (Oghoghomeh and Omokhudu, 2023).

Nigeria consumer goods industry presents an interesting context to undertake this research. High competition, unstable exchange rates, inflationary pressures, and excessive dependence on external financing are some of the characteristics of the industry. Such difficulties drive management to be more motivated to participate in manipulation of earnings in a bid to keep investor trust and access to credit (Ibrahim and Mohammed, 2022). Research on this sector in particular is relatively scarce, and most Nigerian literature groups various non-financial sectors of the economy without singling out the specific operational stresses that consumer goods companies operate under (Owolabi and Adegbite, 2020).

The paper is warranted by the necessity to enhance the comprehension of the behaviour of leverage-based incentives in relation to governance structures to shape earnings management behaviour in Nigerian consumer goods companies. Most of the previous research has focused on leverage and governance characteristics separately, with low examination on the interaction benefits (Uwuigbe et al., 2023; Aminu and Yusuf, 2022). In addition, a significant portion of the past studies concentrated on the banking or industrial industries, with a significant gap in terms of the consumer goods industry, in which the structure of financing and reporting incentives vary accordingly. This study will help the body of literature on the effectiveness of governance in curbing opportunistic financial reporting by discussing the moderating effect of audit committee financial expertise as well as will give policy implications to regulators and investors wishing to enhance the accountability of corporations in Nigeria.

2. Literature Review

This section gives literature review that consists of conceptual, theoretical, and empirical background of the study. It presents important concepts, theories, and prior empirical studies on firm leverage, earnings management, and audit committee financial expertise, thus defining the contextual and methodological void that this study fills.



Conceptual review

Firm Leverage

Firm leverage is the level of using the loans (debt) to fund operations and investments of a company in comparison with its equity. The ratios normally used to measure it include the debt-to-equity ratio or total debt-to-total assets ratio (Mutmainnah et al., 2020). Theoretically, leverage is used as a source of finance as well as a governance mechanism. Although moderate leverage has the potential to discipline the management, excessive debt may result in financial distress, and managers may be tempted to manage earnings to satisfy debt covenants or maintain market trust (Adeyemi and Abiola, 2022). Therefore, leverage has two effects on the corporate behaviour basing on the financial structure of the firm and the environment in which it is monitored.

Earnings Management

Earnings management is the deliberate act of accounting managers to manipulate financial reporting to attain some financial results, usually without breaking accounting standards (Martínez-Ferrero et al., 2020). This manipulation can be accrual-based earnings management (adjusting accounting estimates and judgments, including depreciation, provision, or receivables), or real activities manipulation (managers, in order to get preferred earnings figures, can manipulate real operational decisions, including overproducing inventory or reducing discretionary expenses) (Uwuigbe et al., 2023). Even though it is not necessarily fraud, earnings management compromises the financial statement reliability and transparency, deceives investors, and diminishes market efficiency (Olayinka and Adefemi, 2021).

Audit Committee

The audit committee is a subcommittee of a company board of directors that is charged with the responsibility of supervising financial reporting procedure, internal controls mechanisms and external audit functions (Akpan & Amodu, 2022). It is a form of governance that is aimed at bringing about accountability, adherence to the financial rules and securing the interests of the shareholders. Good audit committees can be a restraint to managerial discretion in that financial statements prepared by the managers can reflect a fair and true picture of the performance of the firm.



Corporate Governance

Corporate governance can be explained as the structure of rules, practice and processes through which a firm is managed and regulated (Oghoghomeh and Omokhudu, 2023). It establishes the relationships among the management, the board of directors, shareholders and other stakeholders in order to bring about transparency, accountability as well as fairness in the corporate decision making. Proper governance structures, like independent boards, transparency, and audit control, contribute to aligning the interests of the managers with those of the shareholders and reducing the opportunistic behaviours, including earnings management (Okolie and Adekoya, 2021).

Moderating Effect

A moderating effect may be used when the strength or direction of the relationship between two variables varies with the level of a third variable (Baron and Kenny, 1986). The financial expertise of the audit committee is a moderating factor in this research that may enhance or undermine the correlation between the leverage in a firm and the management of its earnings. As an example, a high level of leverage may decrease the likelihood of earnings manipulation of corporations whose audit committees are well-qualified in the financial domain (Uwuigbe et al., 2023).

