

Moderating Effect of Audit Committee Expertise on Fraud Risk Factors and Earnings Quality of Listed Nigerian Consumer Goods Firms

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Abstract

This study investigates the moderating effect of audit committee expertise on fraud risk factors and earnings quality of listed Nigerian Consumer Goods Firms for the period of eleven (11) years spanning from 2010-2020. The listed consumer goods firms are twenty (20) in number from the Nigeria Stock exchange out of which seventeen (17) were employed for the study. This study is necessitated due to the persistent rise in the level of fraud scandals reported in the industry which have led to apprehensions about the legitimacy of most firms' earning qualities. The study has employed the use of FGLS regression model using stata to analyze the study. The data were obtained from the secondary source through the audited financial reports and accounts of the listed firms. The findings of the study revealed that independent directors (IND) have a significant impact on the earnings quality of the listed firms while audit committee expertise significantly moderates the relationship between fraud risk factors and earnings quality of the listed consumer goods firms in Nigeria. Therefore, what is left to be done is for the management of the listed firms to devise ways of increasing the proportion of the independent directors on the board to increase earnings quality reporting.

Keywords: Earnings Quality, Fraud Risk Factors, Diamond Theory, Consumer Goods Firms.

Introduction

Falsifications of financial statements, corruption, and other forms of fraud have become a disturbing issue in the last thirty (30) years of the present century (Eyo & Ebahi, 2017). The increasing rate of fraud scandal is a grave issue for shareholders as deceitful financial reports can have a significant harmful effect on corporate survival as well as market value. This turnaround in the level of fraud scandals discovered and subsequent corporate failures have led to apprehensions about the legitimacy of audited financial statements. These anxieties have led to the emergence of recent auditing standards and guidelines pointing to the demand for shareholders, regulatory authorities, and auditors to focus on avoiding and identifying such scandals. In response to the weaknesses of the fraud detection process, the Statement of Auditing Standards (SAS) No. 99 was inaugurated by the American Institute of Certified Public Accountants (AICPA) in October 2002. The objective of SAS No. 99 was to enhance the effectiveness and performance of auditors in fraud investigation by evaluating the fraud areas in corporate entities. The idea related to the Fraud diamond was first created by Wolfe and Hermanson, (2004) as an improvement or

addition to Donald R. Cressey's (1953) fraud triangle introduced in the professional literature on SAS No.99. The concept explained four factors that are used in any fraudulent situation as the risk factors of fraud that occur. Employing this fraud diamond technique will significantly assist the firm in overcoming deceitful financial statements. In respect of the fraud diamond concept, the Statement on Auditing Standard No. 99 requires external auditors to use 42 (forty-two) red flags when investigating deceptive financial statements (Rustiarini et al, 2017).

The Fraud diamond consists of four general conditions that are present when fraud occurs, namely: pressure, opportunity, rationalization, and capability/capacity (Wolfe & Hermanson, 2004).

Firstly, leverage is the avenue to commit fraud where this leverage comprises routine demands and economic motives among others. In a broader perspective, leverage occurs due to the motives or financial predicaments, but is motivated in most cases by selfishness. According to Skousen et al. (2009), the leverage factor can be represented by financial stability, financial targets, and external forces. Secondly, dividend is a condition that allows fraud to exist as a result of the poor internal control mechanism and weak managerial supervision.

Skousen et al. (2009), Dividend attributes can be represented by competent monitoring and institutional pattern. Thirdly, account receivable is an attitude of rational justification made by fraud perpetrators to justify why they have committed the fraud. Account receivable is a self-justification that can prove a person's decision even if the decision is essentially in the wrong direction. Account receivable is the most difficult part of the fraud diamond (Skousen et al, 2009). As contended by Skousen et al. (2009), the account receivable attribute can be represented by auditor switching. Auditor frequent changing is usually done by companies to reduce the tendency of identifying deceptive financial statements because the replacement auditor is likely not to be acquainted with the actual status of the firm.

The final fraud diamond component is capability. Capability deals with the skill, knowledge, confidence, and status the individual occupies to perpetrate fraud (Wolfe & Hermanson, 2004). The capability is associated with the talent and the strategic function of the occupant has to take advantage of internal weakness amidst pressure from creditors and account receivable Abdullahi et al. (2015). However, the obligation of fraud could be motivated or depressed by the capacity and personality attributes of a person concerned (Ocansey, 2017).

Earnings manipulation is frequently considered a mechanism employed by the management to deliberately temper earnings to meet a specific goal or objective. In corporate financial disclosure, earnings are the most vital segment which portrays the level of a company's financial performance vis-à-vis value-added activities. Numerous interested parties rely on corporate earnings for their decisions on whether or not they should provide resources to the firm. The managers are inspired to embark on earnings manipulation (enhancing earnings quality) to disclose huge earnings and superior economic values of the

firms. As a result, fraud and misappropriation of the financial report may take place due to selfish motives of management or other associated stakeholders (Noor et al., 2015). However, to what extent does fraud affects the earnings quality of firms?

