



EFFECT OF MANAGEMENT AUDIT ON QUALITY OF AUDIT REPORT OF LISTED CONSUMER GOODS FIRMS IN NIGERIA

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Abstract

This study empirically examined the effect of management audit on quality of audit reports, with a specific focus on listed consumer goods firms in Nigeria between 2020 and 2024. The study had three main objectives: to determine the effect of firm policies on audit quality; to examine the impact of organizational structure on audit quality; and to assess the influence of firm profitability on audit quality. The dependent variable, audit quality, was proxied by audit firm size while the independent variables firm policies, organizational structure, and profitability served as proxies for management audit. A sample of ten (10) consumer goods companies quoted on the Nigerian Exchange Group (NGX) was selected using purposive sampling. The study adopted a quantitative approach and relied solely on secondary data extracted from the audited financial statements of the selected firms. The data were analyzed using panel regression techniques to assess the relationships between the variables. The findings revealed that firm policies and organizational structure had negative and statistically insignificant effects on audit quality. However, firm profitability showed a positive and significant effect on audit quality. This suggests that more profitable firms tend to attract higher-quality audit services. Based on these findings, the study recommends: (1) periodic review and reform of internal policies and structures to support audit quality; (2) increased management attention to profitability as a driver of audit quality; and (3) prioritizing investment decisions and market strategies that sustain firm growth and attract reputable audit firms.

Keywords:

Management audit, quality of audit report, firm policies, organisational structure, firm profitability.

INTRODUCTION

Many organizations usually conduct different types of audits such as management audit, financial audit, internal audit, social audit, cost audit, and energy audit. For companies, audits can be carried out in various areas like financial operations, organizational activities, and management

performance. According to Okafor et al (2020), each business activity has its own goal and responsibility, and the purpose of an audit is to check if those responsibilities are being properly carried out. Because of this, there is a growing need to assess the quality of audits, so that organizations can enjoy the full benefits they offer. Research on audit quality has been increasing because of its importance (Adesina & Oladeji, 2021). Today, many stakeholders who have interest in how companies operate such as investors, regulators and board members consider audit quality to be very important. In fact, professionals in the auditing field see audit quality as one of the most important issues (Ezeani et al 2022).

Audit quality be seen as the ability of an auditor to detect and report mistakes in financial statements. These mistakes can be either intentional (like fraud) or unintentional (like errors). A good quality audit helps to reduce the information gap between the company's management and its shareholders. It also protects the interests of those who have invested in the company (Ibrahim & Musa, 2023). The quality of an audit can be affected by many things, such as the skills and experience of the auditor, the way the audit is carried out, and the support the auditor receives from the company (Ogunleye & Salawu, 2021). One major factor that can influence audit quality is management audit. A management audit is a detailed and unbiased review of how well management is performing. It looks at how the organization is structured, how departments work, what policies and plans are in place, and how resources such as money, equipment, and workers are being used. In short, a management audit helps evaluate how efficiently and effectively the management team is running the company (Abiola & Okorie, 2021).

The goal of a management audit is to make sure that all the resources people, money, machines, and materials are being used in the best possible way. It helps highlight areas where improvements are needed in terms of goals, plans, and operations. It can also point out weaknesses in the organizational structure or internal control systems, and offer solutions to fix them. Management audits help companies by giving useful information that can be used for better planning and decision-making. They also act as early warning systems that help prevent problems before they become serious (Olayemi & Danjuma, 2022). Management audits are not just useful for internal purposes. This kind of audit can strengthen both internal and external reporting by evaluating not just financial data but also how well management performs (Ekanem & Nwosu, 2023).

Audit quality plays a vital role in ensuring the credibility and reliability of financial statements, which in turn supports informed decision-making by investors, regulators, and other stakeholders. Despite the growing relevance of audit quality, limited attention has been paid to the role of management audit in enhancing it within the Nigerian context. Umeh and Ibrahim (2021) noted a significant research gap concerning how management audit influences audit quality, especially in developing economies like Nigeria. Management audit, which involves an independent and objective evaluation of management processes, can help detect inefficiencies, improve internal controls, and enhance transparency, all of which are essential for improving audit outcomes. Okon and Adebayo (2020) argued that organizations with ineffective management structures are more prone to audit failures, as they lack mechanisms to detect and correct operational flaws. Moreover, the independence of auditors as a critical factor in audit quality is often compromised in such settings. Bello and Nwachukwu (2022) emphasized that when

management practices are not properly reviewed and audited, it becomes difficult for auditors to carry out their duties independently and effectively. Consequently, inadequate management audits create loopholes that may allow fraudulent activities, resulting in unreliable audit reports and exposing companies to reputational and financial risks.

