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Audit Committee Attributes and Financial Reporting Quality of Listed Deposit Money Banks in Nigeria

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Abstract
The quality of financial statement would not be achieved if the earnings are consistently manipulated and the audit committee default in their oversight function. The main objective of this study was to ascertain the effect of audit committee attributes on financial reporting quality of deposit money banks listed on the floor of the Nigeria Exchange Group for the period 2014 to 2023. The independent variable, audit committee attributes, was proxied by audit committee financial expertise, audit committee gender; while the dependent variable was proxied by earnings management. Ex post facto research design was adopted and secondary data were employed. The population of the study consisted of 13 listed deposit money banks and purposive sampling technique was employed to select 11 deposit money banks. The study employed robust regression technique was employed in analysing the data and the statistical package employed was STATA 14.2. From the analysis, it was found out that audit committee independence has a significant negative effect on Eckel's income smoothing index of listed deposit money banks in Nigeria; audit committee financial expertise has a significant positive effect on the Eckel's income smoothing index of the sampled deposit money bank; audit committee gender diversity has no significant effect on Eckel's income smoothing index of listed deposit money banks in Nigeria; Thus, it was concluded that audit committee attributes have significant effect on financial reporting quality of listed deposit money banks in Nigeria. Based, on the findings of this study, it was therefore recommended among others that regulatory bodies should ensure that independent audit committee members with significant industrial experience and sound financial background form the majority of members of the audit committees as this could help tremendously in detecting earnings management and thus enhance financial reporting quality.

Keywords: *Financial services, Accountability, Earnings Management.*

INTRODUCTION

1.1 Background to the study

Financial reporting quality of firms plays a critical role in ensuring transparency, accountability, and investor's confidence in the financial markets. In Nigeria, like many other countries, listed deposit money banks play a crucial role in the economy by mobilizing funds, providing financial services, and supporting economic growth. The integrity and reliability of financial reporting by these banks are essential for maintaining investor's confidence, enhancing transparency, and ensuring regulatory compliance (Ayinla et al., 2022). The audit committee of a bank is a key component of corporate governance that oversees financial reporting processes, internal controls, and risk management practices. In the banking sector, the reliability of financial reports is more crucial due to the sensitive nature of their operations and the high level of public trust required to sustain them. Corporate governance mechanisms, including the audit committee, are vital in promoting high-quality financial reporting.

The main body charged with the responsibility of overseeing companies' financial statements and disclosures as well as audit processes is the audit committee. The audit committee (AC) is a key board committee that liaises with the internal and external auditors and thus provide forum for both to express their issues and concern (Bajra & Čadež, 2020). According to Cadbury report audit committee should consist entirely of independent non-executive directors and should not be less than 3 members. They are also required to meet regularly and should include at least one member with significant and recent financial experience (Bako, 2024). Effective audit committee can boost the investors' confidence in the capital market as well as safeguard shareholders' wealth. If they operate effectively, audit committee can bring tremendous and significant benefits to the organization.

Most of the global financial regulations mandate that at least one member of the audit committee should be a financial expert. Gender diversity refers to the presence of women on the committee and has been shown to bring a variety of perspectives, experiences, and problem-solving approaches to the audit committee (Musa, 2020). Regular meetings provide the audit committee with opportunities to review the financial statements in a timely manner, interact with internal and external auditors to discuss the findings and address any concerns, evaluate and improve internal control systems, ensure compliance with regulatory requirements and address issues related to fraud or financial misstatements promptly.

Women on audit committees have been found to take a more conservative approach to financial reporting and risk management. This conservative approach reduces the likelihood of financial misstatements, fraudulent reporting, and aggressive accounting practices, resulting in higher-quality financial statements. More frequent meetings allow the audit committee to have a more active and hands-on approach in monitoring the financial reporting process. This enables the committee to detect and prevent errors or fraudulent activities, which can improve the accuracy and transparency of financial reports. The audit committee serves as a key overseer in the financial reporting process, tasked with ensuring that reports are prepared in accordance with accounting standards and regulations while maintaining integrity and fairness. Companies set up this particular committee to enrich the standard of financial practices and earnings (Ramsay, 2021).

