Board Independence and Earnings Management of Listed Deposit Money Banks in Nigeria Moderated by Audit Committee Expertise

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ABSTRACT

The Nigerian banking sector has been plagued by numerous financial reporting scandals stemming from creative accounting practices, commonly referred to as earnings management. This alarming trend underscores the imperative need for robust corporate governance mechanisms, particularly board independence, to prevent earnings management and uphold the integrity of financial reporting. This study investigates the effect of board independence on earnings management of listed deposit money banks in Nigeria as moderated by audit committee expertise. The study's population consists of 14 listed deposit money banks in Nigeria as at 31st December 2023 with a sample size of 10 banks selected through purposive sampling technique. A quantitative research approach was employed, using secondary data from the annual reports and accounts of the selected banks over a 10-year period from 2014 to 2023 and analyzed using the Moderated Multiple Regression (MMR) model and STATA version 12. The study reveals that board independence has a positive and statistically significant effect on earnings management, but audit committee expertise significantly moderates this relationship, exerting a negative effect. The study underscores the critical role of independent directors in mitigating earnings management in Nigeria's banking sector, and based on the findings, the study recommends that regulatory bodies and bank management prioritize the appointment of experienced and professionally qualified audit committee e members, and strengthen corporate governance frameworks to enforce board independence and audit committee expertise, which will enhance financial reporting quality and stakeholder confidence in the Nigerian banking sector.

Keywords: Board Independence, Earnings Management, Audit Committee Expertise.

INTRODUCTION

The practice of creative accounting in financial reporting to present a more favorable financial image, known as earnings management, has become a widespread and pressing issue globally (Abdul-Manaf et al., 2018). The tendency of companies to engage in this practice has generated intense discussion and concern among stakeholders, with significant consequences for investors, regulators, and the overall economy. Consequently, ensuring the accuracy and reliability of financial reporting has become a critical priority, especially in the banking industry, where transparency and accountability are crucial.

When companies exploit these techniques to misrepresent their financial performance, it can result in severe consequences. The Nigerian banking sector has been plagued by several high-profile cases of abuses of earnings management, leading to significant financial losses and a decline in investor confidence, leading to corporate failures. Notable examples include the collapse of Intercontinental Bank Plc in 2011, attributed to poor corporate governance and earnings management practices (Sanusi, 2010), and the financial scandal involving Oceanic Bank International Plc in 2011, which involved the misstatement of financial results and concealment of non-performing loans (Oyenuga, 2016). More recently, Skye Bank Plc was taken over by the Central Bank of Nigeria in 2018 due to its poor financial condition, partly attributed to earnings management practices (Uwuigbe et al., 2020). These cases highlight the need for effective regulatory oversight, robust corporate governance practices, and transparent financial reporting to prevent abuses of earnings management in the Nigerian banking sector.

Consequently, the Nigerian banking sector has undergone significant transformations in recent years, driven by the Central Bank of Nigeria's (CBN) efforts to strengthen governance structures and promote transparency (CBN, 2020). A critical aspect of corporate governance is board independence, which has been linked to improved financial reporting quality and reduced earnings management (Klein, 2002; Li et al., 2020; Kim et al., 2014). Board independence is a crucial aspect of corporate governance, referring to the presence of independent directors on a company's board who are free from any material relationship with the company or its management (OECD, 2019). A higher proportion of independent directors on the board are associated with improved financial reporting quality and better decision-making (Klein, 2020; Lee et al., 2020). Independent directors bring diverse perspectives and expertise to the board, enabling more effective oversight and better governance (Garvan, 2018). In the context of Nigerian listed deposit money banks, board independence is particularly important due to the sector's history of corporate governance challenges involving earnings management abuses (Uwuigbe et al., 2020).

Earnings management involves the process of making deliberate accounting choices to achieve a desired financial outcome, such as meeting or beating analyst expectations (Scott, 2015). Earnings management quality remains a pressing concern in the banking sector, as financial reports may not accurately reflect a company's true financial performance (Dechow et al., 2010; Li et al., 2020). The accuracy and reliability of financial reports are crucial for stakeholders to make informed decisions (Klein, 2020). Hence, earnings management encompasses various techniques such as revenue recognition, expense reporting, and asset valuation (Schipper, 1989; Dechow et al., 2010).