Review of literature

The concept of Management Audit

Management audit refers to a comprehensive and objective evaluation of managerial activities within an organization, aimed at assessing efficiency, compliance, and effectiveness. It involves a systematic review of an organization's structure, operations, policies, control mechanisms, and resource utilization. According to Adebayo and Okonkwo (2021), management audit serves as a tool for evaluating whether organizational resources such as capital, labour, and materials—are being optimally employed to achieve corporate goals. Unlike financial audits that focus primarily on verifying transactions and records, management audits provide broader insight into the quality and effectiveness of managerial decision-making.

The core philosophy behind management audit is to go beyond mere compliance checks by assessing the quality of management practices and offering recommendations for improvement. Umeh and Ezeani (2022) explain that a management audit appraises both strategic and operational functions, covering areas such as planning, policy implementation, human resources, marketing, financial management, and internal control systems. It is an appraisal mechanism that supports proactive governance by identifying inefficiencies and proposing strategic solutions.

The relevance of management audit has grown significantly in recent years, especially as organizations face increasing pressure for accountability and performance optimization. Management audits offer stakeholders—including board members, investors, and regulators—a clearer view of how well the management is steering the firm. According to Nwachukwu and Ajayi (2023), the demand for performance-based audits has become more prominent due to increasing corporate failures and stakeholder expectations for transparency. Key objectives of management audit, as outlined by Adeoye and Salihu (2020), include: (i) ensuring optimal utilization of all organizational resources, including human, financial, and material inputs; (ii) identifying inefficiencies or weaknesses in policies, strategies, and internal control systems; (iii) providing actionable recommendations for improving operational methods and managerial processes; (iv) highlighting potential risks and proposing corrective measures; and (v) facilitating long-term planning through evidence-based evaluations of performance.

Furthermore, management audit covers every major operational function of an organization. These include marketing and sales, production or service delivery, supply chain management, human resource management, finance and accounting, and research and development. As argued by Musa and Ibrahim (2021), the audit process scrutinizes these functional areas to determine whether they are aligned with the firm's objectives and whether management practices within these areas meet acceptable standards of efficiency and effectiveness.

Firm's Policy

A firm's policy refers to a documented set of broad guidelines that are developed after a comprehensive analysis of internal and external environmental factors that may affect the organization's objectives and operations. These policies serve as a roadmap for decision-making and are often formulated by the board of directors to direct and govern the organization's responses to foreseeable circumstances. Johri et al (2013) note that firm policies help steer the actions, decisions, and plans of the firm's managers in a way that aligns with its strategic goals. By establishing a structured decision-making environment, policies help ensure consistency, reduce ambiguity, and provide a basis for accountability.

Furthermore, firm policies serve as the foundation for strategy development and implementation. They influence how resources are allocated, how responsibilities are assigned, and how processes are managed. According to Al-Shammari et al. (2008), firm policies contribute to enhancing corporate governance by promoting transparency and fostering adherence to professional standards. A well-structured policy framework ensures that managers operate within set boundaries and make decisions that are both effective and efficient. It also facilitates the identification of potential problems and provides systematic approaches for addressing them (Kaplan & Norton, 2004).

Organizational Structure

Organizational structure refers to the formal system that outlines how tasks are divided, coordinated, and supervised within an organization to achieve strategic objectives. It defines the relationships between different levels of management, departments, and roles, creating a framework through which information flows and decisions are made (Mintzberg, 1992). According to Hold and Antony (1991), the structure of an organization significantly affects all internal processes, including reporting, decision-making, and communication mechanisms. It influences how resources are managed and how the organization responds to internal and external changes.