Audit committee expertise as a moderating variable to the relationship between fraud and the firm's earnings quality refers to the controlling body that is vested with the supervision of the firm's audit and oversight responsibilities. Corporate entities inaugurate audit committees willingly as an essential instrument to scrutinize agency costs and enhance the quantity as well as the quality of financial information that is reported to several interested parties (Saha, 2018). The committee identified means of corporate governance that minimize the tendency for deceitful financial reporting of accounting information. The audits are responsible for overseeing the organization's management, and internal and external auditors to protect and preserve shareholders' equity and interest.

Statement of the Problem

Various researches have investigated fraudulent acts such as earnings quality manipulations and their drivers. The emergence of fraud theories spanning from the triangle theory to the diamond hypothesis and finally, the pentagon theory filters research on fraudulent financial reporting. Some studies (Amara et al, 2013; Tiffani & Marfuah, 2015; Indarto & Ghazali, 2016; Annisya et al., 2016; Tessa & Harto, 2016; Aprilia, 2017; Enofe et al, 2017 & Imagbe et al, 2019) that examined the determinants of fraudulent financial reporting revealed inconsistent findings. In addition, previous studies do not consider a moderating variable like audit committee expertise despite its monitoring role in moderating the association between fraud risk factors and earnings quality. Also, most studies previously on fraud risk factors and earnings quality in Nigeria such as the work of Eseoghene (2010); Gbegi and Adebisi (2013); Amara et al, (2013); Enofe et al, (2017) and Imagbe et al, (2019) among others stop at 2018 financial year, without extending it to 2020 financial year to capture the current realities such as increasing numbers of fraudulent practices in firms that took place within the period, this creates a gap for further study.

This study would be different from previous studies in the sense that it will not only use very recent data but will also introduce audit committee expertise as a moderating variable to examine its effect on the relationship between fraud risk and earnings quality.

Objectives of the Study

The main objective of this study is to examine the moderating effect of audit committee expertise on the relationship between fraud risk factors and earnings quality of listed Nigerian consumer goods firms. The specific objectives of the study are to:

- (i) Examine the effect of leverage on earnings quality of listed Nigerian consumer goods firms;
- (ii) Investigate the effect of dividend on earnings quality of listed Nigerian consumer goods firms;

- (iii) Ascertain the effect of account receivables on earnings quality of listed Nigerian consumer goods firms;
- (iv) Find out the effect of capability on earnings quality of listed Nigerian consumer goods firms;
- (v) Audit committee expertise has no significant moderating effect on fraud risk factors and earnings quality of listed Nigerian consumer goods firms.

Consistent with the objectives of the study, it was hypothesized in the null form that fraud risk has no significant effect on the earnings quality of listed consumer goods firms in Nigeria: the moderating role of audit committee expertise.

The study examines the moderating role of audit committee expertise on the relationship between fraud risk factors and earnings quality of listed Nigerian consumer goods firms. Therefore, the study covers seventeen (17) out of the twenty (20) consumer goods firms listed on the floor of the Nigerian Stock Exchange market (NSE) as of 31st December 2020. The study covers a time frame of eleven (11) years (2010-2020). This period and domain were selected because of the following: First, it is an industry that employs thousands of Nigerians at present, secondly, the industry is crucial for economic development and therefore contributes significantly to the Nigerian economy in the area of gross domestic products (GDP); thirdly, the sector has been the most seriously affected in terms of poor earnings quality reporting (Enahoro, 2009). Finally, the period selection is done to reflect the use of the most current data.

This study is intended to contribute to the extant body of literature both theoretical and practical by expanding the frontier of knowledge in the area of fraud risk and earnings quality of consumer goods firms. Theoretically, the study is expected to validate the Diamond fraud theories. Practically, the findings of this research will serve as a policy guide for the shareholders, management, and other stakeholders of firms in Nigeria. The study will also help the forensic specialist (accountants), auditors, fraud detectors, and other anti-fraud agencies to know the components of fraud diamond theory clearly and it links to the quality of accounting numbers. The research may provide a frontier for future studies to be undertaken in this regard.

The remaining part of the work is divided into a literature review and theoretical framework, research method and model specification, result and discussions, and lastly the study's conclusion and recommendation.

Literature Review and Theoretical Explanations

Some researchers (Amara et al, 2013; Tiffani & Marfuah, 2015; Indarto & Ghazali, 2016; Annisya et al., 2016; Tessa & Harto, 2016; Aprilia, 2017; Enofe et al, 2017 & Imagbe et al, 2019) among other prominent studies that investigated the cause of fraudulent financial reporting showed mixed, conflicting inconsistent results. In addition, previous studies do not consider a moderating variable like audit committee expertise despite its monitoring role in moderating the association linking fraud risk attributes and earnings quality.

Fraud Diamond and Earnings Quality

Imagbe et al. (2019) examined the fraud diamond factors as the major drivers of a financial scandal in the Nigerian financial services industry. Primary data were employed for this study. The findings revealed that the occurrence of fraud diamond factors which are leverage, dividend, account receivable, and capacity are the principal attributes that influence financial crimes in Nigeria's financial services industry. This signifies that an increase in the occurrence of all these attributes will increase financial crimes in the Nigerian financial services industry.