Audit committee expertise refers to the possession of specialized knowledge and skills by audit committee members, which enables them to effectively oversee financial reporting and auditing processes (Bedard et al., 2012). The expertise of audit committees plays a crucial role in moderating the relationship between board independence and earnings management. Recent studies have consistently shown that audit committees with financial expertise are better equipped to oversee financial reporting processes and detect earnings management (Lee et al., 2020; Lippolis & Grimaldi, 2021; Li et al., 2020; Onwuchkwa & Madumere, 2019). Meanwhile, the effectiveness of audit committees in Nigeria remains a topic of debate. Despite their potential benefits, some studies have suggested that audit committees in Nigeria may not be fully independent or effective in their oversight roles (Adeyemi & Fagbemi, 2015; Uwuigbe et al., 2020; Garvan, 2009). This may be attributed to the high level of ownership concentration in the Nigerian banking sector, which can lead to a lack of independence among board members (Claessens et al., 2000). Whiles others opine that Audit committees with financial expertise are better equipped to oversee financial reporting processes and detect earnings management (Klein, 2002; Li et al., 2020; Onwuchekwa & Madumere, 2019).

The Nigerian deposit money banks have been plagued by earnings management practices, which have significant implications for financial stability, investor confidence, and economic growth. The increasing prevalence of earnings management practices among listed deposit money banks in Nigeria, as evidenced by the Central Bank of Nigeria's (CBN) report revealing 75% of listed banks engaging in such practices between 2015 and 2020, raises concerns about the effectiveness of corporate governance mechanisms in mitigating these practices (CBN, 2020). Despite regulatory efforts to strengthen corporate governance, the effectiveness of board independence in mitigating earnings management practices in listed deposit money banks in Nigeria remains unclear (Uwuigbe et al., 2020). Although, research has shown that board independence is a crucial factor in mitigating earnings management practices; Uwuigbe et al. (2020), Klein (2002), Ahmed Mohammed et al. (2024), Kadir (2022), and Ogunsola (2024), suggest that board independence is negatively associated with earnings management. In contrast, other research, such as Musa et al. (2020), Adam et al. (2019), Oyedele et al. (2020), Akintoye et al. (2020), and Olanrewaju et al. (2022), indicates a positive link between board independence and earnings management. The inconsistencies in these findings may be attributed to methodological differences, variations in sample size and study period, and the unique characteristics of the Nigerian banking sector, including high ownership concentration and regulatory challenges.

However, a study by Adeyemi and Fagbemi (2019) found that the majority of Nigerian deposit money banks do not comply with the CBN's code of corporate governance, which highlights the need for improved governance structures in the sector. While existing studies provide evidence on the relationship between board independence and earnings management, a gap remains in understanding the specific mechanisms through which independent directors influence earnings management decisions (Mohammed et al., 2024; Kadir, 2022). Furthermore, the moderating role of audit committee expertise on the relationship between board independence and earnings management has not been adequately explored (Idris et al., 2024; Olowookere, 2024). This gap in the literature is particularly significant in the Nigerian context, where the banking sector is characterized by a high level of ownership concentration and regulatory challenges (Sanusi, 2010; Adeyemi & Fagbemi, 2019). By addressing this gap, this study aims to contribute to the existing literature and provide valuable insights for policymakers, regulators, and stakeholders in the Nigerian banking sector.

The main objective of this study is to investigate the effect of board independence on earnings management in Nigerian listed deposit money banks, with a special focus on the moderating role of audit committee expertise and sets out to answering the following research questions: Is there a significant effect of board independence on earnings management of listed deposit money banks in Nigeria? Does audit committee expertise moderate the effect of board independence on earnings management of listed deposit money banks in Nigeria?