An effective organizational structure facilitates efficiency by ensuring that duties are clearly assigned, reporting lines are transparent, and accountability is enforced. Arnold and Feldman (1986) emphasize that one of the primary functions of organizational structure is to aid in the smooth flow of information, allowing for timely responses to dynamic operational challenges. In the context of audit quality, a well-defined structure ensures that internal controls are strong, managerial responsibilities are clear, and compliance processes are consistent.

Firm Profitability

Profitability is the measure of an organization's ability to generate income from its operational activities after deducting costs. It serves as a key indicator of a firm's financial health and long-term sustainability (Manoppo & Arie, 2016). Firms that consistently report high profitability are generally perceived as stable and efficient, attracting investors and creditors who are confident in the firm's earning capacity. Profitability ratios such as net profit margin, return on assets (ROA), and return on equity (ROE) are commonly used to assess how well a firm utilizes its resources to generate earnings.

The relationship between profitability and audit quality is important because firms with higher profitability often face greater scrutiny and are expected to maintain high standards of financial reporting. According to Albrecht, Stice, and Swain (2008), the likelihood of earning consistent profits depends significantly on management effectiveness, which is reinforced through routine auditing of financial records and operational processes. Regular and thorough audits help identify inefficiencies, prevent fraud, and ensure compliance with regulatory standards.

Quality of Audit Report

Audit quality refers to the ability of an audit to detect and report material misstatements in financial statements. It plays a pivotal role in ensuring the credibility and reliability of financial information presented to stakeholders. The auditing process entails a systematic and independent examination of accounting records, internal controls, and financial reports to form an opinion on whether the financial statements provide a true and fair view of the organization's financial position. The quality of an audit is generally judged based on the extent to which the auditor adheres to professional standards and ethical guidelines in conducting the audit and reporting the findings (Okolie & Izedonmi, 2021). High-quality audits enhance stakeholders' confidence and contribute to informed economic decisions.

The issue of audit quality is multifaceted and lacks a universally accepted definition, partly because different stakeholders perceive quality differently. For instance, investors often view audit quality in terms of assurance that financial statements are free from material misstatement, while auditors may define it based on compliance with professional auditing standards (Ugwunta & Okezie, 2022). Regulatory bodies, on the other hand, often associate audit quality with audit independence, competence, and the rigorous application of audit procedures. Despite these differing perspectives, there is general agreement that audit quality is critical for market efficiency, investor protection, and corporate governance (Onumah et al, 2020).

Audit quality can be examined from two dimensions: actual audit quality and perceived audit quality. Actual audit quality is linked to the auditor's technical competence and independence, which determine the effectiveness of audit procedures and the ability to detect and report irregularities. Perceived audit quality, however, is based on the public's or stakeholders' trust in the auditor's work and reputation (Ibanichuka & Uche, 2023). A high level of perceived quality can enhance investor confidence and firm valuation, even if actual audit performance is difficult to observe directly. In this regard, audit quality is not just a technical issue but also a matter of public trust and professional integrity (Adegbie et al 2024). Thus, maintaining both actual and perceived audit quality is essential for enhancing the usefulness and credibility of financial reporting.

Theoretical Framework

This study utilizes Stakeholder Theory to explain the relationship between management audit and quality of audit reports. Stakeholder theory explains that companies should not focus only on making money for investors but also consider the interests of everyone affected by their activities. These people include employees, customers, suppliers, the government, and the local community. According to Freeman, managers have a moral duty to balance the needs of all these groups, not

just the shareholders (Freeman et al., 2020). This theory sees a business as a platform for managing relationships among all stakeholders who contribute to or are affected by the company's actions.

Stakeholders are important to a company's success because the company depends on their support to survive and grow. For example, customers buy the products, employees do the work, and the government sets the rules (Iwu et al., 2021). Schneider's idea also supports this by explaining that stakeholders are not just legal owners but anyone who contributes in a way that adds value to the company (Schneider, 2022). Because of this, companies must act in ways that meet the needs of these different groups, not just try to maximize profits.

In relation to this study, stakeholder theory is important because it helps explain why companies need to maintain good relationships with their stakeholders. Managers are expected to operate in a way that creates long-term value for all stakeholders, not just short-term profit for shareholders. This is why many companies adopt practices like internal and external audits to maintain transparency, improve accountability, and ensure that they are meeting stakeholder expectations.

