International Journal of Spectrum Research in Social and Management Sciences (IJSRSMS)
1(1), Jan–Mar, 2025, Pages 98-111
ISSN: Maiden Edition

https://doi.org/10.5281/zenodo.15192967

Board Size and Earnings Management of listed Deposit Money Banks in Nigeria Moderated by Audit Committee Expertise

Angela Ibe[1]* Joshua Okpanachi[2], Achema Friday[3]

[1 & 3] Department of Accounting
Veritas University, Abuja, Nigeria

[2]Department of Accounting
Nigerian Defence Academy, Kaduna

E-mail: srangelchinaenye@gmail.com

ABSTRACT

This study examines the effect of board size on earnings management in Nigerian listed deposit money banks and assesses the moderating role of audit committee expertise. The study aims to provide insights into corporate governance practices and their implications for financial reporting quality in the banking sector. A quantitative approach was employed using an Ex-Post Facto research design. Secondary data were collected from the annual reports and NGX Fact Books of 10 listed deposit money banks from 2014 to 2023. The study utilized panel regression models with Ordinary Least Squares (OLS) and random effects estimation, conducted using Eviews version 10. Diagnostic tests such as Variance Inflation Factor (VIF), heteroscedasticity, and Hausman specification tests were performed to ensure robustness. The results revealed that board size has a negative but statistically insignificant effect on earnings management. Audit committee expertise exhibited a significant negative effect on earnings management, suggesting that greater expertise enhances financial reporting quality. Additionally, audit committee expertise significantly moderated the relationship between board size and earnings management, reinforcing the importance of audit committee competency in governance mechanisms. The study highlights the importance of strengthening audit committees to mitigate earnings management in Nigerian banks. The findings underscore the need for corporate governance reforms to enhance transparency and accountability. Regulatory bodies should enforce policies ensuring that audit committees comprise experts in finance, accounting, and auditing to improve financial reporting quality. Banks should adopt governance structures that foster independent oversight, thereby reducing earnings manipulation risks.

Keywords: Board Size, Audit Committee Expertise, Earnings Management, Nigeria

INTRODUCTION

The banking sector plays a crucial role in facilitating economic growth and development and the sector's stability and soundness are often threatened by corporate governance failures, which can lead to financial crises and scandals (Merton, 2013; La Porta et al., 2015). One of the key areas where corporate governance failures can manifest is in earnings management, which involves the deliberate use of accounting discretion to manage financial results in a way that accurately reflects a bank's underlying economic performance (Kothari et al., 2019) so as to promote a positive image to creditors and potential investors, achieve internal goals, smooth out revenue generation and meet stakeholders' expectations. Meanwhile, the abuse of earnings management techniques has led to several high-profile scandals in the banking sector globally, including the Lehman Brothers scandal in 2008, which involved the use of Repo 105 transactions to temporarily remove assets from their financial statements and hide losses (Kedia & Rajgopal, 2019).

The Nigerian banking sector, especially the Deposit Money Banks have historically struggled with earnings management practices, which have contributed to financial crises and bank failures (Jibril, 2015). The legitimate use of earnings management practices in banks requires making informed decisions about various accounting and financial reporting choices, such as loan loss provisioning (Kanagaretnam et al., 2018), interest income recognition, and asset valuation (Barth et al., 2017). By exercising prudent judgment and choices, banks can ensure that their financial reports accurately capture their financial position and performance (Scott, 2019). The primary objectives of earnings management in Deposit Money Banks are meant to provide stakeholders with reliable and relevant financial information (Abdel-Kader & Luther, 2018), support informed decision-making, and present accurate and transparent picture of the bank's financial performance (Kothari et al., 2019).

