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- I. Title page
- II. Abstract (150-250 words)
- III. Keywords (3-5)
- IV. Introduction
- V. Literature Review
- VI. Methodology
- VII. Results and Discussion
- VIII. Conclusion and Recommendations
- IX. References (APA 7th Edition)
- X. Appendices (if necessary)
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AUDIT QUALITY AS A MODERATOR BETWEEN BOARD CHARACTERISTICS AND EARNINGS MANAGEMENT: EVIDENCE FROM LISTED BANKS IN NIGERIA

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ABSTRACT

This research investigates the moderating influence of audit quality on the correlation between board characteristics and earnings management within publicly traded banking institutions in Nigeria. The impetus for this study arose from ongoing financial reporting discrepancies, despite the implementation of corporate governance reforms. Utilizing secondary data from 34 listed banks for the period 2012 to 2022, panel regression analyses were conducted employing the Modified Jones and Kothari methodologies, with discretionary accruals (DA) utilized as an indicator of earnings management. The primary explanatory variables included board size, independence, diligence, gender diversity, and ownership, whereas audit quality was represented by audit firm size and audit fees. The empirical findings indicate that board size ($\beta = 0.048, p < 0.05$) and board ownership ($\beta = 0.017, p < 0.05$) exert significant negative influences on earnings management, suggesting that boards that are larger and possess greater ownership stakes effectively mitigate opportunistic financial reporting. Conversely, board independence, diligence, and gender diversity did not demonstrate statistically significant impacts on earnings quality, indicating a limited role in this context. The moderating analysis further illustrates that both audit firm size (AFS) and audit fees (AF) substantially enhance the relationship between board mechanisms and earnings management. In particular, the interactions $AFS \times BD$ ($\beta = 0.107, p < 0.05$) and $AF \times BS$ ($\beta = -0.074, p < 0.05$) reveal that high audit quality amplifies the efficacy of diligent and sizable boards in counteracting earnings manipulation. This study concludes that the interplay between robust board structures and rigorous audit mechanisms is essential for reducing earnings management within Nigeria's banking sector. It advocates for regulatory bodies to prioritize auditor independence and encourage engagements with Big 4 audit firms to bolster the integrity of financial reporting.

Keywords: Board Characteristics, Audit Quality, Earnings Management, Discretionary Accruals, Nigerian Banks

Banks play a central role in economic development by mobilizing deposits, allocating credit, supporting payment systems, and transmitting monetary policy. Their systemic importance has led to stringent regulatory and supervisory frameworks aimed at safeguarding public funds, with statutory audits serving as a critical safeguard against misreporting (Aliyu, Musa & Zachariah). Corporate scandals in the

early 2000s highlighted how weak governance and aggressive reporting can distort firm performance, erode investor trust, and intensify global scrutiny of audit quality and board effectiveness (Bhatia & Gulati, 2021; De Angelo, 1981). As a result, the relationship between board characteristics, audit quality, and earnings management has become a central theme in governance research.

Earnings management is the deliberate adjustment of financial reports to achieve strategic outcomes remains a significant global concern (Fowler, 2023). Regulators such as IFRS and the SEC consistently emphasize high audit quality and strong governance as key deterrents to manipulation (Babalola et al., 2025). European evidence supports this view, with Big Four auditors associated with lower levels of earnings manipulation (Van Tendeloo & Vanstraelen, 2008). However, results across African markets are mixed, reflecting institutional variations. For example, Kenya and Ghana report inconsistent associations between board characteristics and earnings management, underscoring the need for context-specific governance mechanisms (Adams et al., 2020; Amanamah, 2024).

In Nigeria, concerns about earnings management have intensified in the banking sector. Yahaya, Kutigi, and Mohammed (2015) find that stricter impairment rules reduce managerial discretion in loan loss provisions, supporting Ewert and Wagenhofer's (2005) argument that tougher standards constrain manipulation. Board-level evidence is similarly mixed: Kajola et al. (2020) report that board size and independence reduce earnings management, while Obigbemi et al. (2016) show that gender diversity lowers manipulation but frequent board meetings exacerbate it. These divergent findings emphasize the need for nuanced governance reforms that strengthen oversight without compromising board effectiveness.

Audit quality often proxied by auditor size, independence, and tenure plays a similarly contested role. Larger firms typically deliver higher-quality audits due to greater expertise and reputation (DeAngelo, 1981), and extended tenure may improve effectiveness in complex entities such as banks (Britten et al., 2018). Because banks are uniquely exposed to systemic risks such as depositor runs, credible disclosures are essential, and auditors remain pivotal in sustaining confidence (Dantas et al., 2015). Yet, empirical findings vary widely. Barghathi et al. (2018) note that auditors may detect but not necessarily prevent earnings manipulation. In Jordan, Nawaiseh (2016) finds that audit tenure, fees, and affiliation with international firms significantly influence earnings management. In the U.S., Miladi and Chouaibi (2021) show that female presence in top management reduces manipulation, with audit quality strengthening this effect.

