

## **Audit Committee Attributes and Earnings Management of Quoted Money Deposit Banks in Nigeria: Moderating Role of Leverage**

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### **Abstract**

*This study investigates the audit committee attributes and earnings management of quoted money deposit banks in Nigeria, with the moderating role of leverage. This paper specifically examines the audit committee's independent effect and the moderating role of leverage on earnings management. This paper used an ex post facto research design. A population of 13 banks, and a sample size of 7 banks purposively selected. It employed multiple regression analysis through STATA 13, and the result reveals that the size of the audit committee has a significant negative effect on earnings management. However, audit committee independence has a positive and significant effect. The interaction between leverage and audit committee size positively moderates the relationship, reducing the negative impact of audit committee size on earnings management. However, the interaction between leverage and audit committee independence is negative and insignificant. This paper concludes that both large audit committee size and leverage have a strong negative impact on EM, which is in alignment with the focus of agency theory on governance mechanisms. Yet, independence has a beneficial association with EM, and the moderating effect of leverage is different; namely, it gains strength with size but is not significant with independence. The paper recommends that firms should ensure that they set minimum sizes of audit committees and practical independence rather than formal requirements and include levels of leverage in governance codes to increase monitoring levels in high-debt companies.*

**Keywords:** *Audit committee size, Independence, Earning Management, Leverage, Money Deposit Banks*

### **1. Introduction**

Earnings management is a widespread issue in company financial reporting, in which managers choose to treat earnings favorably in reporting to suit a given target at the cost of transparency and investor confidence. Earnings management is especially an issue in the listed financial companies in Nigeria, including deposit money banks and insurance companies, because of the susceptibility of the industry to economic shocks, regulatory concerns, and performance-based remuneration. Such practices will mislead the stakeholders, alter the financial reports, and eventually lead to financial strain or even downfall, as seen in the past scandals that shook the markets. Earnings management can harm the trustworthiness of financial performance ratios, leading to poor decision-making and higher risks in a developing market like Nigeria, where rules are not strongly enforced.

Attributes of audit committees are variables that reduce earnings management. The size of the audit committee, defined by the number of its members, improves the committee by diversifying

knowledge, assisting in a rigorous review of financial statements, and eliminating opportunistic manipulations. The greater the size of committees, the more impressive the monitoring is since the work is divided, and the dependence on personal judgements is reduced, which limits the management of accrual-based or real earnings (Abubakar et al., 2021). Equally, audit committee independence in terms of the percentage of non-executive directors contributes to objectivity and impartiality that shields the audit committee against managerial interference. The independent members find it harder to collude with the executives, and these factors encourage strict scrutiny that limits earnings manipulations and ensures reporting integrity (Kaoje et al., 2023). These qualities are crucial in the financial sector in Nigeria, where the governance system is critical in the mitigation of agency problems and adherence to international financial reporting standards.

Leverage is a moderating force between the attributes of the audit committee and earnings management. High leverage, often shown by the debt-to-equity ratios, creates financial pressure and makes creditors pay more attention, which can improve how well audit committees work to prevent financial manipulation since companies with debt are watched more closely by outsiders. Low leverage, on the other hand, can result in reduced vigilance on the committee; hence, there is increased discretion in the adjustments of earnings. In developing economies, leverage-intermediate governance results in increased bankruptcy risk, thereby making it more incentivised to have strong committee oversight to signal financial well-being (Muhtaseb et al., 2024). In Nigeria, the impact of leverage on financial companies can either bolster or diminish the audit committee's role, contingent on fluctuations in interest rates and economic pressures.

The rationale for investigating earnings management is its impact on the sustainability of corporate performance and economic stability. Through the study of governance mechanisms, research can help inform strategies to improve financial transparency, minimize information asymmetry, and build investor confidence, which will lead to the development of the Nigerian capital market.

The earnings management in Nigerian quoted deposit money banks is unresolved, the performance is misrepresented, and the managers are misusing accruals or actual operations to exaggerate earnings. This is described by two notable cases: the Cadbury Nigeria Plc scandal (2002-2006), in which the overstatements totaling more than N13 billion were committed through the stock buybacks and false certificates, leading to the dismissal of executives and the collapse of the market (Otusanya & Uadiale, 2014); and the Afribank Plc collapse (2011), in which the banks falsified accounts and caused losses amounting to billions of dollars and bank distress (Aderibigbe, 2024). There gaps in the empirical review: sectoral (past research such as Abubakar et al., 2021, on non-financial companies, without consideration of financial sector peculiarities); period (Isah, 2016, only up to 2015, excluding conditions of post-regulatory reforms); knowledge (no effect of leverage on it, in Ahmad & Sunday, 2023). This study addresses these gaps by calculating the PCSE estimators on the 2015-2024 data on quoted financial firms to explain the contingent governance effects with the inclusion of leverage.