1.2 STATEMENT OF THE PROBLEM

The quality of financial statement would not be achieved if the earnings are consistently manipulated and the audit committee default in their oversight function. The recurring issues of poor financial disclosures and misstatements suggest that audit committees in Nigerian banks may not be fulfilling their roles as intended. The quality of financial reports has been questioned since the beginning of the past decade due to the collapse of firms soon after publication of juicy profits. This has necessitated the tightening of regulations, standards and modification of corporate governance mechanisms. Audit committee is one of those mechanisms introduced by regulators to ensure reliable and high quality financial reporting. Where the audit committee is not independent and are unduly under the influence of management; do not have the basic financial expertise to help detect earnings manipulation; are not well diverse to include women who are more conserved and principled; and do not regularly hold meetings to facilitate early detection of earnings manipulations, the investors will continuously be misled because of poor financial reporting quality.

The empirical studies reviewed revealed some gaps that are yet to be filled. For the sector gap, it was realized that most of the studies focused on other sectors such as consumer goods companies, industrial goods companies, nonfinancial firms, oil and gas and pharmaceutical firms; with deposit money banks given limited attention (Muhammed et al. 2024; Bako, 2024; Umoru et al., 2024). Furthermore, in terms of differences in methodology, it was found out that some studies use varying research designs and analytical techniques in analysing the data, (Matoke & Omwenga, 2024; Kantudu & Alhassan 2022). In terms of variable gap, it was realized that other measures of audit committee attributes were used such as audit committee size, audit committee busyness, and so on (Orife et al. 2022; Sitienei, 2022).

In contrast, most of the previous studies focused on the effect of firms' attributes on other performance measures such as; earnings quality, financial performance, capital structure, earnings management and market value (Okolie, 2024; Ozer & Merter, 2023. Unfortunately, there is no consensus on the effect of audit committee attributes on lease financial reporting quality because of varying findings. It was thus against this back drop that this study was undertaken to ascertain the effect of audit committee attributes on financial reporting quality of deposit money banks listed on the floor of the Nigerian Exchange Group from 2014 to 2023).

1.3 OBJECTIVE OF THE STUDY

The main objective of this study was to ascertain the effect of audit committee attributes on financial reporting quality of listed deposit money banks in Nigeria. The specific objectives of this study were to:

1. Ascertain the effect of audit committee financial expertise on earnings management of listed deposit money banks in Nigeria.
2. Evaluate the effect of audit committee gender diversity on earnings management of listed deposit money banks in Nigeria.

1.4 RESEARCH QUESTIONS

The following research questions were raised as a guide for this study:

1. How does audit committee financial expertise affect earnings management of listed deposit money banks in Nigeria?
2. What effect does audit committee gender diversity have on earnings management of listed deposit money banks in Nigeria?

1.5 RESEARCH HYPOTHESES

The following hypotheses were formulated to guided the study;

Ho2: Audit committee financial expertise does not have significant effect on earnings management of listed deposit money banks in Nigeria.

Ho3: Audit committee gender diversity does not have significant effect on earnings management of listed deposit money banks in Nigeria.

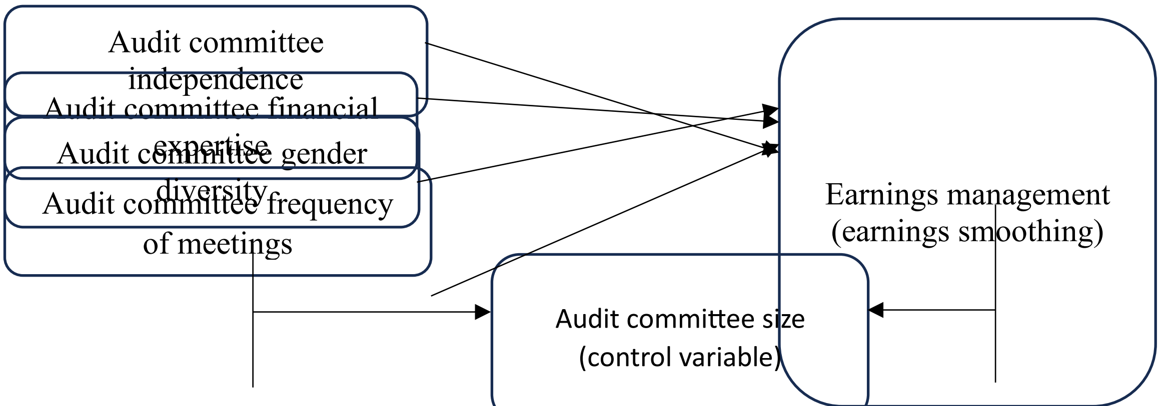
REVIEW OF RELATED LITERATURE

In this chapter, a review of related literature on the effect of audit committee attributes on financial reporting quality was carried out covering conceptual framework, theoretical review, review of empirical studies as well as summary of gaps identified in the literature reviewed.