Evidence in Nigeria remains unsettled. Jayeola, Taofeek, and Akinrinlola (2017) document a positive association between joint audits and earnings management, hinting that prolonged auditor familiarity may impair objectivity. In contrast, Aliyu, Musa and Zachariah (2015) show that Big Four affiliation and joint audits reduce manipulation, though auditor financial dependence increases it.

Similar tensions appear in other emerging markets: Taktak and Mbanki (2014) find that CEO duality and co-audits with Big Four firms heighten earnings management in Tunisia, while independent directors mitigate it. Internal audit evidence also reveals consistent benefits, with Prawitt, Smith, and Wood (2009) documenting that high-quality internal audit functions lower both accrual-based and target-driven manipulation. Meanwhile, Habbash and Alghamdi (2017) show that only auditor opinion not size or specialization is associated with earnings management in Saudi Arabia.

Overall, the literature presents mixed and context-dependent evidence on the effectiveness of board governance and audit quality in curbing earnings management, particularly in emerging markets. These unresolved inconsistencies highlight the need for further empirical investigation within Nigeria's banking sector, where regulatory reforms are evolving and institutional pressures differ markedly from developed economies.

Despite ongoing regulatory reforms and the enforcement of corporate governance codes in Nigeria, earnings management remains a persistent challenge within the financial sector (Kajola et al., 2020; Obigbemi et al., 2016). This persistence raises important concerns about the effectiveness of board governance mechanisms and the capacity of external audit oversight to ensure credible financial reporting. In the banking sector where transparency, accountability, and depositor confidence are foundational weak monitoring structures can undermine governance objectives and heighten vulnerability to financial misconduct. Understanding how audit quality interacts with board attributes to curb opportunistic reporting therefore becomes essential for regulators, policymakers, and market participants.

Although prior studies have examined the direct influence of board characteristics on earnings management (Habbash & Alghamdi, 2017; Miladi & Chouaibi, 2021), limited attention has been given to the moderating role of audit quality. This gap is noteworthy because audit-related attributes such as audit firm size, independence, and audit fees may strengthen or weaken the board's ability to constrain managerial discretion. For instance, while Miladi and Chouaibi (2021) show that audit quality and board diversity affect earnings manipulation, their study does not extend to how audit quality conditions or modifies the board-earnings management relationship. The absence of such evidence in the Nigerian banking context highlights a critical empirical void.

Accordingly, this study seeks to examine the extent to which audit quality moderates the relationship

between board characteristics and earnings management in listed Nigerian banks. By addressing this gap, the study aims to contribute to improved governance practices and enhance the credibility of financial reporting within emerging markets.

1.3 Research Questions

In accordance with the issues articulated in this investigation, the study scrutinizes the subsequent inquiries:

- i. What is the effect of board size on earnings management in listed banking institutions in Nigeria?
- ii. How does board independence affect earnings management in listed banking institutions in Nigeria?
- iii. To what extent does board diligence influence earnings management in listed banking institutions in Nigeria?
- iv. What is the effect of board gender diversity on earnings management in listed banking institutions Nigeria?
- v. How does board ownership affect earnings management in listed insurance firms in Nigeria?
- vi. What is the moderating effect of audit quality on the relationship between board characteristics and earnings management in listed insurance firms in Nigeria?

1.4 Statement of Hypotheses

The following null hypotheses were established for examination, encompassing:

H_{01} : Board size has no significant effect on earnings management in listed banking institutions in Nigeria.

H_{02} : Board independence has no significant effect on earnings management in listed banking institutions in Nigeria.

H_{03} : Board diligence has no significant influence on earnings management in listed banking institutions in Nigeria.

H_{04} : Board gender diversity has no significant effect on earnings management in listed banking institutions in Nigeria.

H_{05} : Board ownership has no significant effect on earnings management in listed banking institutions in Nigeria.

H_{06} : Audit quality has no significant moderating effect on the relationship between board characteristics and earnings management in listed banking institutions in Nigeria.

2 Theoretical Review

This section critically evaluates the major theories underpinning this study to provide a solid conceptual

basis for understanding the relationship between board characteristics and earnings management, with audit quality as a moderating factor. Two prominent theories, Agency Theory and Resource Dependence Theory (RDT), offer the most relevant explanatory frameworks. The following discussion highlights each theory, its assumptions, criticisms, and its applicability to the moderating effect of audit quality within corporate boards of Nigerian financial institutions.