In line with objective of the study, the following hypotheses in null form were formulated and tested in the study:

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

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

LITERATURE REVIEW

Conceptual Review

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

Board Independence

Board independence is a fundamental concept in corporate governance, referring to the inclusion of outside executives on the board of directors (Ajibade & Okunade, 2019). This inclusion serves as a crucial mechanism for evaluating the effectiveness of a board, as independent directors bring fresh perspectives, expertise, and objectivity to the decision-making process. The primary objective of corporate governance mechanisms, including board independence, is to provide corporate oversight, ensuring that upper management's actions align with the interests of shareholders (Sanusi & Amran, 2016). The presence of independent directors on the board is essential for effective corporate governance. Independent directors are not affiliated with the company's management or major shareholders, which enables them to provide objective oversight and monitoring of management's activities (Uwuigbe et al., 2020). This oversight helps to prevent managerial opportunism, reduce the likelihood of earnings management, and promote transparency and accountability.

The concept of board independence is rooted in agency theory, which posits that the interests of managers (agents) may diverge from those of shareholders (principals) (Jensen & Meckling, 1976). Independent directors serve as a bridge between management and shareholders, helping to mitigate agency conflicts and ensure that management's actions align with shareholder interests (Ogunsola, 2024). In addition to providing objective oversight, independent directors also bring valuable expertise and experience to the board. They can provide guidance on strategic decision-making, risk management, and financial reporting, helping to enhance the board's overall effectiveness (Musa et al., 2020).

Audit Committee Expertise

Audit committee expertise is a critical component of effective corporate governance, particularly in the context of financial reporting and auditing. It refers to the knowledge and experience of audit committee members in accounting and finance, which enables them to effectively oversee financial reporting and auditing processes (Uwuigbe et al., 2020). This expertise is essential for ensuring the accuracy, reliability, and transparency of financial reports, as well as for preventing financial misstatements and fraud. The concept of audit committee expertise encompasses various aspects, including accounting expertise, financial expertise, and industry expertise. Accounting expertise refers to the knowledge and experience of audit committee members in accounting principles, standards, and regulations (Ogunsola, 2024). This includes having a background in accounting, such as being a certified public accountant (CPA), and having experience in senior accounting roles or as a financial executive (Musa et al., 2020).

Financial expertise, on the other hand, refers to the knowledge and experience of audit committee members in finance, including financial analysis, planning, and risk management (Kadir, 2022). This expertise is essential for understanding complex financial transactions, evaluating financial performance, and identifying potential financial risks. Industry expertise is also an important aspect of audit committee expertise, as it enables audit committee members to understand complex industry-specific accounting issues (Mohammed et al., 2024). This expertise is particularly important in industries with unique accounting requirements, such as banking and finance.

Earnings Management

Earnings management involves the deliberate application of financial reporting techniques to achieve a desired outcome, such as meeting analyst expectations or hiding poor performance (Ahmed et al., 2022). This practice can lead to decreased credibility, legal issues, and reduced financial performance. Effective corporate governance mechanisms are essential to prevent earnings management and ensure transparent financial reporting. In Nigerian deposit money banks, earnings management techniques include accruals management, real earnings management, and classification shifting (Uwuigbe et al., 2020; Ogunsola, 2024; Musa et al., 2020). Earnings management enables banks to present their financial performance in a way consistent with their strategy and goals. However, it requires accurate, reliable, and transparent financial reports to maintain stakeholder trust (Ogunsola, 2024; Musa et al., 2020). The use of earnings management can lead to negative consequences, including misleading financial statements, loss of investor confidence, and damage to corporate reputation (Kadir, 2022). Therefore, effective corporate governance mechanisms, such as strong and independent audit committees, robust internal control systems, and a culture of transparency and accountability, are essential to ensure transparent and accurate financial reporting.

Review of Empirical Studies

Board Independence and Earnings Management

Likewise, Afzalur (2017) investigated the influence of board independence on the performance of listed firms in Bangladesh. The study adopted simultaneous equation approach and sampled 135 listed firms on the Dhaka Stock Exchange. The variables used included board independence and board size as independent variables while firm performance was dependent variable, proxied by earnings before interest and tax (EBIT). Data relating to board independence and board size were collected from companies' directors' reports while that of EBIT was obtained from companies' financial reports and was analyzed using accounting market performance measures. The result revealed a negative correlation between board independence and firm performance; board size had significant influence on both board independence and firm performance. The study recommended that future studies should focus on board independence and agency cost.