2.1 Conceptual framework

The various concept used in this study were explained in this section. It is estimated that financial reporting quality (earnings management) is a function of audit committee attributes (audit committee independence, audit committee financial expertise, audit committee gender diversity and audit committee frequency of meetings). This is depicted in figure 2.1 as follows:

Independent variable (Audit committee independence) | Dependent variable (Financial reporting quality)



Source: Author's conceptualization (2024)

Fig. 2.1: Model of variables' interrelationship

2.1.1 Audit committee attributes

The audit committee plays a crucial role in corporate governance by overseeing the financial reporting process, internal controls, and the audit function. Audit committee is a subgroup of a company's board of directors responsible for overseeing and ensuring the accuracy, completeness and transparency of financial reporting and internal controls. The popularity of this concept in literature can be traced to the American Institute of Certified Public Accountants (AICPA), who in 1967 recommended the establishment of audit committee boards in order to assist with reporting process. More so, bodies such as the Tread Way Commission, Blue Ribbon committees, US Security and Exchange Commission, cannot be left out in the discourse on the development of audit committees (Blue Ribbon Committee, 1999). Audit committee can be described as a corporate governance mechanism (Ayinla et al., 2022), an arm of the board of directors (Shankaraiah, & Amiri, (2020), saddled with responsibility of ensuring quality reporting by performing oversight functions of the activities of management and external auditors (Enofe et al. 2013) as well as help mitigate the agency problem between management and owners. Nnadi (2019) describes it as (audit committee) a company committee that should foster the independence of the external auditor. Thus, the presence of the audit committee should engender quality and independent reporting. The Sarbanes Oxley Act of 2002 defines it as a committee established by the board of directors to oversee the processes involved in accounting and auditing of company financials. According to Chen and Zhou (2020), the audit committee can be used as an effective tool to ensure quality-reporting process.

The audit committee functions as the organizational boards of directors' functional arm, reducing disputes related to interests and, therefore, agency costs by acting as an oversight instrument that creates a connection amongst business and the auditor mandated by law (Chen & Zhou, 2020). This committee's primary responsibilities include supervising accounting records and administration to prevent earnings deception and additional accounting misconduct (Arens et al., 2019). Additionally, an understanding of organizational control systems, bookkeeping and accounting, auditing, and control procedures is a prerequisite of an AC, and it is anticipated that members with this expertise will result in greater FRQ (Mustafa & Youssef, 2020). Evidence also shows expertise, independence, gender diversity, shareholder involvement', size, tenure, multiple directorships, and diligence are audit committee attributes. This study focuses on independence, financial expertise, gender diversity and frequency of meeting as measures of audit attributes.

According to Itoro and Emmanuel (2022) and Blue-Ribbon Committee (2019), audit committees are directly responsible for the hiring, performance evaluation and compensation of external auditors for their services. The committee also oversees financial reporting and disclosure by monitoring the choice of accounting policies and principles as well as the internal control processes. The financial reporting oversight function of audit committee includes review of financial statement, review of accounting changes, communication with stakeholders, standard and statutory reporting practices (Madugba et al., 2021). Audit committee is focused on the protection of the rights of shareholders, particularly in implementing corporate governance principles. This suggest that in the event of any financial manipulation possibilities, the AC can take action, to ensure that all grey areas are corrected and transparent financial reports are produced for users' consumption. The wide advocate for the formation of audit committees around the world suggests the importance of an audit committee as a governance mechanism.

The CBN code of 2011 provided that the audit committee will be responsible for the review of the integrity of the bank financial reporting system and oversee the independence and objectivity of the external audit. Specifically, effective audit committee are expected to enhance financial reporting quality by fulfilling its numerous responsibilities including commenting on and approving accounting policies, reviewing the financial statements and maintaining and reviewing the adequacy of internal controls. Audit committees are also expected to play an important role in enhancing the effectiveness of external auditors over financial reporting quality by assuming responsibilities for the appointment and remuneration of external auditors and discussing the scope of and reviewing the auditors work (Abbot & Parker, 2020).