Agency Theory and Resource Dependence Theory jointly provide a comprehensive foundation for understanding how board characteristics and audit quality influence earnings management in financial institutions. Agency Theory highlights the inherent conflict between shareholders and managers arising from information asymmetry, which creates incentives for opportunistic earnings manipulation (Jensen & Meckling, 1976; Fama & Jensen, 1983). Effective governance mechanisms such as independent directors, strong audit committees, and high-quality external audits reduce managerial discretion and align actions with shareholder interests (Alzoubi, 2019; Ali et al., 2021). Empirical evidence in emerging markets reinforces the theory's prediction that strong boards and reputable auditors significantly limit reporting manipulation (Al-hadal & Hashim, 2022; Farouk & Isa, 2018).

Resource Dependence Theory complements this perspective by emphasizing the board's role in providing critical resources expertise, legitimacy, and external networks that improve monitoring and enhance the credibility of financial reporting (Pfeffer & Salancik, 1978; Hillman et al., 2009). In the banking sector, where regulatory complexity and environmental uncertainty are high, directors with specialized knowledge and diverse backgrounds strengthen oversight, while high-quality auditors bring additional technical expertise and reputational assurance (Abdullah et al., 2018; Hay et al., 2021). Empirical findings show that boards with strong external linkages and reputable auditors are better equipped to constrain earnings management (Khaoula & Moez, 2019; Alqatamin, 2018).

Integrating both theories, this study argues that board characteristics and audit quality operate as complementary governance mechanisms. Agency Theory explains the need for monitoring to curb opportunism, while RDT highlights how boards and auditors supply the expertise and external legitimacy required to perform this monitoring effectively. Together, they support the proposition that audit quality strengthens the ability of board structures to reduce earnings manipulation, particularly in emerging markets where institutional controls are less robust. This integrated theoretical lens therefore provides the foundation for examining the moderating

effect of audit quality in the board–earnings management relationship among Nigerian banks.

3. Methodology

The scope of this research necessitates a comprehensive examination of the relevant population, the selection of an appropriate sample and the employment of rigorous sampling techniques to ensure the validity and reliability of the findings. The study employs secondary data collection methods, focusing on financial and governance information obtained from annual reports and accounts of the sampled financial institutions listed on the Nigerian Exchange Group (NGX). The decision to use secondary data is based on its reliability, accessibility, and suitability for analysing corporate governance attributes, audit quality, and earnings management. The population of this study comprises of all listed financial institutions in Nigeria, including banks, insurance companies, and other financial services firms. These institutions are integral to the Nigerian economy and operate under stringent regulatory frameworks that require robust corporate governance practices and transparent financial reporting. The study focuses on this population due to the significant role of financial institutions in influencing economic stability and investor confidence. The sample for this study was drawn from the population of listed banking institutions on the Nigerian Exchange Group (NGX) over a specified period, typically 2012 to 2022. This time frame was chosen to ensure that the analysis captures contemporary trends and aligns with recent developments in regulatory requirements and corporate governance practices. The selection of financial institutions as the sample is justified by their susceptibility to earnings management practices, making them an appropriate context for examining the moderating role of audit quality. A purposive sampling methodology was implemented to select the study sample. This non-probabilistic strategy was adopted to guarantee the inclusion of financial institutions that fulfill specific criteria pertinent to the research objectives.

The criteria for sample selection encompassed: (a) the availability of comprehensive financial statements and annual reports for the designated study period; (b) consistent listing on the Nigerian Exchange Group (NGX) throughout the duration of the study; (c) adherence to corporate governance practices, including disclosure regarding audit firm size by functional audit committees, thereby facilitating the examination of audit quality; (d) this technique assured that only institutions with robust and reliable data were incorporated into the sample, thereby enhancing the accuracy and relevance of the study findings. The financial services sector of the NGX comprises a total population of 40 institutions, of which 34 were purposively selected based on the specified criteria, as detailed in the appendices.

This selection yielded 374 firm-year observations from the chosen banking institutions over the 11-year study period. This sample size was regarded as adequate for the application of econometric models, providing sufficient variability in the data to enable thorough statistical analysis. The utilization of purposive sampling is substantiated by the specific nature of the research objectives, which necessitate firms with complete and accessible data on corporate governance and financial reporting practices. In contrast to random sampling, purposive sampling permits the researcher to concentrate on institutions that furnish the requisite data for investigating the hypothesized relationships. This approach is consistent with prior studies in corporate governance and earnings management that similarly employ purposive sampling to guarantee the inclusion of pertinent and reliable data. The technique for data analysis in this study involves a systematic approach to evaluating the relationship between Board characteristics, audit quality, and earnings management in listed financial institutions in Nigeria. The data analysis process includes descriptive statistics, correlation analysis, and regression analysis with multiple models to test the hypotheses.

3.1 Model Specification and Description

This section provides a detailed overview of the statistical models employed to analyse the relationships between board characteristics and earnings management. The analysis focuses on the direct effects of board characteristics and the moderating effects of audit firm size, with audit fees included for robustness checks. To enhance clarity and reduce multicollinearity concerns, each interaction term is modelled separately.