Many studies have been done in the area of corporate governance and audit all of which know the two mechanisms as effective factors to restrain excessive opportunistic behavior amongst corporate management. Prior research on the relationship between audit committee attributes and earnings

management has been done in developed countries, however, a few studies have been done to examine this relationship in emerging countries, which is the motivation for this study.

The study is intended to find acceptable answer to the question of whether the audit committee's size and independence, as criteria of audit committee attributes, can limit the application of earnings management in Nigerian deposit money banks.

This paper concentrates on discussing and analyzing the moderating effects of leverage on the relationship between audit committee attributes and earnings management with the following specific objectives; Examine the effects of Audit committee size on earnings management of quoted deposit money banks in Nigeria;

- i. Investigate the effects of Audit committee independence on earnings management of quoted deposit money banks in Nigeria;
- ii. Assess the moderating role of leverage on audit committee size and earnings management of quoted deposit money banks in Nigeria; and
- iii. Evaluate the moderating role of leverage on audit committee independence and earnings management of quoted deposit money banks in Nigeria.

#### Research hypotheses

The following hypotheses formulated in null form to achieve the objectives of the study;

H<sub>01</sub>: Audit committee size has no significant effect on the earnings management of quoted deposit money banks in Nigeria.

H<sub>02</sub>: Audit committee independence has no effect on the earnings management of quoted deposit money banks in Nigeria.

H<sub>03</sub>: Leverage has no significant moderating effect on audit committee size earnings management of quoted deposit money banks in Nigeria.

H<sub>04</sub>: Leverage has no moderating on audit committee independence and earnings management of quoted deposit money banks firms in Nigeria.

This study examines the effects of audit committee attributes (measured by audit committee size and independence) on earnings management of quoted money deposit banks in Nigeria, with leverage serving as the moderating variable to assess its influence on the relationship between audit committee attributes and earnings management. The study focuses on financial firms listed on the Nigerian Stock Exchange and measures earnings management using discretionary accruals. The analysis covers the period from 2015 to 2024 and is limited to financial firms operating within Nigeria, thereby excluding non-financial and unquoted companies.

## 2. Review Related Literature

### Conceptual Review

#### Earnings Management

Earnings management encompasses managerial discretion in financial reporting to achieve desired effects and usually involves balancing signaling, on the one hand, and opportunistic manipulation. Earnings management is considered to occur when financial reporting and transaction structuring

are conducted using judgment that contradicts the actual performance, whether that performance is the underlying reality or the future outcome based on the accounting numbers (Abubakar et al., 2021). This framework focuses too much on selfish behavior and ignores positive aspects, like reducing information gaps or fixing contract issues in flexible regulatory environments. The operational definition of earnings management in the present study entails accrual-based manipulations, which are measured by the Modified Jones model to estimate discretionary accruals to capture deviations from actual accruals.

#### Audit Committee Attributes

Audit committee attributes refer to the structural and functional characteristics that influence the committee's effectiveness in monitoring financial reporting and constraining earnings management (DeZoort et al., 2002). These attributes determine the quality of oversight and the ability of the committee to detect and prevent financial misstatements.

Audit committee attributes have received significant attention in corporate governance literature due to their role in enhancing financial reporting quality and constraining earnings management. The audit committee functions as a monitoring mechanism that oversees financial reporting processes, internal controls, and audit activities to ensure transparency and accountability. Its effectiveness largely depends on specific characteristics such as size and independence (Hossain et al., 2021).

#### Audit committee size

The size of the audit committee refers to the total number of members on the committee, and it is a factor that influences the committee's effectiveness in corporate governance. The audit committee size is the total number of directors who sit on the audit committee, preferably with an equal division of work (Otusanya & Uadiale, 2014)). However, too small a size can prevent performance in duties because of a lack of expertise, whereas too large a committee may dissipate accomplishment. In this paper, the operationally defined audit committee size is the number of audit committee members, and it is measured as the proportion of audit committee to board size.

#### Audit Committee Independence

Audit committee independence refers to the percentage of non-executive or external directors who lack managerial control, which is important in objective management. It is defined as the number of independent directors among the total number of members of the committee, which encourages objectivity in the financial examination (Kaoje et al., 2023). Nevertheless, with weak regulations like in Nigeria, having independent directors on paper may not be trustworthy, as cultural or ownership factors can affect their true independence. This article uses operational definitions to establish the independence of the audit committee, specifically by measuring the percentage of independent non-executive directors serving on it.

#### Leverage as a moderator

According to Baron and Kenny (1986), a variable is considered a moderator when it influences the strength or direction of the relationship between an independent variable and a dependent variable. To establish moderation, certain conditions must be satisfied. First, the moderating variable must interact with the independent variable, which necessitates the inclusion of an interaction term in the regression model. Second, the interaction effect must be statistically significant, meaning that the coefficient of the interaction term is significant and indicates that the relationship between the

independent and dependent variables varies across different levels of the moderator. Finally, the moderating variable may or may not have a direct effect on the dependent variable, as its primary role is not to influence the outcome directly but to alter the strength or direction of the relationship between the independent and dependent variables.

