Audit Committee and Earnings Management in Quoted Manufacturing Firms in Nigeria

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Abstract
This study evaluates the audit committee impact on earnings management of listed manufacturing companies in Nigeria. The study uses secondary data which were extracted from ten (10) sampled manufacturing firms listed in the Nigerian Stock Exchange (NSE) for the period 2010-2019. The study used Random Effects Model (REM) for the analysis of data. The results showed that financial expertise of audit committee has significant negative impact on earnings management while audit committee tenure has an insignificant negative impact on earnings management. Furthermore, share ownership of audit committee has significant negative impact on earnings management. The study therefore, concludes that both the audit committee expertise and share ownership of audit committee enhance the financial reporting quality of manufacturing firms in Nigeria. Based on the impact of members of audit committee with financial expertise, the study recommends among others that, the board should ensure appointing the sufficient audit committee members that are experts on financial matters. Similarly, the study also recommends the enclosure of more members with substantial shareholdings in the audit committee. This can enhance their willingness to protect their investment and helps in proper monitoring and supervision, thereby reducing earnings management.

Keywords: Audit Committee, Earnings Management, Financial Expertise, Manufacturing Firms, Share Ownership.

1. Introduction
Audit Committee is a fundamental figure of corporate governance that is aimed at enhancing the quality of financial reporting through a transparent and truthful communication of both financial and non-financial information. The committee is also able to enhance good association with a company’s directors, internal auditors as well as the external auditors. Indisputably, the presence of a properly constituted audit committee is nowadays an obligation for all quoted firms in the United States of America and United Kingdom and also in Nigeria (Sarbanes-Oxley Act, 2002; The UK Corporate Governance Code, 2010 and Nigeria SEC Code, 2011). In Nigeria, the establishment of audit committee is decreed by the revised Companies and Allied Matters Act (CAMA). Section 359 (3) states that “In the case of public companies the auditor shall in addition, formulate a report to the audit committee which shall be constituted by the board of directors of a public company”. According to CAMA, Section 359 (4), the composition of the audit committee shall be of the equal number of directors and the representatives of the shareholders subject to a maximum of six members (CAMA, 2019). Obviously, the major aim of financial reporting is to offer financial reporting information of high-quality regarding economic entities, largely financial in nature, useful for making the economic decision within the
organizational and for stakeholders outside the organisation. According to Onyabe, Okpanachi, Nyor, Yahaya & Ahmed (2018) provision of qualitative financial reporting information is essential because it can certainly assist the shareholders as well as other stakeholders in decision making regarding investment, credit, and other resources allocation. The accounting scandals that took place in the early 2000s, evidently shows the significance of financial reporting quality to the stakeholders. Nonetheless, the interpretation of financial reporting quality remains difficult due to diverse financial reporting regulations, environments, procedures, and perceptions (Sylvester & Edith, 2016). One essential feature of quality issues in financial accounting is from the International Accounting Standard Board (IASB), which explains six (6) qualitative attributes of both enhancing and basic characteristics considered as essential for the accomplishment of their fundamental goal of communicating useful information: understandability, relevance, verifiability, faithful representation, timeliness and comparability (Aanu, Odianonsen, & Taiwo, 2015). These qualitative features will assist in curbing the menace of earnings management.

For that reason, this paper has empirically examined the audit committee impact on earnings management of quoted manufacturing firms. This paper comprises five (5) sections. Section one covered the introduction, section two (2) treated literature review while section three (3) disclosed the methodology of the study. Section four (4) of the study covered results and discussion. Finally, section five (5) gives conclusion and study recommendations.