1) Base Model (Board → Earnings Management)

The baseline model examines the effect of board characteristics on earnings management and is expressed as follows:

$$DA_{it} = \alpha + \beta_1 BS_{it} + \beta_2 BI_{it} + \beta_3 BD_{it} + \beta_4 BGD_{it} + \beta_5 BO_{it} + \beta_6 AFS_{it} \\ + \beta_7 (BS_{it} \times AFS_{it}) + \beta_8 (BI_{it} \times AFS_{it}) + \beta_9 (BD_{it} \times AFS_{it}) \\ + \beta_{10} (BGD_{it} \times AFS_{it}) + \beta_{11} (BO_{it} \times AFS_{it}) + \mu_i + \lambda_t + \varepsilon_{it}$$

Where,

AFS_{it} = Audit firm size

Interaction terms ($X_{it} \times AFS_{it}$) capture the moderating effects of audit firm size on each board variable.

2b) AF as Moderator

$$DA_{it} = \alpha + \beta_1 BS_{it} + \beta_2 BI_{it} + \beta_3 BD_{it} + \beta_4 BGD_{it} + \beta_5 BO_{it} + \beta_6 AFS_{it} \\ + \beta_7 (BS_{it} \times AFS_{it}) + \beta_8 (BI_{it} \times AFS_{it}) + \beta_9 (BD_{it} \times AFS_{it}) \\ + \beta_{10} (BGD_{it} \times AFS_{it}) + \beta_{11} (BO_{it} \times AFS_{it}) + \mu_i + \lambda_t + \varepsilon_{it}$$

3) Model with Control Variables (Board → DA, Controlling FS, ROA, CFO)

$$DA_{it} = \alpha + \beta_1 BS_{it} + \beta_2 BI_{it} + \beta_3 BD_{it} + \beta_4 BGD_{it} + \beta_5 BO_{it} + \gamma_1 FS_{it} + \gamma_2 ROA_{it} + \gamma_3 CFO_{it} + \mu_i \\ + \lambda_t + \varepsilon_{it}$$

4) Full Model (Board + Both Moderators + All Interactions + Controls)

$$DA_{it} = \alpha + \beta_1 BS_{it} + \beta_2 BI_{it} + \beta_3 BD_{it} + \beta_4 BGD_{it} + \beta_5 BO_{it} + \beta_6 AFS_{it} + \beta_7 AFS_{it} \\ + \theta_1 (BS_{it} \times AFS_{it}) + \theta_2 (BI_{it} \times AFS_{it}) + \theta_3 (BD_{it} \times AFS_{it}) + \theta_4 (BGD_{it} \times AFS_{it}) + \theta_5 (BO_{it} \times AFS_{it}) \\ + \phi_1 (BS_{it} \times AFS_{it}) + \phi_2 (BI_{it} \times AFS_{it}) + \phi_3 (BD_{it} \times AFS_{it}) + \phi_4 (BGD_{it} \times AFS_{it}) + \phi_5 (BO_{it} \times AFS_{it}) \\ + \gamma_1 FS_{it} + \gamma_2 ROA_{it} + \gamma_3 CFO_{it} + \mu_i + \lambda_t + \varepsilon_{it}$$

Activ.

Table 1. Variable Definition and Measurement Table

Variable	Definition	Measurement
Dependent Variable		
Earnings Management (EM)	The manipulation of financial reports through accrual adjustments.	Discretionary Accrual: Difference between Net Income and operating cash flow or through balance sheet adjustment.
Independent Variables		
Board Size (BS)	Number of directors on the board.	Count of total board members.
Board Independence (BI)	Proportion of independent non-executive directors on the board.	Number of independent non-executive directors ÷ Total number of board members.
Board Diligence (BD)	Board's frequency of meetings in a year.	Count of board meetings held within the financial year.
Board Gender Diversity (BGD)	Proportion of female directors on the board.	Number of female board members ÷ Total number of board members.
Board Ownership (BO)	Percentage of shares held by board members relative to total outstanding shares.	(Shares owned by board members ÷ Total outstanding shares) × 100.
Moderating Variables		
Audit Firm Size (AFS)	Audit firm size reflects the auditor's scale, resources, industry expertise, and reputation.	Indicator variable equal to 1 if the auditor is Big 4 (Deloitte, EY, KPMG, PwC) and 0 otherwise
Audit Fees (AF)	Audit fees are the price paid for the statutory external audit and proxy audit effort/risk and client complexity	Natural log of the statutory audit fee for year t (local currency), optionally scaled by total assets for robustness.
Control Variables		
Firm Size (FSIZE)	Size of the firm measured by total assets.	Natural logarithm of total assets.
Return on Assets (ROA)	Firm profitability.	Net income ÷ Total assets.
Cash Flow from Operations	Cash flow from operations is the cash generated by core operations and serves as a performance/accrual-quality control	Net cash provided by operating activities scaled by lagged total assets (CFO/Assets _{t-1})

Source: Researcher's study (2025).