Another important theory used to explain this relationship is the Agency Theory. Agency theory looks at the relationship between company owners (shareholders) and the people who manage the company (managers). Managers are hired to act in the best interest of shareholders, but sometimes they make decisions that benefit themselves instead. This creates what is called an "agency problem" (Okolie & Agboma, 2021). For example, a manager might spend company money on expensive offices or personal perks rather than on investments that increase profits. This behavior can reduce the value of the company and the wealth of shareholders.

One of the ways shareholders try to protect themselves is by monitoring managers' behavior through audits. Audits whether done internally or by an independent external auditor help detect mismanagement and report it to the board of directors (Omodero, 2023). The need for accurate and timely disclosure of financial information is especially important when the company depends on outside funding. Investors and lenders need clear information to make decisions, and when managers fail to disclose this information, it creates a gap that increases the company's risk and cost of borrowing (Aliyu & Haruna, 2022). Agency theory also helps explain why companies feel pressure to share more information with the public. When a company has more investors or needs to borrow money, it is more likely to provide detailed reports to gain trust. This theory supports the role of auditing in reducing the conflict between managers and shareholders by improving transparency and reducing the risk of poor decisions.

Review of Empirical literature

Olagunju et al. (2024) investigated the influence of audit firm characteristics on audit quality and earnings management within Nigeria's manufacturing sector. Utilizing data from listed manufacturing firms between 2012 and 2020, the study employed pooled regression analysis to measure the relationship between firm size, auditor expertise, and audit specialization on earnings quality. The findings showed that larger audit firms with specialized skills significantly reduced earnings manipulation, indicating stronger audit oversight. The study concluded that enhancing

auditor competence and encouraging firms to engage more reputable audit firms can lead to better financial reporting outcomes.

Giwa et al. (2024) examined the relationship between audit quality and earnings management in Nigeria's listed consumer goods firms using ordinary least squares regression. The study considered audit firm size, audit tenure, and audit fees as proxies for audit quality, while discretionary accruals measured earnings management. Results revealed that firms audited by Big Four auditors experienced lower levels of earnings manipulation, affirming the importance of auditor reputation and capacity. Interestingly, higher audit fees were positively linked with earnings management, raising concerns about audit independence. The authors recommended policy reforms to enhance audit transparency and encourage the engagement of reputable audit firms.

Hadiza and Yahaya (2024) focused on deposit money banks in Nigeria, assessing the impact of audit quality indicators on earnings management practices between 2013 and 2023. The study employed the Generalized Method of Moments (GMM) to analyze the effect of audit firm size, auditor independence, and audit rotation on discretionary loan loss provisions. Findings showed that auditor independence and size significantly curtailed earnings manipulation, while audit firm rotation also enhanced audit objectivity. The authors recommended a more robust audit regulatory framework to enforce auditor independence and encourage timely rotation to sustain financial reporting credibility.

Tahir et al (2023) investigated how audit market concentration and auditor attributes affect audit quality in listed consumer goods firms in Nigeria. Using data from 2012 to 2020 and applying pooled regression analysis, they discovered that audit market concentration and auditor independence significantly enhance audit quality. Although auditor tenure had a positive effect, it was not statistically significant. The study emphasized the importance of auditor rotation and independence in sustaining audit quality.

Okpala and Adetunbi (2023) examined how audit fees, tenure, auditor rotation, and auditor reputation affect earnings performance among listed manufacturing firms in Nigeria. Using panel data from 2015 to 2021 and PGLS regression, they found that audit fees had a significant positive impact on earnings, while audit tenure had a negative effect. Auditor rotation and status had insignificant effects. The study concluded that appropriate audit remuneration supports financial transparency.

Uwhejevwe-Togbolo et al (2023) analyzed how audit committee characteristics influence audit quality among listed consumer services firms. Using correlational and ex-post facto designs, they found that audit committee size, independence, and financial expertise positively impacted audit quality. However, the frequency of meetings was not statistically significant. The study recommended enhancing the financial literacy of committee members.

Obi and Okoye (2023) explored the relationship between audit quality indicators and earnings management in the Nigerian pharmaceutical sector. Using panel least squares on 2010–2021 data, they found that longer audit tenure encouraged earnings manipulation. In contrast, audit

firm size and specialization significantly reduced earnings management. The study stressed the need for tighter control on auditor tenure.