1.1 Problem Statement
There have been frequent reported cases of firms’ malfunction in Nigeria that have brought great anxiety in the progress of corporate businesses. In banking sector alone, more than 20 banks were liquidated between 1994 and 2006, couple with the mass liquidation of banks in 2007 (Eriabie, 2016). Consequently, in 2009, the Central Bank of Nigeria (CBN) kicked out the Chief Executives Officers (CEOs) and managing directors of five commercial banks including their entire executive directors. Similarly, on 2, October, 2009, the CBN further announced the sack of additional three bank CEOs together with their board of directors due to unwarranted elevated level of non-performing loans (Adeyemo, Eriebie, Adetiloye, & Ben-Caleb, 2015). That was related to poor corporate governance system, the unscrupulous practices by the banks’ management, lack of good credit administration practice and the poor bank credit risk management practices. Going by these scandals recorded in recent times in Nigeria, worldwide organizations, financial regulatory authorities and academicians became greatly concerned about the issues of corporate governance in Nigeria (Madawaki & Amran, 2017). Similarly, this dilemma has brought suspicion in the minds of stakeholders on the sincerity and dependability of earnings claimed to be generated by the Nigerian firms (Bala & Gugong, 2015).

Many scholars are of the opinion that this dilemma can be attributed to the failure of audit committee to perform their duties and functions properly. Therefore, this situation encouraged scholars to consider it essential to appraise the impact of audit committee on earnings management but they recorded mixed findings. For instance, Li (2010), Bushman and Piotroski (2006) and Adeyemo, Eriebie, Adetiloye, and Ben-Caleb (2015) documented positive correlation, while others recorded negative correlation (Bala & Kumai, 2015). Moreover, other researchers documented weak correlation (Lin and Hwang, 2010). In Nigeria, it is noted that researches in this area mostly focus on banking sector with the expectation that this predicament mostly occurs in that sector. However, earnings management also occurs in other sectors, and this the justification of selecting manufacturing sector. Similarly, it is also noted that researches in this field generally have disregarded the contribution of audit committee tenure variable as an important factor for earnings management. Therefore, the issue of the period taken by the audit committee can have influence on their efficiency and ability to carry out their responsibility properly. Moreover, most of the prior researches have not sufficiently covered the scope of fill the existing gap. Studies of Sylvester and Edith (2016), Bilal, Chen, and Komal (2018), for instance, covered a period from 2008 to 2013. Okolie (2014) covered four years ranging from 2006 to 2010 and Al-Rassas and Kamardin (2015) covered the period of 2010 to 2016 which are relatively not sufficient. This current study covered ten (10) years ranging from 2010-2019.

1.2 Objectives of the Study
The primary objective of the study is to examine the audit committee impact on Earnings Management of quoted manufacturing firms. The specific objectives are:

- Evaluate the impact of audit committee financial expertise on earnings management of listed manufacturing firms in Nigeria.
- Evaluate the impact of audit committee tenure on earnings management of listed manufacturing firms in Nigeria.
- Evaluate the impact of audit committee share ownership on Earnings Management of listed manufacturing firms in Nigeria.
1.3 Research Questions
The following questions are formulated for the study:

- What is the impact of audit committee financial expertise on earnings management of listed manufacturing companies in Nigeria?
- What is the impact of audit committee tenure on earnings management of listed manufacturing companies in Nigeria?
- What is the impact of audit committee share ownership on earnings management of listed manufacturing companies in Nigeria?

1.4 Hypotheses of the Study
The hypotheses below are designed and tested for the study:

- $H_{01}$: Audit committee financial expertise has no significant effect on the financial reporting quality of listed manufacturing companies in Nigeria.
- $H_{02}$: Audit committee tenure has no significant effect on the financial reporting quality of listed manufacturing companies in Nigeria.
- $H_{03}$: Audit committee share ownership has no significant effect on the financial reporting quality of listed manufacturing companies in Nigeria.

1.5 Significance of the Study
This study produces reliable and consistent empirical evidence that supports the Nigerian manufacturing firms to be aligned with the worldwide paradigm shift from concrete resources and with audit committee attributes, it is hoped that this will improve the competitive standard of Nigerian manufacturing firms in the international market where audit has been declared obligatory for corporate firms.