Gamlath et al. (2018) have conducted a study on the recent fraud triangle theory-capturing ethical characteristics of employees. They found that a lack of ethical values such as integrity is what leads to continuous financial crimes. They found that it is of crucial value for auditors and forensic specialists (accountants) to examine all fraud components and have an acquaintance with how fraud is being carried out. They also described their position by exploring a new fraud component that captures ethical attributes because they have observed that the extreme level of the ethical character of the employees is liable to minimize financial fraud.

In a study conducted by Said *et al.* (2017), they examined employing ethical standards in fraud triangle theory in evaluating employee fraud, taking into consideration the Malaysian financial services sector. They gathered primary data from 108 questionnaires that were distributed to the employees of the top three leading financial institutions in Malaysia. Their results show that ethical standards have a negative association with employee fraud, in which the three attributes of the fraud triangle viz; leverage; dividend, and account receivable are positively associated with earnings quality. This indicates that ethical standards minimize financial scandals while they recommended that corporate entities must obstruct each leakage to reduce the occurrence of financial crime.

Indeed, Agwor and Onukogu (2018) investigated the influence of audit committee expertise and manipulative accounting tendencies of listed food and beverages manufacturing companies in Nigeria. They concluded that audit committee expertise, in terms of committee expertise can restrain earnings management practices of quoted food & beverages manufacturing firms in Nigeria and that the larger a firm gets, the greater the tendency of its managers to manage earnings. In contrary to the study of Yang and Krishnan (2005) who investigated the relationship between the audit committee and the degree of quarterly earnings and revealed a weak relationship between audit committee expertise and earnings quality. Another study done by Nelson and Jamil (2012) who investigated audit committees' effectiveness in Malaysia using the modified Jones model by Dechow and Dechev (2002) revealed no empirical evidence to strengthen the impact of audit committee expertise on the level of earnings quality.

Leverage and Earnings Quality

This research study used financial targets as factors causing fraudulent financial reporting under leverage. In conducting its activities, management is expected to portray the best

performance to accomplish the set goals. Return on assets is a financial performance proxy that is employed to appraise the efficiency of a firm in earning profits by managing its assets (Diany & Ratmono, 2014). Return on assets is often used in assessing the efficiency of management in identifying bonuses, and wage increments, among others. With the occurrence of these financial benchmarks, the management tries to achieve them in various ways, one of which is to do earnings manipulation. The findings of the research by Skousen et al (2009) and Indarto and Ghozali (2016) show that financial benchmarks have a significant impact on earnings manipulations.

Dividend and Earnings Quality

Dividend is a condition that allows a stakeholder (management) to do fraudulent financial reporting. This research study uses the nature of the industry as the indicator that causes fraudulent financial reporting via opportunity. Appraisal of an estimate, like outdated stocks and bad debts, enables managers to temper financial reporting, such as altering the productive life of an asset. With this condition, the tendency for dubious financial disclosure will be greater. In this research work, the stock is chosen as a signal of the attributes that influence deceitful financial disclosure. This is based on the notion that stock or inventory is a short-term asset that is liable to stealing and fraud because stock in a firm is frequently huge in number and has a vital impact on the statement of financial position and income statement (Ardiyani & Utaminingsih, 2015).

Account Receivable and Earnings Quality

Stakeholders are likely to be trust-violators when they consider themselves as having committed financial expenditures which are perceived as non-socially punishable (Abdullah et al., 2015). As a result of those predictions, managements are liable to embark on deceptive financial disclosure. The auditor is an integral part that should be an investigator or examiner of the annual financial reports and accounts. Indebted highlights concerning the firm in respect of fraud are often identified by the auditor. Corporate entities that perpetrate financial fraud are often liable to embark on rationalization or change of auditors because the firm's managers are liable to minimize the tendency of an investigation by former auditors concerned with manipulative financial disclosures. Consistent with the research revealing that a corporate entity might compensate auditors to minimize the tendency of exploring fraudulent financial disclosures by the auditor (Lou & Wang, 2009).

Capability and Earnings Quality

Financial crime will not occur without having the actual party with the actual capacity (Wolfe & Hermanson, 2004). Attributes of capacity in fraud investigation are perceived since fraudulent acts will undoubtedly comprise persons who have the capacity for financial fraud. This signifies getting the required experience, skills, and capacities to carry out financial frauds (Abdullahi et al., 2015). Wolfe and Hermanson (2004) revealed that status, talent, mindset, duress, deception, and anxiety are six (6) vital attributes or qualities that

inspire this fourth attribute or the motivating factors of capability. The variable employed to proxy capability in this research work was the non-executive director or independent director.

Audit Expertise and Earnings Quality

Audit committee can be summarized into four broad categories, namely; arrangement (i.e. independence, size, and duality), resources (i.e. financial expertise and exposure), authority (i.e. supremacy vested on the audit committee) and consistency (i.e. frequency of audit committee meeting). This paper will concentrate on financial expertise and experience. Financial exposure is also essential for audit committee members to tackle reporting issues as the business environment and transactions become more sophisticated and complex. Hence their responsibilities are growing with interested parties' high prospects which demands additional tasks (Millstein, 1998). A firm with poor earnings quality is characterized by an audit committee with a small proportion of financial specialists as members (McMullen & Raghunandan, 1996). Indeed, financial exposure in audit committees is also perceived to minimize aggressive earnings management (Bedard & Johnstone, 2004), prevent the occurrence of financial misstatements (Abbott, Lawrence, Parker & Peters 2004), and increase accruals quality (Dhaliwal, Naiker & Navissi, 2010).