Theoretical Framework

Jensen and Meckling (1976) developed the Agency Theory, which offers the most applicable framework in this study. The theory describes the principal (shareholders) and agent (managers) relationship, in which the managers are supposed to make decisions regarding the management of the firm on behalf of shareholders. Nonetheless, managers can be opportunistic because of the existence of conflicting interests and an absence of information asymmetry, so that they maximize the personal gains instead of the wealth of the shareholders. Earnings management is one of the forms of such opportunism as managers strive to manipulate financial reports to create an impression of good performance of a firm.

Debt, in firm leverage, adds a new monitoring mechanism by creditors, but also provides incentives to managers to manipulate earnings to prevent covenants breaches or a positive image in front of lenders (Mutmainnah et al., 2020). Having an audit committee, especially one



that includes financially competent members, is one of the key mechanisms of governance that help to alleviate agency problems by improving control over financial reporting and increasing transparency (Al-Mamun et al., 2021). Therefore, the relationship between leverage and the financial expertise of the audit committee can be explained using the agency lens because effective monitoring lowers the agency costs caused by opportunistic reporting. The study is thus based on this theory in its analysis on the moderation effect of governance mechanisms in the leverage earnings management relationship in the Nigerian consumer goods firms.

Conceptual framework

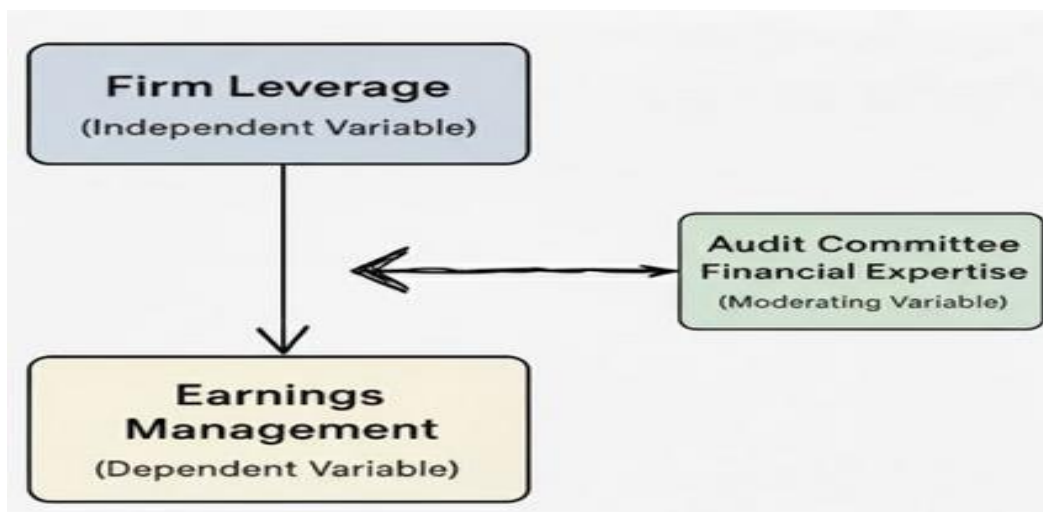


Figure 1: Conceptual Framework

The conceptual framework shows the connection between the firm leverage, earnings management, and the moderating effect of the audit committee financial expertise of the listed consumers goods firms in Nigeria. The model assumes that firm leverage is an independent variable that directly affects earnings management which is the dependent variable. Highly leveraged firms can be under pressure to cover debt interest or to keep their financial balance sheets healthy, thus compelling managers to abuse earnings to either avoid violating debt covenants or to encourage investors (Mutmainnah et al., 2020).

The intensity of this relationship is however likely to differ depending on whether audit committee financial expertise exists or not which is the moderating factor. A financially literate audit committee can better interpret the complex accounting policies, identify anomalies and exercise a more rigid control over financial reporting (Al-Mamun et al., 2021). Therefore,



companies whose audit committee is highly proficient will have their earnings management levels at lower levels even in situations of high leverage.

Therefore, the framework would focus on the fact that leverage might tend to augment the susceptibility to earnings manipulation; however, well-organized governance interventions, namely, the financial competence of the audit committee, can largely inhibit such self-serving action and improve the quality of financial reporting.

Empirical Review

The empirical research on the connection between firm leverage, earnings management, and audit committee financial expertise has been developing over the years; these were based on the initial studies which have defined the essential theoretical and empirical interconnections.

