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Audit Committee Composition And Earnings Management Of Listed Consumer Goods Manufacturing Firms In Nigeria

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ABSTRACT

The deliberate misrepresentation and manipulation of the financial statements by directors distorts the quality of information to users thereby reducing the credibility of the audit committee. This study investigates the relationship between audit committee composition and earnings management of listed consumer goods manufacturing firms in Nigeria. The study employed ex-post facto research design using a sample of thirteen (13) listed consumer goods manufacturing firms in Nigeria for a period of 8year (2012 – 2019). The ordinary least square regression technique was employed in the analysis of a pool of panel data obtained from published annual reports of the sampled firms. The study found that audit committee composition has significant relationship with earning management of sampled firms at 95% confidence level. The study concludes that audit committee composition has inverse but significant impact on earning management of listed consumer goods manufacturing firms in Nigeria. Based on the findings, it was recommended that audit committee should have more independent non-executive members to enable them reduce the occurrence of earnings management and other misstatements and independent non-executive members' tenure should be specified under the Nigerian code of corporate governance to forestall familiarity threat and enhance financial reporting quality.

Keywords: Audit committee, Audit committee composition, Earnings management, Agency theory.

INTRODUCTION

Corporate scandals and failures such as Oceanic Bank, Societe General Bank, Savannah Bank and Cadbury Plc among others put the spotlight on effectiveness of corporate governance mechanisms in monitoring the financial reporting process. Audit committee is considered as one of the crucial and influential participants of corporate governance as it assists the board of directors in discharging its responsibilities in overseeing corporate management (Bedard and Gendron, 2010; Li et al, 2012). An audit committee is a subcommittee of the board that specializes in, and is responsible for ensuring the accuracy and reliability of the financial statements provided by management. Indeed much of the blame and criticism for accounting irregularities is aimed at audit committees for not fulfilling their financial reporting oversight duties due to independence issues (Pergola, 2005).

According to Kiabel (2009) audit committees are established for the purpose of increasing public confidence in the credibility and objectivity of published financial information. The composition of the audit committees specifically refer to the total number of director and that of the representatives of the shareholders. The committee must have a maximum of six (6) members in the proportion of three (3) directors and three (3) representatives of shareholders.

The quality and credibility of financial reporting can be badly affected when the audit committees has low or no independence (Habbash, 2010). Baasley & Salterio (2001) argue that companies that have the incentive and ability to increase the strength of the audit committees will do it by including more outside directors in the committee than the minimum number as required by legislation. One of the unethical issues in accounting is earnings manipulations that come under the umbrella of earnings management under the pretext of maximizing firms' value and reducing risks. Earrings management is seen as an attempt by management to induce or influence or manipulate reported earnings by using specific accounting method or changing methods, recognizing one-time non-current item, deferring or increasing expenses or revenue transactions or using other methods designed to influence short term earning (Rahman, et al. 2013).

This practice, according to Levitt (1998) causes an erosion in the quality of earnings and consequently the quality of financial reporting will lose out to illusion. Managers use earning management to maximiz, company's interest (shareholders interest) or to maximize their own interest, this causes an agency problem. However, both have different interests and this leads to conflicts (Jensen, 2005 & Leuz et al. 2003).

Abdul Rauf et al (2012) suggest that management could use earnings management to mislead shareholders by showing a different reflection of the firm's earnings.

The available literatures provide divergent opinions on the relationship between audit committee independence and earnings management. Meca and Bellesta (2009) who studied corporate governance and earnings management revealed that audit committee independence can constrain earnings management thereby improving investors' confidence. In another development other researchers provided no evidence to support the relationship between audit committee independence and earnings management. Baxter and Cotter (2009) found no significant association between audit committee and earnings management. This is also in line with the findings of Nelson and Jamal (2011) who found a positive but not significant relationship between audit committee independence and earnings management.