Leverage qualifies as a moderating variable in this study because it shapes how audit committee attributes, specifically size and independence, influence earnings management. This is evidenced by its interaction with these independent variables through the inclusion of interaction terms (e.g., size  $\times$  leverage and independence  $\times$  leverage) in the regression model. Furthermore, leverage affects the strength and possibly the direction of this relationship, as highly leveraged firms are subject to increased scrutiny from creditors, which may either enhance or undermine the effectiveness of audit committees in constraining earnings management. Consequently, the impact of audit committee attributes on discretionary accruals varies across different levels of leverage. Theoretically, this is supported by the notion that firms with high leverage face pressure to meet debt obligations, creating incentives for earnings manipulation, while simultaneously intensifying monitoring mechanisms that can alter the effectiveness of audit committee oversight. Thus, in line with Baron and Kenny (1986), leverage satisfies the conditions of a moderating variable by significantly altering the relationship between audit committee attributes and earnings management.

Leverage is the amount of debt a company has compared to its equity. It affects the risks that companies face and the decisions that managers make about how to report their finances. It is described as the ratio of total debt to total assets, which reflects financial limitations and creditor examination (Almanaseer, 2024). Leverage refers to the proportion of a firm's asset financed through debt obligation. In the context of quoted financial firms in Nigeria, leverage reflect the extent of reliance on deposit liabilities and other borrowings relative to total assets. Leverage is conceptualized as a moderating governance mechanism that may either constrain or incentivize earnings management depending on the firm's debt pressure and covenant sensitivity. High leverage can cause earnings management to prevent covenant breach, yet in emerging markets, it might increase volatility but not discipline. In this paper, the leverage is operationally defined as the quotient of the total liabilities to the total assets base.

## **Theoretical Review**

### Agency theory

This study is underpinned by agency theory, which posits that conflicts arise between the principal (shareholders) and the agents (managers), who are likely to act in their self-interest to maximize their personal interest at the expense of the principal (Jensen & Meckling, 1976). This theory makes sense because it shows how governance tools, like audit committees, help reduce agency costs by making sure that both shareholders' and managers' interests are looked after through oversight, especially in Nigeria, where there are problems with information gaps and too much power in the hands of managers. Agency theory considers the characteristics of audit committees (size and independence) as mechanisms that limit earnings management through increased scrutiny, and leverage is a mediator, increasing the creditors' monitoring of high-debt structures to minimize agency problems (Muhtaseb et al., 2024). The articles that apply agency theory include Abubakar et al. (2021), who linked the features of audit committees to real earnings management in Nigerian

companies; Kaoje et al. (2023), who examined how audit committees affect earnings management; and Okafor et al. (2024), who looked into the relationship between governance and actual earnings management in Nigerian financial firms.

## **Empirical Review**

Etuk et al. (2025) examined how the audit committee attributes, especially independence, financial expertise, and other related governance variables, influence the quality of financial reporting represented by earnings management in Nigerian listed deposit money banks. It employed an ex-post facto study that used panel data from the annual reports of sampled deposit money banks in 2014–2023 with strong regression analysis to determine effects on income smoothing indexes and discretionary accruals. The researchers established that the independence of the audit committee negatively impacted earnings management indicators to a significant extent, limiting the manipulation, whereas the size-related factors were not brought to the forefront as important. The discussion illuminates critical points of the audit committee's control over high-leverage financial markets but omits the comprehensive real activities manipulation and contextual modifiers such as leverage. The study creates a sectoral and methodological gap, as it does not concentrate on only quoted financial companies with Panel-Corrected Standard Errors (PCSE) estimation or leveraged moderation over 2015-2024.

Maidad et al. (2024) investigated the effects of the nature of the audit committee, including the size of the audit committee, independence, expertise, and gender diversity, on the earnings management within the listed deposit money banks in Nigeria. The study incorporated an ex-post facto correlational study with secondary data in 15 listed deposit money banks from 2013 to 2022 to examine and measure discretionary accruals by employing a practical generalized least squares (FGLS) panel estimator. The study found that the size of the audit committee is negatively and insignificantly related to earnings management, while independence and gender diversity have a positive effect on earnings management. The discussion brings up some intriguing information about how mixed governance produces unstable financial markets, yet it does not address the endogeneity issues of committee constructions. Restricting the study to Nigeria without any inter-country comparisons limits its geographical scope and contextual power.

