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Nigerian Deposit Money Banks' Audit Committee Physiognomies and Earnings Management

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ABSTRACT

The study investigated the prediction of audit physiognomies on selected Nigerian banks' income smoothing. This was as a result of alarming rate of corporates failure which culminates into the inability of organizations to meet the expectations of their various interested parties. Five research hypotheses were formulated for the study. Ex-Post Facto research design was used for the study. The population of the study comprised of fifteen quoted deposit money banks (DMBs) in the financial sector listed on the Nigerian stock exchange. The study covered a period of seven years from 2010 to 2017. Data for the study was extracted from the firms' annual reports and accounts. Secondary data analysis was done using multiple regressions technique, done with the aid of SPSS version 21. Our findings revealed that audit committee characteristics have a significant effect on earnings management of listed deposit money banks (DMBs). While audit committee size and committees' financial expertise showed insignificant relationship with earnings management, committee's independence and frequency of meetings are positively and significantly related to earnings management. In line with the findings, it was recommended among others that the audit committee meeting should be more than four times a year because the more the meetings the better the monitoring and regulators should have a statutory position on the maximum number of audit committees meetings, as SEC code of corporate governance is silent on this. Secondly, SEC should increase the minimum number of members with financial expertise in the audit committees.

Key words: Deposit Money Banks, Audit Committee, Earnings management

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1. Introduction

Financial scandals and the collapse of some multi-national corporations can be as a result of the unethical accounting practices. One of such unethical issues in accounting is earnings manipulations that come under the umbrella of earnings management and serves as a strategic tool used by management under the pretext of maximizing firm's value and reducing risks. This is possible by distorting and/or manipulating the application of Generally Accepted Accounting Principles (GAAP) (Hussaini, 2014).

Earnings management is recognized as attempts by management to influence or manipulate reported earnings by using specific accounting methods or accelerating expense or revenue transactions, or using other methods designed to influence short-term earnings. The term as generally understood refers to systematic misrepresentation of the true income and assets of corporations or other organizations. Earnings management occurs when managers use judgment in financial reporting in structuring transactions to alter financial reports, to either mislead some stakeholder's about the underlying economic performance of the company, or to influence contractual outcomes that depend on reported accounting (Omoye & Eriki, 2014).

Audit committees have been regarded as integral to quality financial reporting. Companies establish audit committees to improve quality of financial reporting practices, and earnings, (Ramsay, 2001 as cited in Allam. M.M.H, Talal, A. and Emad, M.A

(2010)). The basic functions of the audit committee are to oversee the financial reporting process and to monitor managers' tendencies to manipulate earnings. Regulators in recent years have questioned the effectiveness of audit committees in ensuring that financial statements are fairly stated and are without earnings management. As a result of the many company failures of recent years, corporate governance reforms in many countries have empowered the role of the audit committee in the oversight of financial reporting (Sarbanes-Oxley Act, 2002; Smith, 2003 as cited in Allam et al, 2010).

The problem however is that despite the presence of audit committees, there have been several cases of manipulation of financial statements which suggest that the mere presence of an audit committee is not sufficient enough to mitigate the tendencies for financial statement manipulation by management. Consequently, the concern and emphasis in recent times has not just been about the formation of audit committees but on the effectiveness of the audit committees in improving stakeholder's confidence in financial statements especially in light of recent accounting scandals. In this regards, several studies including Klein (2002) have recommended that a number of characteristics are important for an audit committee to effectively accomplish its objectives. These characteristics include: the overall independence and expertise of the audit committee; the level of its activity and its size, amongst others. For instance, audit committee expertise is highly associated with the effectiveness of financial reporting. Similarly, Godwin (2003) supported the need for audit committee members to have accounting or finance background in addition to being independent of management. Independent non-executive directors and directors with financial expertise are more likely to be effective as members of audit committee (Ibadin, & Afenimi, 2015).

The manipulations of financial statements and subsequent corporate collapses are currently recurring phenomena globally. Various countries have tried to address this situation in order to guarantee the credibility of the financial statements through ensuring strong corporate mechanisms and strict compliance with accounting standards. Current global trend indicates that the anxiety for the examination into the practice of earnings manoeuvre becomes even more salient following the current global trend of corporate failures that have bedevilled large organisation such as Health South, Global Crossing, Parmalat, Hollinger, Adecco, TV Azteca, Enron, Worldcom and Tyco (Uwuigbe, 2013). This phenomenon has led to heated debate among regulators, accounting practitioners, financial analyst and researchers to find a solution to the unprecedented corporate failures. Nigeria has had its own share of financial reporting failure with the problems in Cadbury Nigeria Plc in 2009, Oceanic bank Nigeria Plc faced problem of financial reporting in 2009, and Intercontinental Bank Plc in 2009. With this development, most countries all over the world decided to set codes of best practice as guideline to address governance and financial reporting anomalies

Moreover, Financial Statements are a major means through which companies communicate to its users its financial results as well as its position. Financial analysts cum investors make use of financial statement to make rational decisions. Some of the qualitative characteristics of this information are reliability, relevance and understandability. To achieve quality of financial reporting, a monitoring committee is often put in place to serve as a watchdog in ensuring that companies produce relevant and reliable information which will eventually protect the interest of both existing and prospective investors. The most important of these monitoring committees is the Audit Committee, which is responsible for the review of audited and unaudited financial statements of organizations thereby improving the quality of such information and reducing the possibilities of unethical or abuse of accounting practices by management when preparing financial statements. Despite the existence of this monitoring committee, there were a lot of corporate failures in recent years, for instance, the accounting scandals by Cadbury plc 2009, Intercontinental Bank Plc 2009, and Oceanic Bank Plc 2009. This has brought about doubt in the minds of shareholders on the credibility and reliability of financial reports. It was as a result of the foregoing statements that researchers consider it of paramount importance to investigate the effect of this audit committee on earnings management.