Fodio et al (2013) found a positive significant relationship between audit committee independence and earnings management. This is consistent with Shah et al (2009). From the foregoing, this study investigates the relationship between audit committee composition and earnings management of listed consumer goods manufacturing firms in Nigeria using post IFRS annual report (data) covering 2012-2019

LITERATURE REVIEW

Foundation

Agency Theory

Several factors may lead to manipulation; regardless of the kind of relationship between principals and their agents, such as pressure, opportunity and ethics (Nicolas, 2006). Therefore, the kind of relationship between principals and their agents may reduce manipulation but cannot eradicate it (Osma, 2008).

Agency theory originated from the work of Berle and Means (1932). They explored the concept of agency and applications towards the development of large corporations. They found out how the interest of the directors and managers differ from the owners of the firm, thereby using the concepts of agency-principal to explain the genesis of those conflicts.

Jensen and Meckling (1976), further on the work of Berle and Means (1932) to develop agency theory as a formal concept. They also formed a school of thought arguing that corporations are structured to minimize the costs of getting agents (agency costs) to follow the direction and interests of the principals.

Agency relationship according to Craig (2010) referred to many relationships involved in the delegation of decision making from one party (principal) to another party (agent).

The quality of this monitoring function describes how well auditing practices can detect and report material misstatements of financial reports, reduce information asymmetry between the board and shareholders and in effect enhance the protection of the shareholders' interests (Dang, 2004).

According to Pincus et al, (1989), the audit committee was established primarily in circumstances where agency costs is too high to improve the quality of information passing from managers to shareholders. In the same vein, the agency theory optimize that to ensure the effectiveness of audit committee, managers are mandatory to prepare financial statements and specify the returns generated by the companies (Kipkoech & Rono, 2016). The formation of audit committee derives its impetus from agency theory. When the management of firms are delegated by shareholders to agents it creates agency relationship (Umobong & Ibanichuka, 2017).

These divergence could occur because of financial reward, labour market opportunities and relationship with other parties that are not beneficial to the principal (Umobong & Ibanichuka, 2017).Also agents could be more risk averse than principals. These scenarios could create conflicts and the opportunity for the principal to institute mentoring functions to curtail the activities of the agent and ensure goal congruence where there is divergence of views and motives (Umobong & Ibanichuka, 2017).

The agency theory is usually criticized for prioritizing the interest of shareholders over and above the general interest of other stakeholders, such as employees, the government and the society in general (Charron, 2007, cited in Barde, 2009). The other shortcoming of the principal-agent relationship is the argument by the economic bonding theory proponents. They argued that the conscious or unconscious bond between the audit function and management necessitated by the auditor's monetary dependence on management can negatively affect the auditor's resistance against unethical inducement to manipulate financial records and compromise audit quality (Frankel, et al, 2002). On the basis of the above theoretical underpinning, this study is anchored on agency theory.

Conceptual Review

Audit Committee

Oniwinde (2010) posited that the reported cases of poor and fraudulent financial reporting and governance experienced recently in Nigeria demonstrated the role the audit committees have to play either directly or indirectly as they are charged with overseeing financial reporting. The responsibilities bestowed on them (audit committee) due to information asymmetry between the management and the owners of the business was expected to ease the agency problems which would invariably lead to the reduction of agency cost when the substantial interests of the owners are aligned with the company's interests (Yayah, et al, 2012).

According to Okaro and Okafor (2013) an effective audit committee provides the following advantages: strengthen the external auditor's independence; add credibility to audited financial statements; supplementary assurance that corporate policies are in the best interest of shareholders and society at large; enhancement of the internal auditor's position; improving performance of senior management by creating consciousness in them; advance of conflicts arising between management and auditors; and better communication between the directors, external auditors and management.