The literature has its foundations in the works of DeAngelo (1986) and Jensen (1986): both scholars connected the agency problem with the managerial discretion in financial reporting. DeAngelo (1986) pointed out the manipulation of earnings by managers of highly leveraged firms to evade breaches of debt covenants, and the agency cost theory developed by Jensen (1986) elaborated how debt funding can rein-in managerial performance and also encourage the manipulation of earnings to produce desirable financial reports.

Based on these classical premises, Muhtaseb (2024) investigates the connection between leverage, earnings management, and audit industry features on the list of firms in Palestine. The research design was a quantitative panel design utilizing secondary data of annual financial statements between 2018 and 2022. To establish the impact of leverage on earnings management, regression analysis was used. Results indicate that the level of earnings management is much higher with greater leverage, and the relationship between the two is moderated by audit supervision which limits managerial opportunism. At the end of the analysis, it is concluded that the propensity of politically leveraged companies to tamper with earnings can be limited by striving towards rigorous audit oversight.

Alquhaif et al., (2024) examine the effects of audit committee financial expertise on the practice of real earnings management using CEO power as a moderating factor. The study used a panel dataset of listed firms in 2017-2023 to apply the multiple regression analysis. The findings show that the financial expertise of audit committees has a negative impact on the



management of real earnings, but the impact is minimized when the CEOs are too powerful. The paper focuses on the significance of having financially literate committee members in order to enhance the quality of financial reporting and reduce the opportunistic reporting practice.

Zadeh et al., (2023) discuss the effects of audit committee characteristics on accrual earnings management in several industries. The authors tested their hypotheses using generalized least squares regression based on a cross county panel dataset covering 2015-2022. The results indicate that financial expertise and independence of the audit committee greatly lower the earnings management, and committee size has a divergent impact. The research finds that companies that have older and financially sound audit boards have higher reporting earnings that are more plausible.

The study by Mamidu (2023) evaluates the impact of financial leverage on the earnings management of the chosen manufacturing companies in Nigeria. The research was based on ex-post facto research design and included 2016-2021 data. The model has been estimated using Ordinary Least Squares (OLS) regression. The results indicate that there is a strong positive correlation between financial leverage and earnings management, which implies that companies with high leverage have more chances of manipulation of earnings in order to pay off the debt. The research suggests the proper debt monitoring policies to promote transparency.

The study by Theno (2024) examines the impact of attributes of audit committees on the earnings management of listed oil and gas companies in Nigeria. The article used panel data between 2015 and 2022, and the analysis was conducted on the fixed-effects regression. Findings have shown that financial expertise and independence of the audit committee go a long way in reducing the accrual and real earnings management. The paper notes that the corporate governance systems are instrumental in increasing the reliability of the financial reports in the emerging markets.

Cheung (2022) analyzes the impact of seven dimensions of audit committee expertise on real earnings management of publicly listed companies. The study was based on the multiple regression analysis using the 2016-2019 data. Results indicate that accounting, finance and auditing skills cause the most negative effect on earnings manipulation whereas general management skills have lesser effect. The paper highlights the necessity of diversified yet financially sensitive audit committees to build greater reporting integrity.



Okea and Aderemi (2024) evaluate the role of leverage on the financial performance of quoted consumer goods companies in Nigeria. The research was based on secondary data on 11 companies that are listed in the Nigerian Exchange Group since 2015. The regression analysis was used to determine the relationship between leverage and firm performance. The findings reveal that long term and short term debt ratios are strong determinants of profitability and this means that leverage pressure can cause earnings management practices.

Adamu and Bello (2023) examine the correlation between financial leverage and the quality of earnings of non-financial companies in Nigeria. The research used a secondary data on 2016-2021, and regression analysis. The results suggest that the level of leverage has a negative relations with the quality of earnings and this suggests that the managerial accounting number manipulation is driven by the pressure of servicing debt. The paper advises the regulators to be more vigilant of debt-funded companies.

Hummingbird and James (2025) study the use of earnings management in the listed consumer goods manufacturing companies in Nigeria. The data used in the study is between 2018 to 2024 and the measures of accrual-based and real-activity manipulation were used. Findings indicate that the majority of companies moderate their earnings management to work out the companies earnings and appeal to investors. The research arrives at the conclusion that good governance practices like audit committee financial expertise are to be put in place in order to reduce manipulation.