In the same vein, Lippolis and Grimaldi (2021) examined Board independence and earnings management in Italy with the aim to analyze the relationship between the characteristics of the Board of Directors (BoD) and the effectiveness of the monitoring of earnings manipulation activities in family – controlled companies in Italy. This study applies a univariate and multivariate methods on a sample of Italian listed company over the period 2014-2016. Earnings management was explained by abnormal working capital accrual (AWCA) while board size, level of board independence, and the CEO non-duality explained the corporate governance mechanisms. The research revealed that independent directors are not, as in other contexts, a factor that contributes to earnings quality, in the same way that the separation of the offices of Chairman of the Board of Directors and Chief executive Officer (CEO) does not appear to be relevant to this end. The conclusions led to a reconsideration of the validity of certain characters of the boards that defines independence.

Idris et al. (2017) investigated board independence, earnings management and the moderating effect of family ownership in Jordan. Secondary data were collected from annual report in Amman Stock Exchange (ASE) website of industrial firms while primary nonfinancial data were collected through structural questionnaire and analyzed using regression model. Earnings management was measured with discretionary accrual. ROA was used to measure the performance indicator of the firm and firm size served as control variable, measured by the natural logarithm of total asset. The study revealed a negative relationship between board independence and earnings management, suggesting that higher board independence is related to more effective monitoring to reduce earnings management. The study also found that the relationship between board independence and earnings management becomes weaker when there is an interaction with family ownership control.

Audit Committee Expertise and Earnings Management

Abdul-Manaf et al. (2018) examined the influence of audit committee expertise on real earnings management in firms listed in Bursa Malaysia. Using a quantitative research design, they analyzed secondary data from 200 firms over 4 years (2014-2017). The study found a negative relationship between audit committee expertise and real earnings management, indicating that firms with more expert audit committees engage less in real earnings management. The study suggests that audit committee expertise is crucial in reducing real earnings management practices. The authors recommend future studies investigate other factors influencing real earnings management, such as audit committee chair expertise.

Likewise, Farouk and Isa (2023) investigated the moderating effect of audit committees on board diversity and earnings management in Nigerian banks. They examined the impact of board diversity and audit committees on earnings management and the effects of moderating factors. Using secondary data from 15 listed deposit money banks in Nigeria (2008-2015), they applied multiple regression analysis. The findings showed that board diversity and audit committee variables significantly affected earnings management. The study recommends increasing women directors, shares held by directors, and foreign directors, while improving non-executive directors on audit committees to mitigate earnings management manipulation.

Mardessi and Fourati (2020) examined the relationship between audit committee expertise and real earnings management in Dutch listed companies. Using a quantitative research design and secondary data from the Orbis database (2010-2017), they analyzed 120 firm-year observations. The study found that audit committee financial expertise reduces real earnings management by limiting discretionary expenditures, sales, and production costs manipulation. This suggests that companies with financially expert audit committees are less likely to engage in real earnings management. The study recommends exploring other factors influencing real earnings management, such as audit committee chair expertise. However, the study's generalizability is limited to Dutch listed companies, and its sample size may be considered relatively small.

Gap in Literature

The literature review on the relationship between board independence, audit committee expertise, and earnings management has yielded mixed results. While some studies suggest that board independence is negatively correlated with earnings management, others have found no significant link between the two. Despite these findings, several gaps in the literature remain. For instance, most studies have focused on specific countries or regions, neglecting the broader global context. Additionally, there is a lack of industry-specific research, which limits the applicability of the findings.

Furthermore, the literature has methodological limitations, and certain variables, such as moderating factors, alternative measures of earnings management, and audit committee chair expertise, have received insufficient attention. The relationship between board diversity and earnings management is also poorly understood, and comparative and longitudinal studies are scarce. The literature's reliance on agency theory further highlights the need for integration with other theoretical frameworks. Addressing these gaps is essential to gaining a deeper understanding of the complex relationships between board independence, audit committee expertise, and earnings management.