Audit Committee Composition

The composition of the audit committee specifically refers to the total number of directors and that of the representatives of the shareholders. The committee must have a maximum of six members in the proportion of three (3) directors and three (3) representatives of shareholders. The quality and credibility of financial reporting can be badly affected when the audit committee has low or no independence (Habbash, 2010). Beasley and Salterio (2001) argued that companies that have the incentive and ability to increase the strength of the audit committee will do it by including more outside directors in the committee than the minimum number as required by legislation. The likelihood that companies receive a going concern opinion is influenced by the number of outside directors in the audit committee (Carcello & Neal, 2000). The European Union requires that there should be an audit committee for each publicly held company, however, each member state has the power to decide on the composition of these committees (i.e. members from outside the company, from its supervisory body and/or members appointed by the company's shareholders) (Al-baidhani, 2014). The audit committee is made up of an equal number of directors and shareholders that enhances its efficiency in checking the power of the executive directors with particular reference to the accounting and financial reporting functions (Enofe et al, 2013).

Saleh et al (2007) provided evidence that the fully independent audit committee is a very active mechanism against opportunistic earnings management practice. An independent audit committee member is a person who is not employed by or providing any services to the organisation beyond his or her duties as a committee member.

The Securities and Exchange Commission (SEC) code of 2011 agrees that the use of non-executive directors will make for greater independence for board committee members. Proxies for the audit committee's degree of independence include the percentage of outside directors on the committee and dummy variables indicating a majority or total of independence directors (He et al, 2013).

Ofo (2010) noted that the regulatory provision on audit committee in Nigeria is unique and significantly differs from what is obtained in other countries. This difference particularly relates to audit committee composition (independence) and activity level (issues of meeting frequency and attendance). With the increase cases of financial reporting falsification and failure, Ofo (2010) stated there is an urgent need to review the structure, format and operations of audit committees of public companies in the country in order to make than effective therefore achieve the purpose of establishment. The companies and Allied Matters Act, 2004 stipulate audit committee should be made up of equal number of directors and shareholders with further emphasis that the majority of the directors should be non-executive directors. Non-executive directors than executive directors on the audit committee ensures more independence (Dabor &Adeyemi, 2009). This reality has led the regulatory authorities in other countries including among others the United States, Malaysia to provide that all the directors on the audit committee should be independent non-executive directors (Abdullahi, 2006; Ofo, 2010). Sample of Singapore and Malaysian firms reveal that audit committee independence is associated with lower abnormal working capital accruals (Bradudbury, et al, 2006). Cohen et al (2011) suggested that independence of audit committee members guarantee effectiveness, reliability of financial reports and mitigate manipulative and selfish motives of managers.

Audit committee composition is measured by the proportion of non-executive directors in the committee (Bradbury, et al, 2006; Yang & Krishman, 2005; Lin et al, 2006; Xie et al, 2003; Adeyemi, et al, 2012).

Earnings Management

Earnings management has received great attention globally and its effects on the level of reliability is placed on the financial reports of companies (Beaudoin, 2008; Murya, 2010; Uadiale, 2012). Managers use earnings management to maximize company's interest (Shareholders interest) or maximize their own interest, thus causes an agency problem.

Excessive earnings manipulation distorts the quality of information underlying the business performance and financial position which may lead to financial fraud (Vineeta, 2004).

Earnings management is determined by Blom (2009) as a purposeful interference by the management in the procedure of financial reporting in order to gain a personal benefit or for the organisation. Based on this premise, earnings management is not informative for shareholders, and therefore it is opportunistic.

Inspite of all the instruments implemented in the last decade which intent to improve the level of transparency, dependability and confidence in the content of the financial aspect, the ability of corporation to manipulate the financial reports through the earnings management practice still occurred predominantly since these management practices are legal and within the flexibility allowed by the accounting standards which differ greatly from illegal practices that are categorized as cases of cheat (Yildirim, 2016). Interestingly, Abdulrahman and Ali (2006) explained that earnings management practice adheres with accounting principles, so the practice falls within the bounds of accepted manipulations of accounting procedures and this differentiates earnings management from fraud as no violations for the rules took place, though this practice produces inaccurate information about the corporation.

Bala and Kumai (2015) described earnings management as a deliberate misrepresentation of the financial condition of an enterprise accomplished through intentional misstatement or omission of amounts or disclosure in the financial statements to deceive financial statements users. The nature of accrual accounting gives managers a significant amount of discretion in determining the actual earnings a firm reports in any given period (Epps & Ismail, 2008).