Hence, earnings management can cause scandal when it involves intentional and material misrepresentation of a firm's financial performance. This can occur when management uses aggressive or fraudulent accounting practices to achieve desired financial results, such as meeting earnings targets or hiding financial difficulties. In Nigeria, recent scandals in the banking sector have also highlighted the importance of transparency and accountability in financial reporting (Ogundele & Okere, 2020). For instance, the 2014 financial reporting scandal involving Skye Bank Plc, which involved the misrepresentation of financial statements, resulting in a ₦1.04 trillion loss (Adeyemi & Olowookere, 2018), and the 2018 scandal involving Diamond Bank Plc, which involved the misstatement of financial results, resulting in a ₦257 billion loss (Ezejelue & Ihendinihu, 2020). More recently, the 2020 scandal involving First Bank of Nigeria Limited, which involved the mismanagement of funds and misrepresentation of financial statements, has further emphasized the need for robust financial reporting and governance practices in Nigeria's banking sector (Oseni & Adeyemi, 2020). These scandals have resulted in significant financial losses, regulatory penalties, and reputational damage to the affected banks.

However, research has shown that earnings management can be driven by various factors, including poor corporate governance, weak internal controls, and external pressures (Adewale & Oyewole, 2017). Additionally, factors such as board size and composition, audit committee expertise, and executive compensation have also been linked to earnings management (Alade et al., 2020). Therefore, understanding the factors that influence earnings management is crucial for improving corporate governance and financial reporting quality in Nigerian deposit money banks. By identifying the drivers of earnings management, stakeholders can develop effective strategies to prevent and detect this practice, promoting transparency and accountability in financial reporting (Agyeman & Benjamin, 2020). Moreover, policymakers and regulators can use this knowledge to develop targeted regulations and guidelines to mitigate the risk of earnings management in the banking sector (Owusu et al., 2024).

Meanwhile, the Central Bank of Nigeria (CBN) and the Nigerian Exchanges (NGX, 2020) have implemented various corporate governance reforms aimed at preventing earnings management abuses and promoting transparency and accountability in the banking sector (NGX, 2020). Despite these reforms, earnings management remains a significant challenge in the Nigerian banking sector. The board of directors plays a crucial role in corporate governance, ensuring accurate, reliable, and transparent financial reporting (Adewale & Oyewole, 2017). Board size is a debated topic, with proponents of larger boards arguing it offers enhanced monitoring, diversity, and representation (Owusu et al., 2024; Adewale & Oyewole, 2017; Jibril, 2015). Advocates of smaller boards contend it facilitates efficient decision-making, accountability, and reduced costs (Alade et al., 2020; Sanusi & Amran, 2016; Agyeman & Benjamin, 2020). Understanding the implications of board size on financial reporting quality and earnings management is essential for effective corporate governance and investor confidence (Adewale & Oyewole, 2017).

Audit committee expertise is critical, influencing the relationship between board size and earnings management (Alade et al., 2020). The audit committee ensures financial reporting integrity, overseeing financial statements, internal controls, and external auditor performance (Sanusi & Amran, 2016; Fuad, 2016; Garvan, 2009; Mangena et al., 2016). Audit committees with financial expertise possess a deeper understanding of accounting principles, enabling effective oversight (Agyeman & Benjamin, 2020). They identify potential earnings management, scrutinize reports, and ask informed questions. In contrast, committees lacking expertise may struggle, potentially leading to undetected earnings management (Owusu et al., 2024).

The interplay between board size and earnings management in Nigeria's listed deposit money banks is multidimensional, with audit committee expertise being a pivotal factor (Fuad, 2016; Garvan, 2009; Mangena et al., 2016). Although a larger board is crucial for robust governance and oversight (Adewale and Oyewole, 2017), empirical evidence suggests that increased board size does not necessarily translate to superior financial reporting quality (Owusu et al., 2024). Moreover, earnings management practices persist in Nigerian banks (Agyeman & Benjamin, 2020), emphasizing the need for skilled audit committee expertise to identify and prevent such practices (Sanusi & Amran, 2016). This study aims to address the research gap by examining the moderating effect of audit committee expertise on the impact of board size on earnings management of listed deposit money banks in Nigeria. The study seeks to answer two main questions: Does board size affect earnings management in Nigerian banks? Does audit committee expertise influence the relationship between board size and earnings management? The outcome of this research will contribute to existing knowledge and benefit policymakers, investors, researchers, and academics. In line with objective of the study, the following hypothesis were set in null form and tested in the course of the study:

Ho_1: There is no significant effect of board size on earnings management of listed deposit money banks in Nigeria.