In their research, Ahmad and Sunday (2023) examined the possible effect of audit committee efficacy on actual earnings management in listed non-financial companies in Nigeria. It applied the panel-corrected standard error estimator for panel data on 760 observations of firm-years of 113 firms between the years 2011 and 2020. The research results indicated that the independence of the audit committee and its size do not have any significant effect on real earnings management, but there is a significant positive effect on audit committee diversity. The study makes significant discoveries about the counterintuitive outcomes of diversity in governance but does not include leverage as a variable. Leaving a knowledge gap on the leverage moderating effect, a sectoral gap of quoted financial companies, and a partial period gap, not quite consistent with 2015-2024.

Abubakar et al. (2021) examined the effects of the audit committee attributes on the real earnings management of Nigerian companies. The study employed a quantitative correlational design, analyzing data from 72 non-financial firms over 360 firm-years between 2014 and 2018, using the

Panel Corrected Standard Error panel data estimator. The researchers concluded that the size and independence of the audit committee have a negative and significant relationship with real earnings management, thereby discouraging managerial opportunism in financial reporting. The research gives substantial information as to the effectiveness of audit committee characteristics in improving the reporting integrity, but it does not consider moderating factors such as firm leverage. The study has gaps due to the omission of knowledge about the role of leverage in the relationship, a focus on financial firms that excludes sectoral diversity, and the use of pre-2015-2024 data that does not account for recent regulatory developments.

Ghofir and Yusuf (2020) investigated the possibility of factoring in the size of firms and leverage, which may affect the earnings management of food and beverage organizations. The authors employed secondary data gathered from companies listed on the Indonesia Stock Exchange during the years 2014-2018 and a multiple regression analysis. The study found that leverage did not have any significant effect on earnings management. The research has significant findings, but it is limited by its limited scope in time. This study fills this gap by adjusting the time coverage from 2015 to 2024.

Fali et al. (2019) examined the influence of the size, tenure, expertise, and workload of audit committees on the earnings management practices of listed deposit money banks in Nigeria. It relied on quantitative secondary data obtained through the audited financial statements of 15 deposit money banks. The random effects model (REM) as a panel data estimator was employed to test the connection between the variable and discretionary accruals between the years 2009 and 2018. The researchers came to the conclusion that the size of the audit committee had a significant negative correlation with earnings management, and the larger the committee, the higher the degree of monitoring and the absence of opportunistic reporting. The article demonstrates that it contains valuable information about the governance solutions that decrease the earnings management of financial institutions, but the research is constrained by self-reporting data. The paper leaves a theoretical gap in that it does not integrate the agency theory with the stewardship views for explaining the differences in effectiveness of the various committees.

The study by Anagnostopoulou and Tsekrekos (2017) has investigated the effect of financial leverage on real and accrual-based earnings management, with the two strategies being trade-offs. The researchers considered panel data that concerned listed companies and estimated a regression that approximated the effectiveness of the levels of leverage and their variation on the earnings manipulation decisions. The study found the positive and significant impact of leverage on the upward real earnings management. The study is of immense importance, but it is based on non-financial firms in developed economies, which is a weakness in terms of geography.

Abdullahi et al. (2016) explored the influence of audit committee features, independence, and committee size on the earnings management practices of listed deposit money banks in Nigeria. The study employed an ex-post facto design using panel data, which consisted of annual reports from 15 listed deposit money banks over the period from approximately 2014 to 2023, and applied panel regression methods such as fixed or random effects to estimate discretionary accruals using the modified Jones model. It was concluded that the independence of the audit committee negatively influenced the management of earnings and suppressed opportunistic manipulations,

whereas the audit committee size was significantly or positively related in certain models. The study provides important details on the effectiveness of independent audit committees in the detection of accrual-based earnings management in the banking industry in Nigeria, though with a high level of overreliance on accrual proxies with regard to actual earnings management. This creates a gap in the methodology because it fails to use PCSE estimators and leverage as a moderator in the relationship.

Isah (2016) examined the effects of audit committee traits on earnings management in the post-IFRS Nigerian listed companies. It applied the Panel Corrected Standard Error panel data estimator to 213 observations of 71 non-financial firms between 2012 and 2014. The researchers discovered that independence of audit committees has both a negative and significant relationship with earnings management but no relationship with size. The enquiry provides fundamental insights into the governance processes in the emerging markets, but it is based on a limited post-IFRS window. Depending on a period break between data from 2015 to 2024, a gap in knowledge on the interaction of leverage, and a sector gap by not targeting financial companies in Nigeria.

Okougbo and Okike (2015) examined the nature of audit committees and earnings management of the listed deposit money banks in Nigeria with a moderating effect of institutional ownership. The research involved the use of secondary data in the form of audited financial statements of listed deposit money banks covering a time frame of about 2015-2023, with panel data regression analysis to determine the relationship with discretionary accruals. The research established that the independence of the audit committee had a significant negative correlation with earnings management, which improves financial reporting quality, and an insignificant positive relationship with the audit committee size. The analysis reveals significant information on the governance characteristics that alleviate earnings management in regulated financial institutions, although the results are constrained by the possible endogeneity issues that have not been addressed comprehensively using sophisticated estimators. This methodological approach lacks PCSE panel data estimators and consideration of how leverage moderates the relationship between independence and earnings management.