Hassan and Ahmed (2012) documented that accruals are the most important earnings management instrument used by managers to either increase or decrease reported income. This is because there are components of earnings not reflected in current cashflows and a great deal of managerial discretion goes into their construction.

Calegari and Maretno (2005) defined earnings as the operating income after the depreciation as nonrecurring items are excluded. They further stated that the accrual and components of cash of current earnings are essential in future earnings persistence assessment.

Filed et al (2001) stated that earnings management is witnessed when managers exercise their discretion over accounting numbers, with or without restrictions. Thus, there are two types of earnings management, opportunistic and informative. Dutta and Gigler (2002) developed a model to justify the benefit of earnings management. They narrated that the shareholders' wealth can be reduced when the possibility of earnings management is restricted by an accounting standard and auditing process. Magrath and Weld (2002) opined that managers can use earnings management to lessen the volatility of earnings and that can help reduce the level of perceived risks by investors and increase the worth of the firm. It follows that managers who involve in earnings management also follow the value maximization principle. Ning (2006) also pointed out that earnings management is not fraud because it is done within legitimate constraint. It may create misrepresentation of earning reporting but it does not misrepresent the firm's economic worth in terms of total value of asset, liabilities and equity. Jiraporn et al (2008) provide the empirical evidence using the data from US firms. Their result showed that earnings management is beneficial because there is the positive relationship between it and firm value.

Roman (2002) opined that earnings management occurs when management has the opportunity to make accounting decisions that change reported income and exploit those opportunities.

Agwor and Onukogu (2018) pointed out that earnings management may arise as a result of information asymmetry or problem of agency conflicts that occur when equity ownership is separated from day to day operations of the corporation and managers have a comparative information advantage over shareholders and that this market imperfection create an environment for managers to engage in accounting discretion in order to promote their selfish interest at the expense of shareholders.

Earnings management (Discretionary accruals) has been used variously in the literature to proxy financial reporting quality by such authors like (Jones 1991; Dechow et al. 1995; Klein 2002; Kothari et al, 2005; Francis et al, 2008; Raman & Shahrur 2008).

Empirical Review

Audit Committee Composition and Earnings Management

Juhmani (2017) examined the effectiveness of some audit committee characteristics to monitor management behavior with respect to their incentive to manage earnings. Bahraini listed companies on Bahrain Bursa for the year 2012 to 2014 were investigated. Multivariate regression model was used to analyze data. The results showed that discretionary accruals is negatively associated with audit committee size and audit committee financial experts, but positively associated audit firm size as control variable. However, the result do not show significant relationship between audit committee independence, audit committee meetings, company size, leverage and earnings management. In examining the effect of audit committee financial expertise and audit committee status on earning management.

Amar (2014) examined the relationship between independent audit committee and the proceeded measures of earnings management. Using multivariate regression analysis for a sample consisting of 279 French firms concerning the years ranging from 2002 to 2005. The result showed that the audit committee independence is linked to earnings management, hence totally independent audit committee does not influence earnings management.

Inaam, *et al* (2012) investigated the effects of audit committee characteristics (independence, size, meetings and financial literacy) on real activities manipulation in listed Tunisian firms. The study used ordinary least square to analysis 29 non-financial firms for the period 2000-2010 and reported that audit committee independence seems to be efficient in constraining real earning management and manager's opportunistic behavior.

Ojeka *et al* (2019) examined the impact of audit committee objectivity on the quality of financial reporting in the Nigerian Banking sector, data was extracted from 15 listed money deposit banks. Ordinary least square and least square dummy variables analysis were used and it revealed that audit committee independence impact positively on the relevance and reliability of financial report. CEO power in the audit committee mitigates the benefits of independence and caused its overall effects on financial reporting quality of no significance in terms of relevance and reliability.