Accordingly, the theory that underpins this study is both Fraud Diamond Theory and the Agency cost hypothesis. From the fraud theory aspect, it states that fraud Diamond theory consists of four conditions that are in most cases, occurring at the moment of incident fraud: leverage, dividend, and account receivable (Turner et al., 2003) and recently the aspect of capability which is a build-up on fraud Triangle Theory. From the efficacy of agency theory, it was advocated that financial organizations are carried out as a relationship in which one or more parties discharged management (agent) to carry out some responsibilities on their behalf (principal) (Jensen & Meckling, 1976). For that reason, management must be answerable to shareholders. The agency cost demonstrates the relevance of the distinction and the nexus existing between firm managers and owners in which the primary goal of this distinction is to ensure effectiveness and efficiency by employing experts to monitor the activities of the firm.

It is, therefore, based on the aforementioned ground that these two theories provide an underpinning framework and a logical linkage between the fraud risk factors and earnings quality of listed Nigerian consumer goods firms.

Methodology and Model Specification

This research adopted a correlation and ex-post facto research design in order to examine the effect of fraud diamond on the earnings quality of quoted Nigerian consumer goods firms. An eleven years period was covered for the study spanning from 2010 – 2020. The choice of the period is necessitated by the massive turn-around in the number of companies with financial crises and scandals due to either poor quality financial reporting or the recent delisting of some firms from the Nigeria Stock Exchange market within the period which

might not be unconnected with issues of non-compliance and manipulative accounting tendencies. Population size of this research consists of all the 20 quoted consumer goods firms on the Nigerian Stock Exchange market as at 31st December 2020. To arrive at sample size, the listed firms with uncertainties in obtaining their data were filtered out. With respect to this, the population was reduced to 17 firms and thus, the sample size of the study. Secondary data were obtained from the audited annual financial statements of the listed firms from the Nigerian stock exchange market within the period of the study. Generalized least square (Robust Fixed effect) regression is adopted for the panel data analysis in an effort to establish association among variables of the study. Regression was considered appropriate in respect of the notion that it helps in not only establishing correlation between endogenous and exogenous variables, but causes-effect of their relationship.

Therefore, to measure the moderating impact of audit committee expertise on the association between the fraud risk attributes and earnings quality of listed Nigerian consumer goods firms, the pooled estimation models are specified as follows:

$$EQ_{it} = \beta_0 + \beta_1 ROA_{it} + \beta_2 INV_{it} + \beta_3 AUD_{it} + \beta_4 IND_{it} + \beta_5 ROA * ACE_{it} + \beta_6 INV * ACE_{it} + \beta_7 CAUD * ACE_{it} + \beta_8 IND * ACE_{it} + e_{it}$$

Where;

EQ_{it}	=	Earnings Quality;	ROA_{it}	=	Return on Asset;
INV_{it}	=	Inventory;	AUD_{it}	=	Change of Auditor;
IND	=	Independent Director;	ACE_{it}	=	Audit Committee Expertise;
β_0	=	the intercept/constant;	$\beta_1 - \beta_8$	=	are the parameters;
e_{it}	=	the residual/error term of firm i in time t			

Variable Measurement

Dependent variable used in this study is earnings quality which is represented by Accrual quality. The accruals quality for this model is measured as depicted in the formula. Thus:

$$WCA_{i,t} = \beta_0 + \beta_1 CFO_{i,t-1} + \beta_2 CFO_{i,t} + \beta_3 CFO_{i,t+1} + \varepsilon_{i,t} \text{-----(i)}$$

Where $WCA_{i,t}$ is the working capital accruals for firm i in time t ; $CFO_{i,t}$, $CFO_{i,t-1}$ and $CFO_{i,t+1}$ represent the cash flow from operations for firm i in time t (current period), $t-1$ (previous period) and $t+1$ (future period) correspondingly. All attributes or variables are measured by total assets at the beginning of the period.

Working capital accruals for time t , $WCA_{i,t}$ is computed using the following equation:

$$WCA_{i,t} = \Delta CA_{i,t} - \Delta CL_{i,t} - \Delta CASH_{i,t} + \Delta DEBT_{i,t} \text{-----(ii)}$$

Where $\Delta CA_{i,t}$ is the adjustment in short-term assets of firm i between time t and $t-1$, $\Delta CL_{i,t}$ is the adjustment in short-term liabilities of firm i between time t and $t-1$, $\Delta CASH_{i,t}$ is the adjustment in cash of firm i between time t and $t-1$ and $\Delta DEBT_{i,t}$ is the adjustment in debt in short-term liabilities of firm i between time t and $t-1$.

Cash flow from operations for time t , $CFO_{i,t}$, is computed using the following equation:

$$CFO_{i,t} = NI_{i,t} - (\Delta CA_{i,t} - \Delta CL_{i,t} - \Delta CASH_{i,t} + \Delta DEBT_{i,t} - DEP_{i,t}) \text{-----(iii)}$$

Where $NI_{i,t}$ is net earning prior extraordinary items of firm i in time t , and $DEP_{i,t}$ is depreciation and amortization expenditures of firm i in time t . The subsequent items are the same to those in (2) stated earlier.