However, the literature on the relationship between audit committee physiognomies and earnings quality is inconclusive. Some studies found positive relationships (Hussaini, 2014, Beasley & Selterio, 2001, Nelson & Jamil 2012), while others found negative associations (Temple, et al, 2016, Yang & Krishman, 2005; and kuang & Sharma 2014). These mix findings make the direction of these relationships to be illusive, and to the best of our knowledge as at the time of this research, there is no study in Nigeria that has carried out a study on the effect of audit committee physiognomies on earnings management of listed deposit money banks in Nigeria up to 2015, covering four characteristics of the audit committee which include; Audit committee size, independence, meetings and financial expertise.

In view of the above, there is the need to conduct a study with a view to filling this gap that exists in the literature. This study objective seeks to answer the questions and test hypotheses of how audit committee physiognomies influence earnings management of listed deposit money banks in Nigeria. In order to achieve the aforesaid objective and to empirically solve the problem of this study, the following research questions and null hypotheses (Ho) were formulated and will be tested at 5% level of significance:

Research questions:

i. What is the joint effect of audit committee characteristics on earnings management of listed deposit money banks in Nigeria?

ii. Does audit committee size have any effect on earnings management of listed deposit money banks in Nigeria?

iii. What is the effect of audit committee independence on earnings management of listed deposit money banks in Nigeria?

iv. To what extent does audit committee financial expertise affect earnings management of listed deposit money banks in Nigeria?

v. What is the effect of audit committee meeting on earnings management of listed deposit money banks in Nigeria?

Null hypotheses:

i. Ho: Audit committee characteristics do not have any significant joint effect on earnings management of listed deposit money banks in Nigeria.

ii. Ho: Audit committee size does not have any significant effect on earnings management of listed deposit money banks in Nigeria.

iii. Ho: Audit committee independence has no significant effect on earnings management of listed deposit money banks in Nigeria.

iv. Ho: Audit committee financial expertise does not have any significant effect on earnings management of listed deposit money banks in Nigeria,

v. Ho: Audit committee meeting does not have any significant effect on earnings management of listed deposit money banks in Nigeria.

The study will therefore serve as a reference for further researchers in this area, by critically looking at the empirical finding thereby discussing the implication from the Nigerian perspective. The study has the potential to inform regulators, practitioners (auditors and forensic accountants) and board of directors who are responsible and more concerned with improving the oversight of public corporations, thereby reducing opportunities for managers and others to engage in financial fraud. In the same vein, it will also serve as a basis for formulation of laws and policy implications. The study will also contribute to debate on the mix of opinion in the existing literature between audit committee characteristics (audit committee size, audit committee independence, audit committee expertise and audit committee meetings and earnings management). In that, the study will be among those that may provide additional evidence for future research.

The remaining of the study is divided into four sections, that is, review of related literature, methodology, data analysis and conclusion and recommendations.

2. Review of Related Literature

2.1 Conceptual Framework

2.1.1 Audit Committee

The audit committee serves as a liaison between the external auditor and the board of directors, and facilitates the monitoring process by reducing information asymmetry between the external auditor and the board. In addition, Blue Ribbon Committee (1999) noted that the audit committee is the most important governance mechanism with respect to audit firm appointments because it is responsible for hiring the external auditor and for overseeing audit quality. Therefore, a properly functioning audit committee is critical in ensuring the independence of auditors and high quality financial reporting. Improving the quality of financial statements has been widely proposed as one of the major benefits of companies establishing audit committee (Ibadan et al, 2015).

Basically the Boards of Directors and their committees rely on management to run the daily operations of the business. Hence the Board's role is better described as oversight or monitoring, rather than execution. In the same vein, the audit committee which is more or less an organ of the board has the responsibilities that include:

i. Overseeing the financial reporting and disclosure process.

ii. Monitoring choice of accounting policies and principles.

iii. Overseeing hiring, performance and independence of the external auditors.

iv. Oversight of regulatory compliance, ethics, and whistle blower hotlines.

v. Monitoring the internal control process.

vi. Overseeing the performance of the internal audit function.

vii. Discussing risk management policies and practices with management (Wikipedia 2011).

According to CAMA 1990, the audit committee is a committee of shareholders and non-executive directors charged with the responsibility of liaising between the external auditors and the Board of Directors on one hand, and between management and the external auditors on the other hand. Audit committees are the most important recent development in the corporate governance structure and are expected to contribute significantly in this respect. Shamusdden (2003) in Modum, et al (2013) opines that members of the committee should possess qualities such as integrity, dedication, and a thorough understanding of the business of the company.

2.1.2 Audit Committee Attributes

2.1.3 Audit Committee Size

The size of audit committee is referred to as the number of directors and shareholders appointed to be members in the audit committee, in this regard there could be small, medium and large audit committees. In Nigeria, the Companies and Allied Matters Act, 1990 states that a public limited liability company should have an audit committee (maximum of six members of equal representation of three members each representing the management/ directors and shareholders) in place.

2.1.4 Audit Committee Independence

It is generally believed that an independent audit committee provides effective monitoring of the financial discretion of management and in ensuring the credibility of the financial statements. An audit committee is a sub-committee of the board that specialises in, and is responsible for, ensuring the accuracy and reliability of the financial statements provided by management. Indeed, much of the blame and criticism for accounting irregularities is aimed at audit committees for not fulfilling their financial reporting oversight duties due to independence issues (Pergola, 2005 in Kuang, 2007).