In their study, Okonkwo and Musa (2023) examine the influence of audit committee experience and independence of boards on earnings management of Nigerian listed companies. The study has used panel regression models based on the data of 2017-2022. The results indicate that those companies which have experienced audit committee members in terms of financial experience have lower discretionary accruals. It concludes based on the study that good governance mechanisms enhance transparency in earnings and guard stakeholder interests.

The literature review shows that there is uniform evidence that financial leverage has positive impact on earnings management because companies under the stress of debt tend to misrepresent earnings to fulfill their contractual responsibilities. Audit committee financial expertise on the other hand tends to counter such manipulation by increasing financial control, and reporting disclosure. Most of the previous studies have however concentrated on the developed markets or non-consumer markets with little consideration on the consumer goods



industry in Nigeria. Also, only a limited number of studies have collectively investigated a moderating impact of audit committee financial expertise in the leverage-earnings management nexus. This paper thus bridges this contextual and methodological gap by concentrating on listed Nigerian consumer goods companies.

3. Methodology

This section presents the research methodology adopted for the study. It outlines the research design, population and sample, variables and their measurements, model specification, and estimation technique.

Research Design

The research design adopted in this study is ex-post facto research design, since it would fit well since the variables of interest have already taken place and cannot be altered in any way by the researcher, such as firm leverage, earnings management, and audit committee financial expertise. With this design, it is possible to use historical financial data to determine the relationship between the variables. The research is a quantitative research study and it used the secondary data which is the annual reports and financial statements of the listed firms in Nigeria that deal with consumer goods. This methodology is consistent with the previous research like Mamidu (2023) and Theno (2024) that employed the same design to study the behavior of firms on a financial level.

The population of this research includes the entire consumer goods companies that are registered in the Nigerian Exchange Group (NGX) on December 31, 2024. The NGX Factbook (2024) indicates that there are an estimated 21 consumer goods listed companies. These companies were chosen due to the fact that they are in a very competitive business with a high leverage, and often reporting financial activities.

The research sample is comprised of companies with full and steady financial information during the research period (2018-2024). The firms that did not have sufficient financial reporting or governance reporting were eliminated. The sample was made up of 15 firms based on the availability of data, a figure that is more than three quarters of the population of the sector and this is sufficient to make inferences that would be statistically relevant.



Variables of the Study

The dependent variable is Earnings Management (EM), which reflects the extent of managerial control in financial reporting, which has generally been determined through discretionary accruals in the Modified Jones Model, as endorsed by Dechow, Ge, and Schrand (2019), who noted that it is highly reliable in identifying accounting manipulation. The independent variable is Firm Leverage (LEV), which is measured as total debt to total assets, and is the level of financial risk in a firm, as it is consistent with Alzoubi (2021), who discovered the effect of leverage on earnings management to be significant because of debt pressure. Audit Committee financial Expertise (ACFE) is the moderating variable that is determined as the percentage of audit committees that has accounting or financial expertise; as affirmed by Rahman, Saad, and Ismail (2022): financial expertise improves monitoring and decreases earnings manipulation. According to Ali et al.,(2020), the control variables are Firm Size, Profitability, and Audit Quality, and this is the reason they proved that the bigger, profitable, and high-audit-quality firms are the less likely to practice earnings management.

Table 1: Variable and Measurement

Variable	Symbol	Measurement
Earnings Management	EM	Discretionary Accruals (Modified Jones Model)
Firm Leverage	LEV	Total Debt / Total Assets
Audit Committee Financial Expertise	ACFE	Percentage of audit committee members with accounting/finance backgrounds
Firm Size	FSIZE	Natural log of total assets
Profitability	ROA	Net Income / Total Assets
Audit Quality	AUD	Dummy (1 = Big 4 auditor; 0 = others)

Model Specification

The study adapts and modifies the regression model of Zadeh et al. (2023) and Mamidu (2023) to examine the moderating role of audit committee financial expertise in the relationship between firm leverage and earnings management.

The model is specified as:



$$EM_{it} = \beta_0 + \beta_1 LEV_{it} + \beta_2 ACFE_{it} + \beta_3 (LEV_{it} * ACFE_{it}) + \beta_4 FSIZE_{it} + \beta_5 ROA_{it} + \beta_6 AUD_{it} + e_{it} \dots \dots \dots (equ\ 1)$$

Where, EM_{it} is the Earnings Management, LEV_{it} is the Firm Leverage, ACFE_{it} is the Audit Committee Financial, LEV_{it}*ACFE_{it} is the interaction term representing moderation effect, FSIZE_{it} is the Firm Size, ROA_{it} is the Firm Profitability, and AUD_{it} is the Audit Quality. *e_{it}* is the error term.