4. Results and Discussion

The descriptive findings indicate significant variability among essential indicators of governance, audit, and financial performance, highlighting the necessity for empirical investigation into the interactions of these factors in shaping earnings

management behaviours. Additionally, the results underscore institutional variations in governance frameworks, auditor involvement, and financial stability, which could influence both the magnitude and characteristics of earnings manipulation within Nigerian banking institutions.

Table 2. Descriptive Statistics by Banking Sector Institutions

(Earnings management (EM), Board size (BS), Board independence (BI), Board diligence (BD), board gender diversity (BGD), Board ownership (BO), Audit firm size (AFS), audit fees (AF), Firm size (FSIZE), Return on assets (ROA), cash flow from operations (CFO))

Banking	Mean	SD	Min	Max	N
em	0.106	0.834	-4.470	1.570	132
bs	13.409	3.311	6.000	21.000	132
bi	62.091	13.098	18.750	93.750	132
bd	6.000	2.396	2.000	16.000	132
bgd	19.396	11.622	0.000	50.000	132
bo	9.250	14.866	0.000	71.600	132
afs	0.894	0.309	0.000	1.000	132
af	5.509	0.445	4.760	8.070	132
fsize	9.273	0.424	8.190	10.200	132
roa	1.618	1.702	-9.530	5.620	132
cfo	0.024	0.091	-0.370	0.230	132

Source: Author's Work (2025)

Table 2 presents the descriptive statistics for corporate governance, audit quality, and financial performance variables of Nigerian listed banks. The mean earnings management (EM) value of 0.106 suggests a mild tendency toward income-increasing accruals, while the high standard deviation (0.834) reflects substantial variation across banks—indicating persistent challenges in maintaining reporting quality despite regulatory reforms. This EM level aligns with evidence from Kenya and Ghana (Adams et al., 2020; Amanamah, 2024) but contrasts sharply with Europe, where stronger IFRS enforcement and audit oversight yield significantly lower EM levels (Van Tendeloo & Vanstraelen, 2008). The average board size of 13.41 exceeds those reported for Tunisia and Saudi Arabia (Taktak & Mbanki, 2014; Habbash & Alghamdi, 2017), reflecting Nigeria's emphasis on larger boards, though such size may hinder coordination relative to smaller boards in advanced markets.

Board independence stands at 62.09%, consistent with OECD expectations but still below typical European levels above 70%. Board diligence, averaging six meetings annually, indicates active oversight similar to Jordanian banks (Nawaiseh, 2016), yet less intensive than U.S. institutions where higher meeting frequency strengthens governance (Miladi & Chouaibi, 2021). Gender diversity remains low at 19.4%, comparable to Kenya and Ghana but well below Western averages exceeding 30%. Board ownership, at 9.25%, signals moderate insider involvement—higher than Saudi Arabia and Tunisia but lower than Ghana—suggesting a balanced ownership structure that aligns managerial and shareholder interests without encouraging entrenchment.

Audit quality indicators reveal strong reliance on Big 4 auditors (mean = 0.894), far exceeding adoption

rates in Ghana or Jordan and reflecting Nigeria's preference for internationally reputable audit firms. Audit fees (5.509) show considerable investment in audit assurance, though still below the intensity typically observed in the U.S. and Europe (DeAngelo, 1981; Barghathi et al., 2018). Financial performance metrics, ROA (1.62%) and CFO (0.024), confirm overall sector stability, outperforming banks in Tunisia and Jordan but trailing profitability levels in developed economies where stronger governance and oversight further suppress opportunistic reporting. Overall, the statistics indicate that Nigeria's banking sector demonstrates relatively robust governance mechanisms but continues to face structural constraints—particularly around board diversity, audit independence, and enforcement strength—when compared to more advanced markets.

Regression Outcomes

Analysis of Regression Outcomes (OLS, FE, and RE Models in Banking Context) in Table 3 delineates the regression outcomes for the foundational models assessing the correlation between board characteristics and earnings management (EM) within publicly listed banks in Nigeria. The dependent variable, discretionary accruals (DA), quantifies the extent of earnings manipulation, whereas the independent variables denote essential governance attributes. The three estimation techniques Ordinary Least Squares (OLS), Fixed Effects (FE), and Random Effects (RE) provide complementary perspectives on the robustness and consistency of the findings. This subsection provides subsection analysis using regression model treatments of the variables across the banks, and insurance firms in Nigeria as depicted in Table 3.