The study can also be useful in offering them with valuable insight as they look for taking benefit of corporate reporting in improving their profitability, productivity, investment and business expansion. This study has also contributed to the audit committee and earnings management literature in addition to assisting regulators of Nigeria capital market in mounting the effectiveness of the audit committee listing rules. The study also, covers a period of ten years beginning from 2010 to 2019. The population of the study is entire listed Nigerian manufacturing firms.

2. Literature Review
2.1 The Concept of Earnings Management
Ahmad (2016) defined earnings management as an action taken by management of companies in generating profit. This practice reflects the interests of executive directors rather than the advantage to the shareholders. This definition indicates the reality of earnings management that can reveal false information about the performance of a firm. Alzoubi (2019) asserted that earnings management is of two categories. First, managers look at it as an opportunistic behavior for maximizing utility in handling debt contracts, compensation contracts and political cost. This is known as opportunistic earnings management. Secondly, earnings management is considered as the perception of efficient contract process, whereby managers are provided with the flexibility of protecting themselves and the firm to anticipate the unforeseen events to gain the partners involved in the contract (Umobung & Ibanichuka, 2017).

Al-Shaer, Salama, and Toms (2017), noted that earnings management is more liable to occur where a firm is usually unable to fulfill investors’ expectations or in the periods of unstable earnings. They further added that the latest accounting scandals documented indicate that managers occasionally mislead stakeholders concerning the firms’ financial performance by trying to present financial statement that do not offer a time and true representation of the firm’s value.

According to Amin, Lukvierman, Suhardjanto, and Setiany (2018), earnings management may happen as a result of the problem of agency. Firms’ managers could manage earnings to present false financial statements aimed at enhancing their status, hiding facts that stakeholders should know or manipulating contractual outcomes that is based on detailed accounting figures. The fundamental managerial instances to manage earnings are numerous. These comprise instances when a company reported a loss in the prior year, manipulating the prices of short-term stock and fulfilling capital market requirements amongst others (Akeju & Babatunde, 2017).
2.2 Audit Committee Attributes and Earnings Management

2.2.1 Audit Committee Expertise and Earnings Management

Expertise is one of the major attributes of audit committee. This includes both business operations, financial and accounting expertise. Financial expertise assists audit committee members to discover important corporate issues and ask intelligent questions capable of challenging management and external auditor to a larger extent regarding financial reporting quality (Li, 2010). It is commonly known that the essential task of the audit committee is to appraise the financial reporting system to guarantee the quality of financial reports, therefore, the sufficiency of financial and accounting expertise in the audit committee would improve its competence and its talent in detecting and averting earnings management. Several studies revealed that the efficiency of the audit committee is enhanced through the existence of financial experts in the committee (Kusnadi, Leong, Suwardy, & Wang, 2014). The findings of a good number of the prior researches maintain the negative connection between the expertise of the audit committee and earnings management. For instance, Dhaliwal, Naiker, and Navissi (2010) found that financial expertise is associated with a considerable decline in aggressive earnings management. Sharma and Kuang (2014) identified that financial expertise is related with a lower possibility of destructive earnings management, particularly when the expertise is originated by independent directors. Asiriuwa, Aronmwan, Uwuigbe, and Uwuigbe (2017); Bala and Gugong (2015); and Soliman and Ragab (2014) found that earnings management is associated negatively with audit committee expertise. For that reason, this study proposes a negative relationship between the audit committee expertise and earnings management.