Estimation Technique

The estimation technique used in the study is the Fixed Effects Model (FEM). The FEM is desirable due to the ability to control the attributes of firms that are not observable and does not change with time like the management style, structure or corporate culture. This method pays attention to within-firm dispensation, which enables the study to establish the actual influence of change in leverage and audit committee expertise on earnings management practices. The use of FEM aligns with the use of the previous literature, including Theno (2024) and Adamu and Bello (2023), which similarly utilized fixed effects to explain the heterogeneity of firms when studying the research on corporate governance and financial behavior. Through the use of FEM, the study is certain of an unbiased parameter estimation, strong inference and higher validity of the model especially when analyzing a panel of several firms with years of monitoring.

4. Results and Discussion

This section presents the results and discussion of the study, including descriptive statistics, correlation analysis, diagnostic tests, and regression findings, highlighting how firm leverage, audit committee expertise, and other variables influence earnings management among Nigerian consumer goods firms.



Summary statistics of the Variables

Table 4.1: Summary Statistics

	EM	LVE	FSIZE	ACFE	ROA	AUD
Mean	13.63	5.840078	8.9515	0.8100	0.0174	1.420
Median	7.736	6.317035	9.0364	0.8754	0.0116	0.2500
Maximum	69.6	9.392873	12.98	2.547	0.128	100.0
Minimum	0.000	0.0000	0.0000	0.000	-0.027	0.0000
Std. Dev	14.61	1.875712	2.6490	0.4034	0.0244	8.7862
Skewness	1.360	-1.0424	-0.587	0.2195	2.1388	10.993
Kurtosis	4.419	3.922705	4.0692	6.4575	9.3440	123.79
Jarque-Bera	50.99	28.15699	13.665	65.797	317.11	81658.
Probability	0.000	0.00001	0.0010	0.0000	0.0000	0.0000
Sum	1772	759.2101	1163.6	105.30	2.2673	184.61
Sum Sq. Dev.	27566	453.8600	905.23	21.00	0.0770	9958.
Observations	75	75	75	75	75	75

Source: Generated using EVIEWS 12

The summary statistics of the study variables namely, Earnings Management (EM), Leverage (LVE), Firm Size (FSIZE), Audit Committee Financial Expertise (ACFE), Return on Assets (ROA), and Audit Quality (AUD) are summarized in Table 4.1 using 75 firm-years observations. The average of EM (13.63) shows there is an average degree of earnings manipulation between listed consumer goods companies in Nigeria and the standard deviation (14.61) is large and indicates that the level varies across companies. Leverage (mean = 5.84) can be seen to suggest that firms use debt funds moderately in general. The Firm Size (mean = 8.95) indicates that the majority of firms are established and large and the mean ACFE of the audit committees is 0.81 which indicates that audit committees are rather highly qualified in terms of financial expertise. The average ROA (0.017) is a sign of low profitability as it is in line with the sectoral challenges. The Audit Quality (mean = 1.42) is also widely distributed, and the skewness and kurtosis values are large which makes it clear that there are outliers. The JarqueBra probabilities in all variables are less than 0.05 and this supports the non-normality of the data, hence it is appropriate to use the panel data models such as the Fixed Effects approach to obtain sound estimates.



Table 4.2: Correlation Analysis

	EM	LVE	FSIZE	ACFE	ROA	AUD
EM	1	0.061	0.02698	0.1447319	-0.1097	0.60353
LVE	0.0619	1	-0.0244	-0.134649	0.005383	0.23445
FSIZE	0.0269	-0.02	1	0.2273141	0.04333	-0.1020
ACFE	0.1447	-0.13	0.22731	1	0.10053	0.01196
ROA	-0.109	0.005	0.04333	0.1005346	1	0.018949
AUD	0.60353	0.2344	-0.1020	0.0119648	0.018949	1

Source: Generated using EVIEWS 12

The correlation of the variables in the study is reflected in Table 4.2. The findings indicate that Earnings Management (EM) is positively related to Leverage (0.061), Firm Size (0.027), Audit Committee Financial Expertise (0.145) and Audit Quality (0.604), meaning that the larger the leverage, size and the expertise of the auditing committee, the higher the earnings management, however, the relationships (except on audit quality) are not strong. The EM and AUD have a positive correlation (0.604) which means that firms which are audited by superior auditors might have a higher discretionary accrual which might be because of the tougher audit scrutiny. On the other hand, there is a weak negative relationship between EM and ROA (= -0.110) but this implies that more profitable companies are less prone to earnings management. On the whole, the low correlation coefficients (less than 0.7) between variables reflect the absence of the multicollinearity problems, which proves that all variables may be accurately incorporated in the regression model.