### **Gaps in Literature**

This study bridges the sectoral gap by focusing only on quoted financial firms (e.g., banks and other deposit money institutions), which Abubakar et al. (2021) neither controlled nor considered, as they were subject to specific earnings pressures. The study fills the gap of time by presenting a more current time horizon (2015–2024), with post-2015 regulatory changes and economic changes, not including previous literature, such as Isah (2016) and partially Ahmad and Sunday (2023). More importantly, it addresses the knowledge gap regarding the moderating effect of leverage, considering whether leverage interacts with audit committee independence and the size of the audit committee to affect earnings management, a dynamic that the reviewed literature has scarcely explored because it did not account for contingencies. This study expands our knowledge about how governance effectiveness varies at different levels of debt within Nigeria's financial sector.

### 3. Methodology

This paper used an ex post facto research design, one that analyses cause-and-effect relationships of variables when the events have taken place and the researcher has no control over the event. This type of analysis is the most appropriate design to be used in the study involving historical secondary data. The population of the study comprises all quoted deposit money banks listed on the Nigerian Exchange Group (NGX) as of 31 December 2024, totaling approximately 13 banks. A sample of 7 banks were selected by filtering method by their access to full annual reports and their presence in the list throughout the 2015-2024 sample time. The use of filtering method ensures the reliability and consistency of the dataset, minimizes problem of missing observations, and enhances the robustness of the empirical results. Secondary data were obtained from the annual reports and accounts of the sampled firms. The multiple regression analysis was used through STATA 13.

Table 1: *Variable Measurement and Justification*

Variable	Type	Measurement	Justification
Earnings Management (EM)	Dependent	Discretionary accruals estimated using the Modified Jones Model	The Modified Jones Model is widely used in accounting research to isolate discretionary accruals, making it a reliable proxy for earnings management.
Audit Committee Size (ACBS)	Independent	Number of members in the audit committee	A larger audit committee enhances monitoring effectiveness through diverse expertise and shared responsibilities, which can reduce earnings management.
Audit Committee Independence (ACIND)	Independent	Proportion of independent (non-executive) directors on the audit committee	Independent directors are more objective and can effectively monitor management, thereby reducing opportunistic behavior.
Leverage (LEV)	Moderating	Total debt divided by total assets	Leverage reflects financial pressure and may influence managers' incentives to manipulate earnings to meet obligations.
LEV × ACS	Interaction	Product of leverage and audit committee size	This interaction examines whether leverage moderates the relationship between audit committee size and earnings management.
LEV × ACIND	Interaction	Product of leverage and audit committee independence	This interaction assesses whether leverage affects the effectiveness of audit committee independence in constraining earnings management.

**Note.** EM = Earnings Management; ACBS = Audit Committee Size; ACIND = Audit Committee Independence; LEV = Leverage.

## Model Specification

The model employed in this study is adapted from the moderated regression framework proposed by Baron and Kenny (1986), which incorporates interaction terms to examine the moderating effect of leverage on the relationship between audit committee attributes and earnings management. The baseline specification is further informed by prior studies on corporate governance and earnings management (e.g., Klein, 2002; Xie et al., 2003).

$$EM_{it} = \beta_0 + \beta_1 ACS_{it} + \beta_2 ACIND_{it} + \beta_3 LEV_{it} + \beta_4 LEV * ACBS_{it} + \beta_5 LEV * ACIND_{it} + \varepsilon.$$

Where: EM = earnings management (discretionary accruals through Modified Jones model), ACBS = audit committee size, ACIND = audit committee independence, LEV = leverage, i = firm, and t = year and  $\varepsilon$  = error term.

## 4. Results and Discussion

Table 2: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
EM	70	1.666	.127	1.017	1.906
ACBS	70	.451	.09	.313	.667
ACIND	70	.471	.057	.333	.6
LEV	70	.613	.39	.008	1.152

Source: STATA 13, 2026

This Table show a mean of earnings management (EM) is 1.666 and a standard deviation (SD) of 0.127, which is moderate; the range is between 1.017 and 1.906, which implies the possibility of upward manipulations to protect the financial markets. The average size of the audit committee is 0.451 (SD = 0.09), and the range is 0.313 to 0.667, implying that about 45% of the board size is occupied by the audit committee. The audit committee independence (ACIND) = 0.471 (SD = 0.057), which indicates approximately half the independent members. The leverage (LEV) has an average of 0.613 (SD = 0.39), and ranges from 0.008 to 1.152, which are associated with high debt dependency in several companies, which is typical of the banking sector in Nigeria due to economic volatility.