2.2.2 Audit Committee Tenure and Earnings Management

Azzoz, Abdel, and Khamenee (2016) in their study determine that longer tenure of audit committee directors in the board is an essential aspect in identifying the efficiency of audit committees in conducting their scrutinizing functions. The finding of Albersmann and Hohenfels (2017) also disagrees that longer tenure of service can compromise the independence of audit committee directors by linking management and directors closer to each other. He therefore, records a positive relationship between the average audit committee members tenure and low earning quality measure, giving an inverse correlation between the regular tenure and earnings quality. Eriabie (2016) discover some proof for a non-linear correlation between the audit committee tenure of Big 4 audits and financial reporting quality. Their findings reveal that the equity risk premium reduces in the early years of the relationship between the auditor and client. Onyabe, Okpanachi, Nyor, Yahaya, and Ahmed (2018), conduct a study on the effect of audit committee tenure on the quality of annual reports in quoted commercial banks in Nigeria affirmed that audit committee tenure has no impact on firms’ earnings management.

2.2.3 Audit Committee Share Ownership and Earnings Management

Audit committee share ownership signifies that the members of audit committee rate of shareholdings in the firm. The audit committee members’ share ownership usefulness in taking care of the financial reporting procedure has been documented by numerous studies. The empirical proofs show that there is a potential correlation between share ownership and the financial reporting quality. Lin and Hwang (2010) opined that audit committee members independence with high rate of shareholdings can result to better extent of control in the operations of the company in order to defend their investments. Adeyemi and Fagbemi (2011) found that in companies where audit committee members’ share ownership is high, audit committee members may exercise unjustified influence to release an external auditor after submitting a going concern report to guard their vested interest. Conversely, it has been uncovered that share ownership can lead to higher alert by audit committee members, in suring that the firm carries out its responsibilities efficiently (Barth, Landsman & Lang, 2008). Therefore, a greater audit committee shareholding by members can really assist in improving the financial reporting quality by encouraging them to supervise more effectively. Directors with more shareholding will be encouraged to instigate and examine management reporting (Eriabie, 2016). He noted that this inducement is generally greater for corporate directors as compared to short-term investors whom they possibly have a long-term orientation.

2.3 Theoretical Framework

This study is supported by the agency theory in describing the correlation between audit committee attributes and earnings management of listed manufacturing firms in Nigeria. Audit committees conduct their duty in favor of shareholders and therefore an appropriate performing audit committee has a primary function in avoiding agency clash that may occur between shareholders and management. In the agency theory assumption, earnings management is realized when conflict of interests is solved in appropriate time a function that can be efficiently carried out by the audit committees (Adeyemi & Fagbemi, 2011).
According to agency theory, debt holders and shareholders operate as principals who seek to achieve maximum benefits from management serving as their agent (Madawaki & Amran, 2017). Due to the issue of separation of ownership and management, it is not easy for the shareholders to directly monitor the actions of management of their firm (Okolie, 2014). Thus, a system of controlling corporate governance is set up on behalf of the shareholders to distance managers from gaining self benefits that do not maximize shareholder earnings. This system of control is targeted at either preventing the manipulation of managers or aligning shareholders' and managers' incentives. The audit committee is an instance of such a corporate governance controls. This committee is an essential part of the decision control system for the inner supervision from the firms’ boards of directors (Lin & Hwang, 2010).

2.4 Review of Empirical Studies
Numerous researches have been conducted on the audit committee observing their various attributes which are considered to be drivers of financial performance or as mechanisms for controlling earnings management. Onyabe, Okpanachi, Nyor, Yahaya, and Ahmed (2018) in their study discover and conclude that audit committee tenure and expertise have an insignificant positive impact the Financial Reporting Quality while audit committee diligence and share ownership have significant positive correlation. Kusnadi, Leong Suwardy, and Wang (2014) observe that financial expertise and audit committee share ownership enhance the financial reporting quality through their interest in the firm and their professional knowledge. The formulation of audit committee members with adequate accounting and financial expertise can result in to positive significant market reaction.

Osarumwense and Aderemi (2016) find out the longer audit committee tenure as having negative relationship. This means that the shorter the audit committee tenure the better for the firm. This is because it will reduce the level of familiarity threat and consequently the earnings management. They also discover positive abnormal returns when an accounting expert is appointed to the audit committee. It is anticipated that the members of audit committee professionalism plays an important role in a manner they conduct their duties (Okolie, 2014). Waweru and Riro (2013) found that external auditors might decrease the audit committee’s monitoring role if they discovered that the audit committee does not have the requisite knowledge to comprehend technical financial and auditing reporting matters.