4.3 Heteroskasticity Test

Table 4.3: Heteroskasticity Test

	Value	Df	Probability
Likelihood ratio	131.8297	13	0.20560

Source: Generated using EVIEWS 12

The heteroskedasticity test result is contained in table 4.3 with a likelihood ratio of 131.83, degrees of freedom (df) of 13 and probability value of 0.2056. The null hypothesis of homoskedasticity can not be rejected because the probability value is more than the significance level of 0.05. This denotes that standard deviation of the residuals does not change with the number of observations implying that there is no heteroskedasticity in the model.



4.4 Normality Test

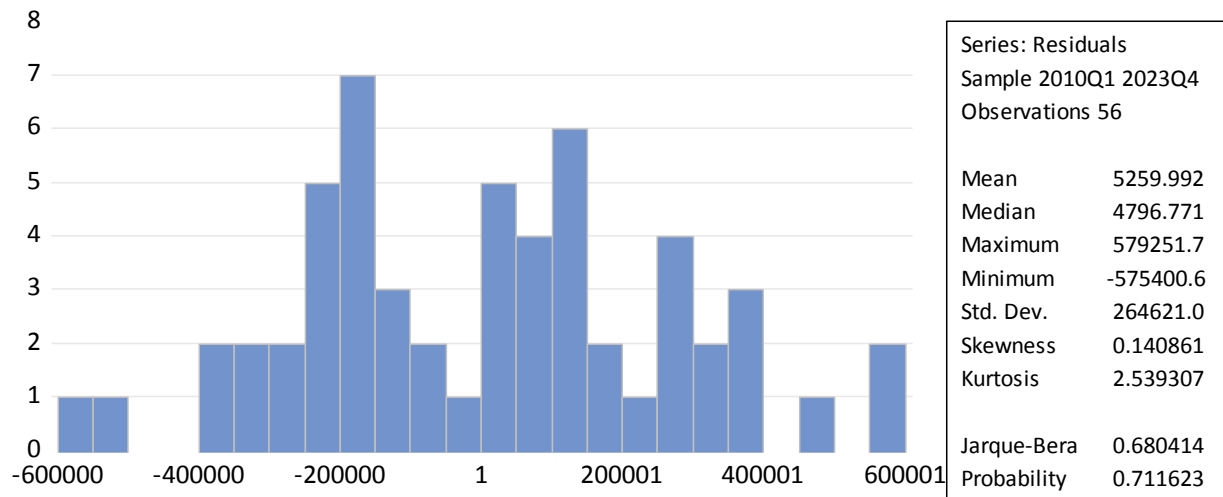


Figure 4.1: Normality Test

The normality test in the histogram demonstrates the distribution of the residuals of the regression model. The Jarque-Bra is also significant (0.680414) with a probability value (0.711623). The p-value (0.7116) is larger than 0.05 and thus we do not reject the null hypothesis of normality. This means that the residual values are normally distributed thus meeting one of the main assumptions of the classical linear regression model. The value of skewness (0.140861) is also near to -0 and kurtosis (2.539307) is also equal to normal value (3), which again proves that skewness pattern of the residue is normal.

Firms leverage and earnings management, moderating effects of audit committee financial expertise.