2.1.1.2 Audit committee financial expertise

For an audit committee member to effectively perform his or her oversight responsibilities regarding financial reporting and auditing matters, he or she must possess significant financial knowledge and experience. 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. Karajeh and Ibrahim (2017) affirmed that financial reporting requirements, regulatory frameworks, and best practices in financial disclosure and transparency will be better understood when familiarity with auditing standards, auditing processes, and the role of internal and external auditors is acquired. Bilal, et al. (2018) affirmed that effective corporate governance requires ACFE to reinforce the oversight of financial reporting integrity and to promote stakeholder confidence in the accuracy of financial information. The experience and expertise of the audit committee members is an essential aspect of the effectiveness of the audit committee in overseeing the financial reporting process.

Theoretically, the experience of AC in general and financial accounting expertise play a vital role in mitigating agency costs. AC accounting experts provide such committees with an effective means of monitoring management's FR practices and reducing agency costs (Salehi & Shirazi, 2016). However, Dobija, (2019) suggested that the presence of a financial expert on the audit committee does not mean more effective monitoring. Instead, monitoring the audit committee's financial expertise's effectiveness depends on top management's authority. Thorough financial expertise allows audit committee members to categorize and debate questions that challenge managers and external auditors to a more extensive scope of financial reporting quality (Bédard & Gendron, 2020).

The significance of financial literacy and expertise among AC members of an audit committee is clearly demonstrated by various recommendations and regulations. The Blue-Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees in 1999 suggests that each audit committee should have at least one financial expert. The Sarbanes-Oxley Act of 2002 established new rules requiring at least one financially knowledgeable director to be present on the audit committee. Furthermore, according to the New York Stock Exchange (NYSE)-registered company manual, all members of the audit committee should possess financial competence. Having audit committee members with financial and accounting knowledge enhances their understanding of auditing issues, risks, and appropriate audit measures to address and identify these issues and risks (Bako, 2024).

2.1.1.3 Audit committee gender diversity

Gender diversity refers to the presence of women on the committee and has been shown to bring a variety of perspectives, experiences, and problem-solving approaches to the audit committee. This diversity can potentially enhance the effectiveness of the committee and lead to higher-quality financial reporting. Gender diversity on the audit committee contributes to better decision-making, improved oversight, and greater accountability (Ayinla et al., 2022). The rationale behind promoting gender diversity is that women may approach problems differently, which can lead to more thorough discussions and a broader evaluation of issues. Additionally, gender diversity aligns with the broader corporate governance goals of inclusiveness, fairness, and responsiveness to different stakeholder groups. The presence of women on audit committees is often associated with enhanced deliberation and critical thinking; diverse perspectives can lead to more comprehensive discussions about financial reporting issues and risks. Studies (Bicer & Feneir, 2024; Jabak, 2022).) suggest that women tend to be more risk-averse and conservative in their approach, which can reduce aggressive financial reporting practices. Gender-diverse committees may be more likely to challenge management, ensuring more effective oversight of the financial reporting process.

Audit committee gender diversity is considered as a vital variable when talking about the issue of corporate board composition. Wagana and Nzulwa (2016) opined that audit committee gender diversity is a characteristic of audit committee composition or diversity is consequently a pointer of corporate governance. Olufemi (2021) described audit committee gender diversity as a “variety amongst the audit committee members about characteristics such as kinds of expertise, personality, age, managerial background, learning style, gender, values, and education. Bamanga and Alhassan (2020) defined gender diversity “as variety of skills and characteristics in a male and a female that could bring benefits to an organization.” Bamanga and Alhassan (2020) buttressed that “the concept of gender diversity is mostly considered as a work team where it is characterized by a female minority or a male majority. Gender diversity in the boardroom enables the board to function effectively in the organization which could eventually influence the performance of the organization.”

The inclusion of women on the committee results in a more diverse group of female members. Diversity in the gender composition of the audit committee reflects the heterogeneity of the workforce's personal qualities (Orife et al., 2022). There are a variety of personal characteristics and physical distinctions in board members that make the audit committee more diverse, which is why it is able to offer a greater choice of answers to problems. Specifically, it's a measure of how many women make up the board of directors for various corporations. That women play a vital role in ensuring legal compliance and the integrity of financial reporting is worth noting (Sidiq & Krismiaji, 2019). Women on audit committees, according to Orife et al. (2022) help organizations run more smoothly. However, most empirical studies on the relationship between women on audit committees are equivocal (Musa, 2020; Madugba et al., 2021).

