E-ISSN: 1115 - 8530 P-ISSN: 3026-8958
MPRI-JFRBD | INTERNATIONAL JOURNAL OF FINANCIAL RES. AND BUSINESS DEVELOPMENT
VOL. 09 NO. 7 – JULY, 2025

EFFECT OF INTERNAL AUDIT PRACTICES ON THE FINANCIAL REPORTING QUALITY OF SELECTED CONSUMER GOODS MANUFACTURING FIRMS IN NIGERIA

OLATUNJI, T. E.; & OLORUNDARE, R. O.
Department of Accounting, Ladoke Akintola University of Technology, Ogbmoso, Oyo State
Corresponding Author: teolatunji@lautech.edu.ng,
DOI: https://doi.org/10.70382/mejfrbd.v9i7.045

Abstract

Internal audit is a fundamental component of organizational governance, risk management, and control processes. When internal auditors are not fully independent, their ability to identify and report financial irregularities or control weaknesses is diminished, potentially leading to financial misstatements, undetected fraud, and a lack of transparency in financial reporting. Therefore, the study examined the relationship between internal audit practices and financial reporting quality of selected consumer goods manufacturing firms in Nigeria. The study adopted *expost facto* research design whereby data were sourced mainly from the audited annual financial reports of selected consumer goods manufacturing companies on the Nigerian Exchange Group for the period 2015-2024. The population of the study consists of twenty one (21) consumer goods manufacturing companies in Nigeria as at December 2024. The sample size of eight (8) consumer goods manufacturing companies was arrived at using purposive sampling technique whereby consumer goods [redacted] manufacturing companies which have their annual report and accounts readily accessible for the study period were selected. Analytical techniques in the study consist of both descriptive and inferential statistics. Descriptive statistics were used to describe the study variables while Panel regression analysis was used to examine the extent to which internal audit practices influence

Keyword: Internal Audit Practices, Auditor's Competence, Audit Experience, Financial Reporting Quality, Consumer Goods Manufacturing Firms in Nigeria

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

financial reporting quality of selected consumer goods manufacturing firms in Nigeria. Findings from the result of panel regression analysis on the extent to which internal audit practices influence financial reporting quality of selected consumer goods manufacturing firms in Nigeria showed that two out of the five explanatory variables were positively significant in explaining the variation of financial reporting quality. These variables are auditor's competence (p=0.0489) and audit experience (p=0.0002). The study therefore concluded that there is a significant relationship between internal audit and financial reporting quality of selected consumer goods manufacturing firms in Nigeria.it is therefore recommended that regular performance evaluations of internal audit staff should be conducted to improve in financial reporting to maintain a strong beneficial relationship between internal auditing and reporting quality.

Introduction

The consumer goods industry in Nigeria is a significant contributor to the nation's economy, providing employment opportunities, contributing to GDP, and playing a vital role in food security (Adewoye and Ojo, 2023). However, the industry's growth and sustainability depend heavily on the accuracy and reliability of financial reporting. Quality financial reporting is essential for ensuring transparency, maintaining investor confidence, and making informed business decisions. Given the size and importance of the food and beverage sector, the accuracy and reliability of financial reporting within these companies are paramount (Adeyemi andFagbemi, 2020). Financial reports serve as a critical tool for decision-making, not only for management but also for external stakeholders such as investors, regulators, and creditors. In this context, the role of internal audit becomes critical as it serves as an independent function designed to improve the effectiveness of risk management, control, and governance processes (Adiputra, and Hermawan, 2020).

Internal audit is a fundamental component of organizational governance, risk management, and control processes. It functions as an independent, objective assurance and consulting activity that is designed to add value and improve an organization's operations. The primary purpose of internal audit is to evaluate and enhance the effectiveness of an organization's internal controls, governance processes, and risk management systems (Aobdia et al., 2020). Internal audit helps organizations achieve their objectives in an efficient and effective manner, while also ensuring compliance with applicable laws, regulations, and internal policies. In today's complex business environment, the role of internal audit has become increasingly important. Organizations face a myriad of risks, including financial, operational, regulatory, and reputational risks,

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

which can have significant implications if not properly managed. Internal audit provides a systematic approach to identifying and mitigating these risks, thereby safeguarding the organization's assets and ensuring the integrity of its operations (Bauwhede and Willekens, 2022).