Table 4.4: Correlated Random Effects – Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob. Value
Cross-section random	9.709886	3	0.0212

Source: Generated using EVIEWS 12



Table 4.5 Firms leverage and earnings management; Dependent variable. EM

Variable	FIXED EFFECT			RANDOM EFFECT		
	Coeff	Std Error	Prob Value	Coeff	Std Error	Prob Value
C	−0.002745	0.009985	0.7839	0.002233	0.009654	0.8175
ACFE	0.005583	0.001477	0.0003	0.005213	0.001429	0.0004
LEV*ACFE	0.345455	0.01065	0.0000	0.409778	0.01123	0.0015
FSIZE	−0.002098	0.001132	0.0663	−0.002057	0.001065	0.0557
LEV	0.007853	0.005392	0.1480	0.003929	0.005067	0.4395
ROA	0.567000	0.002998	0.0024	0.676654	0.00656	0.0001
AUD	0.097767	0.01097	0.0098	0.19889	0.03567	0.0076
R-squared	0.478760			0.602422		
Adjusted R-squared	0.410176			0.698105		

Source: Generated using EVIEWS 12

Table 4.4 and 4.5 provide results summarizing the relationship between firm leverage and earnings management with moderating influence of audit firm financial expertise (ACFE) of listed consumer goods firms in Nigeria.

According to the Hausman test result in Table 4.4, the Chi-square statistic of 9.71 with the probability value of 0.0212 is statistically significant at the 5% level. This means that the Fixed Effects Model (FEM) suits the study better than the Random Effects Model (REM). The FEM accounts to unobserved firm-specific heterogeneity that gives more consistent and unbiased estimates.

According to Table 4.5, the value of R-squared is 0.4788, meaning that the independent and moderating variables in the model accounted for about 47.9 percent of the variance in earnings management (EM). The strength of the model is also supported by the Adjusted R-squared (0.4102) which controls the degrees of freedom.

The leverage coefficient (LEV) is positive (0.007853) and it is not significant ($p = 0.1480$). It means that the relationship between highly leveraged firms and the propensity to manage earnings is not strong enough to be statistically conclusive.

The Audit Committee Financial Expertise (ACFE) variable (0.005583) is positive and statistically significant ($p = 0.0003$) at the 1% level, which means that the higher the financial



expertise of the audit committee members the higher the reported earnings management. This surprising finding indicates that financial professionals can be technically capable of persuading or justifying aggressive accounting options.

The interaction term (LEV*ACFE) is positive (0.3455) and highly significant ($p = 0.0000$) which proves that the impact of leverage on earnings management is enhanced by audit committee financial expertise. This implies that managers can be more comfortable to manipulate earnings by claiming the existence of the legitimate adjustment of accounts because of the presence of financially skilled audit committees in highly leveraged firms. This mitigating force highlights the ambiguity of governance systems of financially limited firms.

For the control variables, Firm Size (FSIZE) is negative (FSIZE = -0.0021) and the p-value (0.0663) is marginally significant, which implies that bigger companies are less likely to practice earnings management, which could be because they have a better external control over them. The Return on Assets (ROA) is positive (0.5670, $p = 0.0024$) which indicates that the more profitable firms can employ the earnings management to maintain investor confidence. Audit Quality (AUD) also has a positive but significant value (0.0978, $p = 0.0098$) which means that the discretionary accruals are going to be higher in the case of firms which are audited by reputable auditors, which is probably because there are more strict compliance standards and reporting standards.

Discussion

The findings of this study provide significant new information regarding the relationship between the leverage of firms, financial expertise of audit committees, and earnings management in publicly listed Nigerian consumer goods firms. The results indicate that leverage has a positive but statistically insignificant influence on earnings management, which means that, though highly leveraged firms face higher chances of manipulating their income, it is not the strongest relationship that can be used to draw conclusions about firms. This finding is aligned with the findings of Adamu and Bello (2023), who found that the relationship between the financial leverage and the quality of earnings was a weak positive correlation. This indicates that businesses that are under debt stress may distort financial statements to meet loan obligations or maintain a good relationship with their lenders.



It contrasts with Mamidu (2023) and Muhtaseb (2024) who both found out a strong positive relationship between leverage and earnings management in developing countries. This implies that financial stress often compels companies to make a calculated adjustment in the reported profits so as to evade bankruptcy in debt obligations.

The research also reveals that in the case of Nigerian consumer goods firms, audit committee financial expertise (ACFE) has a significant positive effect on earnings management. This is particularly interesting because it refutes the traditional wisdom that audit committees comprising of financial literate individuals enhances the quality of financial reporting. Based on this research, the members of audit committees who have financial backgrounds appear to promote and not discourage the manipulation of earnings.