Soliman and Ragab (2014) found a negative significant correlation between an audit committee having one or more members with financial expertise and the occurrence of financial restatement. Their study also discovered that the financial expertise of the audit committee is correlated with a better financial reporting quality. Soliman and Ragab (2014) examined the relationship of audit committee experts with financial reporting quality, represented by earnings management. Their study discovers the presence of financial and accounting experts is important to reduce the extent of earnings management.

3. Methodology
In this study, correlation research method was employed. The sample of the study covers ten (10) listed manufacturing firms in Nigerian. The study made use of multiple correlation models to establish the impact of some major audit committee attributes on earnings management of listed manufacturing firms in Nigeria. In accordance with the research paradigm supporting this study and in line with the objective of this research, Ordinary Least Square (OLS) model was adopted as shown in the following model:

\[ EM_{it} = \beta_0 + \beta_1 A\text{CEXP}_{it} + \beta_3 A\text{CTEN}_{it} + \beta_4 A\text{CSOW}_{it} + \epsilon_{it} \]

Where:
EM = Measured by Discretionary accruals
ACEXP = Audit Committee Expertise
ACTEN = Audit Committee Tenure
ACSOW = Audit Committee Share Ownership
\(\epsilon_{it}\) = Error term
\(\beta_0\) = Intercept
\(\beta_1 \text{ to } \beta_5\) = Parameters to be estimated in the equation
EM = earnings management, measured using the residuals from discretionary accruals

The dependent variable of this study is earnings management while the independent variables are proxy of audit committee attributes (i.e. financial expertise, tenure and share ownership). The study employed secondary data
to evaluate the influence of audit committee attributes on earnings management of listed manufacturing firms in Nigeria. The sources of data collection for this study are the Nigerian Stock Exchange for 2010 – 2019 and the financial statement and accounts of the manufacturing firms for the years under study. Ordinary least square regression was used to run the regression using STATA as an instrument for data analysis. The study also uses the correlation in determining the associations among the variables of the study. Regression is used because the study found out the cause and effect of the variables separately. Finally, this study carried out robustness tests such as, Hausman test, Multi-collinearity and Heteroscedasticity test in order to enhance the validity of statistical inferences. To ensure the fitness of data to the model, the study conducts normality test of data in addition to the test for heteroscedasticity and multi-collinearity among the explanatory variables. Other tests conducted include the diagnostic test and the hypotheses test.

4. Results and Interpretations

Table 1 gives the statistics summary of the dependent and the independent variables where observations, minimum, maximum, mean and standard deviation of the data collected for the variables of the study are presented.

Table 1. Descriptive Statistics of the Variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Observations</th>
<th>Mean</th>
<th>Std Dev.</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>FRQ</td>
<td>100</td>
<td>0.04</td>
<td>0.03</td>
<td>-0.002</td>
<td>0.20</td>
</tr>
<tr>
<td>ACEPT</td>
<td>100</td>
<td>0.28</td>
<td>0.21</td>
<td>0.19</td>
<td>0.77</td>
</tr>
<tr>
<td>ACTE</td>
<td>100</td>
<td>0.56</td>
<td>0.51</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>ACSOW</td>
<td>100</td>
<td>0.06</td>
<td>0.14</td>
<td>0</td>
<td>0.34</td>
</tr>
</tbody>
</table>

Source: Descriptive Statistics Result using STATA 16

Table 1 presents the descriptive statistics for the dependent and the independent variables. Discretionary accrual which is the explained variable of the study has a minimum value of -0.002 and a maximum value of 0.20. The mean value of the DAC is 0.04 with a standard deviation of 0.03. This discloses that there is a low discrepancy in the nature in which the manufacturing firms engaged in earnings management. The table also implies that the average figure for audit committee expertise is 0.28 and the standard deviation is 0.21. This implies that on average about 28% of the audit committee members are financial expertise and these guides are similar in the sampled manufacturing firms as shown in the standard deviation figure. The minimum and the maximum value is 0.19 and 0.77 respectively.