Alwi and Melaka (2013) examined the relationship between audit committee (audit committee independence, expertise, meetings, gender and ethnicity) and the propensity of fraudulent financial reporting in Malaysia. Their sample include 116 fraud and non-fraud companies listed on Bursa, Malaysia between 2005-2010. The ordinary least square was used for the analysis and the findings indicated that the audit committee independence is positively associated with fraudulent financial reporting. This study explained further that the higher the proportion of independent or outside director in the committee, the higher the propensity of financial fraud occurrence. In addition, the result showed that the audit committee expertise is negatively associated with corporate fraud.

Ormin *et al,* (2015) examined the influence of the audit committee attributes of independence, meetings frequency and attendance on the financial reporting quality of listed deposit money banks in Nigeria. Data was extracted from the annual reports of 6 banks during the period 2003 to 2012. Pearson correlation statistics and OLS regression was used for the analysis. The result showed that audit committee independence has negative and significant influence on financial reporting quality of listed deposit money banks in Nigeria.

In a related study, Moses *et al,* (2016) examined the influence of audit committee characteristics on quality of financial reporting in listed Nigerian banks. The study sampled all 15 banks listed on the Nigerian stock exchange as at December 31, 2014. Pearson correlation coefficient and linear regression were used to analyse the data. The outcome of the study depicted that audit committee independence has no significant effect on earnings management in quoted Nigerian banks.

Hussaini and Gugong (2015) investigated the relationship between audit committee characteristics and earnings quality of listed food and beverages firms in Nigeria. The population consists of all listed food and beverages firms in Nigeria for the period 2009-2014. Multiple regression was used to analyze the data. Committee size and audit committee financial expertise showed inverse relationship with earnings management while audit committee independence and frequency of meetings are positively and significantly related to earnings management.

Ibrahim *et al,* (2015) examined the effect of audit committee attributes in deterring real activities manipulation of listed manufacturing firms in Nigeria for a period 2008 – 2013. Multiple regression was used to analyse the financial reports. The finding revealed that audit committee attributes especially financial literacy is effective in restraining real activities manipulation. Independence, meetings and size were found to be less effective in constraining real activities manipulation practice of listed manufacturing firm in Nigeria.

Saleh *et al,* (2019) investigated the role of audit committee characteristics in reducing modified audit opinion in the context of Jordan. A total sample of 117 listed companies on the Amman stock exchange was studied using logistic regression for the analysis. The findings from the financial statement of the listed companies from 2012 to 2017 in Jordan showed that there is no effect of audit committee independence, size and the number of meetings held on the modified audit opinion.

Ayemere & Elijah (2015) the study postulated that audit committee attributes can impact significantly, constraining accrual-based distortion of financial reporting credibility and thus improve the quality of financial reporting. To analyse this audit committee size, financial literacy, attendance at meetings, independence, and meetings frequency were regressed on financial reporting quality measured by discretionary accruals. It was revealed that audit committee characteristics have a constraining effect on earnings management. Specifically, audit committee financial expertise, audit committee size, audit committee independence and diligence showed an inverse and significant relationship with earnings management. This is in tandem with theoretical expectations and suggest that increase in these variables will exert a declining influence on earnings management.

Chandrasegram et al (2013) appraised the impact of audit committee characteristics on earnings management in Malaysian publicly listed companies. According to the study companies often portray a negative outlook of their business in order to provide confidence to shareholders and investors regarding the profitability and viability of the company and a key method used by the management to manage earnings and show better performance is through accrual accounting. The study utilized data derived from annual reports of 2011 of 153 Malaysian public listed companies to ascertain the impact of audit committee characteristics, namely frequency of meetings, size and independence on earnings management. The study revealed that these audit committee characteristics are not negatively related to the magnitude of earnings management.