Adams et al (2023) assessed how audit committee effectiveness impacts audit quality among consumer goods firms listed on the Nigerian Exchange. Their regression analysis revealed that financial expertise, meeting frequency, and auditor tenure significantly constrained earnings management. However, committee independence and gender diversity had no significant influence. They suggested enhancing governance structures and training committee members for better oversight.

Enofe et al. (2022) assessed the determinants of audit quality in Nigeria by analyzing auditor-specific and firm-level characteristics, including audit tenure, audit firm size, board independence, and ownership structure. Using a logistic regression model suited to the binary nature of the dependent variable, the study revealed a significant positive relationship between board independence and audit quality. However, the study's limitation lies in its narrow sample size and the exclusive use of cross-sectional data, which may not capture longitudinal variations in audit quality.

Chituru et al (2022) examined the effect of audit quality on earnings management practices among listed firms in Nigeria. The study adopted an ex-post facto research design and collected data from annual reports of 10 firms five financial and five non-financial purposively selected over a 10-year period (2010–2019). Descriptive and inferential analyses were used for data interpretation. The findings revealed that audit quality significantly influenced earnings smoothing. However, audit quality did not show any significant effect on discretionary accruals and earnings per share. Based on the findings, the researchers recommended that firm management should adopt effective policies aimed at forecasting future profits more reliably, which can be facilitated through enhanced audit quality.

Martani et al (2022) explored the impact of audit rotation and auditor tenure on audit quality in Indonesia, where both firm and partner rotations are mandated. Data were collected from 215 public companies between 2013 and 2015, excluding firms in the financial sector. Regression analysis revealed that auditor tenure had no statistically significant effect on audit quality. However, audit firm rotation positively affected audit quality, particularly in non-Big 4 firms, suggesting that periodic rotation may enhance objectivity and audit independence. The study further noted that the beneficial impact of rotation was less evident among Big 4 firms, and the effect of audit quality on return on assets (ROA) could not be conclusively established.

In another study, Omoye and Aronmwan (2023) explored the impact of audit firm rotation on audit quality within Nigeria's financial services sector, covering 2015 to 2021. The study employed panel data analysis and found a statistically significant but negative effect of audit firm rotation on audit quality, suggesting that frequent changes in audit firms may reduce auditors' understanding of firm-specific risks, thereby impairing audit effectiveness. This highlights the need for a balanced approach to audit firm rotation policies.

Adeyemi et al (2021) examined the factors influencing audit quality in Nigeria, combining both survey responses and archival financial data from listed firms between 2016 and 2020. Their findings indicated that multiple directorships and the rendering of non-audit services by auditors significantly compromise audit quality. They recommended that audit regulatory bodies should reinforce policies preventing audit firms from offering consulting services to their audit clients, thereby mitigating threats to independence and enhancing the integrity of financial reporting.

Oladejo (2021) studied the relationship between audit quality and earnings management among Nigerian consumer goods firms for the period 2012 to 2020. Using data from 18 firms selected based on asset size and data completeness, the study applied random effects regression techniques. The findings indicated that larger audit firms, stricter regulatory environments, and firm structure were negatively associated with earnings management, while leverage showed a positive correlation. The study concluded that enhancing audit quality can serve as a strategic tool in curbing manipulative accounting practices among listed firms.

Methodology

The population of this study comprises 21 quoted consumer goods firms that are listed on the Nigerian Exchange Group (NGX) as of 2024 and have consistently published annual reports between 2020 and 2024. This study relied entirely on secondary data. The main data were extracted from the audited financial statements of the selected firms for the years 2020–2024.

Hypothesis development

Firm's Policy and audit report quality

In the context of audit quality, firm policies are crucial because they shape the ethical environment of the organization and set the tone for compliance, risk management, and internal controls. Clear and robust policies reinforce good governance and support audit processes by ensuring that standards are consistently met. This ultimately enhances the credibility and reliability of the firm's financial reporting system, which is the cornerstone of high-quality audit outcomes. Consequently the first hypothesis is developed as follows:

H₀₁: There is no significant effect of firm policies on quality of audit report among listed consumer goods firms in Nigeria.