2.2 Theoretical framework

2.2.1 Policeman theory by Limperg (1920)

The policeman theory was propounded by Professor Limperg in (1920). The theory claims that audit and assurance process was responsible for searching, discovery and preventing fraud. This was the case in the early 20th century. However, more recently the main focus of this process has been to provide reasonable assurance and verify the truth and fairness of the financial statements. The detection of fraud was however, still a hot topic in the debates on the audit’s responsibilities, and typically after events where financial statements fraud has been revealed, the pressure increases on increasing the responsibilities of auditors in detecting fraud and manipulation of financial information. This was the most widely held theory of auditing until the 1940s (Kamolsakulchai, 2015). Up until the 1940s, it focused on arithmetical accuracy and on prevention and detection of fraud. However, from the 1940s until the turn of the century, there was a shift of auditing to mean verification of truth and fairness of the financial statement.

According to this theory, the audit committees should put in place mechanism to detect fraud before it happens just like a policeman tries to prevent crime from happening. In terms of quality of financial reporting, audit committee is viewed to perform the chitty synonymous to that performed by the policeman such as to check and detect any instances of fraud in the organizations. Therefore, audit committee that were independent, diversified, and financially competent and has quality meetings is perceived to exercise their mandate more effectively. For instance, Otemu and Otemu, (2021) stated that the most common way for users to obtain reliable information (reducing the information risk) was to have on independent audit committee could protect stake holder's interests by ensuring reliable financial reporting, effective internal control, and high-quality risk management. Turley and Zaman (2014) also pointed out that understanding the impact of audit committees as policeman could assist in formulating appropriate expectations about the audit committee function, based on which the effectiveness of audit committee could then be assured. Moses (2019) also adopted policeman the theory in explaining the usefulness of accounting information system in emerging economy.

This study adopted the policeman theory as the anchor theory for assessing the role of audit committees on quality of financial reporting in Nigeria. As mentioned, early policemen theory claims that the audit and assurance process is responsible for searching, discovery and preventing fraud, therefore audit committees acting as organization policeman go a long way ensuring quality financial reporting.

2.3 Empirical review

Muhammed et al. (2024), study examined the effects of audit committees' attributes on the quality of financial reporting of listed consumer goods firms in Nigeria. The data for the study was obtained from the annual reports of the sample of sixteen consumer goods firms listed for the period 2009 to 2022. The data was analyzed using fixed effect regression analysis after conducting the Hausman test and the Breusch-Pagan test. The study found that audit committees independence (ACI), audit committees' size (ACS), and shareholders involvement in the committees (SIAC) have a considerable tendency to enhance the standard of published financial information of Nigerian consumer goods businesses that are listed. The study concluded that the audit committee affects the quality of the financial statements of listed consumer goods companies in Nigeria. To maintain an effective oversight function and foster a positive environment for the legally required audit that promotes a reliable and unbiased perspective of the financial information, this study proposed that the governing board of executives guarantee the nomination of appropriate audit committee members who have adequate financial skills, including shareholders.

Bako (2024) examined the audit committee attributes, audit quality, and financial performance of listed oil and gas companies in Nigeria. Audit committee attributes were measured by audit committee size, audit committee independence, and audit committee financial expertise, and audit quality was measured by audit fees charged by an external auditor. Financial performance is measured in terms of earnings per share. The researcher used secondary data extracted from the ten listed oil and gas firms annual reports, and the accounts were analyzed using Panel Least Square. This study reveals a positive and statistically significant relationship between audit committee independence and earnings per share. It also shows that audit quality moderates audit committee attributes significantly and increases firm performance. This study recommended that maintaining high audit quality within the audit committee is crucial for a firm if it aims to offer increased assurance to investors and stakeholders concerning the precision and dependability of its financial statements.

Umoru et al. (2024), investigated the effect of audit committee attributes on financial performance of quoted oil and gas firms in Nigeria. This study employed a causal research design and secondary data were obtained from the annual reports of ten (10) quoted oil and gas companies on the floor of the Nigerian Exchange Group (NGX) were utilized for a period of seven (7) years (2015 – 2021). The Panel Least Square (PLS) regression technique was employed in estimating the data and testing the formulated hypotheses. Based on the analysis, the results showed that there is a negative and insignificant relationship between audit committee size (ACSIZ) and audit committee gender diversity (ACGED) on financial performance (FPER) while audit committee independence (ACIND) and audit committee meeting (ACMEET) all have a positive and insignificant effect on Financial Performance. Audit committee financial expertise is the only explanatory variable that has positive and significant effect on financial performance. In line with the findings, members of the audit committee of listed oil and gas companies should have the requisite financial expertise in order for them to be able to make strategic and financial decisions that would impact positively on financial performance.