Table I: Variables Measurement

Variable	Explanation	Formula
Dependent Variable		
Earning Quality (EQ)	Measured by the accrual's quality, i.e. the cash-flow model (Dechow & Dichev 2002; Dechow, Ge, & Schrand, 2010; Ewart & Wagenhofer, 2013)	$WCA_{i,t} = \beta_{0,t} + \beta_{1,i}CFO_{i,(t-1)} + \beta_{2,i}CFO_{i,t} + \beta_{3,i}CFO_{i,(t+1)} + \varepsilon_{i,t}$
Independent Variable		
Indicator of Leverage		
Financial targets (ROA)	Measured using return on assets (Tiffani & Marfuah, 2015)	$ROA = \frac{\text{Earning after tax}}{\text{Total assets}}$
Indicator of Dividend		
Nature of industry	Measured using total stock ratio (Annisa et al., 2016)	$INVENTORY = \frac{\text{Inventory}_t - \text{Inventory}_{t-1}}{\text{Sales}_t - \text{Sales}_{t-1}}$
Indicator of Account receivable		
The change of auditors (AUD)	Measured using adjustment in auditor (Tiffani & Marfuah, 2015)	A dummy value scaled by '1' indicating that there is an adjustment in auditor and scaled by '0' if otherwise.
Indicator of Capability		
Proportion of the independent Directors (IND)	Measured using proportion of the board independent directors (Indarto & Ghazali, 2016)	$IND = \frac{\text{The number of independent boards}}{\text{The Total number of directors}}$
Moderating Variable		
Audit committee expertise (ACE)	Measured by the number of members with financial know-how on the audit committee (Bedard et al., 2004)	Ratio of audit committee members with professional qualification in accounting and finance to the aggregate proportion of audit committee members in the firm.

Source: Compiled by the Author, 2022

Results and Discussion

Descriptive Statistics

Table 1
Descriptive Statistics of the Variables

Variable	Obs	Mean	Std. Dev	Min	Max	Skewness	Kurtosis
EQ	187	0.00293	0.01069	0.00000038	0.075169	5.072497	30.07332
ROA	187	0.55624	0.16337	-0.8856276	0.764084	-0.973721	13.66617
INV	187	-0.09778	0.71573	-0.9998314	0.944901	0.2028356	1.313272
AUD	187	0.31550	0.46596	0	1	0.7939956	1.630429
IND	187	0.70530	0.08599	0.4117647	0.8888889	-0.177341	3.359618
ACE	187	0.38057	0.17792	0.1666667	0.6666667	0.2149123	1.783806

Source: Summary Statistics from Stata (2021) output

Descriptive Statistics

Table 1 indicates an average earning quality (EQ) of 0.00293 with a standard deviation of 0.01069, and minimum and maximum values of 0.00000038 and 0.075169 respectively. This implies that on average, the EQ among the listed consumer goods firms in Nigeria is 0.2% and it deviates from both sides of the mean by 0.01069. This suggests a wild dispersion of the data from the mean because the standard deviation is slightly higher than the mean value. The coefficient of Skewness of 5.0724 implies that the data is positively skewed (that is, most of the data are on the right side of the normal curve). Also, the data did not meet the symmetrical distribution assumption because the data fall outside the zero (0) region of the curve. Kurtosis value of 30.0733 is an indication that the majority of the data are higher than the mean, as such did not meet the normal distribution criterion (i.e., that the data are largely above the ± 3 benchmark of a normal distribution assumption).

Table 1 also shows that the measure of return on assets (ROA) of listed consumer goods firms in Nigeria has a mean value of 0.55624 with a standard deviation of 0.16337, and minimum and maximum values of -0.8856 and 0.764084 respectively. This implies that the average return on assets of listed consumer goods firms in Nigeria is within 0.55624 and it ranges from a loss of -0.8856 to a profit of 0.764084, and the deviation from both sides of the mean is 0.16337. This suggests that the dispersion of the data from the mean is mild because the standard deviation is slightly lower than the mean value of 0.55624. The peak of the data is indicated by the kurtosis value of 13.66617 (i.e. that the data are far above the ± 3 benchmark of a normal distribution assumption), suggesting that most of the values are higher than the mean, hence, the data did not meet the Gaussian distribution assumption. The coefficient of Skewness of -0.973721 implies that the data is negatively skewed (that is, most of the data are on the left side of the normal curve).

Furthermore, the mean of the inventory ratio to total sales (INV) of the consumer goods firms during the period of study is -0.09778 which relatively implies that close to 10% of the

total sales done by the sampled consumer goods firms constitute inventories. The minimum value was -0.9998; the maximum value was 0.9449 and the standard deviation was 0.7157 indicating a high variability. The data is positively skewed (0.2028). The peak of the data is indicated by the kurtosis value of 1.3132 (i.e. that the data are within the ± 3 benchmark of a normal distribution assumption) is normally distributed.