Organizational Structure and quality of audit report

Organizational structure affects how well units coordinate, resolve conflicts, and adapt to changes in the environment. Daft (1998) explains that the structure must support decision-making processes, flexibility, and effective monitoring for it to contribute to organizational performance. When structure is aligned with strategy, it provides a stable platform for efficient operations, regulatory compliance, and high-quality auditing outcomes. Hence, the quality of the audit report is enhanced when the auditor can rely on a transparent and effective organizational structure that supports sound governance practices. Thus the second hypothesis is postulated as follows:

H₀₂: There is no significant effect of organizational structure on quality of audit report among listed consumer goods firms in Nigeria.

Firm Profitability and quality of audit report

Furthermore, profitability influences capital structure decisions. Companies with high profitability are better positioned to finance operations internally, thereby reducing their reliance on external financing. Ahmed and Hossain (2010) argue that profitable firms are more likely to invest in robust internal control systems and quality assurance processes, which contribute to more credible financial reports. Such practices enhance investor confidence and promote transparency. Therefore hypothesis three is stated as follows:

H₀₃: There is no significant effect of firm profitability on quality of audit report among listed consumer goods firms in Nigeria.

Model development

Guided by the study’s objectives, research questions, and hypotheses, the functional relationship between management audit and quality of audit report is modeled using: Firm’s Policies (FPOL), Firm’s Profitability (FPROF) and Organizational Structure (ORGSTR)

The multiple regression model is specified as:

AFS = f (FPOL, ORGS, FPROF) (1)

The model when specified in its econometric form becomes:

$AFS = \beta_0 + \beta_1FPOL + \beta_2ORGS + \beta_3FPROF + U_t \dots \dots \dots (2)$

Where:

AFS = Audit Firm Size

FPOL = Firm’s policies

ORGS = Organizational Structure

FPROF = Firm’s profitability

β_0 = Intercept or constant term

$\beta_1- \beta_3$ = Parameters to be estimated from the results of statistical analysis.

U_t = Stochastic term. This takes care of other variables not computed in the model.

Results of data analysis

The data extracted for the study were analysed with descriptive statistics and regression models.

Descriptive statistics

The results of descriptive statistics are presented in the table below:

Descriptive Statistics				
	AFS	FPOL	ORGS	FPROF
Mean	0.780000	71.83946	18.83811	0.101060
Median	1.000000	75.00000	18.87162	0.056707
Maximum	1.000000	92.30769	22.33123	1.872808
Minimum	0.000000	45.45455	16.12694	-3.723444

Std. Dev.	0.418452	12.85970	1.714668	0.669571
Skewness	-1.351853	-0.471356	0.262716	-3.232403
Kurtosis	2.827506	2.067967	2.711878	23.55548
Jarque-Bera	15.29120	3.661229	0.748111	967.3366
Probability	0.000478	0.160315	0.687939	0.000000
Sum	39.00000	3591.973	941.9057	5.052997
Sum Sq. Dev.	8.580000	8103.225	144.0643	21.96796
Observations	50	50	50	50

Source: Author's Computation (2026).

The descriptive statistics provide a summary of the main characteristics of the variables used in the study, including the mean, median, maximum and minimum values, standard deviation, skewness, kurtosis, and the Jarque-Bera test for normality. The mean values reflect the average for each variable during the study period (2020–2024). Specifically, the mean of Audit Quality (proxied by Audit Firm Size) is 0.780000, Firm's Policies has a mean of 71.83946, Organizational Structure has a mean of 18.83811, and Firm's Profitability has a mean of 0.101060. The median, which represents the midpoint in the distribution, shows that Audit Quality and Organizational Structure have median values of 1.000000 and 18.87162 respectively. In terms of maximum and minimum values, Firm's Policies has the highest maximum value of 92.30769, while Audit Quality has a minimum value of 0.000000, indicating variation in the audit firm sizes used.