Matoke and Omwenga (2024) conducted a research work on audit quality and financial performance of companies listed in Nairobi Securities Exchange. This study adopted a descriptive research design. The study used Cronbach (Alpha) model to test the reliability of the data. Quantitative and qualitative data that was collected using questionnaires was inspected for errors and gaps. The data was then well examined and checked for completeness and comprehensibility. After inspection, the data was coded and analyzed by the use of descriptive statistics using SPSS. Data were analyzed by multiple regression analysis. Findings of the study indicate that the effect of audit quality on financial performance is positive and significant and the greater the degree of an auditor's independence, the greater the propensity of a firm making substantial net profit margins. The impact of auditor size was also positive and significant, although, its impact was lesser that of auditor independence.

Okolie (2024) conducted a study to determine how audit tenure and auditor independence affect the earnings management in Nigeria. The earnings management was measured by the number of discretional accruals. The data for this study were collected from the financial statement of companies listed on the Nigerian stock exchange facts book to determine the level of earnings manipulation in corporate financial statements, using all-inclusive multivariate analysis. In the empirical analysis, 342 company year observation was employed and the results indicates that audit tenure and auditor's independence showed significant relationship with the number of discretional accruals of quoted companies in Nigeria. The result of descriptive statistics showed a minimal presence of discretionary accrual management by the companies in the sample and are averagely 94% of the companies engage their audit firms for more than three years.

Bicer and Feneir (2024) carried out research on the impact of audit committee characteristics on environmental and social disclosures. Linear Regression Analysis was used in estimating the relationship between predictive and criterion variables and found out that there is no statistically significant relationship between financial expertise on the level of environmental and social disclosure. Thus, while some studies confirm a positive and beneficial relationship of audit committee and performance of the firm, other studies confirm no relation exist. This creates gaps and increases the scrutiny of researchers.

Ozer and Okpanachi (2023) examined the impact of audit committee characteristics on the capital structure, with a particular focus on the financial expertise and tenure of audit committee members. The study was carried out on audit committee which helps to make financial decisions more soundly by providing coordination between a company's independent audit, internal audit, and the board of directors. In addition, firms ensure, through the audit committee, that managers' decisions to improve firm performance are ethically monitored. Previous studies have so far given little weight to the relationship between the audit committee and capital structures. The sample of the study includes mostly hand-collected 1,638 firm-year observations obtained from Turkey's listed non-financial companies between 2009 and 2019. Empirical results indicate that the financial expertise and long tenure of the audit committee members are associated with lower financial leverage. Moreover, the presence of less tenure and non-financial expert members in the audit committee is associated with higher financial leverage. This study fills a literature gap where empirical evidence on how the audit committee affects capital structure is insufficient.

METHODOLOGY

3.1 Research design

The study adopted ex-post facto research design. This is in view of the fact that the study relied on historical accounting data obtained from financial statements of the sampled deposit money banks, hence the research does to control or manipulate the variables of the study. Moreover, the ex post facto research design was adopted for the study since the researcher intended to determine the cause effect relationship between the independent and dependent variables with a view to establishing a causal effect of audit committee independence on financial reporting quality of listed deposit money banks in Nigeria. The population of this study comprised 13 deposit money banks listed on the floor of the Nigerian Exchange Group for a period of ten (10) years. Thus, the study population comprised Access Bank Plc, Fidelity Bank Plc, First Bank of Nigeria Plc, Guaranty Trust Bank Plc, Sterling Bank Plc, Union Bank of Nigeria Plc, United Bank for Africa Plc, Zenith Bank Plc, Stanbic IBTC Holdings Plc, Ecobank Transnational Incorporated, Unity Bank Plc, Wema Bank Plc, Jaiz Bank Plc.