Ho_2: Audit committee expertise does not have a significant effect on earnings management of listed deposit money banks in Nigeria.

Ho_3: Audit committee expertise does not have a significant moderating effect on board size and earnings management of listed deposit money banks in Nigeria.

LITERATURE REVIEW

Conceptual Review

Three concepts are germane to this study, namely board size, earnings management and audit committee expertise.

Board size

Board size refers to the number of directors on a company's board (Umar & Hassan, 2020). It's a critical aspect of corporate governance, influencing the board's ability to oversee management and make informed decisions (Adeyemi & Olowookere, 2018; Yasser & Al Mamun, 2022). The ideal board size is debated, with proponents arguing that larger boards provide diverse expertise and enhance performance (Oseni et al., 2020; Ahmed & Duellman, 2022). Critics contend that overly large boards lead to communication breakdowns and decreased performance (Umar & Hassan, 2020; Mardini et al., 2022). Empirical studies on board size and company performance have yielded mixed results (Umar & Hassan, 2020; Oseni et al., 2020; Ahmed & Duellman, 2022; Adeyemi & Olowookere, 2018; Kajola, 2017; Mardini et al., 2022). A recent study found a non-linear relationship between board size and performance, suggesting that optimal board size depends on company-specific factors (Yasser & Al Mamun, 2022). For Nigerian deposit money banks, research suggests that a board size of 5-15 members may be optimal for effective governance and financial performance (Ahmed & Duellman, 2022). However, further research is needed to fully understand the impact of board size on company performance.

Audit Committee Expertise

Audit committee expertise refers to the collective knowledge, skills, and experience of audit committee members in financial reporting, auditing, and risk management (Abdullah et al., 2020). This expertise enables audit committees to provide effective oversight of the external audit process and financial reporting, ensuring that financial statements are accurate, reliable, and transparent. Audit committee members should possess proficiency in accounting, finance, and risk assessment to ensure financial reporting integrity and reduce earnings management in Nigerian banks (Nzekwe et al., 2022). This includes having a deep understanding of accounting standards and regulations, experience in financial analysis and reporting, familiarity with earnings management techniques, and strong investigative and analytical skills. By possessing these skills, audit committees can effectively oversee financial reporting, identify potential manipulations, and ensure compliance with regulatory requirements. The benefits of audit committee expertise in earnings management are numerous, including enhanced credibility of financial reports, improved bank reputation, reduced risk of financial misstatement, and early detection and prevention of earnings management practices.

Earnings Management

Earnings management refers to the careful selection of accounting practices in handling a company's financial reports to achieve a desired outcome, such as meeting analyst expectations, hiding poor performance, or achieving personal benefits (Ahmed et al., 2022). This practice involves using various techniques, including accruals management, real earnings management, and classification shifting, to influence financial statements and present a misleading picture of a company's financial health, but it can also lead to decreased credibility, legal and regulatory issues, and reduced financial performance in the long run (Ahmed et al., 2022). Effective corporate governance mechanisms are essential to prevent earnings management and ensure transparent and accurate financial reporting.

Thinh and Trang (2020) defined earnings management as "the purposeful intervention by management in the financial reporting process to achieve a desired outcome, such as increasing earnings to meet or beat analyst forecasts, or to manipulate earnings to achieve other benefits." Earnings management can help companies smooth out fluctuations in their earnings, which can enhance investor confidence and attract potential investors. Earnings management can be used to mask poor performance which in turn manipulate financial statements and hide the poor performance of a company. Also, companies might use earnings management to stabilize their stock prices and achieve personal benefits like bonuses, higher salaries, and more (Ali & Bansal, 2021). Ugbede et al. (2013) in their study titled "Earnings Management and Financial Performance of Listed Deposit Money Banks in Nigeria" discovered a significant positive relationship between earnings management and financial performance of listed deposit money banks in Nigeria and stated that banks engage in earnings management in order to improve their financial performance and meet regulatory requirements.