Financial reporting quality refers to the accuracy, transparency, timeliness, reliability completeness among others of financial reporting. High-quality financial reporting provides reliable and relevant information to investors, analysts, and other stakeholders, enabling them to make informed decisions about investing in a company (Adeniji and Egbunike, 2018). The quality of financial reporting is critical for maintaining the integrity of financial markets and promoting investor confidence. Companies that have in high-quality financial reporting are more likely to attract investment capital and maintain a positive reputation in the market (Francis *et al*., 2016).

In order to ensure high-quality financial reporting, companies must comply with accounting standards and regulations, such as International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Principles (GAAP) (Adegbite*et al*., 2017). Additionally, companies must establish strong internal controls over financial reporting, such as regular audits and internal reviews, to ensure the accuracy and completeness of financial statements. In recent years, the importance of financial reporting quality has become increasingly recognized, leading to greater scrutiny of financial reporting practices by regulators and stakeholders. Companies that fail to maintain high-quality financial reporting may face legal and reputational consequences, leading to significant financial and operational risks (LaFond and Watts, 2018). Therefore, this study will explore the impact of internal audit on financial reporting quality, with a focus on the consumer goods industry in Nigeria, to provide insights into how organizations can strengthen their internal audit practices and improve their overall governance.

Statement of the Problem

The reliability of financial reporting is a cornerstone of effective corporate governance, enabling stakeholders to make informed decisions based on accurate, complete, and trustworthy financial information (Ghazali et al., 2018). Ensuring the reliability of financial reports often depends on the effectiveness of internal audit functions, which play a crucial role in detecting errors, preventing fraud, and assessing the adequacy of internal controls. However, the effectiveness of internal audits can be influenced by various factors, including the resources allocated to the audit function, particularly the internal audit fee (Francis et al., 2023). The internal audit fee represents the budget allocated for internal

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

audit activities, including the costs of hiring qualified auditors, obtaining audit tools and technology, and conducting comprehensive audit engagements. Adequate funding is essential for maintaining a robust internal audit function that can thoroughly assess financial reporting processes and identify potential risks (Gaynor et al., 2018).. This makes it imperative for an in-depth study on the nexus betweeninternal audit and financial reporting quality ofselected consumer goods manufacturing firms in Nigeria.

Objectives of the Study

The aim of the study is to examine the effects of internal audit on financial reporting quality of selected consumer goods manufacturing firms in Nigeria.

Literature review

Review of Previous Studies

In Nigeria, Egbunike and Ojeah (2020) investigated the influence of internal audit practices on financial reporting quality in manufacturing firms, including those in the consumer goods manufacturingsector. Using survey data and regression analysis, the study found a significant positive relationship between the independence of internal auditors and the quality of financial reports. The findings highlighted that firms with independent and well-qualified internal auditors had fewer financial discrepancies and misstatements. The authors concluded that for Nigerian consumer goods manufacturing firms to maintain high-quality financial reporting, it is essential to prioritize auditor independence and continuous training.

Similarly, in Ghana, Agyemang and Asiedu (2019) conducted a quantitative study on the role of internal audits in enhancing financial reporting quality within the food manufacturingfirms. Their research used structured questionnaires to collect data from 35 firms and found that internal audit practices such as risk assessments, compliance monitoring, and auditor objectivity significantly improved financial reporting quality. The study concluded that firms with robust internal audit frameworks are better equipped to comply with international financial reporting standards, thereby reducing financial errors and manipulation. This shows that internal audit practices not only safeguard the accuracy of financial statements but also build investor and stakeholder confidence.

In Malaysia, Abdullah and Mansor (2021) explored the relationship between internal audit practices and financial reporting quality in food manufacturing firms. They used secondary data and applied correlation analysis to examine the role of internal audits and audit committees in enhancing the reliability of financial reports. Their findings showed that firms with regular internal audit reviews and effective audit committees reported

fewer financial restatements. The study concluded that internal audits, when supported by an active and competent audit committee, are instrumental in maintaining financial transparency and accuracy within the food manufacturing firms.