3.2 Model specification

To achieve the stated objectives of the study, as well as testing the study hypotheses, a multiple linear regression model adapted from the study of Onyabe et al. (2021) was employed and this is stated as follows as follows;

Financial reporting quality = *f* (Audit committee attributes) ………………………..(1)

Income smoothing =f(Audit committee financial expertise, audit committee gender diversity)

$INCS_{it} = \beta_0 + \beta_2 AUDF_{it} + \beta_3 AUDG_{it} + \mu_{it}$ ……………………………………………(2)

Where;

$INCS_{it}$ = Income smoothing of bank i in period *t*

$AUDF_{it}$ = Audit committee financial expertise of bank *i* in period *t*

$AUDG_{it}$ = Audit committee gender diversity of bank *i* in period *t*

AUDS = Audit committee size bank i in period t

β_0	=	Intercept or regression constant
β_1, β_2	=	Regression coefficients to be estimated for firm *i* in period *t*
μ	=	Stochastic error term.

Measurement of income smoothing

The Income Smoothing Index (ISI) was calculated using the Eckel model, by comparing the coefficient of variation (CV) of net income to the CV of revenue for each firm. The ISI was derived as the ratio of these two CVs: ISI = CV of net income / CV of revenue. A lower ISI (close to 1) indicates lower income smoothing, while a higher ISI suggests greater smoothing (Kendorya et al., 2020).

Table 3.1 Operationalization of variables

Concept	Proxy	Measurement	Source
Audit committee attributes *(Independent variable)*	Audit committee independence	Total number of independent audit committee members divided by total number of members of bank's audit committee.	Onyabe et al. (2021)
	Audit committee financial expertise	Number of audit committee members with accounting and financial background divided by total number of audit committee members.	Orife et al. (2022)
	Audit committee gender diversity	Number of female audit committee members divided by total number of audit committee members.	Umoru et al. (2024)
Financial reporting quality *(Dependent variable)*	Earnings management	The Income Smoothing Index (ISI) was calculated using the Eckel model, by comparing the coefficient of variation (CV) of net income to the CV of revenue for each firm. The ISI was derived as the ratio of these two CVs: ISI = CV of net income / CV of revenue. A lower ISI (close to 1) indicates lower income smoothing, while a higher ISI suggests greater smoothing.	Kendorya et al. (2021)

Audit committee size (control variable)	Total number of audit committee members.	Orife et al. (2022)

Source: Researcher's compilation (2024)

DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

This study investigates the effect of audit committee attributes on financial reporting quality of listed deposit money banks in Nigeria from 2014–2023. Earnings management was measured in terms of income smoothing (Eckel's model) and its component included coefficient of variations of net income and revenue. The independent variable of audit committee attributes was measured using audit committee gender diversity (AUDG), audit committee financial expertise (AUDE). Furthermore, the study controls the model's goodness of fit by employing the variable of audit committee size (AUDS).

4.1 Audit committee financial expertise and earnings management

Still on the existing protocol, the results obtained from the iterated robust regression model revealed that audit committee financial expertise (AUDE) (2.387[0.023]); has a significant positive effect on the Eckel's income smoothing index coefficients of listed deposit money banks in Nigeria. This means that increase in number of the committee members with finance background would cause an increase in the Eckel's income smoothing score. Due to the fact that increase in Eckel's score means lower levels of income smoothing as well as earnings management, its safe to say that the higher the members with accounting and finance background, the lower the earnings management in the sampled banks. This finding is actually in line with the normal apriori expectation. A possible explanation for this finding is the fact that audit committee members with accounting and finance backgrounds are better equipped to detect complex financial manipulations and aggressive accounting practices, making it harder for management to engage in earnings management; their expertise allows for more rigorous scrutiny of financial statements, ensuring transparency and compliance with accounting standards and also, their familiarity with financial data enables them to ask the right questions and challenge questionable entries effectively. As a result, their presence strengthens the audit function, leading to reduced income smoothing and earnings management in the banks.

Comparing with past studies, our finding is in line with Kantudu and Alhassan (2022) who stated that someone in the team who is financially literate or competent in the accounting profession, finance, or managing finances will improve the financial reporting quality; and Karajeh and Ibrahim (2017) who contended that AC members possessing the necessary financial knowledge have a greater ability to understand how choices and declarations in financial statements will affect the stock market and that it is anticipated that these disclosures will lessen the asymmetry of information on the worth of a company and enhance the accuracy of reporting. Our finding is however, contrary to that of Bala and Kumai (2015) who employed ACFE also, and this was expressed as a proportion of members possessing skills in accounting. They discovered a weak but favourable correlation with audit quality.