Table 3. Regression Results for the Banking Subsector

Variables	Banks OLS	Banks FE	Banks RE
bs	0.048** (0.029)	0.040 (0.163)	0.041 (0.113)
bi	0.005 (0.371)	0.008 (0.094)	0.007 (0.094)
bd	0.014 (0.617)	-0.023 (0.257)	-0.014 (0.427)
bgd	-0.007 (0.221)	0.004 (0.774)	0.002 (0.847)
bo	0.014*** (0.006)	0.014 (0.175)	0.017** (0.049)
fsize	0.581*** (0.001)	1.068*** (0.000)	0.887*** (0.001)
roa	-0.129*** (0.006)	0.036 (0.710)	0.008 (0.929)
cfo	-3.209*** (0.000)	-2.799*** (0.000)	-2.925*** (0.000)
Intercept	-6.042*** (0.000)	-10.854*** (0.000)	-9.193*** (0.002)
Observations	132	132	132
Overall R ²	0.359	0.288	0.278
Adj R ²	0.317		
Hetttest	30.56{0.000}		
VIF	2.00		
Hausman		36.44{0.000}	

Notes: *p*-values are in parentheses. *** *p*<.01, ** *p*<.05

The regression results from the robustness checks provided in Table 3 The results indicate that board size (BS) possesses a positive and statistically significant coefficient ($\beta = 0.048$, $p < 0.05$), implying that an increase in board size correlates with a decrease in earnings manipulation. This observation aligns with agency theory, which posits that broader representation enhances monitoring efficacy. This finding corroborates previous research conducted by Kajola et al. (2020) and Obigbemi et al. (2016), which similarly demonstrated that well-structured boards mitigate managerial discretion. In contrast, board independence (BI) reveals an insignificant relationship with earnings management (EM) across all models, suggesting that the mere inclusion of independent directors does not ensure effective oversight unless it is complemented by competence and authentic autonomy—a result echoed by Habbash and Alghamdi (2017) in the context of Saudi Arabia. Board diligence (BD) and board gender diversity (BGD) also exhibit statistically insignificant impacts, indicating that while frequent board meetings and female representation are symbolically valuable, they may not yet yield significant enhancements in financial reporting quality within the Nigerian

banking sector.

Conversely, board ownership (BO) exhibits a significant negative effect on earnings management ($\beta = 0.017$, $p < 0.05$), suggesting that insider equity holdings align managerial interests with those of shareholders, thereby deterring opportunistic reporting. Among the control variables, firm size (FSIZE) demonstrates a robust positive and significant effect on EM ($p < 0.01$), indicating that larger banks, potentially due to the complexity of their operations, display higher discretionary accruals. Additionally, return on assets (ROA) and cash flow from operations (CFO) are both negative and significant ($p < 0.01$), confirming that more profitable and liquid banks are less likely to engage in earnings manipulation. The overall explanatory power (Adj. R² = 0.317) and the results of the Hausman test affirm the robustness of the Random Effects model as the preferred estimator. Collectively, these findings suggest that while structural board mechanisms, such as size and ownership, effectively constrain earnings management, functional mechanisms like diligence and gender diversity remain inadequately developed in practice. This underscores the necessity for governance reforms that transcend mere regulatory



compliance to enhance board engagement, independence, and the effectiveness of diversity initiatives.

Moderating Influence of Audit Firm Size on the Relationship between Board Characteristics and Earnings Management

Table 4 elucidates the findings of the moderation analysis that investigates the impact of audit firm size (AFS) on the correlation between board attributes and earnings management (EM) within Nigerian publicly

listed banks. The AFS variable is dichotomized, assigning a value of 1 to Big 4 auditors and 0 to all others, thereby serving as an indicator of audit quality. The analysis incorporates interaction terms between AFS and each board characteristic—namely board size (BS), board independence (BI), board diversity (BD), board governance dynamics (BGD), and board ownership (BO)—to evaluate whether superior audit quality enhances or diminishes the efficacy of board oversight in curtailing earnings manipulation.

Table 4. The moderating Role of Audit Firm Size in Banking Institutions

Variables	Banks OLS	Banks OLS	Banks OLS	Banks OLS	Banks OLS
bs	0.109*** (0.006)	0.049** (0.019)	0.053** (0.012)	0.046** (0.035)	0.045** (0.029)
bi	0.003 (0.631)	-0.007 (0.568)	0.006 (0.287)	0.005 (0.451)	0.005 (0.411)
bd	0.005 (0.843)	0.014 (0.589)	-0.077 (0.111)	0.011 (0.690)	0.011 (0.659)
bgd	-0.008 (0.271)	-0.006 (0.372)	-0.006 (0.444)	0.002 (0.901)	-0.005 (0.450)
bo	0.014 (0.068)	0.014 (0.072)	0.014 (0.068)	0.014 (0.073)	0.000 (0.985)
afs	0.933 (0.194)	-0.911 (0.252)	-0.814** (0.022)	0.010 (0.972)	-0.413** (0.042)
afs × bs	-0.076 (0.106)				
afs × bi		0.013 (0.276)			
afs × bd			0.107** (0.029)		
afs × bgd				-0.010 (0.611)	
afs × bo					0.020** (0.012)
fsize	0.658*** (0.006)	0.600** (0.014)	0.563** (0.021)	0.610** (0.014)	0.601** (0.014)
roa	-0.144 (0.103)	-0.129 (0.134)	-0.132 (0.130)	-0.128 (0.144)	-0.152 (0.069)
cfo	-3.131*** (0.000)	-3.228*** (0.000)	-3.219*** (0.000)	-3.216*** (0.000)	-3.109*** (0.000)
Intercept	-7.277*** (0.006)	-5.410 (0.050)	-5.335 (0.052)	-6.243** (0.025)	-5.796** (0.036)
Observations	132	132	132	132	132
R ²	0.370	0.363	0.373	0.360	0.382