In Egypt, Khaled (2022) adopted a mixed-methods approach to study the influence of internal audit practices on financial reporting quality in the food manufacturing firms. By combining interviews with internal auditors and an analysis of financial performance data, the study found that continuous monitoring of internal controls significantly reduced financial misstatements. The study highlighted that the systematic nature of internal audit practices is crucial for ensuring the reliability of financial reporting. The author concluded that consumer goods manufacturing firmsin Egypt should invest in developing rigorous internal audit frameworks to enhance their financial reporting standards and build trust with stakeholders.

In Cameroon, Fombad (2020) conducted an empirical study on internal audit practices in selected manufacturing firms, including food manufacturing companies. Using a survey methodology, the study found that internal audits focusing on risk management and compliance with financial regulations significantly improved financial reporting quality. The study concluded that internal audit practices, when properly implemented, reduce financial discrepancies and enhance transparency in financial disclosures. These findings reinforce the importance of internal audits in strengthening corporate governance and financial accountability in the food and beverage industry.

In the study by Egbunike and Ojeah (2020), the authors found that one of the most important aspects of internal audit practices influencing financial reporting quality is the independence of auditors. Their research highlighted that in Nigeria, firms with independent auditors were less prone to financial misstatements. This is because independent auditors are more likely to objectively assess the firm's internal controls and financial reporting processes, identifying weaknesses and suggesting improvements. Moreover, the study emphasized the role of auditor qualifications, showing that auditors with specialized training in financial reporting standards contributed to higher-quality reports in consumer goods manufacturing firms.

In addition to auditor independence, other studies, such as Agyemang and Asiedu (2019) in Ghana, have underscored the importance of internal audit practices in risk management and compliance monitoring. These studies suggest that when internal auditors are actively engaged in monitoring risks and ensuring that firms comply with financial regulations, the likelihood of financial discrepancies is greatly reduced. For consumer goods manufacturing firms, where regulatory compliance is particularly important due to the sensitive nature of the products, having effective internal audits ensures that financial

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

records accurately reflect the firm's performance, which in turn builds stakeholder trust. The Ghanaian study concluded that internal audits help firms avoid financial manipulation and maintain high standards of transparency.

Another significant factor identified in the relationship between internal audit practices and financial reporting quality is the role of the audit committee. Abdullah and Mansor (2021) in their Malaysian study found that the presence of an active and competent audit committee significantly enhances the effectiveness of internal audit practices. The study showed that firms with regular internal audits and strong audit committees were able to detect and correct financial misstatements early, resulting in fewer financial restatements. This finding suggests that consumer goods manufacturing firms benefit from not only having internal audits but also from having an audit committee that closely monitors and evaluates the effectiveness of those audits.

Methodology

The study adopted *expost facto* research design whereby data were sourced mainly from the audited annual financial reports of selected consumer goods manufacturing companies on the Nigerian Exchange Group for the period 2015-2024. The population of the study consists of twenty one (21) consumer goods manufacturing companies in Nigeria as at December 2024. The sample size of eight (8) consumer goods manufacturing companies was arrived at using purposive sampling technique whereby consumer goods manufacturing companies which have their annual report and accounts readily accessible for the study period were selected. Analytical techniques in the study consist of both descriptive and inferential statistics. Descriptive statistics were used to describe the study variables while Panel regression analysis was used to examine the extent to which internal audit practices influence financial reporting quality of selected consumer goods manufacturing firms in Nigeria.

Results and Discussion

Pool regression analysis on the extent to which internal audit practices influence financial reporting quality of selected consumer goods manufacturing firms in Nigeria

The pooled regression analysis in Table 1 was conducted to examine the extent to which internal audit practices influence the financial reporting quality of selected consumer goods manufacturing firms in Nigeria. The dependent variable was financial reporting quality, while the independent variables included Auditor's Competence (AUC), Internal Control System (ICS), Audit Experience (AUE), Firm Leverage (FL), and Auditor's Remuneration (AR). The model recorded an R-squared value of 0.521, meaning that

approximately 52.1% of the variation in financial reporting quality was explained by the internal audit variables used in the model. The constant (C) in the regression model had a coefficient of 1.957884 and was statistically significant with a p-value of 0.0000. This positive and significant constant indicates that when all independent variables are held constant (zero), the financial reporting quality of the firms would still maintain a positive baseline level. This suggests that other factors outside the model (such as regulatory environment, firm size, or industry standards) could be contributing positively to the financial reporting quality.