4.2 Audit committee gender diversity and earnings management

From the iterated robust regression model still, audit committee gender diversity (AUDG) -0.064[0.950]); has a non-statistically significant negative effect on the Eckel's income smoothing index of listed deposit money banks in Nigeria. This indicates a linear relationship in the positive direction with earnings management but without much evidence backing it. It means that increase in number of women in audit committees has little to no significant effect on earnings management. The presence of more women on audit committees may have little to no significant effect on earnings management due to various practical factors. While gender diversity can bring different perspectives, it may not directly translate into stronger financial oversight if those members lack specific financial expertise or experience in detecting earnings manipulation. Additionally, women on audit committees may still face the same informational limitations and rely on data provided by management, which can diminish their impact on curbing earnings management. Therefore, the increase in female representation alone may not be sufficient to influence earnings management without targeted skills or authority enhancements.

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of findings

The study investigated the effect of audit committee attributes on financial reporting quality of listed deposit money banks in Nigeria from 2014 to 2023. Financial reporting quality was decomposed into earnings management and proxied by the Eckel's income smoothing index calculated using the coefficient of variances of net income and revenue. The independent variables included gender diversity and financial expertise. The study also controlled for this relationship using audit committee size. To achieve the study's objectives, the pool least square regression estimation was initially conducted, followed by diagnostics tests for multicollinearity, heteroscedasticity, and endogeneity. Preliminary analyses such as descriptive statistics, correlation matrix, and normality tests were performed before employing iterated robust regression techniques. The empirical findings revealed that:

1 Audit committee financial expertise (coeff. = 2.387[0.023]) has a significant positive effect on the Eckel's income smoothing index of the sampled deposit money banks. This imply that the higher the members with accounting and finance background, the lower the earnings management in the sampled banks, implying higher financial reporting quality.

2.Audit committee gender diversity (coeff. = -0.064[0.950]) has no significant effect on Eckel's income smoothing index of listed deposit money banks in Nigeria. It means that increase in number of women in audit committees has little to no significant effect on earnings management as well as financial reporting quality.

5.2 Conclusion

This study has examined the influence of audit committee attributes; specifically, independence, financial expertise, gender diversity, and meeting frequency on the financial reporting quality of listed deposit money banks in Nigeria. The findings highlighted the critical role that an effective and structured audit committee plays in ensuring high standards of transparency, accountability, and reliability in financial reporting, which are crucial to bolstering investor confidence and supporting regulatory compliance within the banking sector.

The results from this study suggested that contrary to expectations, financial expertise within the audit committee showed a significant positive effect, implying that members with relevant financial knowledge help mitigate earnings manipulation, thereby enhancing financial reporting quality. However, gender diversity within the audit committee did not have a statistically significant impact on financial reporting quality, suggesting that increased female representation alone may not influence the mitigation of earnings management.

Overall, the findings of this study highlight the importance of specific audit committee attributes in shaping the financial reporting quality of listed deposit money banks in Nigeria. While independence and financial expertise contribute positively to curbing earnings manipulation, the roles of gender diversity and meeting frequency appear nuanced, reflecting the complexities of corporate governance dynamics. Strengthening these attributes could enhance the oversight function of audit committees, promoting transparency and bolstering investor confidence. These insights provide valuable evidence for both regulatory bodies and practitioners to refine corporate governance guidelines, ensuring that audit committees are optimally structured to uphold the integrity of financial reporting. On the whole, it was concluded that audit committee attributes have significant effect on financial reporting quality of listed deposit money banks in Nigeria.

5.3 Recommendations

Based on the findings of this study, the following recommendations were made

1.Audit committee financial expertise: The significant positive effect of financial expertise suggests that audit committees benefit from members with strong accounting and finance backgrounds. It was recommended that a larger percentage of members of audit committee should have professional certificate in accounting Professional qualifications, such as Certified Public accountants, chartered accountants and certified national accountants should be considered essential criteria for at least one member, to enhance the committee's ability to detect and mitigate earnings manipulation.

2.Audit committee gender diversity: Since gender diversity did not show a significant effect on financial reporting quality, it was recommended that companies consider broader diversity metrics beyond gender alone, such as educational and professional diversity. While gender inclusiveness remains important for overall corporate governance, focusing on diverse skills and experiences may provide a more effective approach to improving financial oversight.

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