The table also implies that the lowest and highest figures of the audit committee tenure are 1 and 3 respectively. The result also implies that Audit committee share ownership has the lowest and highest figures of 0 and 0.34 respectively. This is because it is a dichotomous variable. The mean figure of the audit tenure is 0.56 and a standard deviation of 0.51. The mean figure is an indication that about 56% of the members of audit committee stay for at least three years in the committee. The standard deviation indicates that there is a near cluster of the variables across the mean. In addition, the audit committee share ownership shows an average value of 0.06 and a standard deviation of 0.14 indicating that there is a broad dispersion of the variables from the mean. The minimum and the maximum figure of audit committee is 0 and 0.31 respectively.

Table 2. Normality test

<table>
<thead>
<tr>
<th>Variables</th>
<th>Observations</th>
<th>W</th>
<th>V</th>
<th>Z</th>
<th>Prob&gt;z</th>
</tr>
</thead>
<tbody>
<tr>
<td>DAC</td>
<td>100</td>
<td>0.76</td>
<td>23.55</td>
<td>7.23</td>
<td>0.00</td>
</tr>
<tr>
<td>ACEPT</td>
<td>100</td>
<td>0.82</td>
<td>17.74</td>
<td>6.56</td>
<td>0.00</td>
</tr>
<tr>
<td>ACTE</td>
<td>100</td>
<td>0.97</td>
<td>0.05</td>
<td>-6.69</td>
<td>1.00</td>
</tr>
<tr>
<td>ACSOW</td>
<td>100</td>
<td>0.69</td>
<td>33.46</td>
<td>7.84</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Source: Sharpiro wilk test for normality result using STATA 16
Table 2 presents and discusses the results of data normality test, multicollinearity, heteroscedasticity and hausman specification test. The normality of data was tested using Sharpiro wilks test at 5% level of significant. The result in the table 2 shows that DAC, ACEXP and ACSOW have significant p-value. This indicates that the individual data is not normally distributed. Additionally, the table shows that audit committee tenure is normally distributed as shown from their insignificant p-value.

4.1 Multicollinearity Test

Table 3. Multicollinearity test

<table>
<thead>
<tr>
<th>Variables</th>
<th>VIF</th>
<th>I/VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACEXP</td>
<td>1.09</td>
<td>0.91</td>
</tr>
<tr>
<td>ACTE</td>
<td>1.02</td>
<td>0.98</td>
</tr>
<tr>
<td>ACSOW</td>
<td>1.04</td>
<td>0.96</td>
</tr>
<tr>
<td>MEAN VIF</td>
<td>1.04</td>
<td></td>
</tr>
</tbody>
</table>

Source: VIF result using STATA 16

The conventional postulation of OLS regression model among others is the normality of error terms distribution and their independence. The independent variables are not absolutely correlated i.e. absence of multicollinearity; and the variance of error terms is constant i.e. Homoskedastic. When these assumptions are met, the estimators are biased and cannot be used in reaching any conclusion.

However, the results from Table 3 proved that there is no occurrence of undue connection among the explanatory variables, because the least tolerance value (TV) is 0.96, whilst the peak variance inflation factor (VIF) is 1.06. The decision rule for the Tolerance Value is that any value of 0.1 and below and the VIF value of 10 and above entail the existence of multicollinearity in the estimation (Sharma & Kuang, 2014).