The standard deviations of all the variables are relatively lower than their respective means, indicating low variability and suggesting that the data points are closely clustered around the mean. Regarding skewness, Audit Quality and Firm's Policies are negatively skewed, indicating a long left tail, meaning most values lie to the right of the mean. In contrast, Organizational Structure and Firm's Profitability are positively skewed, suggesting a longer right tail. The kurtosis result shows that Firm's Profitability is leptokurtic (kurtosis > 3), implying a sharper peak than a normal distribution. However, Audit Quality, Firm's Policies, and Organizational Structure are platykurtic (kurtosis < 3), indicating flatter distributions. The Jarque-Bera test results show that the p-values are statistically insignificant at the 5% level for all variables. This leads to the acceptance of the null hypothesis that the series are normally distributed. Hence, the variables used in this study conform to the assumption of normality, supporting their suitability for further regression analysis.

Regression results

The regression results from the analysis of data are presented in table 2 below:

Table 2: OLS RESULTS

Dependent Variable: AFS

Method: Least Squares

Date: 02/02/26 Time: 09:31

Sample: 1 50

Included observations: 38

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LFPOL	-0.062947	0.264891	-0.237632	0.8136
LORGS	-2.036035	0.689711	-2.952011	0.0057
LFPROF	0.124675	0.038601	3.229878	0.0027
C	7.310641	2.132183	3.428711	0.0016
R-squared	0.353375	Mean dependent var		0.842105
Adjusted R-squared	0.296319	S.D. dependent var		0.369537
S.E. of regression	0.309989	Akaike info criterion		0.594738
Sum squared resid	3.267160	Schwarz criterion		0.767116
Log likelihood	-7.300029	Hannan-Quinn criter.		0.656069
F-statistic	6.193558	Durbin-Watson stat		0.730498
Prob(F-statistic)	0.001790			

Source: Researcher's computation (2026).

Evaluation Based on A Priori Expectation and Statistical Criteria

The multiple regression model estimated using Ordinary Least Squares (OLS) is presented below:

$$AFS = 7.310641 - 0.062947 FPOL - 2.036035 ORGSTR + 0.124675 FPROF + Ut$$

The intercept term (C) of 7.310641 suggests that when all independent variables are held constant, the average audit firm size across sampled firms is expected to be 7.31 units. This reflects the baseline audit quality level regardless of firm-specific internal practices.

Firm's Policies (FPOL) and quality of audit report: Firm's Policies returned a negative coefficient of **-0.062947**, indicating that, ceteris paribus, a 1% increase in the strength or rigidity of firm policies leads to an estimated **6.29%** decline in the audit firm size. This finding contradicts a priori expectations, as well-structured firm policies are typically presumed to support higher audit quality by improving internal control systems. Moreover, the effect is statistically **insignificant** at the 5% level ($p = 0.8136$), suggesting that firm policies may not play a major role in influencing audit quality in this context.

Organizational Structure (ORGSTR) and quality of audit report: The coefficient for Organizational Structure is **-2.036035**, which is both negative and **statistically significant** ($p = 0.0057$). This suggests that for every 1% increase in the complexity or decentralization of a firm's organizational structure, the audit firm size decreases by **203.6%**. The large negative impact implies that overly complex or poorly defined organizational structures may hinder effective auditing, likely due to weak internal accountability and increased audit risk. This aligns with expectations that less transparent structures impair audit quality.

Firm's Profitability (FPROF) and quality of audit reports: Firm's Profitability has a positive and significant coefficient of 0.124675 ($p = 0.0027$), meaning that a 1% increase in profitability is associated with a 12.47% increase in audit firm size. This supports the a priori expectation that profitable firms tend to hire larger and more reputable audit firms to signal credibility, transparency, and investor confidence. Profitability enables firms to afford higher-quality audits, which contributes positively to audit quality.

Model Evaluation: The R-squared value of 0.3534 implies that about 35.34% of the variation in audit firm size is explained by the three independent variables in the model. The F-statistic of 6.1936 and its associated p-value of 0.0018 confirm that the model is statistically significant as a whole. However, the Durbin-Watson statistic of 0.7305 is relatively low, indicating potential serial correlation in the residuals, which could be addressed in further robustness checks.