Review of Empirical Studies

Board Size and Earnings Management

Agyeman and Benjamin (2020) investigated the relationship between board size and earnings management practices among Ghanaian financial institutions listed on the Ghana Stock Exchange from 2010 to 2018. The study used secondary data from 9 institutions and analyzed it using correlational regression. The findings revealed that board size and financial leverage influence earnings management, with a negative correlation between auditor size and earnings management. The study recommends that regulatory bodies ensure listed firms are audited by reputable firms.

Chude and Chude (2023) examined the relationship between board attributes and real earnings management among Nigerian Deposit Money Banks. The study used board size and board independence as explanatory variables and discretionary loan loss provision as the dependent variable. Data from 13 banks listed on the Nigerian Exchange Group (NGX) from 2012 to 2022 were analyzed using pooled ordinary least square regression. The results showed that board size and board independence negatively influence real earnings management. The study recommends increasing board size and non-executive directors to oversee manager behavior. Alade et al. (2020) investigated the relationship between board size and earnings management in Nigerian listed companies. The study used a cross-sectional research design and sampled 120 companies listed on the Nigerian Stock Exchange (NSE). The results showed a negative significant relationship between board size and earnings management. Firm size and leverage had a positive significant relationship with earnings management, while audit committee had a negative significant relationship. The study recommends maintaining an optimal board size and effective monitoring and enforcement of corporate governance practices.

Audit Committee Expertise and Earnings Management

Abdul-Manaf et al. (2018) investigated the influence of audit committee expertise on real earnings management in firms listed in Bursa Malaysia. The study used secondary data from 200 firms over 4 years and found a negative relationship between audit committee expertise and real earnings management. This suggests that firms with expert audit committees engage less in real earnings management practices. The study recommends that future research investigate other factors influencing real earnings management, such as audit committee chair expertise. Fali et al. (2019) examined the relationship between audit committees and earnings management in Nigerian Deposit Money Banks. The study used a correlational research design and collected secondary data from 13 banks. The findings revealed that audit committee financial expertise and busyness had a negative but insignificant impact on earnings management. The study concluded that audit committee expertise and busyness improve financial report quality and recommended that boards appoint members with financial expertise to audit committees. The study also suggested that including more directors with multiple directorships can help reduce earnings management. Mardessi and Fourati (2020) studied the relationship between audit committee expertise and real earnings management in Dutch listed companies. The study found that audit committee financial expertise reduces real earnings management through manipulation of discretionary expenditures, sales, and production costs. Cheung and Chung (2022) further examined the impacts of various types of audit committee expertise on real earnings management in Hong Kong firms. The findings revealed that strong audit committee expertise is associated with higher levels of real earnings management. The results have implications for policymakers, professionals, and academics.

Theoretical Review

This section examines two theories underpinning the study: Agency Theory and Resource-Based Theory. Agency Theory (Jensen & Meckling, 1976) explains the relationship between principals (shareholders) and agents (managers). It posits that the separation of ownership and control creates a conflict of interest, leading to agency problems. In Nigerian listed deposit money banks, this conflict may manifest as earnings management, driven by managers' desire for personal gains (Healy & Wahlen, 1999; Watts & Zimmerman, 1986). Research supports the application of agency theory in the banking sector (Ahmed et al., 2017; Okafor et al., 2019). Resource-Based Theory (RBT) posits that organizations can achieve competitive advantage by leveraging internal resources and capabilities (Barney, 1991; Penrose, 1959; Wernerfelt, 1984). This study is grounded in RBT, investigating how Nigerian listed deposit money banks can leverage board size and composition, audit committee expertise, and firm-specific resources to achieve competitive advantage. By focusing on these unique resources, the study highlights their potential to drive sustained competitive advantage.

RESEARCH METHOD

This study investigates the effect of board size on earnings management of listed deposit money banks in Nigeria and the moderating role of audit committee expertise. This study employed a quantitative research approach, utilizing Ex-Post Facto research design to examine the relationship between board size and earnings management in Nigerian listed deposit money banks. The study covers a sample of 10 banks listed on the Nigerian Exchange Group (NGX) from 2014 to 2023. Secondary data were collected from the annual reports and NGX's Fact Books. Descriptive statistics and balanced panel regression models based on Ordinary Least Squares (OLS) and random effects were used to analyze the data with the aid of Eviews version 10. Additionally, diagnostic tests such as Variance Inflation Factor (VIF), Heteroscedasticity, and Hausman specification tests were conducted to ensure the robustness of the results.