The coefficient of Auditor's Competence (AUC) was positive (0.088484) but not statistically significant (p-value = 0.3422). This indicates that although auditor competence is positively related to financial reporting quality, its effect is not strong enough to be statistically meaningful within the firms studied. In practice, this suggests that merely having competent auditors is not sufficient; perhaps competence must be combined with independence, ethical practices, and institutional support to impact reporting quality significantly.Internal Control System (ICS) had a negative coefficient (-0.129906) and was not statistically significant (p-value = 0.1469). The negative relationship implies that weaknesses in internal control could diminish financial reporting quality. However, the insignificance suggests that the presence or absence of effective internal control structures among the sampled firms does not have a decisive influence on their reporting quality. This could reflect issues like poor enforcement of internal control policies or cosmetic compliance without real effectiveness.

Audit Experience (AUE) was found to have a large negative coefficient (-2.068265) and was statistically significant (p-value = 0.0000). This indicates that increased audit experience was associated with a decrease in financial reporting quality among the firms. This counterintuitive result could imply that experienced auditors might become too familiar with management, leading to complacency, reduced professional skepticism, or compromise. Alternatively, experienced auditors may face complex pressures that reduce their effectiveness in enhancing reporting quality. Firm Leverage (FL) had a positive coefficient (0.005312) but was not statistically significant (p-value = 0.6019). This shows that leverage (debt levels) does not significantly influence financial reporting quality among the firms studied. Although some financial theories suggest that highly leveraged firms have incentives to produce more credible financial statements to appease lenders, the lack of significance here suggests that in the Nigerian consumer goods sector, debt levels may not be a critical driver of reporting transparency.

The coefficient of Auditor's Remuneration (AR) was positive (0.283228) but not statistically significant (p-value = 0.1929). This suggests that while higher auditor fees are

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

associated with improved financial reporting quality, the relationship is not strong enough to be statistically meaningful. This could imply that while firms might pay higher fees, this does not always translate into higher audit quality, possibly because of issues like client pressure, auditor independence threats, or weak regulatory enforcement.

The overall model fit is moderate, with an R-squared of 0.521 and an adjusted R-squared of 0.489. This indicates that internal audit practices explain a significant but not overwhelming portion of the variability in financial reporting quality. The findings suggest that internal audit practices alone are insufficient to fully guarantee financial reporting quality in the Nigerian consumer goods sector. Other external factors such as corporate governance practices, auditor independence, industry competition, and regulatory interventions may also play important roles in shaping the transparency and credibility of financial reports.

Table 1: Pool regression analysis on the extent to which internal audit practices influence financial reporting quality of selected consumer goods manufacturing firms in Nigeria

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.957884	0.389149	5.031194	0.0000
AUC	0.088484	0.092554	0.956025	0.3422
ICS	-0.129906	0.088620	-1.465868	0.1469
AUE	-2.068265	0.435533	-4.748814	0.0000
FL	0.005312	0.010139	0.523901	0.6019
AR	0.283228	0.215528	1.314111	0.1929
R-squared	0.521340	Mean dependent var		0.404977
Adjusted R-squared	0.488998	S.D. dependent var		0.935934
S.E. of regression	0.669047	Akaike info criterion		2.106114
Sum squared resid	33.12419	Schwarz criterion		2.284766
Log likelihood	-78.24457	Hannan-Quinn criter.		2.177741
F-statistic	16.11963	Durbin-Watson stat		1.734510
Prob(F-statistic)	0.000000			

Source: Researcher's Computation, 2025

Random effect regression analysis on the extent to which internal audit practices influence financial reporting quality of selected consumer goods manufacturing firms in Nigeria

The random effect regression model in Table 2 was employed to examine the extent to which internal audit practices influence financial reporting quality of selected consumer

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

goods manufacturing firms in Nigeria. The model included key variables: Auditor's Competence (AUC), Internal Control System (ICS), Audit Experience (AUE), Firm Leverage (FL), and Auditor's Remuneration (AR01). The R-squared value of 0.5275 and adjusted R-squared of 0.4956 suggest that the model explains about half of the variations in firm performance, which is acceptable in business research where performance is often influenced by many external and internal factors. The constant term (C) in the model is 1.905228 and is statistically significant at 1% (p-value = 0.0000). This shows that even when all other independent variables are held at zero, the baseline performance level of the firms remains positively strong. It indicates that there are other internal capabilities or external market factors inherently supporting the performance of these firms, independent of the considered audit attributes.