2.1.5 Audit Committee Expertise

Regulators from various countries realise the importance of financial expertise for improving the audit committee's effectiveness. They believe that the relevant experience or technical knowledge is crucial for effective accounting oversight (Kalbers & Fogarty, 1993 in Kuang, 2007).

Similarly, the audit committee of listed companies in Nigeria are required to have at least one member with an accounting or financial background. Despite these, regulatory requirements, there is lack of sufficient empirical support for an association between financial expertise and earnings management. Most of the global financial regulations mandate that at least one member of the audit committee should be a financial expert. And also, the provision of Companies and Allied Matters Act (CAMA) Section 359 (3) and (4) required that at least one board member of the audit committee should be financially literate.

2.1.6 Audit Committee Meetings

The frequency at which the audit committee meets is essential in order to effectively perform its oversight function and monitor management's performance. This supports the finding of Collier and Gregory (1999) as cited in Hussaini, (2014) who studied audit committee activity and agency cost in UK. They documented that the frequency of audit meetings is assumed to increase the effectiveness of monitoring. This indicates that the more often an audit committee meets the more likely it is to have fewer financial issues.

2.2 Earnings Management

There is no consensus on the concept of earnings management. This is because different scholars define earnings management in different perspectives. To begin with, Schipper (1989) defined earnings management as "a purposeful intervention in the external financial reporting process with extent of obtaining some private gain". Roman (2009) opined that "earnings management occurs when management has the opportunity to make accounting decisions that change reported income and exploit those opportunities". Additionally, Healy and Wahlen (1999) indicated that "earnings management occurs when managers use judgment in financial reporting and in structuring transaction to alter financial report either to mislead some stakeholders about the underlying economic performance of the company or influence contractual outcomes that depend on reported accounting numbers".

Earnings management is defined as the alteration of firms' reported economic performance by insiders to either mislead some stakeholders or to influence contractual outcomes (Leuz, et al 2003). Earnings management is the use of accounting techniques to produce financial reports that may paint an overly positive picture of a company's business activities and financial position. Scott, 2006 in Purwanti and Kurniawa, (2013) defines earnings management as follows: "Given that managers can choose from a set of accounting policies (for example, GAAP), it is natural to expect that they will choose policies so as to maximize their own utility and / or the market value of the firm ". From the definition of earnings management is the selection of accounting policies by the manager of the existing accounting standards and are naturally able to maximize their utility and or the market value of the company.

Rahman, et al, 2013 define earnings management as reasonable and legal management decision making and reporting intended to achieve stable and predictable financial results. A large number of companies are using earnings management either to maintain steady earnings growth or to avoid reporting red link. In other words, earnings management is a strategy used by the management of a company to deliberately manipulate the company earnings so that the figures match a predetermined target.

2.2.1 Discretionary Accruals

Discretionary accrual is a non-obligatory expense (such as an anticipated bonus for management) that is yet to be realised but is recorded in the books. The accruals component managers can choose within the flexibility of accounting regulations in adjusting a firm's cash flows is the discretionary accruals. The result of pulling` discretionary accruals amounts from the total accruals amount (which is made up of non-discretionary accruals (normal accrual) and discretionary accrual (abnormal accrual)) is a metric that reflects accruals that are due to management's choices alone; in other words, there appears to be no business reason for these accruals. So, discretionary accruals are a better proxy for earnings management. Dechow et al. (1995) tested several models in order to partition total accruals into non-discretionary and discretional components. They concluded that Modified Jones Model provided the most powerful test of earnings management. Therefore, the study concludes that the Modified Jones Model is the most effective in measuring discretionary accruals that mostly reflect earnings management.

$$DACt = TAit/At\text{-}1 - [a1(1/At - 1) + a2\,[(\Delta GE - \Delta NL) / At - 1] + a3\,(PPEt / At - 1)] + eit$$

Where:

DACt= Discretionary accrual at time t

Total Accruals (TAit) = PBTEit - CFOit

PBTEit=Profit before taxation and extraordinary activities of bank i at time t

CFOit = Cash flows from operation of bank i at time t.

At-1 = Total asset of bank i at time t-1

ΔGEt-1= Gross earning in year t less gross earnings in year t-1

ΔNLt-1 = Net loan in year t less net loan in yet t-1

PPEt = Property plant and equipment of bank i at time t-1

a1, a2, and a3 = Firms specific parameters

eit = error term (discretionary accruals) for sample firm i for year t.

2.2.2 Techniques of Earnings Management

Opportunity for earnings management practices arises due to: flexibility permitted by the Generally Accepted Accounting Principle (GAAP).According to Largay, 2002; Okoye & Alao, 2008, they include:

i. Flexibility in regulation- Generally the regulation, particularly the accounting regulation permits flexibility in choosing a policy to follow; the International Accounting Standards let the financial management to choose between valuation of the non-current assets at depreciated historical value or at revaluated value. The management may decide the change of the policies, and these shifts are difficult to be identified a few years later (Schipper, 1989).

ii. Lack of regulation- In most countries accounting regulation is limited in some areas, for example in Nigeria there is standards yet for recognition and measurement of financial instruments.

iii. Management can use their discretionary position in order to obtain the financial position and stability they assumed; for example, the managers decide to increase or reduce provisions for bad debts in the year where high or low profit is made.

iv. The timing of some transactions offers to the management the opportunity to increase the revenues when the operating profit is not satisfactory and to create the desired impression in the accounts. The existing stocks in company's patrimony that have a significant higher value compared to the historical value may be sold only when the operating profit is not satisfactory.

v. The artificial transactions are often used in order to manipulate the financial position amounts or to move the profits between accounting periods. These transactions are realized by entering in a controlled transaction with two or three parties, one of them, most of the times, a bank. Such arrangements consists in selling of an asset at a higher/lower rate than in an uncontrolled transaction, and then leasing it back for the rest of it useful period, compensating through the rentals the price difference.

vi. Reclassification and presentations of financials are relatively less analyzed in accounting literature. However, in reality the companies often proceed to make up the amounts in order to obtain good level of profitability, liquidity or leverage ratios. Most of the times, the numbers are smoothly modified in order to improve the investors' perception.