The result from table 1 further shows that the mean value for change in auditor (<AUD) during the period of study is 0.3155 which implies that only 32% of the consumer goods firms sampled changed their auditors during the period. The minimum and maximum values are 0.000 and 1.000 respectively and the standard deviation is 0.4659 which connotes a relatively wild variability. The data shows a positive skewed (0.7939). The peak of the data is indicated by the kurtosis value of 1.6304 (i.e. that the data is normal as they fall within the ± 3 benchmark of a normal distribution assumption).

Independent director (IND) pulled a minimum percentage of 41% and its maximum percentage within the study period stood at 89%. The lower standard deviation (0.0859) of independent directors over the mean (0.7053) is an indication that the data did not deviate much from the mean value. The coefficient of skewness of -0.1773 shows that the data is negatively skewed while the kurtosis value of 3.3596 suggests that the data did not meet the normal distribution requirement.

Lastly, from table 1 Audit committee expertise (ACE) has a mean of 0.3805, while the minimum and maximum value is 0.1667 and 0.6667 respectively. This implies that the deviation from the mean is 0.1779, suggesting a mild dispersion among the sampled firms. The peak of the data is indicated by the kurtosis value of 1.7838, suggesting that most of the values are within the mean range, and the data meet a normal distribution assumption. The coefficient of Skewness of 0.2149 implies that the data is positively skewed (that is, most of the data are on the right-hand side of the normal curve), thus, the data also meet the symmetrical distribution assumption as they are within the zero region.

The descriptive statistics analysis of the variables of the study shows the nature and extent of dispersion of the data, which suggests that the majority of the data did not conform with the normal curve.

Correlation Matrix

Table 2 below shows that ROA, INV, ACE, ROA-ACE, and IND-ACE of the consumer goods firms are positively associated with EQ with the coefficient value of 0.0474, 0.0652, 0.1119, and 0.1139 with a p-value of 0.5207, 0.3769, 0.1284 and 0.1217 respectively but are all not significance at any level of significance. On the other hand, IND-ACE is positively correlated with earnings quality with a coefficient of 0.2771 and a p-value of 0.0001 which is significant at a 1% level of significance. Furthermore, the table displays a negative and insignificant association between AUD, AUD-ACE, and EQ from the correlation coefficient of -0.0875 and -0.0230 with p- values of 0.2348 and 0.7556 respectively. Similarly, there exists a negative and strong association between IND, INV-ACE, and EQ as confirmed by a correlation coefficient of -0.1607 and -0.2797 which are significant at 5% and 1%

respectively. Lastly, the association between independent variables themselves suggests being mild as all coefficients are below the threshold of 0.80. (2003). This point to the fact that the variables are well selected and can fit in the same regression model because there is the absence of exact correlations among pairs of independent variables, which is a requirement for regression analysis.

Table 2
Correlation Matrix

VARIABLES	EQ	ROA	INV	AUD	IND	ROA_ACE	INV_ACE	AUD_ACE	IND_ACE
EQ	1								
ROA	0.0474 (0.5207)	1							
INV	0.0652 (0.3769)	0.2997* (0.0000)	1						
AUD	-0.0875 (0.2348)	-0.0201 (0.7853)	-0.0592 (0.4213)	1					
IND	-0.1607 (0.0284)	-0.0562 (0.4449)	-0.0743 (0.3120)	0.2221* (0.0022)	1				
ACE	0.1119 (0.1284)	0.0133 (0.8563)	-0.0029 (0.9682)	-0.0149 (0.8399)	0.0625 (0.3953)	1			
ROA-ACE	0.1139 (0.1217)	0.6078* (0.0000)	0.2453* (0.0007)	-0.0579 (0.4309)	-0.0653 (0.3742)	-0.0110 (0.8816)	1		
INV-ACE	- 0.2797* (0.0001)	0.0244 (0.7405)	0.1251 (0.0880)	0.0574 (0.4353)	-0.0029 (0.9684)	-0.0499 (0.4976)	-0.0888 (0.2270)	1	
AUD-ACE	-0.0230 (0.7556)	-0.0363 (0.6219)	-0.0162 (0.8256)	0.8971* (0.0000)	0.2211* (0.0024)	0.563 (0.4443)	-0.0711 (0.3335)	-0.0607 (0.4091)	1
IND-ACE	0.2771* (0.0001)	0.0189 (0.7976)	-0.0896 (0.2224)	-0.0537 (0.4655)	0.2767* (0.0001)	0.0679 (0.3561)	0.1036 (0.1584)	-0.7014* (0.0000)	0.1606* (0.0282)

P-Values in Parentheses

Source: STATA Output (Appendix A)

Regression Analysis

This section displays the regression result of the explained variable (EQ) and explanatory variables represented by fraud risk factors and proxied by (Leverage, Dividend, Account receivables and Capability) as well as the moderating variable of the study (ACE). It follows with the analysis of the moderating role of (ACE) on the relationship between the explained variable and each explanatory variable separately and simultaneously. The summary of the regression results computed from the model of the study ($EQ_{it} = \beta_0 + \beta_1 ROA_{it} + \beta_2 INV_{it} + \beta_3 AUD_{it} + \beta_4 IND_{it} + \beta_5 ROA*ACE_{it} + \beta_6 INV*ACE_{it} + \beta_7 CAUD*ACE_{it} + \beta_8 IND*ACE_{it} + e_{it}$) is presented in table 3 as follows:

Table 3:
Fraud Risk Factors and Earnings Quality

Variables	Coefficients	Z-Values	Sig.
Constant	0.0106251	1.97	0.049
ROA	-0.0034027	-1.36	0.175
INV	0.0014736	1.37	0.170
AUD	0.001665	0.40	0.691
IND	-0.0247871	-3.09	0.002
ROA-ACE	0.0034169	1.46	0.144
INV-ACE	-0.0049941	-0.82	0.413
AUD-ACE	-0.0049732	-0.46	0.645
IND-ACE	0.0236622	2.45	0.014
R ²			0.1615
Wald Chi ²			38.57
Prob>F			0.0000

Source: STATA Output Result

The result from Table 3 indicates that the Wald Chi² value of 38.57 with a probability value of 0.0000 that is significant at 1% confirms that the study model is adequate and well-fitted with all the selected variables of the study. Also, the coefficient of determination of R² which is at 16.15% indicates the percentage of total variations of endogenous variable (EQ) that is explained by exogenous variables (ROA, INV, AUD, IND, ROA-ACE, INV-ACE, AUD-ACE and IND-ACE). The statistical implication is that 16.15% of the total variability in EQ of the whole listed Nigerian consumer good firms is caused by the collective effort of all the selected proxies of corporate governance mechanism; while the remaining 83.85% is caused by factors outside the model of this study.

From Table 3, it was observed that return on asset (ROA) has an insignificant negative impact on the Earnings quality of listed consumer goods firms in Nigeria. The z-value of -1.36 and the p-value of 0.175 with a coefficient value of -0.0034027 suggest the negative effect. This signifies that the management of the firms is not inclined to manage earnings quality when performance is high. Dechow et al. (1995) and Kazniks (1999) suggest that firm performance is expected to have a positive association with discretionary accruals (earnings quality). Thus, the study fails to reject the null hypothesis 1 (H₀₁). This finding is inconsistent with the study conducted by Shelton, (2014) and Yusof et al., (2015) that found an insignificant relationship between ROA and EQ. Although, it contradicts the results of Johari et al. (2008), Moradi et al. (2012), and Diany & Ratmono, (2014) who found that ROA has a positive and significant relationship with earnings quality.

The regression results revealed that inventory as shown in Table 3 has a z-value of 1.37 and a coefficient value of 0.0014736 which is not significant at any level of significance (p-v of 0.170). This indicates that inventory has an insignificant positive effect on the earnings

quality of quoted consumer goods firms in Nigeria. This implies that for every increase in the percentage of inventory the earnings quality of quoted consumer goods firms in Nigeria may or may not increase significantly by the coefficient value. The positive influence of stock on the EQ is not surprising as too much stock in a firm means a lack of the firm's ability to manage its cash conversion cycle properly which may hinder the firm's operation and consequently increase the firm to conduct earnings quality. Thus, the study fails to reject the null hypothesis 2 (H_{02}) of the study. This finding is consistent with the studies of Skousen et al., (2009) who found a positive relationship. However, it contradicts the findings of Tessa and Harto, (2016) who documented a negative relationship.

Furthermore, table 3 provides evidence that there is an insignificant relationship between the change of auditor (Δ AUD) and earnings quality of consumer goods firms listed in Nigeria. This is deduced from the coefficient value of 0.001665, z-value of 0.40, and p-value of 0.691 which is statistically not significant at any level of significance. This implies that a change of auditor has an insignificant positive impact on earnings quality of the listed consumer goods firms in Nigeria. This result is surprising because long participating auditors within a specific sector must have a requisite specialty like the firms within the industry operation which eventually help to enhance qualitative financial reporting. Thus, this provides evidence for us to fail to reject hypothesis four (H_{03}) of the study. This finding is consistent with the studies of Akbar (2017) found an insignificant relationship. However, it contradicts the findings of Lou and Wang, (2009) who documented a negative association.

In addition, independent directors (IND) reported a z-value of -3.09 with a p-value of 0.002 and a coefficient value of -0.0247871. This implies that independent directors significantly influence earnings quality at a 1% significant level. This implies that a percentage increase in independent directors on the board results in a decrease in earnings quality by the coefficient value as reported. The finding of this study may not be surprising as independent directors are people of high caliber, vast experience, and upright skills. They are expected to be independent of management and capable of exercising their monitoring functions on the management. Monitoring the opportunistic tendencies of the management for manipulating the annual financial reports and accounts for selfish interests, signifies enhancing the quality of financial reporting disclosed by the management. Thus, this provides evidence of rejecting hypothesis 4 (H_{04}) of the study at 99% confidence level. Thus, H_{04} is rejected. This finding is in line with the study of Fodio et al. (2013) and Annisya et al., (2016) who documented a significant negative association. But contradicted the findings of Akbar (2017), Aifuwa and Embele (2019), Akeju and Babatunde (2017) among other prominent studies.