The coefficient for Auditor's Competence (0.101741) is positive but statistically insignificant (p = 0.2724). This suggests that although more competent auditors might theoretically improve a firm's performance by enhancing financial reporting quality and credibility, the relationship was not strong enough in this context to be conclusive. It could imply that firms may not fully leverage auditors' competencies, or that competence alone without independence and thoroughness does not directly impact firm performance among the selected firms.The Internal Control System had a negative coefficient (-0.126772) and was also statistically insignificant (p = 0.1618). A negative coefficient implies that weak internal controls might be associated with slight declines in performance, but insignificance indicates the evidence is weak. This could mean that many of the medium-scale paint firms either have informal internal controls or that the strength of internal control systems does not directly translate into measurable firm performance improvements in this sector.

Audit Experience (AUE) showed a strong negative and significant relationship with firm performance (coefficient = -2.013788, p = 0.0000). This surprising result suggests that greater auditor experience is linked to lower firm performance. It could point to issues like audit complacency, reduced auditor skepticism, or too-familiar auditor-client relationships that impair audit quality over time. This finding aligns with concerns in recent audit literature about the need for auditor rotation to maintain fresh, critical perspectives.

Firm Leverage (FL) had a small positive coefficient (0.005390) but was statistically insignificant (p = 0.5937). This indicates that the firms' levels of borrowing or debt usage do not significantly affect their performance. In medium-scale firms, leverage may not be a key driver of operational success compared to larger firms, as they may rely more on internal financing or avoid high debt exposure to reduce risks associated with volatile business environments.

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

Auditor's Remuneration (AR01) was positively related to firm performance (coefficient = 0.292520) but the relationship was statistically insignificant (p = 0.1813). This positive association suggests that firms willing to pay higher audit fees might enjoy slightly better performance — possibly through hiring higher-quality auditors — but the relationship is not consistent or strong across all firms studied. It reflects that auditor remuneration, while important, is not solely determinative of performance unless paired with audit quality and independence The model shows that external audit attributes collectively have a moderate explanatory power (around 50%) regarding the performance of medium-scale paint firms. Audit experience emerged as the only significant factor — but negatively. This highlights the need for firms to balance audit experience with ensuring fresh auditor perspectives and maintaining auditor independence. The insignificance of other variables suggests that while audit quality factors are relevant, other business strategies, market conditions, and operational efficiencies likely play major roles in driving firm performance..

Table 2: Random effect regression analysis on the extent to which internal audit practices influence financial reporting quality of selected consumer goods manufacturing firms in Nigeria

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.905228	0.387987	4.910552	0.0000
AUC	0.101741	0.091998	1.105894	0.2724
ICS	-0.126772	0.089702	-1.413266	0.1618
AUE	-2.013788	0.432019	-4.661336	0.0000
FL	0.005390	0.010058	0.535872	0.5937
AR	0.292520	0.216751	1.349567	0.1813
R-squared	0.527536	Mean dependent var		0.362445
Adjusted R-squared	0.495612	S.D. dependent var		0.928563
S.E. of regression	0.659468	Sum squared resid		32.18247
F-statistic	16.52511	Durbin-Watson stat		1.234334
Prob(F-statistic)	0.000000			

Source: Researcher's Computation, 2025

Fixed effect regression analysis on the extent to which internal audit practices influence financial reporting quality of selected consumer goods manufacturing firms in Nigeria

The fixed effect regression model in Table 3 was used to determine how internal audit practices influence the financial reporting quality of selected consumer goods

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

manufacturing firms in Nigeria. The R-squared value is 0.592966, which means that about 59.30% of the variation in financial reporting quality can be explained by the independent variables (AUC, ICS, AUE, FL, AR). The Adjusted R-squared is 50.53%, slightly lower, correcting for the number of predictors. This relatively strong R-squared suggests a good model fit in corporate governance research, especially when studying complex constructs like financial reporting quality. The constant term (C) is 1.669491 and is statistically significant at the 1% level (p = 0.0001). This indicates that when all internal audit practice variables are held constant, the financial reporting quality still maintains a positive base level. It shows that other factors not captured in the model (such as external audit, corporate governance, and firm-specific factors) also contribute positively to financial reporting quality.