2.2.4 Consequences of Earnings Management

The practice of earnings management has the power to distort the underlying financial

Table 2.2.3 Major Scandals of the twenty-first century

SN	Company	Year	Auditor	Descriptions
1	Enron	2001	Arthur Anderson	Involved in special purpose entities transactions
2	Global crossing	2002	Arthur Anderson	Overstated revenue and earnings above net work capacity swaps.
3	WorldCom	2002	Arthur Anderson	Covering and recording of improper expenses, overstated cash flows.
4	Tyco	2002	Price Water House Coopers	Conglomerate with questionable practices on accounting for actions and other issues.
5	Adelphia	2002	Deloitte and Touché	Overstated earnings
6	Imodone	2002	KPMG	Insider trading
7	Health-South	2003	Ernst and Young	Overstated earnings and assets
8	Fannie Mae	2004	KPMG	$9 billion restatement from derivative accounting valuations and extent payouts to ousted executive.
9	Krispy Krene	2005	Price Water House Coopers	Egregious accounting to inflate earnings
10	Anglo Irish Bank	2008	Ernst & Young	Hidden loan controversy
11	Satyam Computer Services	2009	Price Water House Coopers	Falsified accounts
12	Lehman	2010	Ernst & Young	Failure to disclose report

Source: Giroux, (2006) Earnings magic and the unbalance sheet: The search for financial reality, New Jersey, John Wiley and son Inc. and Wikipedia (2011).

performance of a firm, making more difficult for an investor or financial analyst to assess the performance of the firm and to compare between different companies. Earnings management practices underlie most corporate frauds and accounting scandals.

It may be difficult or completely impossible for individual stakeholders to notice the effect of accounting manipulations because of inefficient personal skill, indifference or unwillingness to engage in detailed analysis. Even analysts' perception of Creative Accounting devices is somewhat deficient (Breton & Taffler, 1995). They argued that even the sophisticated users can misinterpret or even ignore such clear signals. Therefore, Dechow & Skinner (2000) argued that even if financial statements provide sufficient information to permit users to adjust for Creative Accounting, there would still be cause for concern over the value of the information content. This is because of the possibility that certain investors rely completely in earnings numbers reported in the face of the income statement and their ability to process more sophisticated information is limited. Due to Creative Accounting, Schiff (1993) has warned the investors who take a company's financial statements at face value can be 'a recipe for disaster'.

2.3 Theoretical Framework

2.3.1 Agency Theory

This study has adopted agency theory to explain the relationship between audit committee characteristics and earnings management of deposit money banks in Nigeria. Agency theory originated from the work of Berle and Means (1932). They explored the concept of agency and the applications toward the development of large corporations. They found out how the interest of the directors and managers differ from the owners of the firm, thereby using the concepts of agency-principal to explain the genesis of those conflicts.

Jensen and Meckling (1976), further develop agency theory as a formal concept. They also formed a school of thought arguing that corporations are structured to minimize the costs of getting agents (agency costs) to follow the direction and interests of the principals. The theory essentially acknowledges that different parties involved in a given situation with same given goal will have different motivations, and these differences can manifest in divergent ways. This means that there will always be partial goal conflict among parties, because efficiency is inseparable from effectiveness, and thus information will always be somewhat asymmetric between principal and agent. Agency theory is therefore concerned with contractual relationship between two or more persons called the agent(s) to perform some services on behalf of the principal. Both the agents and the principal are presumed to have entered into mutual agreement or contract motivated solely by self-interest. The principal delegates decision making responsibility to agent. Considering earnings management practice, agency theory explains clearly the existence of the incentive for management to use earnings management. Therefore, Salah (2010) as cited in Hussaini (2014) suggests that, management could use earnings to mislead shareholders by showing a different image of the company's earnings. For the purpose of this research, agency theory is adopted. This is due to the fact that it elucidates the relationship between the agents (management) and the principal (shareholders). In the same vein, audit committee, apart from serving as monetary measures, equally represents the shareholders who are the principal since their composition constitutes equal number of shareholders and directors. The directors therefore are acting on behalf of the shareholders. While the other aspect of the agency theory are the management (agents) who are responsible for the preparation and fair presentation of financial statements in accordance with Nigerian Statement of Accounting Standard (SAS), they also assumed to make sure that the financial statements are free from material misstatement, whether due to fraud or error. This at the tail end is subject to confirmation, review and verification by the audit committee in order to make sure that the accounting policies are in line with the legal requirements and ethical practices. Therefore agency theory is found to be relevant because it explains the audit committee which functions as a monitoring mechanism to reduce agency cost.

2.4 Review of Empirical Studies

Audit committee plays an important role in monitoring management to protect shareholders interest. The code of best governance practice in Nigeria requires that the committee should be largely independent, highly competent and possess high level of integrity. It is responsible for the review of the integrity of financial reporting and oversees the independence and objectivity of the external auditors. Audit committee vis-a-vis earnings management has been explored in prior literature using various constructs of audit committee effectiveness such as size of the board, audit independence, financial expertise of committee members, audit committee meeting etc.

Hussaini, (2014) investigated the relationship between Audit Committee characteristics and earnings management of listed food and beverages Firms in Nigeria. The study covered the period of six years from 2007 to 2012. Data for the study were extracted from the Firms' annual reports and accounts. Multiple regressions were employed to run the data of the study using Random Model. The results from the analysis revealed significant association between audit committee characteristics and earnings management of the Firms.