Umar & Hassan (2017) used two stage least squares model and examined the impact of audit committee characteristics, institutional shareholding on discretionary accruals of listed conglomerate firms in Nigeria. Secondary data were extracted from the annual reports of six (6) most active listed firms on the Nigerian Stock Exchange for the period 2006 to 2015. A multiple regression was employed using HACC model. The study documented that audit committee characteristics and institutional shareholding has significantly impact on earnings management of the firms. Specifically, audit committee size, audit committee financial expertise and institutional shareholding are inversely related with earnings management, while audit committee independence is positively and significantly related with earnings management but there is no such impact of audit committee meetings. In addition, institutional shareholding and audit committee size are inversely related with earning management; audit committee independence and institutional shareholding are positively, strongly and significantly constraining earnings management, while audit committee financial expertise with audit committee meetings and institutional shareholding revealed no impact on earnings management. In line with the findings it was recommended that regulatory bodies like CAMA, SEC and NSE should ensure that listed conglomerates in Nigeria adhere strictly with code of best practice so that the interest of various stakeholders should be fully protected.

Therefore we hypothesize thus:

Ho_1: Audit committee composition has no significant relationship with earnings management of listed consumer goods manufacturing firms in Nigeria.

METHODOLOGY

The ex-post factor research design was used in this study. The population of the study is twenty-one (21) consumer goods manufacturing firms on the floor of the Nigerian Stock Exchange (NSE) as revealed by the official website of the NSE at December, 2019. Convenience sampling approach was used to narrow down the sample size to thirteen (13) firms where relevant data were extracted from their published annual reports for 8 years (2012-2019). The ordinary least square regression technique and Pearson's Product Moment Correlation Coefficient were used for the analysis.

The measurements of the independent and dependent are summarized in table 3.1.

Table 3.1: Measurement of Variables

Variable(s)	Measurement of Variables	Author(s)
Independent Variable		
Audit Committee Composition	Proportion of non-executive directors in the audit committee	Yang & Krishman (2005) Bradbury, et al (2006) Lin et al (2006) Xie et al, (2003) Adeyemi, et al (2012)
Dependent Variable		
Earnings Management	Jones Model (1991) measure abnormal difference between total accrual and non-discretionary accruals.	Jones (1991), Dechow et al (1995), Klein (2002), Kothari et al (2005), Francis et al (2008), Raman & Shahrur (2008), Xie et al (2003).

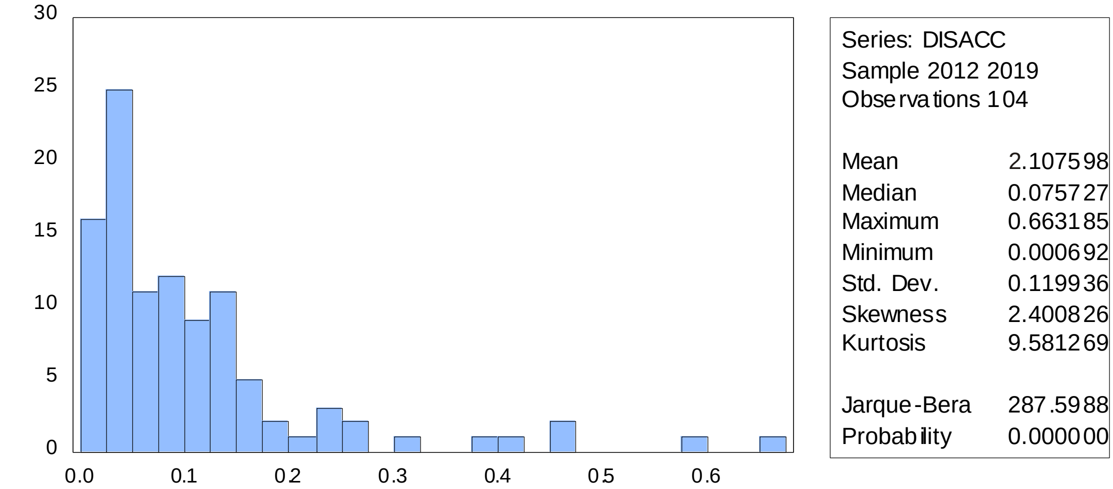
Source: Research Survey, 2020

RESULTS

Univariate

Discretionary Accruals (Earnings Management)

The absolute values of the residuals of the total accrual regression equation for the industry measure the discretionary accruals. On the average, 10.76 kobo worth of the sampled firms' earnings per naira value of their total assets deviates from their expected normal values. The median value is about 7.6 kobo which is considerably different from the mean value. The maximum observed is 66.3 kobo while the minimum is 0.07 kobo. The standard deviation is about 12.0 kobo which is slightly higher than the mean value, thus suggesting that the value of discretionary accrual exhibits a significant degree of volatility.