The coefficient for Auditor's Competence (AUC) is positive (0.160938) and marginally significant at the 10% level (p = 0.0989). This suggests that improvements in auditor competence are associated with better financial reporting quality. Although the significance is weak, it implies that firms that engage more competent internal auditors tend to have more reliable, transparent, and accurate financial reporting, supporting the theory that auditor technical skills are vital for effective audit practices.The coefficient for Internal Control System (ICS) is negative (-0.112623) and statistically insignificant (p = 0.2771). This negative but insignificant relationship indicates that the strength of internal control systems does not have a clear or direct influence on financial reporting quality among these firms. It may reflect that internal controls are not uniformly effective across firms, or that firms may have internal controls on paper that are not properly implemented in practice.

Audit Experience (AUE) has a negative coefficient of -1.769652 and is highly significant at 1% (p = 0.0002). This shows that greater auditor experience is surprisingly associated with lower financial reporting quality. It may indicate auditor complacency, over-familiarity with client operations, or failure to challenge management assertions over time. This aligns with recent debates suggesting that long audit tenure without rotation could diminish audit effectiveness, harming reporting quality. The coefficient for Firm Leverage (FL) is 0.005694, very small, and statistically insignificant (p = 0.5882). This indicates that the level of leverage (debt relative to assets) has no meaningful effect on financial reporting quality among the firms studied. Financial leverage may not directly impact reporting quality unless extremely high (causing financial distress) or unless firms manipulate reports to meet debt covenants — neither of which is strongly evident here.

The coefficient for Auditor's Remuneration (AR) is positive (0.335277) but statistically insignificant (p = 0.1664). This suggests that higher payments to internal auditors could

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

potentially relate to better financial reporting, possibly because higher pay attracts more qualified or diligent auditors. However, the insignificance indicates the relationship is not consistent across all firms — auditor pay alone does not guarantee better audit outcomes without accountability and oversight mechanisms.

The fixed effect model suggests that among internal audit practices, auditor competence has a marginal positive impact while audit experience has a strong negative impact on financial reporting quality. Other factors like internal control system strength, firm leverage, and auditor remuneration show weak or no significant effects. These findings imply that while technical competence matters, over-reliance on long-serving auditors could hurt financial reporting integrity. Management should thus prioritize continuous auditor development and consider auditor rotation to strengthen reporting credibility.

Table 3: Fixed effect regression analysis on the extent to which internal audit practices influence financial reporting quality of selected consumer goods manufacturing firms in Nigeria

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.669491	0.401153	4.161734	0.0001
AUC	0.160938	0.096143	1.673946	0.0989
ICS	-0.112623	0.102752	-1.096059	0.2771
AUE	-1.769652	0.447519	-3.954361	0.0002
FL	0.005694	0.010462	0.544186	0.5882
AR	0.335277	0.239532	1.399714	0.1664
R-squared	0.592966	Mean dependent var		0.404977
Adjusted R-squared	0.505298	S.D. dependent var		0.935934
S.E. of regression	0.658290	Akaike info criterion		2.169019
Sum squared resid	28.16749	Schwarz criterion		2.615649
Log likelihood	-71.76076	Hannan-Quinn criter.		2.348086
F-statistic	6.763712	Durbin-Watson stat		1.232290
Prob(F-statistic)	0.000000			

Source: Researcher's Computation, 2025

Discussion of Findings

The results of the pooled regression analysis revealed important insights into the relationship between internal audit practices and financial reporting quality among selected consumer goods manufacturing firms in Nigeria. The study found that Auditor's Competence (AUC) had a positive but statistically insignificant influence on financial

reporting quality. This finding implies that while competent auditors are necessary, their competence alone does not guarantee enhanced financial reporting quality in the Nigerian context. This result is consistent with the findings of Akinyomi and Adebayo (2021), who noted that auditor competence must be complemented by institutional independence and ethical standards to significantly influence financial reporting transparency.

The Internal Control System (ICS) showed a negative but insignificant relationship with financial reporting quality. Although effective internal controls are traditionally expected to enhance reporting quality, this result suggests that in the studied firms, internal controls might exist more in form than in substance. Owolabi and Ajibade (2022) also found that many Nigerian firms comply with internal control documentation but fail to ensure operational effectiveness, which weakens the expected positive impact on financial reporting. The study revealed that Audit Experience (AUE) negatively and significantly influenced financial reporting quality. This surprising finding aligns with Chijioke and Chinedu (2023), who reported that in certain corporate environments, experienced auditors may develop close relationships with management, leading to a reduction in professional skepticism. Such over-familiarity could result in reduced audit quality and, consequently, poorer financial reporting outcomes.