Allam et al, (2013) investigates the impact of audit committees' characteristics on improved accounting conservatism and earnings management practices for a sample of 50 Jordanian industrial corporations listed in Amman Stock Exchange (ASE) during the period of 2004-2009. By using Pooled Data Regression the study found the audit committee characteristics examined are not significantly related to accounting conservatism with the exception of financial experience of audit committee which was found to have a positive relationship to conservatism. Temple, et al 2016 examined the influence of audit committee characteristics on quality of financial reporting in listed Nigerian banks. The outcomes of the study depicted that audit committee "independence has no significant effect on earnings management in quoted Nigerian banks. Piyawibon, (2015) studied Audit quality effectiveness of board audit committee and earning quality.

Using four (4) industrial groups in stock exchange of Thailand between 2009 to 2013.The results show that the auditor firm size has a negative correlation with discretionary accruals. Gaio and Raposo, (2014) carried out a study on corporate governance and earnings quality: International evidence he suggested a substitute relationship between corporate governance and earning quality. Amar, (2014) investigated the effect of independence audit committee on earnings management .The case in French .Using a sample consisting of 279 firms observations concerning the year ranging from 2002 to 2005, the results of this study shows that the audit committee independence is linked to earnings management. Badolato, et al, (2013) assessed the audit committee financial expertise and earnings management: The role of status. The results shows that audit committee with both financial expertise and high relative status are more effective at deterring earnings management.

Ioualalen, et al, (2015) examined the impact of audit committee characteristics on earnings management: A Canadian case study, using a sample of 10 companies for five years (1999 – 2003) results showed that activism and the financial expertise of audit committee members are negatively related to aggressive earnings management. Godouei, et al, (2015) examined the relationship between the audit committee and earnings quality of listed companies on the Stock Exchange in Tehran. The result showed that the activity (number of audit) with the quality of earnings does not have significant relationship. There is significant relationship between expertise with quality.

Babatolu, A.B, Aigienohuwa, O.O and Uniamikogbo.E. (2016) the objective of their study was to examine the effect of auditor's independence on audit quality of selected deposit money banks in Nigeria. The population of this study comprised of twenty (20) listed Deposit money banks in Nigeria. Purposive sampling technique was used to select sample size of seven (7) banks. The study revealed that there is a positive relationship between audit fee, audit firm rotation and audit quality. There exist negative relationship between audit firm tenure and audit quality.

Temple. M, Ofurun. C.O & Egbe. S (2016) the research was carried out to statistically examine the influence of audit committee characteristics on quality of financial reporting in listed Nigerian banks. The study used documentary records gotten from the financial statements of fifteen twelve-monthly reports and accounts of the banks whose stocks are traded in the Nigerian Stock Exchange as at December 31, 2014.The outcomes of the study depicted that audit committee "independence has no significant effect on earnings management in quoted Nigerian bank.

2.5 Summary of Literature

The study reviewed literatures in three aspects namely: the conceptual framework, theoretical framework and empirical studies.

Under the conceptual framework the study considered, the concept of audit committee, the concept of earnings management, discretionary accruals, audit committee characteristics, techniques of earnings management, major 21st century scandals and consequences of earnings management.

Agency theory was adopted under the theoretical framework to explain the relationship between audit committee characteristics and earnings management. Previous studies of other researchers where reviewed, having reviewed the works of this researchers, we discovered that as at the period of this research, there is yet a study that cover the effect of audit committee characteristics on earnings management of listed deposit money banks up to 2015, covering four characteristics of the audit committee namely audit committee size, independence, financial expertise and meetings of deposit money banks in Nigeria, most studies used audit committee size, independence and financial expertise. This study is set out to cover these gaps that exist in literature.

3. Methodology

This study is based on the Ex-Post Facto research design. According to Harwell (2011), Ex-Post Facto research design is directly and specifically related to descriptive, diagnostics and hypotheses-testing research studies. Attempt to maximize objectivity, reliability, and general ability of findings, and are typically interested in prediction. The population of the study is made up of fifteen deposit money banks-DBMs licensed and quoted on Nigerian Stock Exchange-NSE. The study will cover the period of six years, that is, 2010 to 2015.

Research of an empirical nature would usually require information from secondary source. Secondary source of data – This involves the collection of already existing data. This study relied mainly on secondary data. The secondary source of data used in this study was obtained from the financial statements of the various deposits banks listed on the Nigerian stock exchange. The technique used in analysing the formulated hypotheses for this study is the multiple regression technique, with the aid of SPSS (Statistical Package for Social Sciences) version-21.In determining the sample size of the study, the researcher employed the purposive sampling technique in determining the sample size. Our decision was based on the availability of information necessary for the study. A total of 10 deposit money banks-DMBs quoted on the floor of the Nigerian Stock Exchange were selected. The banks are as follows:

Table 3.3.1 List of Companies

S/N	Sector	Name of Company/Banks
1	Financial	Acess bank
2	"	Diamond bank
3	"	FCMB
4	"	Guaranty Trust Bank
5	"	Skye Bank
6	"	Stanbic IBTC
7	"	Sterling Bank
8	"	UBA
9	"	Union Bank
10	"	Zenith Bank

Source: The Nigerian Stock Exchange (http://www.nse.com.ng)

3.1 Description of Variables

Audit committee characteristics variables are:

1.Audit Committee Size (ACS): The size of audit committee is referred/ measured as the number of directors and shareholders appointed to be members in the audit committee.

2.Audit Committee Independence (ACI): These are the proportion of Independent and non-executive directors in the audit committee to total number of audit committee members.