Table 1 presents a summary of the variables used, their measurements, codes and sources.

Table 1

Variables, Measurement and Sources

S/No	Variable Name	Type	Measurement	Proxy	Source
1	Earnings Management	Dependent	Accruals Ratio= (Profit before Tax - Cash Profit) / Total Asset, expressed as a percentage.	AR	Ahmed et al. 2020; Healy and Wahlen (1999) & Dechow et al. (1996)
2	Board Size	Independent	Total number of executive and non-executive directors in each bank.	BSIZE	Owusu et al. (2024)
3	Firm Age	Control	Number of years since incorporation	FA	Ahmed et al. 2020
4	Audit Committee Expertise	Moderator	Percentage of audit committee members with accounting, finance, taxation, auditing and expertise.	ACE	Ahmed et al., 2020; Owusu et al., 2020; & Mardini et al. 2020.

Source: Researchers' Tabulation

This study adopts the modified Jones model (Jones, 1991) to detect earnings management. The estimated abnormal accruals can then be used to calculate the Accrual Ratio (AR) as the ratio of total accruals to total assets. The modified Jones model is chosen due to its robust framework for identifying abnormal accruals, which is a key indicator of earnings management. Additionally, the modified Jones model has been widely used in prior research, providing a reliable and valid tool for detecting earnings management.

The relationship between board size, audit committee expertise and earnings management is modeled as:

AR = f (BSIZE, FA, ACE)……………………………………..………………………………1

From the above functional relationship the interaction terms are introduced to test the moderating effect of audit committee expertise:

$AR_{it}=\beta_0 + \beta_1 BSIZE_{it}+\beta_2 FA_{it}+\beta_3 ACE_{it}+\beta_4(BSIZE \times ACE)_{it} + \varepsilon_{it}$ ..………………………2

Where:

ARit = Accrual Ratio (Earnings Management) at time t
BSIZEit = Board Size (at time t)
FAit = Firm Age (at time t)
ACEit = Audit Committee Expertise (at time t)
BSIZE x ACE= Interaction term between board size and audit committee expertise

β_0 = Constant term
$\beta_1 - \beta_4$ = Coefficients to be estimated
ε_{it} = Error term (at time t)

The equation models the relationship between Accrual Ratio (AR) and corporate governance variables: Board Size, Firm Age, and Audit Committee Expertise. The model includes interaction terms to examine how these variables interact. The regression coefficients represent the change in Accrual Ratio for a one-unit change in each variable. This model is similar to those used by previous researchers (Dechow et al., 1996; Klein, 2002; Xie et al., 2003).

RESULTS AND DISCUSSION

This section introduces the results and analysis of the study, outlining the structure of the section, which includes descriptive statistics, diagnostic tests, hypotheses testing, and discussion of findings.

Descriptive Statistics

Descriptive statistics summarize and provide insights into the distribution and characteristics of the dataset, helping to identify patterns, trends, and potential anomalies. Table 2 presents the descriptive statistics of the key variables, including their mean, median, minimum, maximum, standard deviation, skewness, and kurtosis. Table 2 revealed that the earnings management variable (AR) has a mean of 2.345 and a median of 2.155, indicating that most firms in the sample exhibit low earnings management. The standard deviation of 7.842 suggests considerable variation in accruals, with a minimum value of -16.120 and a maximum of 30.231. The skewness (0.226) and kurtosis (3.998) indicate a slightly right-skewed distribution with a moderate peak.