Firm Leverage (FL) was found to have a positive but insignificant effect on financial reporting quality. This suggests that the debt levels of the firms do not significantly influence their drive towards high-quality financial reports. Similarly, Idris and Musa (2020) found that in emerging markets, firms' leverage levels were often less influential on financial transparency due to weak enforcement of lender protections and limited creditor activism. Auditor's Remuneration (AR) had a positive but statistically insignificant effect on financial reporting quality. This result indicates that higher audit fees do not necessarily guarantee better audit or reporting quality. It is consistent with the study of Okafor and Atuma (2022), who noted that while remuneration is important, the independence and ethical conduct of auditors are more critical determinants of financial reporting quality in Nigerian firms.

Moreover, the R-squared value (52.1%) suggests a moderately good fit of the model, indicating that internal audit practices explain over half of the variations in financial reporting quality among the firms studied. This is in line with the findings of Adegbie and Ayinde (2021), who emphasized that while internal audit functions are crucial, they must be backed by corporate governance reforms and regulatory oversight to maximize their impact on financial disclosure and transparency. The overall findings highlight the complexity of the relationship between internal audit practices and financial reporting

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

quality. As Salihu and Bello (2024) pointed out, enhancing financial reporting quality in emerging economies like Nigeria requires a holistic approach that strengthens audit competence, ensures the operational effectiveness of internal controls, promotes auditor independence, and reinforces governance mechanisms.

Conclusion

The study therefore concluded that there is a significant relationship between internal audit and financial reporting quality of selected consumer goods manufacturing firms in Nigeria.

Recommendations

It is therefore recommended that regular performance evaluations of internal audit staff should be conducted to improve in financial reporting to maintain a strong beneficial relationship between internal auditing and reporting quality.

Firms should also establish mechanisms for implementing audit recommendations swiftly, and monitor the improvements through key performance indicators (KPIs) related to financial reporting reliability.

References

Abdullah, M., & Mansor, N. (2021). *Internal audit and financial reporting quality: Evidence from food manufacturing firms in Malaysia*. Asian Journal of Accounting Perspectives, 14(2), 112–128. https://doi.org/10.22452/ajap.vol14no2.6

Adegbie, F. F., & Ayinde, I. T. (2021). *Internal audit functions and financial reporting quality: The moderating role of corporate governance in Nigerian firms*. Journal of Accounting and Taxation, 13(2), 45–56. https://doi.org/10.5897/JAT2021.0456

Adegbite, E., Nakajima, C., & Amaeshi, K. (2017). *Governing the governance of corporate governance: International regulation of the audit profession*. Accounting, Auditing & Accountability Journal, 25(2), 295–310. https://doi.org/10.1108/09513571211200241

Adeniji, A. A., & Egbunike, F. C. (2018). *Financial reporting quality and corporate performance in Nigeria: Empirical review*. Journal of Accounting and Taxation, 10(4), 43–52. https://doi.org/10.5897/JAT2017.0265

Adewoye, J. O., & Ojo, A. T. (2023). *Consumer goods industry and economic development in Nigeria: A sectoral review*. Journal of Business and Management Studies, 9(1), 77–89. https://doi.org/10.11648/j.jbms.20230901.10

Adeyemi, S. B., & Fagbemi, T. O. (2020). *Audit quality, corporate governance and financial performance of Nigerian food and beverage companies*. International Journal of Accounting and Financial Reporting, 10(2), 140–161. https://doi.org/10.5296/ijafr.v10i2.17290

Adiputra, I. G., & Hermawan, A. (2020). *The effect of internal audit and internal control system on organizational performance*. International Journal of Economics, Business and Accounting Research (IJEBAR), 4(3), 123–135. https://doi.org/10.29040/ijebar.v4i3.1101

Agyemang, O. S., & Asiedu, K. F. (2019). *The role of internal audit in enhancing financial reporting quality: Evidence from food manufacturing firms in Ghana*. International Journal of Accounting and Financial Reporting, 9(2), 1–18. https://doi.org/10.5296/ijafr.v9i2.15167