3.Audit Committee Financial Expertise (ACFEP): The proportion of audit committee members with financial expertise (financial knowledge) in the audit committee to total number of the audit committee members.

4. Audit Committee Meetings (ACMET): The number of meetings held by the audit committee during the year.

5. Earnings Management (Dis. Accrual): this was used as the dependent variable or explained variable in order to ascertain the effect of audit committee characteristics. Modified Jones' model was adopted or used to determine discretionary accrual; see literature review for more details.

DACit =TAit/At-1 – α1(1/At +- 1) + α2 [(ΔGE - ΔNL) / At - 1] + α3(PPEt/ At - 1)

3.2 Model Specification

Earnings Management (DACs) = Đ (audit committee characteristics- ACI, ACS, ACFEP, ACMET

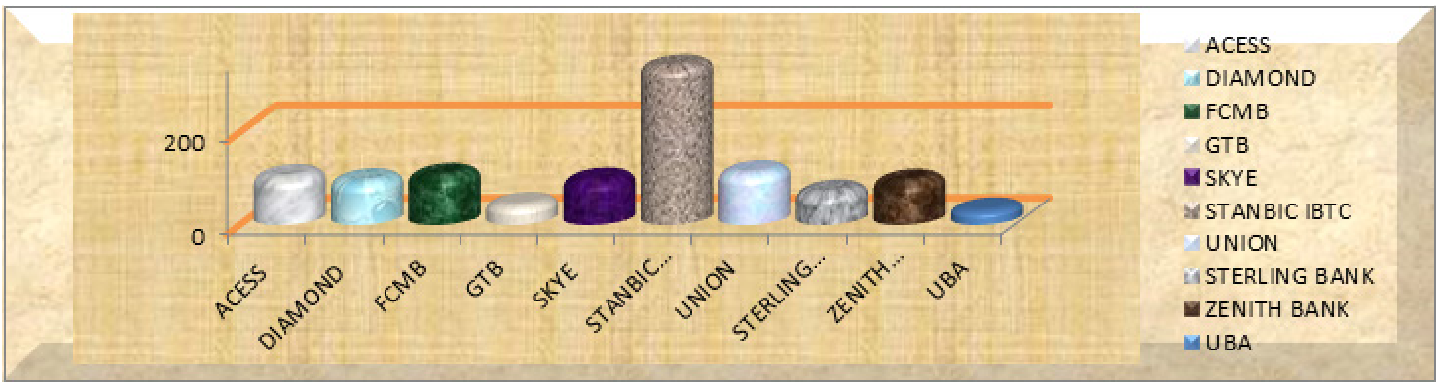
Dait+β1ACSit+β2ACIit+β3ACFEPit+β4ACMETit+Đit...... eq.2

Note: equation-1 is deterministic or mathematical model, while equation-2 is econometric or multiple linear regression models.

Where: ACS= Audit committee Size, ACI=Audit Committee Independence, ACFEP=Audit Committee financial Expertise, ACMET= Audit Committee Meeting, i= individual firm, t= time or year, Đ= error term, β= regression coefficient, a= constant / intercept term, ƒ= function

Decision rule: A null hypothesis was accepted if the p-value is equal or greater than the level of 4. Data Analysis

Figure 4.1 Simple Bar-chart showing the Discretionary Accruals of Selected Deposit Money Banks (DBMs) in Nigeria (2010-2015). significance (5%= 0.05) or otherwise reject.



Source: Researcher's design using Micro-soft Excel

4.1 Data Presentation

Figure 4.1 revealed the discretionary accruals of ten (10) deposit money banks (DMBs) in Nigeria for the period of six (6) years that is 2010 to 2015. From the simple bar-chart displayed in Figure 4.1Stanbic IBTC had the highest accumulated discretionary accruals followed by Union bank, FCMB, Access Bank, while Skye Bank and Zenith Bank almost ranked equal, GTBank and UBA had the least accumulated discretionary accruals for the period of six (6). This is corroborated by the data presented in Table 4.1, which is data relating to six years discretionary accruals of ten (10) deposit money banks (DMBs) in Nigeria.

Table 4.1: Summary of discretionary Accrual for Selected Deposit Money Banks in Nigeria for six years (2010-2015).

Banks	Discretionary Accrual (%)
ACESS	100.97
DIAMOND	92.48
FCMB	103.45
GTB	40.87
SKYE	93.99
STANBIC IBTC	339.09
UNION	109.48
STERLING BANK	68.38
ZENITH BANK	90.93
UBA	28.7

Source: Field Survey, 2015'

Table 4.2: Model summary of audit committee characteristics joint effect on earnings management of listed deposit money banks in Nigeria 2010-2015

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.426	.182	.122	1.6578

Source: Researcher's computation using SPSS version-21

4.2 Analysis of Research Questions

i. What is the joint effect of audit committee sizes on earnings management of listed deposit money banks in Nigeria?

Table 4.2 shown the R-square (R2) (.182) and Adjusted R-square (Adj.R2)(.122) of audit committee characteristics effect on earnings management of listed deposit money banks in Nigeria from 2010 to 2015. The result from the analysis shows that audit committee characteristics as explanatory variables as accounted for variation or change in earnings management of deposit money banks in Nigeria under the study period covered. This shows that 87.8% variation or change in earnings management had been accounted for by stochastic or error term, that is, other variables apart from audit committee characteristics.

ii. What is the effect of audit committee size on earnings management of listed deposit money banks in Nigeria?