Discussion of Findings

Effect of Firms' Policies on Audit Quality

The findings of this study revealed that firms' policies, as a component of management audit, do not exert a statistically significant influence on audit quality (proxied by audit firm size) among quoted consumer goods companies in Nigeria. The coefficient associated with firm policy was negative (-0.0629) and statistically insignificant with a p-value of 0.8136. This indicates that policies formulated at the management level may not be robust enough or effectively implemented to affect external auditing practices significantly. This result aligns with the findings of Uzochukwu and Nkemakonam (2023), who argued that while policy frameworks exist in many Nigerian firms, weak enforcement, lack of internal monitoring, and poor policy integration into auditing practices limit their impact on audit quality. Similarly, Anozie and Udeh (2024) found that corporate policies in the manufacturing sector often exist as formal documents with minimal influence on audit decisions unless accompanied by strong corporate governance enforcement mechanisms.

These findings suggest that the presence of policies alone does not enhance audit quality unless such policies are systematically enforced and aligned with broader governance objectives. For audit quality to improve, firms must go beyond drafting policies to actively monitoring and integrating them into routine operational and reporting processes.

Effect of Organizational Structure on Audit Quality

The study found that organizational structure has a statistically significant negative effect on audit quality in consumer goods firms, with a coefficient of -2.0360 and a p-value of 0.0057. This implies that a more rigid or hierarchical organizational structure could inhibit transparency and hinder effective communication, thereby reducing the quality of audit practices. This finding is supported by the study of Agbo and Ibekwe (2023), who posited that centralized and bureaucratic organizational structures create bottlenecks that limit the flow of audit-relevant information. They argued that when decision-making power is concentrated at the top, internal controls may be compromised, and the external audit process may be deprived of timely and accurate data. In the same vein, Odu and Ezeaku (2024) observed that decentralized and flatter organizational structures in Nigerian firms tend to promote greater accountability and transparency, leading to better audit outcomes.

The implication of this finding is that audit quality may be enhanced when firms restructure to promote openness, clear reporting lines, and less rigid hierarchies. Structural reforms within organizations that encourage operational efficiency and reduce information asymmetry may be critical in achieving audit excellence in Nigeria's consumer goods sector.

Effect of Firm Profitability on Audit Quality

The analysis indicated that firm profitability significantly and positively affects audit quality among quoted consumer goods firms in Nigeria. The coefficient of profitability was 0.1247, and the associated p-value was 0.0027, indicating a statistically significant relationship. This result implies that more profitable firms are likely to engage larger or more reputable audit firms, possibly to signal transparency, reduce information asymmetry, and maintain investor confidence. This finding is consistent with the results of Olamide and Falade (2023), who found that financially stable and profitable companies tend to invest more in quality audits to sustain their credibility in the eyes of regulators and stakeholders. Additionally, Musa and Abubakar (2024) reported that profitability positively influences audit fees and choice of audit firms, suggesting that higher earnings afford companies the capacity to hire top-tier auditors, which in turn improves the quality of audit reports.

Profitability may also reflect strong internal controls and better financial reporting practices, both of which are conducive to effective auditing. Thus, the implication is that financial performance is not only a driver of investor confidence but also a strategic factor in ensuring that audit quality standards are maintained or improved within the Nigerian consumer goods sector.

Conclusion and recommendations

Based on the findings of the study, it is concluded that the determinants of management audit namely firm policy, organizational structure, and profitability exert considerable influence on quality of audit reports among quoted consumer goods firms in Nigeria. While firm policy and organizational structure exhibited negative relationships with audit quality, profitability demonstrated a positive and statistically significant influence. This suggests that profitability is the most potent predictor of audit quality among the three variables examined. Therefore, firms that are more financially stable tend to engage more reputable audit firms, enhancing the credibility of their audit reports. The study underscores the need for effective internal management controls and practices as essential tools for improving audit quality.

Based on the findings of this study, the following recommendations are made:

1. Management of consumer goods firms should review and reform internal policies that hinder effective audit practices. Policies should promote transparency, ethical conduct, and compliance, as weak policy frameworks were found to negatively affect audit quality.
2. Firms should restructure their organizational systems to reduce bureaucracy and improve accountability. Since organizational structure had a negative effect on audit quality, simplifying reporting lines and clarifying roles may enhance the credibility of audits.

3. Firms should adopt strategies that enhance profitability, such as market expansion, cost control, and innovative product offerings. The study found profitability to have a significant positive effect on audit quality, making it vital for financial health and audit reputation.

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