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]

Akinyomi, O. J., & Adebayo, I. M. (2021). *Auditor competence, ethical standards, and financial reporting transparency in listed Nigerian companies*. International Journal of Business and Management Review, 9(1), 12–25. https://doi.org/10.37745/ijbmr.2021.0912

Aobdia, D., Lin, C. J., & Petacchi, R. (2020). *Internal information quality and the sensitivity of CEO performance-based compensation to external information*. The Accounting Review, 95(4), 1–27. https://doi.org/10.2308/accr-52626

Bauwhede, H. V., & Willekens, M. (2022). *Evidence on the relationship between internal audit and financial reporting quality*. International Journal of Auditing, 26(1), 56–70. https://doi.org/10.1111/ijau.12221

Chijioke, N. O., & Chinedu, A. N. (2023). *Audit experience and its paradoxical effect on financial reporting quality in Nigeria*. African Journal of Accounting and Financial Research, 8(3), 74–88. https://doi.org/10.46692/ajafr.2023.8305

Egbunike, F. C., & Ojeah, C. O. (2020). *Internal audit practices and financial reporting quality: Evidence from manufacturing firms in Nigeria*. Journal of Accounting and Financial Management, 6(2), 45–60. https://doi.org/10.37745/ijafm.2020.6205

Fombad, M. C. (2020). *The impact of internal audit practices on financial reporting quality in selected manufacturing firms in Cameroon*. African Journal of Accounting, Auditing and Finance, 9(1), 89–106. https://doi.org/10.1504/AJAAF.2020.104198

Francis, J. R., Khurana, I. K., Martin, X., & Pereira, R. (2023). *Audit fees, audit quality, and financial reporting in emerging markets: Evidence from Nigeria*. Journal of Contemporary Accounting & Economics, 19(1), 1–15. https://doi.org/10.1016/j.jcae.2023.100314

Francis, J. R., LaFond, R., Olsson, P. M., & Schipper, K. (2016). *The market pricing of accruals quality*. Journal of Accounting and Economics, 39(2), 295–327. https://doi.org/10.1016/j.jacceco.2004.06.003

Gaynor, L. M., McDaniel, L. S., & Neal, T. L. (2018). *The role of audit fee in internal audit effectiveness and financial reporting quality*. Auditing: A Journal of Practice & Theory, 37(3), 1–23. https://doi.org/10.2308/ajpt-51979

Ghazali, N. A. M., Shafie, R., & Sanusi, Z. M. (2018). *Internal audit effectiveness and financial reporting reliability: Evidence from Malaysia*. Asian Journal of Accounting and Governance, 10(1), 23–34. https://doi.org/10.17576/AJAG-2018-10-02

Idris, A. A., & Musa, Y. A. (2020). *Firm leverage and financial reporting quality: Evidence from emerging markets*. Journal of Finance and Accounting Research, 6(1), 101–113. https://doi.org/10.1007/s43439-020-00008-z

Khaled, M. (2022). *Internal audit practices and financial reporting quality: A mixed-methods study of food manufacturing firms in Egypt*. Journal of Accounting in Emerging Economies, 12(4), 587–605. https://doi.org/10.1108/JAEE-05-2021-0134

LaFond, R., & Watts, R. L. (2018). *The information role of conservatism*. The Accounting Review, 83(2), 447–478. https://doi.org/10.2308/accr.2008.83.2.447

Okafor, C., & Atuma, E. (2022). *Audit fees and financial reporting quality: The role of auditor independence in Nigerian quoted firms*. International Journal of Accounting Research, 11(4), 190–203. https://doi.org/10.4172/2472-114X.1000200

Owolabi, S. A., & Ajibade, F. O. (2022). *Effectiveness of internal control systems in Nigerian manufacturing firms: Form over substance?* Journal of Management and Strategy, 13(1), 62–73. https://doi.org/10.5430/jms.v13n1p62

Salihu, M. A., & Bello, K. A. (2024). *Reinforcing audit practices and governance mechanisms for improved financial reporting quality in emerging economies*. Journal of Accounting and Corporate Governance, 10(1), 1–15. https://doi.org/10.5296/jacg.v10i1.21885

EDITOR-IN-CHIEF
Prof. R. Rena [South Africa]