Theoretical Review

This section discussed the theories that underpin the study, which include; the stakeholder theory and agency theory.

Stakeholder Theory, introduced by Freeman (1984), emphasizes considering the interests of various stakeholders, including shareholders, employees, customers, and the wider community. This perspective recognizes that companies must balance competing interests, rather than prioritizing shareholders alone (Freeman, 1984; Phillips, 2003). In the context of earnings management, Stakeholder Theory suggests that companies must provide accurate and transparent financial information to all stakeholders (Reed, 1999; Phillips, 2003). Independent directors play a key role in ensuring transparency and accountability, providing oversight and guidance on financial reporting practices (Klein, 2002; Dahya & McConnell, 2005). By prioritizing transparency, independent directors can ensure companies provide accurate financial information, essential for stakeholders to make informed decisions.

Agency Theory, introduced by Jensen and Meckling (1976), explains potential conflicts of interest between shareholders (principals) and managers (agents). This theory posits that when ownership and control are separated, managers may prioritize their own interests over those of shareholders, leading to agency conflicts (Eisenhardt, 1989; Fama, 1980). Independent directors can play a crucial role in ensuring that management acts in the best interests of shareholders by providing effective oversight and monitoring (Klein, 2002; Dahya & McConnell, 2005).

The study is anchored on agency theory due to its focus on the principal-agent relationship and the role of independent directors in mitigating agency conflicts. The link between Agency Theory, independent directors, and earnings management is critical. Agency Theory provides a useful framework for understanding the potential conflicts of interest between shareholders and managers, and how independent directors can help mitigate these conflicts. By providing effective oversight and monitoring, independent directors can help ensure that management acts in the best interests of shareholders, reducing the likelihood of earnings management. In the context of listed deposit money banks in Nigeria, Agency Theory is particularly relevant. The banking industry is heavily regulated, and banks are required to maintain high levels of transparency and accountability. However, the separation of ownership and control in listed banks can create opportunities for earnings management, which can undermine the integrity of financial reporting. Therefore, the role of independent directors in listed deposit money banks in Nigeria is critical, and Agency Theory provides a useful framework for understanding this relationship.

RESEARCH METHOD

A quantitative research approach was employed, utilizing a cross-sectional research design to investigate the relationships among the variables. The study's sample consists of ten (10) listed deposit money banks in Nigeria, with data collected from annual reports and accounts of the sampled banks and the Nigerian Exchange Group (NGX) for the period of ten years (2014-2023). Secondary data analysis was conducted using Moderated Multiple Regression (MMR) with the aid of STATA version 12.

To ensure the reliability and validity of the results, a comprehensive diagnostic analysis was conducted, comprising descriptive statistics to summarize the data, correlation tests to examine the relationships between

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variables, heteroscedasticity tests to assess the presence of non-constant variance, Hausman tests to evaluate the suitability of the model, Variance Inflation Factor (VIF) analysis to detect potential multicollinearity issues, and normality tests to verify the distribution of the data.

Table 1 Variable, Measurement and Sources

S/No	Variable Name	Type	Measurement	Proxy	Source
1	Earnings Management	Dependent	Accruals Ratio= (Profit before Tax – Operating Cash flow) / Total Asset	AR	Ahmed et al. 2022; Owusu et al. (2020)
2	Board Independence	Independent	Number of non-executive directors/board size x 100%	BI	Wang, Chen & Zhang, 2020
3	Firm Age	Control	Number of years since incorporation	FA	Ahmed et al. 2022
4	Audit Committee Expertise	Moderator	Percentage of audit committee members with expertise in accounting, auditing, taxation, finance and relevant certifications.	ACE	Ahmed et al., 2022; Owusu et al., 2020; & Mardini et al. 2020.

Source: Researchers' Tabulation

The Moderated Multiple Regression (MMR) model is employed to examine the relationship between Earnings Management (EM), (measured by accrual ratio, AR) and its predictors, including Board Independence (BI), Firm Age (FA), and Audit Committee Expertise (ACE). The model allows for the investigation of the moderating effect of ACE on the relationship between BI and EM. This model is considered appropriate here because it enables us to test the direct effects of BI and ACE on EM, as well as the interactive effect of BI and ACE on EM.