Table 4.3 Showing the coefficient of audit committee size effect on earnings management of listed deposit money banks in Nigeria 2010-2015

Model	B	Std Error	Standardized Coefficient-β
1	-.130	.228	-.070

Source: Researcher's computation using SPSS version-21

Table 4.3 shown the beta weight or regression coefficient (β=¬¬¬¬ ¬¬-.070) of audit committee size effect on earnings management of listed deposit money banks in Nigeria from 2010 to 2015. The result from the analysis shown that audit committee size as an explanatory variable as accounted for the negative variation or change in earnings management of deposit money banks in Nigeria under the study period covered. This shows that -.070 or -7% negative variation or reduction in earnings management had been accounted for by one marginal change in audit committee size.

iii. What is the effect of audit committee independence on earnings management of listed deposit money banks in Nigeria?

Table 4.4: Showing the model summary of audit committee independence effect on earnings management of listed deposit money banks in Nigeria 2010-2015

Model	B	Std Error	Standardized Coefficient-β
1	25.416	9.947	.433

Source: Researcher's computation using SPSS version-21

Table 4.4 revealed the beta weight or regression coefficient (β=.433 or 43.3%) of audit committee independence effect on earnings management of listed deposit money banks in Nigeria from 2010 to 2015. The analysis revealed that audit committee independence as a regressor has accounted for 43.3% variation or increase in earnings management of deposit money banks in Nigeria. This shows that for every one additional change in audit committee independence it will lead to 43.3% increase in earnings management.

iv. To what extent does audit committee financial expertise affect earnings management of listed deposit money banks in Nigeria?

Table 4.5: Showing the model summary of audit committee financial expertise effect on earnings management of listed deposit money banks in Nigeria 2010-2015

Model	B	Std Error	Standardized Coefficient-β
1	.886	2.721	.040

Source: Researcher's computation using SPSS version-21

Table 4.5 shown the beta weight or regression coefficient (β=¬¬¬¬ .040) of audit committee financial expert effect on earnings management of listed deposit money banks in Nigeria from 2010 to 2015. The result from the analysis shown that audit committee financial expert as an explanatory variable as accounted for the 4% change in earnings management of deposit money banks in Nigeria under the study period covered. This shows that .040 or 4% increment in earnings management had been accounted for by one marginal change in audit committee financial expert.

v. What is the effect of audit committee meeting on earnings management of listed deposit money banks in Nigeria?

Table 4.6: Showing the model summary of audit committee meeting effect on earnings management of listed deposit money banks in Nigeria 2010-2015

Model	B	Std Error	Standardized Coefficient-β
1	4.111	1.198	.585

Source: Researcher's computation using SPSS version-21

Table 4.6 shown the beta weight or regression coefficient (β=¬¬¬¬ .585 or 58.5%) of audit committee meeting effect on earnings management of listed deposit money banks in Nigeria from 2010 to 2015. The result from the analysis shown that audit committee meeting as an explanatory variable as accounted for the 58.5% change in earnings management of deposit money banks in Nigeria under the study period covered. This shows that 58.5% increment in earnings management had been accounted for by one marginal change in audit committee meeting.

4.7 Test of Hypotheses

i. Ho: Audit committee characteristics joint effect on earnings management of listed deposit money banks in Nigeria is not significant.

Table 4.7: Showing the multiple regression result of audit committee characteristics joint effect on earnings management of listed deposit money banks in Nigeria 2010-2015.

Model	SS	R2	Adj. R2	Mean Square	df	F	Sig	Decision
Regression	33.527	.182	.122	8.382	4	3.05	.024	Accept Ha
Residual	151.16			2.748	55			
Total	184.69				59			
P >.05 Level of significance								

Source: Researcher's computation using SPSS version-21

Table 4.7 shown the R-square (R2) (.182) and Adjusted R-square (Adj.R2)(.122) of audit committee characteristics effect on earnings management of listed deposit money banks in Nigeria from 2010 to 2015. The result from the analysis shown that audit committee characteristics as explanatory variables had significantly accounted for variation or change in earnings management of deposit money banks in Nigeria, $f(4, 59)=3.05$ (Adj.R2=.122; $P < .05$). This shows that the joint effect of audit committee characteristics on earnings management is statistically significant; we therefore, accept the alternate hypothesis (Ha) and reject the null hypothesis (H0) and conclude that audit committee characteristics joint effect on earnings management of listed deposit money banks in Nigeria is statistically significant.

ii. Ho: Audit committee size effect on earnings management of listed deposit money banks in Nigeria is not significant.

Table 4.8: Showing the coefficient regression result of audit committee size effect on earnings management of listed deposit money banks in Nigeria 2010-2015

Model	B	Std Error	Standardized Coefficient-β	Sig
1	-.130	.228	-.070	.570

Source: Researcher's computation using SPSS version-21

Table 4.8 showed that the explanatory variables had insignificant negative impact (β=-.070, p= .570) on earnings management. Therefore, we conclude that audit committee size effect on earnings management of listed deposit money banks in Nigeria is not statistically significant. We accept the null hypothesis (Ho) and reject the alternate hypothesis (Ha).

iii. Ho: Audit committee independence has no significant effect on earnings management of listed deposit money banks in Nigeria.

Table4.9: Showing the coefficient regression result of audit committee independence effect on earnings management of listed deposit money banks in Nigeria 2010-2015

Model	B	Std Error	Standardized Coefficient-β	Sig
1	25.416	9.947	.433	.013

Source: Researcher's computation using SPSS version-21

Table 4.9 showed that the explanatory variables, that is, audit committee independence had statistical significant positive impact (β=.433, p= .013) on earnings management. Therefore, we conclude that audit committee independence effect on earnings management of listed deposit money banks in Nigeria is statistically significant. We reject the null hypothesis (Ho) and accept the alternate hypothesis (Ha). And conclude that audit committee independence had significant effect on earnings management of listed deposit money banks in Nigeria.

iv. Ho: Audit committee financial expertise does not have any significant effect on earnings management of listed deposit money banks in Nigeria.