Notes: p-values are in parentheses. *** p<.01, ** p<.05

The robustness checks in Table 4.9 reveal several key patterns. Board size (BS) remains positive and significant ($\beta = 0.049, p < 0.05$), confirming that larger boards strengthen monitoring and reduce earnings manipulation. Although the interaction AFS × BS is negative ($\beta = -0.076$), its insignificance suggests that

Big 4 auditors only marginally reinforce, rather than alter, the effect of larger boards. Board independence (BI) shows no significant direct influence, and the moderating effect of audit quality (AFS × BI, $\beta = 0.013$) is also insignificant, indicating that high audit quality does not enhance the oversight role of



independent directors.

Board diligence (BD), however, becomes significantly effective only when paired with Big 4 auditors (AFS × BD, $\beta = 0.107, p < 0.05$), supporting evidence that internal and external monitoring mechanisms are most effective when combined. The moderating effect on board gender diversity (AFS × BGD) is negative but insignificant ($\beta = -0.010$), suggesting no meaningful interaction. For board ownership (BO), the interaction AFS × BO is positive and significant ($\beta = 0.020, p < 0.05$), implying that higher audit quality may amplify the influence of insider ownership—potentially reflecting collusion risks, consistent with Barghathi et al. (2018).

Control variables behave as expected: firm size positively affects earnings manipulation, while ROA and CFO show significant negative effects, indicating that more profitable and liquid banks engage less in earnings management. Overall, the findings show that audit firm size plays a selective moderating role—strengthening the impact of board diligence but not uniformly enhancing all governance mechanisms—highlighting the complex interaction

between internal and external monitoring in improving earnings quality in Nigerian banks.

The Moderating Influence of Audit Fees on the Relationship Between Board Characteristics and Earnings Management

Table 5 delineates the regression findings that investigate the moderating role of audit fees (AF) on the association between board characteristics and earnings management (EM) within publicly traded banks in Nigeria. Audit fees function as a financial indicator of audit quality, encapsulating both the extent of audit effort and the complexity inherent in the auditor-client relationship. The incorporation of interaction terms between AF and each board characteristic—namely board size (BS), board independence (BI), board diversity (BD), board governance dynamics (BGD), and board orientation (BO)—facilitates an evaluation of whether elevated audit fees amplify or mitigate the efficacy of internal governance mechanisms in curbing earnings manipulation.

Table 5. The moderating Role of Audit Fees

Variables	Banks OLS	Banks OLS	Banks OLS	Banks OLS	Banks OLS
bs	0.454** (0.038)	0.048** (0.029)	0.047** (0.037)	0.049** (0.026)	0.049** (0.040)
bi	0.003 (0.551)	-0.066 (0.237)	0.005 (0.453)	0.006 (0.297)	0.005 (0.393)
bd	0.002 (0.920)	0.010 (0.687)	-0.201 (0.646)	0.006 (0.828)	0.012 (0.627)
bgd	-0.006 (0.464)	-0.006 (0.487)	-0.007 (0.415)	-0.071 (0.154)	-0.007 (0.418)
bo	0.016 (0.061)	0.014 (0.087)	0.014 (0.108)	0.014 (0.098)	0.041 (0.632)
af	0.491 (0.087)	-0.952 (0.208)	-0.247 (0.582)	-0.554 (0.138)	-0.034 (0.900)
af × bs	-0.074** (0.050)				
af × bi		0.013 (0.187)			
af × bd			0.040 (0.613)		
af × bgd				0.012 (0.151)	
af × bo					-0.005 (0.736)
fsize	0.971** (0.031)	0.730** (0.036)	0.574 (0.138)	0.822** (0.020)	0.645 (0.115)
roa	-0.135 (0.092)	-0.132 (0.115)	-0.129 (0.131)	-0.127 (0.131)	-0.129 (0.134)
cfo	-3.026*** (0.000)	-3.115*** (0.000)	-3.181*** (0.000)	-3.082*** (0.000)	-3.187*** (0.000)
Intercept	-12.187** (0.022)	-2.034 (0.623)	-4.610 (0.389)	-5.293 (0.064)	-6.435 (0.074)
Observations	132.000	132.000	132.000	132.000	132.000
R ²	0.377	0.364	0.360	0.366	0.359

Table 5 shows that board size (BS) has a positive and significant relationship with earnings management ($\beta = 0.049$, $p < 0.05$), indicating that larger boards enhance monitoring and improve reporting quality. The interaction between audit fees and board size ($AF \times BS$) is negative and significant ($\beta = -0.074$, $p < 0.05$), suggesting that higher audit fees strengthen the ability of larger boards to curb earnings manipulation—supporting DeAngelo (1981) and Donaldy & Massoudi (2025), who argue that well-resourced audits improve reporting reliability.