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

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

From the above equation, the Moderated Multiple Regression (MMR) model is specified as follows:

$AR_{it} = \beta_0 + \beta_1 BI_{it} + \beta_2 FA_{it} + \beta_3 ACE_{it} + \beta_4 (BI{*}ACE)_{it} + \varepsilon_{it}$…………………………………….2

Where:

ARit = Accrual Ratio (Earnings Management) at time t

BIit = Board Independence (at time t)

FAit = Firm Age (at time t)

ACEit = Audit Committee Expertise (at time t)

BI*ACE = Interaction term between Board Independence and Audit Committee Expertise

β_0 = Constant term

β_1-β_4 = Regression coefficients

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εit = Error term (at time t)

The Moderated Multiple Regression (MMR) model is represented by the equation: $AR_{it} = \beta_0 + \beta_1 BI_{it} + \beta_2 FA_{it} + \beta_3 ACE_{it} + \beta_4 (BI*ACE)_{it} + \varepsilon_{it}$. This equation examines how the Accrual Ratio (AR), a measure of Earnings Management, is influenced by Board Independence (BI), Firm Age (FA), and Audit Committee Expertise (ACE). The model also includes an interaction term (BI*ACE) to capture the moderating effect of ACE on the relationship between BI and AR. The regression coefficients (β0-β4) represent the change in AR for a one-unit change in each predictor variable, while the error term (ε) represents the random variation in AR not explained by the predictor variables. Previous studies, such as those by Ahmed et al. (2020), Owusu et al. (2020), and Mardini et al. (2020), have successfully employed the MMR model to examine similar relationships, demonstrating its effectiveness in capturing the interactions between variables.

RESULTS AND DISCUSSION

This research begins with the presentation of the descriptive statistics of the key variables as presented in table 2. The descriptive statistics provide insight into the distribution and characteristics of the key variables used in this study.

Table 2 Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
AR	100	2.36	7.97	-16.12	30.23
BI	100	61.33	7.34	44.44	83.33
FA	100	54.28	33.22	24.00	129.00
ACE	100	28.20	6.24	18.80	42.90

Source: STATA Output

Note: AR = Accrual Ratio (Earnings Management), BI = Board Independence, FA = Firm Age and ACE = Audit Committee Expertise

Table 2 shows that the accrual ratio (AR), a measure of earnings management, has a mean of 2.36 and standard deviation of 7.97. The range of -16.12 to 30.23 indicates significant variability in earnings

Table 2 shows that Board independence (BI) averages 61.33% (SD = 7.34%), ranging from 44.44% to 83.33%. This indicates that all sampled banks have a significant proportion of independent directors.

Table 2 shows that Firm age (FA) averages 54.28 years (SD = 33.22), ranging from 24 to 129 years. This indicates a significant variation in firm age, potentially influencing organizational experience, governance, and financial reporting.

Table 2 shows that Audit committee expertise (ACE) averages 28.20% (SD = 6.24%), ranging from 18.80% to 42.90%. This indicates varying levels of financial expertise among audit committees, potentially impacting financial oversight and earnings management.

Multicollinearity Test

Variance Inflation Factor (VIF) was applied to assess multicollinearity as shown in Table 3.

Table 3 Multicollinearity Test (Variance Inflation Factor (VIF)

Variable	VIF
Board Independence	1.06

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Firm Age	1.22
Audit Committee Expertise	1.21
Mean VIF	1.16

Source: STATA Output

The Variance Inflation Factor (VIF) results in Table 3 indicate that all predictor variables—Board Independence (VIF = 1.06), Firm Age (VIF = 1.22), and Audit Committee Expertise (VIF = 1.21)—have VIF values well below the commonly accepted threshold of 10, suggesting the absence of multicollinearity concerns. The mean VIF of 1.16 further confirms that the independent variables do not exhibit problematic correlations, ensuring the reliability of the regression estimates in the study.