Table 3 further revealed clearly that the direct relationship results of return on asset as moderated by institutional ownership (ROA-ACE) has a coefficient value of 0.0034169, z-value of 1.46 with a corresponding insignificant p-value of 0.144. This connotes that the direct relationship of ROA as moderated by audit committee expertise has a positive insignificant impact on earnings quality (EQ) of consumer goods firms at no level of

significance. This implies that for every 1% increase in ROA-ACE there will be a corresponding increase of 0.34% on the earnings quality of listed consumer goods firms in Nigeria though, not statistically significant. As observed in Table 4.4 earlier, the result of the return on assets without moderation had a statistically negative and insignificant impact on EQ whereas; there is no positive and insignificant association between ROA-ACE and the EQ of the sampled firms. This, therefore, implies that audit committee expertise changed the direction of the relationship between return on asset and EQ. The result validates and confirms hypothesis 5 (Ho5) that audit committee expertise has no significant moderating effect on the relationship between the return on asset and earnings quality of listed Nigerian consumer goods firms.

Similarly, from table 3, it is observed that the combined and moderated result of inventory with audit committee expertise (INV-ACE) has a coefficient value of -0.00499, z-value of -0.82, and a p-value of 0.413. This connotes that the indirect relationship of inventory as moderated by audit committee expertise reveals a negative and insignificant association with earnings quality (EQ) of listed consumer goods firms. This implies that for every 1% increase in INV-ACE, there will be a corresponding decrease of 0.499% on the earnings quality of listed consumer goods firms in Nigeria. This result did not conform to the a priori expectation of the researcher. As observed in Table 3 earlier, the result of stock without moderation had a positive and statistically insignificant impact on EQ whereas there is a negative and insignificant association between INV-ACE and the EQ of the sampled firms. This, therefore, implies that audit committee expertise changed the direction of the relationship between inventory and EQ. This finding gives us the basis to reject the six null hypotheses (Ho6) of the study which suggest that, that audit committee expertise has no significant moderating effect on the association between the stock level and earnings quality of listed consumer goods firms in Nigeria.

Also, from the same table 3, it could be realized that the combined and moderated result of a change of auditor with audit committee expertise (AUD-ACE) has a coefficient value of -0.0049732, z value of -0.46, and a p-value of 0.645. This connotes that the indirect relationship of change of auditor as moderated by audit committee expertise has a negative insignificant association on EQ of listed consumer goods firms. This implies that for every 1% increase in AUD-ACE, there will be a corresponding decrease of 0.499% on the earnings quality of listed consumer goods firms. As observed from Table 3 earlier, the result of the change of auditor without moderation had a positive and insignificant impact on EQ whereas; there is a negative and insignificant relationship between the change of auditor as moderated by audit committee expertise and the earning quality of the sampled firms. This, therefore, implies that audit committee expertise changes the direction of the relationship between the change of auditor and earnings quality. The result validates and confirms hypothesis 7 (Ho7) that Institutional ownership has no significant moderating effect on the correlation between the board expertise and earnings quality of listed consumer goods firms in Nigeria.

Lastly, from Table 3, it is observed that the combined and moderated result of board independence with audit committee expertise (IND-ACE) has a coefficient value of 0.0236622, z-value of 2.45 and a p-significance value of 0.014. This connotes that the direct relationship of board independence as moderated by audit committee expertise has a positive significant influence on earnings quality (EQ) of listed consumer goods firms at 1% level of significance. This implies that for every 1% increase in IND-ACE, there will be a corresponding increase of 2.36% on the earnings quality of listed consumer goods firms in Nigeria. This result conforms to the priori expectation of the researcher. As observed from Table 3 earlier, the result of board independence without moderation had a negative and statistically significant impact on EQ whereas there exists a positive and significant impacting relationship between IND-ACE and the EQ of the sampled firms. This, therefore, implies that audit committee expertise changes the direction of the relationship between board independence and EQ. This finding gives us the basis to reject the eight null hypotheses (Ho8) of the study which suggest that, that audit committee expertise has no significant moderating effect on the relationship between the board independence and earnings quality of listed consumer goods firms in Nigeria.

Conclusion and Recommendations

The research investigated moderating effect of audit committee expertise on the relationship between fraud risk factors and earnings quality of listed consumer goods firms in Nigeria. The study concluded that IND is negatively and significantly impacting on earnings quality of consumer goods firms in Nigeria, and ROA is also negatively but insignificantly influencing the earnings quality of listed consumer goods firms in Nigeria. While both INV and AUD are positively but insignificantly impacting on financial reporting quality of the sampled firms. The study further concluded that only IND-ACE is significantly moderating the relationship between fraud risk factors and earnings quality of the listed sampled firms. Finally, findings concluded that there is no moderating effect of audit committee expertise on the relationship between ROA-ACE, INV-ACE, AUD-ACE, and earnings quality of the listed consumer goods firms because their p-value were not significant at all levels of significance.

Based on the conclusion drawn from the findings of this study, it is recommended that:

- i. The proportion of independent directors on the board should be increased. The Nigerian Security and Exchange Commission should increase the minimum number by at least 2.4% for proper monitoring of the management activities;
- ii. The management of the consumer goods firms is advised not to interfere and or influence in any way the independence of the external auditors by frequent change of auditors. Hence, appointing external auditors by the shareholders should be based on industry experience as a pre-requisite to increasing earnings quality;
- iii. In addition, the study recommends that the existence of audit financial experts on the board should be encouraged as they tend to provide more financial expertise

knowledge to the board on financial reporting issues and hence reduce fraudulent practices by the firm managers.

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