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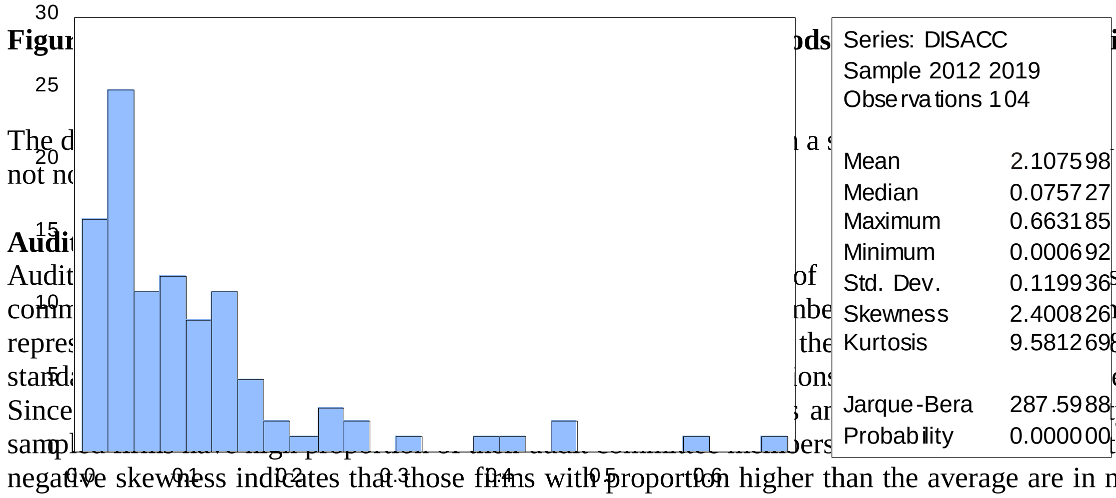
Series: DISACC
Sample 2012 2019
Observations 104
Mean 2.107598
Median 0.075727
Maximum 0.663185
Minimum 0.000692
Std. Dev. 0.119936
Skewness 2.400826
Kurtosis 9.581269
Jarque-Bera 287.5988
Probability 0.000000

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Audi…

Audit… …of… …s in the comm… …nbe… …members repres… …the… …8 with a stand… …ons… …ectively. Since… …ar… …ty of the samp… …ers… …tors. The negative skewness indicates that those firms with proportion higher than the average are in majority, compared with those with proportions lower than the average.