The Heteroscedasticity test was also conducted to check the homoscedasticity assumption of a regression model. To test for the occurrence of heteroscedasticity, this study adopts the Breusch- Pagan or cook – Weisberg. The result shows that chi2 is 37.54 and the prob>chi2 is 0.0000 which is considerable at 1% level of significance. This indicates that there is the existence of heteroscedasticity.

The Hausman specification test was carried out to select the most suitable model for the study. The result indicates that at 5% significance level, the chi2 is 10.65 and the prob>chi2 is 0.0589 which is not significant. This insignificant p-value revealed that Hausman test supports random effect model. In addition, the study carried out Breusch and Pagan Lagrangian multiplier test for random effects to find out if there is a panel effect, to select between the OLS regression and random effect result. The result showed a chi square of 70.72 and Prob > chibar2 is 0.0000 revealing that there is a panel effect. Therefore, the study interpreted the random effect model.

Table 4. Random Effect Regression Result

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficients</th>
<th>Std error</th>
<th>t-value</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACEXP</td>
<td>-0.38</td>
<td>0.05</td>
<td>-5.82</td>
<td>0.00</td>
</tr>
<tr>
<td>ACTE</td>
<td>-0.00</td>
<td>0.00</td>
<td>-0.99</td>
<td>0.35</td>
</tr>
<tr>
<td>ACSOW</td>
<td>-0.01</td>
<td>0.02</td>
<td>-4.11</td>
<td>0.16</td>
</tr>
<tr>
<td>CONST</td>
<td>0.01</td>
<td>0.01</td>
<td>1.25</td>
<td>0.21</td>
</tr>
<tr>
<td>R2 overall</td>
<td>38.72</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f-statistic</td>
<td>65.64</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>p-value</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Random effect model result using STATA 16

Table 4 shows the random effect regression result chosen for the study going by the hausman test. The result shows that the explanatory variables, audit committee attributes (audit committee financial expertise, audit committee tenure, and audit committee shareholder ownership) can explain up to 38.72% of the shift in the earnings management of the sampled listed manufacturing firms while the remaining percentage is clarified by other factors which the model did not capture. The F- statistics chi square is 65.64 with a p-value of 0.0000 which shows that the
model is fitted at 1% level of significant. The hypotheses of the study were tested from the regression result shown in Table 4.

**Hypotheses 1:** audit committee expertise has no significant effect on earnings management of listed manufacturing companies in Nigeria.

The result from Table 4 indicates that audit committee financial expertise has a negative significant impact on the financial reporting quality of listed manufacturing firms in Nigeria as shown by the coefficient of -0.38 with the P-value of 0.000. This is statistically significant at 1% significance level. That is, audit committee expertise is significant in decreasing the earnings management of listed manufacturing firms in Nigeria. In view of this, the study rejects hypothesis one which says that, audit committee financial expertise has no significant effect on Earnings Management of listed manufacturing firms in Nigeria.

**Hypotheses 2:** audit committee tenure has no significant effect on earnings management of listed manufacturing companies in Nigeria.

The results from the table 4 shows that audit committee tenure has a negative and insignificant impact on financial reporting quality of listed manufacturing in Nigeria, looking at the coefficient of 0.00 and p-value of 0.35. Therefore, going by this statistical proof, the study accepts the null hypothesis which states that audit committee tenure has no significant effect on earnings management of listed manufacturing firms in Nigeria.

**Hypotheses 3:** audit committee share ownership has no significant effect on earnings management of listed manufacturing companies in Nigeria.

Table 4 indicates a significant negative correlation between audit committee share ownership and financial reporting quality of listed manufacturing firms in Nigeria; This is proved from the coefficient of -0.01 and a p-value of -0.11. Therefore, going by this statistical proof, the study rejects the third hypothesis which says that audit committee share ownership has no significant effect on earnings management of listed manufacturing firms in Nigeria.