Table 3: Shapiro-Francia W' test for normal data

Variable	Obs	W'	V'	Z	Prob>z
EM	70	0.836	11.195	4.665	0.000
ACBS	70	0.987	0.888	-0.230	0.591
ACIND	70	0.988	0.821	-0.380	0.648
LEV	70	0.760	16.337	5.395	0.000

Source: STATA 13, 2026

This is a test used to determine the distribution of data of variables. Non-normality of some of the variables, like EM and LEV means that robust estimators as Panel-Corrected Standard Errors (PCSE) are needed to overcome the violation of regression assumptions to increase the reliability of the model. Therefore, to ensure robust and reliable inference in the presence of potential panel

data issues such as heteroskedasticity, serial correlation, and cross-sectional dependence, the study employs Panel-Corrected Standard Errors (PCSE).

Table 4: Pairwise correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)
(1) EM	1.000					
(2) ACBS	0.216 (0.072)	1.000				
(3) ACIND	0.145 (0.232)	0.101 (0.404)	1.000			
(4) LEV	-0.356* (0.003)	-0.642* (0.000)	0.252* (0.036)	1.000		

Source: STATA 13, 2026

This is a p-value bivariate relationship matrix. EM is positively correlated with ACBS (0.216,  $p = 0.072$ , insignificant) and ACIND (0.145,  $p = 0.232$ , insignificant). ACS has negative relationships with LEV (-0.642,  $p = 0.000$ ).

Table 5: VIF

	VIF	1/VIF
ACBS	2.617	.382
LEV	2.142	.467
ACIND	1.23	.813
Mean VIF	1.744	.
Hausman test	0.0368	prob>chi2 0.000

Source: STATA 13, 2026

VIF mean is 1.744, which does not exceed 10, indicating the absence of severe cases of multicollinearity. The variances are not homoscedastic as the heteroscedasticity test ( $p = 0.0000$ ) is rejected. The Hausman test ( $p = 0.0368$ ) is in favor of fixed effect as opposed to random effect. These diagnostics confirm the use of the PCSE estimator as a way to correct the heteroscedasticity and cross-sectional dependence of panel data, and offer unbiased estimates.

Table 6: Penal Corrections Standard Errors Regression Results Summary

EM	Coef.	St.Err.	t-value	p-value	Sig
ACBS	-1.780	.474	-3.76	.000	***
ACIND	0.972	.446	2.18	.029	**
LEV	-1.115	.260	-4.28	.000	***
LEV_ACS	2.029	.595	3.41	.001	***
LEV_ACIND	-0.230	.594	-0.39	.698	*
Constant	1.997	.141	14.16	.000	***
R-squared	0.4243		Number of obs	70	
F-test	44.38		Prob > F	0.000	

Source: STATA 13, 2026 \*\*\*=statistically significant at 1% level, one-tailed test; \*\*=significant at 5% level, one-tailed test; \*=not significant

The table shows  $R^2 = 0.4243$  (42%), which indicates that 42% of the variation in the explained variable is caused by explanatory variables. The F-test of 44.38 ( $p = 0.000$ ) shows that the model is well combined and used.

### **Test of Hypotheses**

H<sub>01</sub>: Audit committee size has no significant effect on the earnings management of quoted deposit money banks in Nigeria.

The coefficient of audit committee size in the model is negative. The p-value = 0.00 with a t-value of -3.76, this is significant at 0.01 level. This result indicates a significant negative effect of audit committee size on discretionary accruals; the analysis thus rejects H<sub>01</sub> indicating that audit committee size has statistically significant effect on earnings management.

H<sub>02</sub>: Audit committee independence has no effect on the earnings management of quoted deposit money banks in Nigeria.

The ACIND is positive. The p-value=0.029 with a t-value of 2.18 and significant at 0.05 level indicating a positive and significant effect on EM. Thus, this result rejects our H<sub>02</sub> of the negative association between audit committee independence and earnings management.

H<sub>03</sub>: Leverage has no significant moderating effect on audit committee size and earnings management of quoted deposit money banks in Nigeria.

LEV\*ACBS has a t-value of 3.41 and is significant at 0.01. This result indicates a positive and significant moderating effect of leverage on the relationship between audit committee size and earnings management, thus reject H<sub>03</sub>

H<sub>04</sub>: Leverage has no moderating on audit committee independence and earnings management of quoted deposit money banks firms in Nigeria.

The p-value of LEV\*ACIND in the model is 0.698, with a t-value of -0.39, this result indicates a negative and insignificant effect of leverage on the relationship between audit committee independence and earnings management, thus accept H<sub>04</sub>; Leverage does not have any significant moderating effect on the ACIND-EM relationship

### **Discussion of Findings**

The study examines the moderating effect of leverage on the relationship between audit committee attributes and earnings management of quoted deposit money banks in Nigeria. The findings provide important insights into the governance mechanisms that influence financial reporting quality within the Nigerian banking sector.