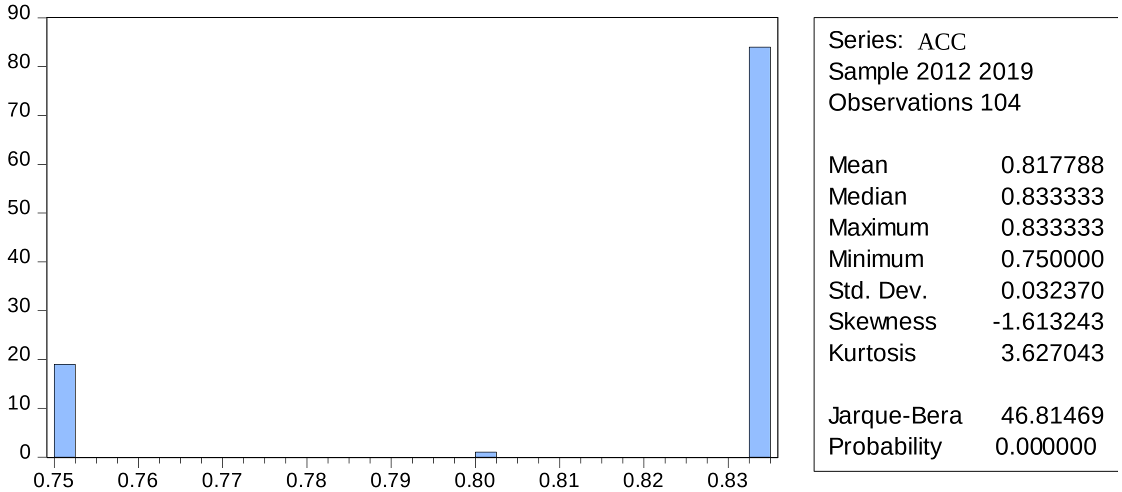

Figure 4.2: Audit Committee Composition of Listed Consumer-Goods Manufacturing Firms in Nigeria

Bivariate Analysis

The criterion for rejecting hypothesis of correlational significance is at 5% level. This means the hypothesis on any coefficient with p-value greater than 5% is accepted, otherwise it is rejected.

Earnings Management and Audit Committee Composition

The coefficient recorded is -0.2276 with a p-value of 0.0201. The negative sign on the coefficient indicates that discretionary accrual is inversely related with audit committee composition, meaning greater degree of audit committee composition is expected to bring about lower incidences of discretionary accruals. However, this relationship is weak as only about 5.2% (i.e. R^2) of such responsive changes in discretionary accrual can only be attributable to changes in audit committee composition. The p-value of 0.0201 confirms the significance of the relationship. This new result is presented in the partial correlation Table 4.1.

Table 4.1: Partial Analysis of DISACC Versus ACC:

Correlation Probability Observations	DISACC	ACC
DISACC	1.000000 ----- 104	
ACC	-0.230798 0.0190 104	1.000000 ----- 104

Therefore based on bivariate analysis, we reject the hypothesis of no significance relationship between discretionary accrual and audit committee composition at 5% level.

DISCUSSION OF FINDINGS

The test of hypothesis Ho_1 revealed that earnings management is significant but inversely related with audit committee composition. The result obtained from the analysis show that the increase in audit committee composition will bring lower incidences of discretionary accruals (earnings management). In line with these findings, Ayemere & Elijah (2015) studied audit committee attributes and accrual-based distortion of financial reporting credibility in Nigeria. It was revealed that audit committee characteristics have a constraining effect on earnings management. Specifically, audit committee financial expertise, audit committee size, audit committee independence and diligence showed an inverse and significant relationship with earnings management. Similarly, Ormin, et al. (2015) examined the influence of the audit committee attributes (independence, meeting frequency and attendance) on the financial reporting quality of listed deposit money banks in Nigeria. The result showed that audit committee independence has negative and significant influence on financial reporting quality. On the contrary, Chandrasegram et al., (2013) appraised the impact of audit committee characteristics on earnings management in Malaysian publicly listed companies. The study revealed that frequency of meetings size and independence are not negatively related to the magnitude of earnings management.

CONCLUSION AND RECOMMENDATIONS

This study provides empirical and statistical evidences on the relationship between audit committee composition and earnings management of listed consumer goods manufacturing firms in Nigeria. The study concludes that audit committee composition has inverse but significant impact on earnings management of listed consumer goods manufacturing firms in Nigeria. In line with the finds of the study, the following recommendations are made:

1. Audit committee should have more independent non-executive members to enable them reduce the occurrence of earnings management and other misstatements.
2. Though the increment of independent non-executive directors in the committee will mitigate earnings management but their tenure should be specified under the Nigerian Code of Corporate Governance 2018 to forestall familiarity threat and enhance financial reporting quality.

3. Neither Companies and Allied Matters Act (CAMA) nor the Nigerian Code of Corporate Governance 2018 made provision for the tenure of audit committee as corporate governance tool. Based on the findings we recommend the review of CAMA and the Nigerian code of corporate governance to include provision of appropriate membership tenure for audit committee.

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