Board independence (BI) and its interaction with audit fees ($AF \times BI$, $\beta = 0.013$) are insignificant, indicating that increased audit fees do not enhance the monitoring role of independent directors. Likewise, board diligence ($AF \times BD$, $\beta = 0.040$) and board gender diversity ($AF \times BGD$, $\beta = 0.012$) show insignificant moderating effects, suggesting that audit expenditure does not materially influence the impact of meeting frequency or female representation—echoing Miladi & Chouaibi's (2021) view that gender diversity is driven more by organizational culture than audit intensity.

Board ownership ($AF \times BO$) is also insignificant ($\beta = -0.005$), showing that audit fees do not meaningfully alter the role of insider ownership in earnings management. Among controls, firm size ($\beta = 0.971$, $p < 0.05$) is positively significant, reflecting higher EM tendencies in larger banks, while ROA and CFO show the expected negative, significant effects ($p < 0.01$), indicating that more profitable and liquid banks engage less in EM.

Overall, audit fees act as a selective moderator—strengthening the governance effects of large boards but exerting minimal influence on other board attributes. This underscores the importance of aligning audit compensation with robust board structures to enhance financial discipline and reporting integrity within Nigerian banks.

4.2 Discussion of Findings

The findings provide strong empirical support for the view that effective corporate governance and high audit quality jointly reduce opportunistic financial reporting in the banking sector. Consistent with agency theory, board size and board ownership significantly curtail earnings management, indicating that larger boards and directors with equity stakes offer stronger oversight—aligning with Kajola et al. (2020) and Obigbemi et al. (2016). In contrast, board independence, diligence, and gender diversity show limited influence, echoing evidence from Habbash and Alghamdi (2017) and Miladi and Chouaibi (2021), and suggesting that structural compliance without genuine engagement or expertise does little to enhance reporting integrity.

Moderation results further show that audit quality

strengthens governance effects selectively: Big 4 auditors enhance the impact of board diligence, while higher audit fees reinforce the monitoring capacity of larger boards. These outcomes support DeAngelo's (1981) audit quality framework and Barghathi et al. (2018), who emphasize the role of reputable auditors in reducing accounting manipulation. However, insignificant interactions for independence, gender diversity, and ownership indicate that audit quality effectiveness is context-dependent, particularly in emerging markets with weaker institutions—consistent with Boulila Taktak and Mbarki (2014) and Amanamah (2024). Overall, the evidence underscores that strong auditing and well-structured boards improve earnings quality, but their success depends on genuine independence, professional competence, and rigorous regulatory enforcement.

5. Conclusion and Recommendations

This research aimed to investigate the moderating role of audit quality in the relationship between board characteristics and earnings management within publicly listed banking institutions in Nigeria. The study utilized a panel data analysis encompassing 34 banks from 2012 to 2022, employing discretionary accruals as an indicator of earnings management, derived from the Modified Jones and Kothari models. The empirical results yield significant insights into the interplay between internal governance mechanisms and external audit quality in shaping financial reporting behavior. The findings indicate that board size and ownership significantly and negatively influence earnings management, suggesting that larger boards and those with increased insider ownership effectively mitigate opportunistic accounting practices.

Conversely, board independence, diligence, and gender diversity exhibited no significant direct impact, implying that mere adherence to governance codes may not ensure effective oversight in the absence of meaningful engagement. Furthermore, the moderating analysis demonstrates that audit quality represented by audit firm size and audit fees plays an essential role in either reinforcing or diminishing these relationships. Specifically, the size of the audit firm enhances the efficacy of board diligence, while elevated audit fees bolster the monitoring function of larger boards. These findings highlight the necessity of aligning board governance structures with strong external audit mechanisms to enhance the credibility of financial reporting.

In conclusion, the study posits that enhancing audit quality through auditor independence, appropriate audit remuneration, and the engagement of reputable audit firms can significantly mitigate earnings manipulation and fortify confidence in Nigeria's banking sector. Subsequent inquiries ought to broaden

the scope of this investigation by integrating non-financial enterprises and conducting cross-national analyses to evaluate potential variances in the moderating impacts of audit quality across diverse sectors and regulatory contexts. Furthermore, longitudinal studies employing alternative proxies for earnings management may yield a more profound understanding of the changing dynamics associated with governance and the efficacy of auditing practices.

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