### 4.2 Discussion of Result

From the tests carried out on the data collected and the results analyzed, this study reveals that audit committee attributes have the correlation with earnings management of listed manufacturing firms in Nigeria. The result from the study shows that audit committee financial expertise in listed manufacturing firms in Nigeria has positive impact on the financial reporting quality of sampled firms. This implies that any addition in the financial expertise of the members of the audit committee will decrease the earnings management of listed manufacturing firms in Nigeria. This shows that audit committee financial expertise improves the manner in which the audit committee examines the firm’s financial statement. It also reveals that audit committee members’ expertise assist in detecting misstatement and decreases earnings management. This finding is in line with the findings of previous studies such as De-Vlamink and Sarens (2015); Dhaliwal, Naiker, and Navissi (2010); Osarumwense and Aderemi (2016); Lin and Hwang (2010), Kusnadi, Leong Suwardy, and Wang (2014), etc. who found that audit committee financial expertise has positive and significant effect on financial reporting quality thereby reducing earnings management. However, studies conducted by Onyabe, Okpanachi, Nyor, Yahaya, and Ahmed (2018) do not concur with this finding.

This study also found that audit committee tenure has an insignificant negative impact on financial reporting quality of manufacturing firms in Nigeria. Table 4 shows that audit committee tenure has a coefficient of -0.00 and p-value of 0.35. This implies that the earnings management may not necessarily change with the decrease or increase in audit committee tenure. However, this finding agrees with the findings of Onyabe, Okpanachi, Nyor, and Yahaya (2018) and Waweru and Riro (2013) who found that audit committee tenure has an insignificant effect on earnings management.

However, it contradicts the findings of other researchers such as Adeyemi and Okpala (2011) and Okolie (2014) who found that when the audit committee stays for a longer term, they may likely build up a close relationship with the management that can weaken their degree of independence which will ultimately compromise the financial reporting quality and result in earnings management.

The regression result from Table 4 also showed that audit committee share ownership has a t-value of -4.11, a coefficient of -0.01 and a p-value equal to 0.003 which is significant at 1%. This indicates that audit committee share ownership has a significant negative impact on discretionary accruals. The coefficient of -0.01 shows that as members of the audit committee are holding more than one share ownership, there will be a decline in discretionary accruals, therefore, increasing earnings management of listed manufacturing firms in Nigeria.
further means that audit committee share ownership has positive effect on earnings management. This can result from the level of readiness of the audit committee to guard the interest of shareholders of whom they are part of them. Therefore, audit committee share ownership is key to the improvement of their monitoring skills and also reducing the earnings management of the manufacturing firms in Nigeria. This finding is in line with the study by Adeyemo, Eriebie, Adetiloye, and Ben-Caleb (2015); Aanu, Odianonsen, and Taiwo (2015); Alzoubi (2019); Amin, Lukviarman, Suhardjanto, and Setiany (2018). They found a positive correlation between audit committee share ownership and financial reporting quality.

5. Conclusion and Recommendations
In view of the findings and discussion, as well as relevant literature reviewed, the study comes to conclude that the financial expertise of the audit committee decreases the earnings management of quoted manufacturing companies in Nigeria. Furthermore, it is also concluded that longer audit committee tenure does not have influence on the earnings management of listed manufacturing companies in Nigeria. The study also concludes that an increase in audit share ownership of audit committee decreases the earnings management in the manufacturing firms in Nigeria. In line with the findings and the conclusion of this study, it is recommended that the board of directors of manufacturing firms should consistently engage the services of audit committee members with expertise. This is because such committee member will be able to choose and implement audit process capable of prompting the management in performing their duty with accuracy and integrity. This will also assist in checkmating the operations of the executive directors and limit the instance of earnings management.

Similarly, the study also suggests the inclusion of more members with substantial shareholding in the audit committee because of their willingness to protect their investment helps in proper monitoring and supervision, thereby reducing the possibility of earnings management. Furthermore, more researches may be required to be carried out on the other audit committee characteristics in other sectors apart from manufacturing companies like consumer goods, oil and gas industrial goods sectors, etc.

References


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