Heteroscedasticity test

Heteroscedasticity occurs when the variance of the error terms in a regression model is not constant, which can lead to inefficient and biased estimates. The Breusch-Pagan/Cook-Weisberg test is commonly used to detect heteroscedasticity by examining whether the residuals exhibit a systematic pattern.

Table 4 Heteroscedasticity test

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity	
Ho: Constant variance	
Variables: fitted values of AR	
chi2(1) =	1.51
Prob > chi2 =	0. 2192

Source: STATA Output

The results in Table 4 show a chi-square (χ^2) value of 1.51 and a p-value of 0.2192, which is greater than the conventional significance level of 0.05. This indicates that the null hypothesis of constant variance (homoscedasticity) cannot be rejected, suggesting that heteroscedasticity is not a concern in the model. Consequently, the regression estimates are efficient, and there is no need for corrective measures such as robust standard errors.

Hausman Test

This study used the Hausman test to determine whether a fixed effects or random effects model is more appropriate for panel data analysis.

Table 5 Hausman Test

Test: Ho:	difference in coefficients not systematic
	chi2(3) = (b-B)'[(V_b-V_B)^(-1)](b-B)
	9.59
	Prob>chi2 = 0.0224

Source: STATA Output

The results in Table 5 shows a chi-square (χ^2) value of 9.59 and a p-value of 0.0224, which is below the 0.05 significance level. This indicates that the null hypothesis, which assumes no systematic difference between the fixed and random effects estimators, is rejected. Therefore, the fixed effects model is preferred over the random effects model.

Panel Regression Analysis

The panel regression analysis, as presented in Table 6, reports an R-squared (R^2) value of 0.1061, indicating that approximately 10.61% of the variation in earnings management (proxied by accrual ratio, AR) is explained by board independence (BI), firm age (FA), and the interaction term of board independence and audit committee expertise (BI*ACE). This suggests a modest explanatory power of the model.

Table 6 Regression Results

Variables	Coef.	Std. Err.	t-value	P>z
Constant	69.470	26.946	2.58	0.012
BI	0.456	0.228	2.00	0.048
FA	-1.349	0.443	-3.04	0.003
BI*ACE	-0.013	0.005	-2.31	0.023
R^2	0.1061			
F(3,87)	3.44			
Prob > F	0.0202			
Number of obs	100			

Source: STATA Output

Regarding the hypotheses, the coefficient of board independence (BI) is positive (0.456) and statistically significant at the 5% level (p = 0.048), implying that a 1% increase in board independence results in a 0.456% increase in earnings management. This finding suggests that higher board independence is associated with higher earnings management when Firm age (FA) is controlled for in this study, leading to the rejection of the null hypothesis (Ho1), which stated that board independence has no significant effect on earnings management.

For the moderating effect of audit committee expertise (BI*ACE), the coefficient is negative (-0.013) and statistically significant at the 5% level (p = 0.023), when Firm age (FA) is controlled for in this study. This indicates that as audit committee expertise increases, the positive effect of board independence on earnings management is weakened. A 1% increase in the interaction term leads to a 0.013% reduction in earnings management. Consequently, the null hypothesis (Ho2), which stated that audit committee expertise does not significantly moderate the relationship between board independence and earnings management, is rejected.

The F-statistic of 3.44, with a corresponding Prob > F of 0.0202, suggests that the overall model is statistically significant at the 5% level, meaning that the independent variables collectively influence earnings management. As indicated in Table 6, the results provide strong evidence that board independence influences earnings management, but this effect is mitigated by audit committee expertise.