The result on audit committee size reveals a significant effect on earnings management. This indicate that large audit committees improve monitoring therefore, firms with large audit committees will engage in less earnings management than firms with smaller audit committees. The agency theory, congruent with this, is that larger committees are consistent with the reduction of information asymmetry. This result is consistent with the findings of Fali et al. (2019) that suggests large audit committee size is associated with improved monitoring and reduced information asymmetry and hence, reduced management discretion over earnings. Regulators such as the Central Bank of Nigeria and the Financial Reporting Council of Nigeria should strengthen corporate governance codes by prescribing an optimal minimum size for audit committees in deposit money banks. This will ensure adequate diversity of expertise and improve oversight quality.

Furthermore, the findings indicate that audit committee independence also has a significant effect on earnings management. It means that nominal independence might fail to discourage manipulations within the weak institutional context of Nigeria; the independent members might be symbolically appointed with no actual supervision. The agency theory indicates that independence must minimize agency costs through the presence of objectivity. The finding is consistent with the study of Maidad et al. (2024), who found a positive effect. This result is contrary to Abdullahi et al. (2016), who found a negative relationship. There is a need for stricter enforcement of independence criteria by regulators, particularly the Financial Reporting Council of Nigeria. Policies should go beyond formal independence to include verification of true independence (no hidden affiliations), disclosure of relationships with management, and mandatory training and certification for independent directors. This will ensure that independence is substantive rather than symbolic, thereby enhancing its effectiveness in curbing earnings manipulation.

The results shows that leverage significantly and positively moderates the relationship between audit committee size and earnings management. This is a positive but significant moderating influence that dilutes the negative relationship between ACBS and EM in high leverage. This implies that when a firm is heavily leveraged, the larger the size of the audit committees, the more they can be pressurized to coordinate, and thus more EM can be accomplished. The leverage is expected to increase the efficacy of governance as predicted by the agency theory, which in this case, it does the opposite. Regulatory bodies such as the Central Bank of Nigeria should integrate leverage-sensitive governance policies by imposing stricter monitoring requirements for highly leveraged banks, requiring enhanced disclosures for firms with high debt levels, and strengthening oversight of audit committees in such firms. Additionally, prudential guidelines should ensure that high leverage does not create excessive pressure that undermines governance mechanisms.

The results indicate that leverage negatively and insignificantly moderates the relationship between audit committee independence and earnings management. This means that the debt levels do not add to or reduce the effect of audit committee independence on earnings management. In practical terms, audit committee independence remains largely unaffected by the firm's leverage, implying that independent oversight can operate effectively regardless of financial risk. The agency theory argues that monitoring ought to be enhanced to alleviate agency challenges, yet the lack of significance can be caused by nominal independence in the industry under regulation. The finding underscores the importance of truly independent audit committees in curbing earnings

manipulation, even in banks with varying levels of debt. This finding implies that audit committee independence remains a stable governance mechanism regardless of leverage levels. Therefore, regulators should continue to prioritize independence as a core requirement across all banks, irrespective of their capital structure, and policies should focus on improving the quality and effectiveness of independent directors, rather than relying on leverage as a complementary control mechanism. It also highlights the need for ongoing monitoring and evaluation of independence to ensure it is genuinely effective in practice.

Overall, the findings highlight the importance of strengthening audit committee structures, particularly in terms of independence and functional, effectiveness rather than mere compliance with regulatory requirements issued by the Central Bank of Nigeria.

### **Conclusion and Recommendations**

This paper concludes that both large audit committee size and leverage have a strong negative impact on EM, which is in alignment with the focus of agency theory on governance mechanisms. Yet, independence has a beneficial association with EM, and the moderating effect of leverage is different; namely, it gains strength with size but is not significant with independence.

### **Recommendations**

Based on the empirical analysis of audit committee attributes and the moderating role of leverage on earnings management among quoted financial firms in Nigeria, this study advances the following recommendations for regulators, financial institutions, and future researchers;

- i. The regulators, such as the Central Bank of Nigeria (CBN), should ensure that they set the minimum size of audit committees.
- ii. The firm should have practical independence rather than meeting formal requirements.
- iii. Firms should comply with the levels of leverage in governance codes to increase monitoring levels in high-debt companies.
- iv. Users seeking to use reported earnings should look upon the audit committee attributes, especially size, as an indicator of earnings reliability,