Table 2: Descriptive Statistics

	AR	BSIZE	FA	ACE
Mean	2.345	14.440	54.300	28.306
Median	2.155	14	35	27.300
Maximum	30.231	20	129	42.900
Minimum	-16.120	9	24	18.800

Std. Dev.	7.842	2.315	33.212	6.347
Skewness	0.226	-0.068	1.051	0.613
Kurtosis	3.998	2.588	2.669	2.439
Observations	100	100	100	100

Source: E-View Output

Table 2 revealed that Board size (BSIZE) has an average of 14.440 directors per bank, with values ranging from 9 to 20. The standard deviation of 2.315 reflects limited variability among firms. The distribution is nearly symmetric, as indicated by a skewness of -0.068, while a kurtosis value of 2.588 suggests a distribution close to normality. Table 2 revealed that Firm age (FA) exhibits the highest variation, with a mean of 54.300 years and a standard deviation of 33.212. The minimum and maximum values of 24 and 129 years, respectively, indicate that the sample consists of both young and well-established banks. The positive skewness (1.051) suggests that a few older firms influence the distribution, while a kurtosis of 2.669 indicates a slightly flatter-than-normal distribution. Table 2 revealed that Audit committee expertise (ACE) has a mean of 28.306%, with values ranging between 18.800% and 42.900%. The standard deviation of 6.347 suggests moderate variation in the proportion of audit committee members with relevant expertise. The skewness (0.613) indicates a slight rightward skew, while a kurtosis of 2.439 suggests a relatively normal distribution.

Diagnostic tests

This section presented three preliminary tests were conducted to ensure that validity and reliability of data. These tests include normality test, heteroscedasticity test and Hausman test.

Normality Test

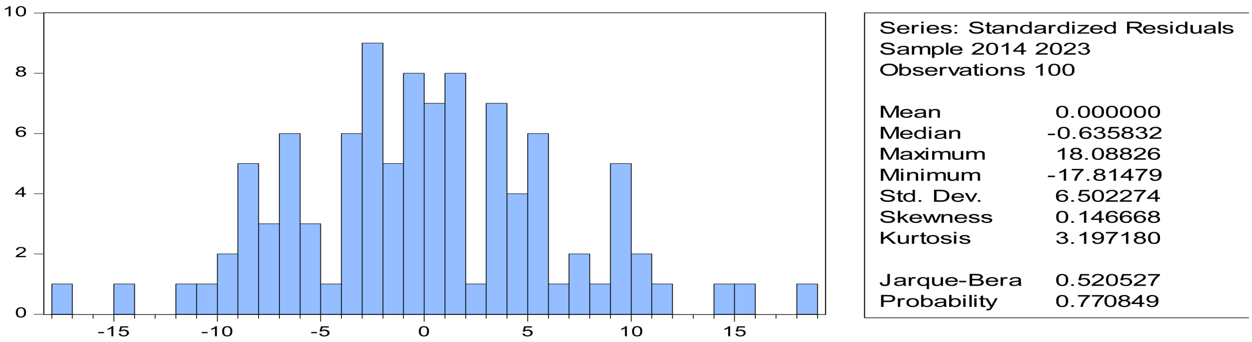

Figure 1: Normality Test

The result in Figure 1 indicated that Jarque-Bera statistic is 0.521, with a p-value of 0.771, which is greater than the 0.05 significance level. This suggests that the residuals are normally distributed, meeting the assumption for regression analysis in examining the effect of board size on earnings management in Nigerian listed deposit money banks, with audit committee expertise as a moderator.

Heteroscedasticity Test

The heteroscedasticity test, based on the Likelihood Ratio (LR) test, examines whether the residuals exhibit constant variance. The LR statistic of 40.772 with a p-value of 0.0000 rejects the null hypothesis of homoskedasticity, indicating the presence of heteroscedasticity. This suggests that variance in residuals is not constant, necessitating robust standard errors for reliable inference.

Table 3: Heteroscedasticity Test

Panel Cross-section Heteroskedasticity LR Test
Null hypothesis: Residuals are homoscedastic
Equation: UNTITLED
Specification: AR C BSIZE FA ACE BSIZE*ACE

	Value	df	Probability
Likelihood ratio	40.77157	10	0.0000

LR test summary:

	Value	df
Restricted LogL	-343.6513	95
Unrestricted LogL	-323.2655	95

Source: E-View Output

Hausman Test

Table 4: Correlated Random Effects - Hausman Test

Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	28.457136	4	0.0000

Source: E-View Output

The Hausman test examines whether a fixed or random effects model is more appropriate. The Chi-square statistic of 28.457 with a p-value of 0.0000 rejects the null hypothesis, indicating that the fixed effects model is preferable, as random effects would lead to inconsistent and biased estimates in this study.