Table 4.10: Showing the coefficient regression result of audit committee financial expertise effect on earnings management of listed deposit money banks in Nigeria 2010-2015

Model	B	Std Error	Standardized Coefficient-β	Sig
1	.886	2.721	.040	.746

Source: Researcher's computation using SPSS version-21

Table 4.10 revealed that the explanatory variables, that is, audit committee financial expertise had insignificant positive effect (β=.040, P=.746) on earnings management. Therefore, we conclude that audit committee financial expertise effect on earnings management of listed deposit money banks in Nigeria is statistically insignificant. We accept the null hypothesis (Ho) and reject the alternate hypothesis (Ha). And conclude that audit committee financial expertise had insignificant effect on earnings management of listed deposit money banks in Nigeria.

v. Ho: Audit committee meeting does not have any significant effect on earnings management of listed deposit money banks in Nigeria.

Table 4.11: Showing the simple regression result of audit committee meeting effect on earnings management of listed deposit money banks in Nigeria 2010-2015

Model	B	Std Error	Standardized Coefficient-β	Sig
1	4.111	1.198	.585	.001

Source: Researcher's computation using SPSS version-21

Table 4.11 revealed that the explanatory variables, that is, audit committee meeting had significant positive effect (β=.585, P=.001) on earnings management. Therefore, we conclude that audit committee meeting effect on earnings management of listed deposit money banks in Nigeria is statistically significant. We reject the null hypothesis (Ho) and accept the alternate hypothesis (Ha). And conclude that audit committee meeting had significant effect on earnings management of listed deposit money banks in Nigeria.

The following summaries of findings were derived from the study as follows:

1. The joint effect of audit committee characteristics on earnings management is statistically significant.

2. Audit committee size effect on earnings management of listed deposit money banks in Nigeria is not statistically significant.

3. Audit committee independence had statistical significant positive effect (β=.433, p= .013) on earnings management.

4. Audit committee financial expertise had insignificant positive effect (β=.040, P=.746) on earnings management

5. Audit committee meeting had significant positive effect (β=.585, P=.001) on earnings management.

4.4 Discussion of Findings

The result of the analysis reviewed that audit committee characteristics has a significant relationship with earnings management of deposit money banks in Nigeria. Moreover, audit committee size had an insignificant effect on earnings management. The implication of this result is that, larger audit committees are better at reducing earnings management of deposit money banks in Nigeria.This is consistent with the findings of Fodio, et al (2014), Baxter and Cotter, (2008), Piyawibon, (2015) and Mohammed, and Aiman (2014) who reported that audit committee size has an insignificant relationship with earnings management and contrary to the study of Hussaini (2014) and Ibadin, and Afensimi, (2015) that concluded that audit committee size has a significant relationship with earnings management. It was also seen that banks tend to comply with the maximum of six members required by the law to make up the committee.

Also, the findings from the analysis showed that audit committee independence has a positive significant relationship with earnings management. This is consistent with the work of Fodio, et al, (2014) and Hussaini & Gugong, (2015). Contrary to Temple, et al, (2016). However, the study carried out on the effect of audit committee financial expertise on earnings management showed a positive insignificant relationship. This is in line with the study of Ioualalen, et al, (2015) and contrary to that of Fodio, et al, (2014), Goudouei, et al (2015) and Allam, et al, (2013). Audit committee meetings showed a positive significant relationship with earnings management, which is line with that of Mohammed, et al, (2014) and Hussaini, et al, (2015).

5. Conclusion and Recommendations

Based on summary of findings the following conclusions and recommendations were derived from the study as follows:

This study has empirically provided evidence on the relationship between audit committee characteristics proxy by audit committee size, audit committee independence, audit committee financial expertise and audit committee meetings, and earnings management of listed deposit money banks in Nigeria. Consequently, based on the findings of the study, the following conclusions are drawn. The presence of insignificant relationship between audit committee size and earnings management of listed deposit money banks in Nigeria made us conclude that audit committee members (six) being maintained or better still increased will be more effective in monitoring the activities of the management, and they are also better at maintaining the financial reporting process. Similarly, study also asserts that audit committee members with financial knowledge are better in detecting earnings management thereby reducing the likelihood of aggressive earnings management provided by managers. It is further established that audit committee independence might not guarantee that managers would not manipulate earnings.

Finally, the study concludes that, audit committees meetings four times or more will result in more effective monitoring. This is the reason why this study found positive significant relationship to earnings management of listed deposit money banks in Nigeria as some firms held up to five meetings within a particular period of time. The researcher made the following recommendations:

It is recommended that audit committee meetings should be more than four times a year, because meetings held more than four times do guarantee better monitoring. The regulators too should have a statutory position on the maximum number of audit committees meetings, as SEC code of corporate governance is silent on this.

There is the need for regulators like Security and exchange commission (SEC) to increase the minimum number of members with financial expertise in the audit committees. Instead of one member; they might also make it compulsory that the chairman of the audit committee should be a person with strong financial knowledge or a professional accountant. As audit committee financial expertise plays significant role in checkmating the financial reports provided by managers and in reducing the likelihood of earnings management.

Audit committee members should be independent of management because banks with committee that are independent of management tend to have less income smoothing in their economic disclosure. Conversely, banks with audit committee that is less independent of management gear towards producing more financial reporting that is based on targets.

The study recommends orientation and reorientation of audit committee members to guarantee significant influences on financial reporting quality. Committee members should be able to adequately comprehend the banks financial statement as this is very fundamental not just a portion of them.

CBN and NDIC should establish satisfactory penalties against banks for noncompliance as regards to disclosure necessities. These penalties should be weighty enough to act as warning for fraudulent financial disclosure.

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