DISCUSSION OF FINDINGS

The result of the fixed effect model revealed that board independence has a positive and statistically significant effect on earnings management of listed deposit money banks in Nigeria. This result suggests that increased independence may not necessarily constrain opportunistic financial reporting. One possible explanation is that independent directors, though theoretically expected to enhance governance, may lack the necessary firm-specific expertise to detect earnings manipulation. Additionally, in environments with weak regulatory enforcement, independent board members might be ineffective in curbing managerial discretion over financial reporting. Furthermore, some independent directors may prioritize personal or external interests over strict oversight, leading to weaker monitoring. This result contradicts several empirical studies. Oyenuga (2016), Onwuchekwa and Madumere (2019), and Idris et al. (2017) found a negative relationship, suggesting that greater board independence reduces earnings manipulation through effective monitoring. Similarly, Lippolis and Grimaldi (2021) questioned the effectiveness of independent directors in controlling earnings management. However, Afzalur (2017) found a negative correlation between board independence and firm performance, indirectly suggesting that independent boards might not always enhance governance effectiveness, aligning partially with this study's result.

The result of the fixed effect model also found that audit committee expertise has a negative significant moderating effect on the relationship between board independence and earnings management of listed deposit money banks in Nigeria. This result suggests that as audit committee expertise increases, the tendency for board independence to facilitate earnings management weakens. This finding implies that a knowledgeable audit committee enhances financial oversight, effectively counteracting any potential weaknesses in board independence. Experts on the audit committee are better equipped to scrutinize financial reports, detect irregularities, and enforce stricter compliance with accounting standards. In Nigeria's banking sector, where corporate governance lapses are common, audit committee expertise serves as a critical safeguard against opportunistic financial reporting. This aligns with agency theory, which emphasizes the role of effective monitoring in reducing managerial discretion over earnings. The findings of Fuad (2016) and Cheung and Chung (2022) contradict the current study, as they found that audit committee expertise increases earnings management. Similarly, Mangena et al. (2016) observed a positive impact on accruals quality, indirectly supporting the argument that expertise may not always curb earnings manipulation. However, Abdul-Manaf et al. (2018), Mardessi and Fourati (2020), and Fali et al. (2019) align with the present study, reporting a negative relationship between audit committee expertise and earnings management.

CONCLUSION

This study concludes that board independence significantly increases earnings management in listed deposit money banks in Nigeria, suggesting that independent directors may lack the necessary oversight to curb earnings manipulation. This highlights the need for stronger governance mechanisms to ensure effective monitoring by independent directors. However, the negative moderating effect of audit committee expertise on this relationship demonstrates that financial, legal, and industry expertise within the audit committee can mitigate excessive earnings management. This underscores the importance of appointing highly skilled professionals to audit committees to enhance financial reporting quality. The findings reinforce the critical role of corporate governance structures in reducing opportunistic financial practices, emphasizing the need for regulatory bodies to strengthen policies that promote both board independence and audit committee expertise.

The study found that board independence has a positive and statistically significant effect on earnings management of listed deposit money banks in Nigeria. To mitigate the positive effect of board independence on earnings management, Nigerian banks should prioritize strengthening board independence through quarterly regulatory oversight and mandatory continuous ethics and governance training for independent directors. This will enhance the effectiveness of independent directors in monitoring financial reporting practices and reducing earnings management.

The study found that audit committee expertise has a negative significant moderating effect on the relationship between board independence and earnings management of listed deposit money banks in Nigeria. Hence, Nigerian banks should prioritize appointing audit committee members with strong financial and industry expertise to counteract earnings manipulation. This can be achieved by ensuring that audit committee members possess professional certifications such as ICAN or ACCA, which will enhance their financial oversight and reporting quality.

The Central Bank of Nigeria (CBN) should enforce periodic training programs to enhance directors' monitoring effectiveness and reduce financial misreporting. This will ensure that directors are equipped with the necessary skills and knowledge to effectively oversee financial reporting practices and prevent earnings management.

Regulatory bodies like the Financial Reporting Council of Nigeria (FRCN) should set minimum qualification standards for audit committee members. This will ensure that audit committee members possess the necessary expertise and qualifications to effectively oversee financial reporting practices and prevent earnings management.

Future studies can investigate the impact of board diversity on earnings management in Nigerian listed deposit money banks. This will provide insights into the role of board diversity in mitigating earnings management practices and promoting financial reporting quality.

Researchers can explore the role of external auditors in mitigating earnings management practices in Nigerian banks. This will provide insights into the effectiveness of external auditors in detecting and preventing earnings management.

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