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**Appendix**

Name	YEAR	ID	ACBS	FEMALEAC	ACIND	EM	LEV	BE
FCMB	2015	1	0.600	0.000	0.500	1.674	0.008	0.600
	2016	1	0.600	0.000	0.500	1.692	0.010	0.600
	2017	1	0.500	0.000	0.500	1.671	0.015	0.500
	2018	1	0.600	0.000	0.500	1.687	0.013	0.600
	2019	1	0.600	0.000	0.500	1.692	0.016	0.600
	2020	1	0.556	0.200	0.400	1.681	0.019	0.556
	2021	1	0.500	0.200	0.400	1.701	0.053	0.500
	2022	1	0.500	0.200	0.400	1.676	0.062	0.600
	2023	1	0.500	0.200	0.400	1.778	0.050	0.500
	2024	1	0.500	0.200	0.400	1.855	0.051	0.600
FIRST BANK	2015	2	0.667	0.167	0.500	1.696	0.020	0.778
	2016	2	0.545	0.167	0.500	1.721	0.027	0.545
	2017	2	0.600	0.167	0.500	1.728	0.100	0.600
	2018	2	0.600	0.167	0.500	1.742	0.034	0.600
	2019	2	0.500	0.000	0.400	1.751	0.034	0.600
	2020	2	0.455	0.200	0.400	1.814	0.046	0.545
	2021	2	0.500	0.000	0.400	1.727	0.054	0.700
	2022	2	0.455	0.000	0.400	1.758	0.056	0.545
	2023	2	0.556	0.200	0.400	1.741	0.062	0.667
	2024	2	0.556	0.200	0.400	1.780	0.089	0.556
JAIZ	2015	3	0.462	0.000	0.500	1.552	0.342	0.308
	2016	3	0.462	0.000	0.500	1.627	0.400	0.231
	2017	3	0.462	0.000	0.500	1.652	0.394	0.308
	2018	3	0.429	0.000	0.500	1.682	0.519	0.286
	2019	3	0.400	0.000	0.500	1.692	0.563	0.267
	2020	3	0.375	0.000	0.500	1.906	0.492	0.375
	2021	3	0.313	0.000	0.400	1.643	0.564	0.188
	2022	3	0.313	0.000	0.400	1.493	0.922	0.313
	2023	3	0.385	0.000	0.400	1.313	0.932	0.462
	2024	3	0.333	0.000	0.400	1.017	0.934	0.200
ZENITH	2015	4	0.429	0.167	0.500	1.866	0.854	0.500
	2016	4	0.571	0.250	0.500	1.770	0.856	0.500
	2017	4	0.429	0.167	0.500	1.823	0.856	0.500
	2018	4	0.429	0.167	0.500	1.712	0.864	0.500
	2019	4	0.429	0.167	0.500	1.661	0.857	0.429
	2020	4	0.429	0.167	0.500	1.726	0.873	0.429
	2021	4	0.429	0.167	0.500	1.679	0.867	0.429
	2022	4	0.500	0.143	0.571	1.569	0.887	0.429
	2023	4	0.357	0.200	0.400	1.613	0.893	0.429

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WEMA	2024	4	0.357	0.200	0.400	1.743	0.871	0.500
	2015	5	0.500	0.000	0.500	1.656	0.884	0.583
	2016	5	0.500	0.000	0.500	1.656	0.885	0.583
	2017	5	0.462	0.000	0.500	1.770	0.871	0.538
	2018	5	0.500	0.000	0.500	1.573	0.893	0.583
	2019	5	0.545	0.000	0.500	1.490	0.921	0.636
	2020	5	0.545	0.000	0.500	1.637	0.939	0.636
	2021	5	0.545	0.000	0.500	1.705	0.940	0.545
	2022	5	0.455	0.000	0.400	1.562	0.942	0.545
	2023	5	0.545	0.000	0.500	1.477	0.938	0.545
UBA	2024	5	0.462	0.000	0.500	1.606	0.928	0.538
	2015	6	0.375	0.333	0.500	1.715	0.847	0.625
	2016	6	0.353	0.333	0.500	1.820	0.846	0.588
	2017	6	0.333	0.333	0.500	1.706	0.863	0.556
	2018	6	0.333	0.333	0.500	1.561	1.152	0.556
	2019	6	0.333	0.167	0.500	1.812	0.892	0.500
	2020	6	0.375	0.333	0.500	1.545	1.070	0.563
	2021	6	0.313	0.400	0.400	1.597	0.910	0.563
	2022	6	0.313	0.400	0.400	1.545	0.921	0.563
	2023	6	0.313	0.400	0.400	1.591	0.904	0.563
FIDELITY	2024	6	0.400	0.333	0.500	1.623	0.902	0.667
	2015	7	0.400	0.000	0.333	1.631	0.851	0.533
	2016	7	0.400	0.000	0.500	1.751	0.857	0.533
	2017	7	0.429	0.000	0.500	1.747	0.854	0.571
	2018	7	0.429	0.000	0.500	1.656	0.887	0.571
	2019	7	0.429	0.000	0.500	1.680	0.889	0.571
	2020	7	0.429	0.000	0.500	1.608	0.901	0.643
	2021	7	0.333	0.000	0.600	1.754	0.909	0.533
	2022	7	0.357	0.000	0.600	1.626	0.921	0.571
	2023	7	0.357	0.000	0.400	1.589	0.930	0.571
2024	7	0.357	0.200	0.600	1.660	0.900	0.643	