Hypotheses Testing

Table 5: Fixed Effect Panel Regression

Dependent Variable: AR01
Method: Panel Least Squares
Date: 02/03/25 Time: 06:06
Sample: 2014 2023
Periods included: 10
Cross-sections included: 10
Total panel (balanced) observations: 100

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	110.7732	38.81101	2.854170	0.0054
BSIZE	-3.486407	1.915721	-1.819893	0.0723
FA	-0.978826	0.437781	-2.235881	0.0279
ACE	-2.582412	0.930023	-2.776718	0.0067
BSIZE*ACE	0.168220	0.069202	2.430862	0.0171

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.312573	Mean dependent var	2.344510
Adjusted R-squared	0.208659	S.D. dependent var	7.842451
S.E. of regression	6.976436	Akaike info criterion	6.852131
Sum squared resid	4185.677	Schwarz criterion	7.216854
Log likelihood	-328.6065	Hannan-Quinn criter.	6.999741
F-statistic	3.008009	Durbin-Watson stat	1.863351
Prob(F-statistic)	0.001122		

Source: E-View Output

Table 5 indicated that the R-squared value (0.3126) and Adjusted R-squared value (0.2087) indicate that approximately 31.26% of the variations in earnings management (AR01) of listed deposit money banks in Nigeria are explained by board size (BSIZE), audit committee expertise (ACE), their interaction (BSIZE*ACE), and the control variable (Firm Age). The F-statistic of 3.0080 and its associated probability (0.0011) suggest that the overall model is statistically significant, indicating that the independent variables jointly explain earnings management variations beyond mere chance.

For **Ho1**, the coefficient for board size (BSIZE) is -3.4864 with a p-value of 0.0723. This suggests a negative but statistically insignificant relationship with earnings management. A 1% increase in board size reduces earnings management by approximately 3.49%. Since the effect is not significant at the 5% level, the null hypothesis (Ho1) is not rejected.

For **Ho2**, the coefficient for audit committee expertise (ACE) is -2.5824, and its p-value is 0.0067. This indicates a significant negative relationship between audit committee expertise and earnings management, meaning a 1% increase in audit committee expertise reduces earnings management by 2.58%. As this relationship is statistically significant, the null hypothesis (Ho2) is rejected.

For **Ho3**, the interaction term (BSIZE*ACE) has a positive coefficient (0.1682) and a p-value of 0.0171. This suggests that audit committee expertise significantly moderates the relationship between board size and earnings management, such that an increase in audit committee expertise weakens the negative effect of board size on earnings management. Therefore, the null hypothesis (Ho3) is rejected.

The Durbin-Watson statistic (1.8634) is close to 2, suggesting no serious autocorrelation concerns. These results highlight the importance of audit committee expertise in reducing earnings management and its moderating effect on board size.

Discussion of Findings

This study investigates the effect of board size on earnings management in Nigerian listed deposit money banks, and the moderating role of audit committee expertise. Based on the first hypothesis, this study found that board size has a negative but statistically insignificant relationship with earnings management of listed deposit money banks in Nigeria. The negative but statistically insignificant relationship between board size and earnings management suggests that simply increasing the number of directors may not effectively deter earnings manipulation. Larger boards might suffer from coordination challenges, reduced efficiency in monitoring, and potential free-riding among members. This aligns with agency theory, which posits that beyond an optimal size, additional board members contribute little to oversight. The findings of this study align with those of Salihi and Jibril (2015), who concluded that larger boards are not efficient in minimizing earnings management. Similarly, Adewale and Oyewole (2017) and Alade et al. (2020) found a negative relationship between board size and earnings management, supporting the notion that board size alone does not significantly deter earnings manipulation. However, Agyeman and Benjamin (2020) and Onuonye et al. (2019) found a positive relationship, suggesting that larger boards may facilitate earnings management. Chude and Chude (2023) partially support this study, finding a significant negative effect.