This result validates up to the observations made by Alquhaif et al., (2024) who found that audit committee financial expertise can only affect the real earnings management negatively when the independence of the committee is high. Alternatively, financial specialists may be used by the management to manipulate their expertise to sanction new accounting methods when they do not have the ultimate autonomy. Likewise, Cheung (2022) pointed out that even though financial literacy is the key to supervision, the board independence and ethical orientation are the determinants of its effectiveness. This could undermine the integrity of audit committees in Nigeria because corporate governance laws are poorly enforced and managers have control over nomination of members to the board, so that knowledgeable individuals can use that loophole to either excuse or conceal earnings manipulation under complex accounting processes.

Also, the relationship between leverage and earnings management is moderated by the financial experience of the audit committee in a positive and significant way. This result implies that the effect of leverage on the earnings manipulation is amplified in cases where audit committees consist of financial experts. In other words, audit committee financial expertise can inadvertently enhance the motivation or ability to manipulate earnings in highly leveraged firms, maybe because it is given an opportunity to use accounting flexibility to meet debt covenants or to provide an impression of solvency to investors. This result is opposite to the studies of Theno (2024) and Zadeh, Rahman, and Lim (2023) who discovered that the experience of the audit committee minimizes the negative effect of leverage on earnings management by imposing more rigid control.



This disparity could be due to institutional environment differences; in the developed world, better governance systems and enforcement of regulations improve information gathering by audit committees in contrast to the emerging markets, like Nigeria, where such committees are not independent and accountable.

Regarding the control variables, the size of firms is negatively related to earnings management, which indicates that the larger organizations are, the less chance they have to manipulate the outcomes due to the heightened level of scrutiny by the parties and the enhanced external audit. This is facilitated by the results of Okonkwo and Musa (2023) who found that in the case of Nigerian listed firms, discretionary accruals are reduced by the size of the firm. The impact of profitability on earnings management is positive, however, the observation is in line with the findings of Hummingbird and James (2025) that profitable firms can utilize earnings smoothing to maintain investor confidence and reduce the perceived volatility. Finally, the close positive relationship between audit quality and financial reporting indicates that those companies that are audited by respectable auditors report their finances in a more transparent manner though this might be attributed to the increased disclosure of the accrual adjustments.

In general, the findings indicate that there exist intricate interactions between governance and financial structure in determining the levels of earnings management in the Nigerian consumer goods industry. They argue that even though financial knowledge is important in audit committees, they should not be abused by making sure that they are independent, accountable and highly regulated. To ensure that financial expertise plays the desired role of monitoring instead of allowing the opportunistic financial reporting, the study advocates the need to continually strengthen the corporate governance system in Nigeria.

5. Conclusion and Recommendation

Considering the moderating role of audit committee financial expertise, this research paper examined how the firm leverage is related to earnings management among listed Nigerian consumer goods companies. These findings revealed that leverage, though with a statistically weak positive effect, has a positive influence on the earnings management. This is an indication that financially strained companies have higher chances of distorting their recorded incomes to meet their liabilities and save their image in the market. In addition, the audit committee financial expertise was found to have a significant contribution to earnings management. This



is an indication that instead of promoting transparency, financial expertise can sometimes be employed in Nigeria to promote aggressive accounting. The moderating role of audit committee financial expertise also enhances the effect of leverage on earnings manipulation, more so the complexity of corporate governance relationships in financially constrained settings.

On the basis of these findings, a number of policy suggestions are made.

- i. Firstly, the audit committees should be made more independent and accountable by the regulatory bodies, such as the Securities and Exchange Commission (SEC) and the Financial Reporting Council of Nigeria (FRCN). Instead of role of manager, independence of professional integrity and merit should be the basis on which the members of the financial caliber would be appointed.
- ii. Secondly, to enhance ethical awareness and effective oversight, the companies are advised to ensure that the members of the audit committee develop professionally on a continuous basis.
- iii. Thirdly, in order to detect and punish listed companies that are manipulating earnings, the Corporate Affairs Commission (CAC) and the Nigerian Exchange Group (NGX) should engage in a stricter compliance oversight.
- iv. Fourth, to mitigate the temptation to overcome the earnings, the management of the highly leveraged companies ought to adopt the transparent financial disclosure policies. Finally, the regulators and auditors should collaborate to establish more effective internal controls mechanisms that can help in detecting new accounting methods at an early stage.
- v. In conclusion, to minimize earnings management and ensure honest financial reporting by the Nigerian consumer goods firms it is of essence to strengthen the debt governance processes, promote ethical financial practices and strengthen the independence of audit committees.



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