Based on the second hypothesis, this study found that audit committee expertise has a significant negative effect on earnings management of listed deposit money banks in Nigeria. The significant negative effect of audit committee expertise on earnings management indicates that a well-qualified audit committee enhances financial reporting quality. Members with expertise in accounting, finance, and auditing are more capable of detecting and preventing earnings manipulation. The findings of this study align with Cohen et al. (2014), Abdul-Manaf et al. (2018), and Mardessi & Fourati (2020), who found that audit committee expertise constrains earnings management. Similarly, Garvan (2009) and Mangena et al. (2016) support this conclusion, highlighting the role of audit committee expertise in improving financial reporting quality. However, Fuad (2016) and Cheung & Chung (2022) contradict this finding, reporting a positive relationship between audit committee expertise and real earnings management.

Based on the third hypothesis, this study found that audit committee expertise has a significant moderating effect on the relationship between board size and earnings management of listed deposit money banks in Nigeria. The significant moderating effect of audit committee expertise on the relationship between board size and earnings management suggests that the presence of skilled audit committee members strengthens board oversight. While a larger board alone may not be effective, when coupled with an experienced audit committee, monitoring mechanisms improve. This finding supports agency theory, indicating that governance structures work best when multiple oversight mechanisms complement each other. Empirical evidence suggests that strong audit committees enhance board effectiveness in curbing earnings manipulation. The findings of this study align with Garvan (2009), Cohen et al. (2014), Abdul-Manaf et al. (2018), Mardessi and Fourati (2020), and Mangena et al. (2016), who found that audit committee expertise constrains earnings management. These studies suggest that financial and industry expertise in audit committees reduces earnings manipulation through discretionary expenditures, sales, and production costs. However, Fuad (2016) and Cheung and Chung (2022) contradict this, finding a positive association between audit committee expertise and real earnings management, implying that expert committees might facilitate earnings management.

CONCLUSION

This study provides critical insights into corporate governance and earnings management in Nigerian deposit money banks. The finding that board size has a negative but statistically insignificant relationship with earnings management suggests that merely increasing the number of board members may not effectively curb earnings manipulation. However, the significant negative effect of audit committee expertise on earnings management highlights the vital role of knowledgeable audit committees in enhancing financial reporting quality and mitigating opportunistic earnings practices. Furthermore, the significant moderating effect of audit committee expertise on the relationship between board size and earnings management underscores its importance in strengthening board oversight. These findings emphasize the need for banks to prioritize appointing audit committee members with financial and industry expertise to ensure robust corporate governance. Overall, this study affirms that while board size alone may not be a deterrent, an expert audit committee is instrumental in reducing earnings management and improving financial transparency in the banking sector.

Given the negative but insignificant effect of board size on earnings management, Nigerian deposit money banks should focus on board composition rather than just increasing board size. Ensuring a diverse board with experienced financial experts and independent directors can enhance oversight and reduce earnings manipulation. For instance, the Central Bank of Nigeria (CBN) could mandate a minimum number of independent directors with financial expertise to strengthen governance. Since audit committee expertise significantly reduces earnings management, Nigerian banks should prioritize appointing qualified professionals with strong financial and accounting backgrounds to audit committees. For example, the Central Bank of Nigeria (CBN) can enforce policies requiring at least one certified accountant or financial expert on every bank's audit committee.

Since audit committee expertise moderates the effect of board size on earnings management, Nigerian banks should strengthen audit committees by enhancing financial literacy training for board members. For example, the Central Bank of Nigeria (CBN) can mandate periodic governance training to improve oversight and reduce financial misreporting in deposit money banks. Future studies should explore additional corporate governance variables such as board independence and gender diversity to assess their impact on earnings management. Additionally, expanding the sample size beyond listed deposit money banks and covering a longer time frame could provide more comprehensive insights into governance mechanisms and financial reporting quality in Nigeria.

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