IMPACT OF AUDIT QUALITY AND BOARD DIVERSITY ON EARNINGS MANAGEMENT OF LISTED DEPOSIT MONEY BANKS IN NIGERIA

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ABSTRACT

The study examined the impact of audit quality and board diversity on the earnings management of listed deposit money banks in Nigeria. Audit quality was proxied by audit firm size, audit independence, and audit tenure while board diversity was proxied by board size, board composition, and women directors. The study employed the use of Panel multiple regression techniques to analyse the data collected from 13 listed deposit money banks in Nigeria covering the periods of 2010-2020. The results show that audit firm size, audit independence, audit tenure, board size, board composition, and women directors all had an inverse relationship with earnings management, however, all the relationships were found to be insignificant. Based on the findings, audit quality and board diversity has no impact on earnings management. The study, therefore, recommends amongst others that listed deposit money banks should always make use of Big4 audit firms in their auditing activities.

Key Words: Earning Management**,** Audit Quality, Board Diversity

INTRODUCTION

In 2001, Worldcom, the world's largest telecom firm inflated its earnings on its profit and loss statement by nearly 4 billion US dollars, so also was Tyco in 2002, where 600 million dollars was stolen by the

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then CEO Dennis Kozlowski. The case is not different with other firms like Xerox the photocopying and printing giant in America in 2002 which also had a scandal of wrong disclosure of earnings worth 2 billion US dollars equivalent to 1.3 billion pounds. The case of the financial scandal was also discovered in HealthSouth where the misappropriation of earnings worth 2.8 billion US dollars was carried between the periods of 1996 to 2002. Adelphia Communication Corporation in Pennsylvania in 2002 became bankrupt due to their fraudulent record-keeping in an attempt to cover up 250 million dollars of debt, so also was Parmalat in Italy in 2003 among others. This attracted the attention of many professionals, regulators, researchers, and other stakeholders (Dakhlallh, Rashid, & Wan, 2021) while putting a question mark on the quality of audits carried out in these organizations. This problem has been narrowed down to earning management, where managers manipulate financial reports to produce a good image of themselves and the firms they manage. Hence, luring unsuspecting investors.

In Nigeria, a similar incident has also played, calling into question the credibility of financial reports that lead to business failures (Bala, Amran, & Shaari, 2020). For example, in November 2006, an accounting scandal was reported at Cadbury Nigeria Plc, which raised additional questions regarding the quality of financial reporting (Itsueli, 2006). In addition, the practice of earnings management has increased in recent years, especially in the Nigerian banking sector (Amahalu & Beatrice, 2017).

Due to the lack of confidence in the financial report, today, most users of financial statements do not count accounting earnings as a major yardstick for performance evaluation as well as for decision-making(Abdelkarim & Zuriqi, 2020). According to Alves,(2013) and Eze (2017), manipulation of earnings reduces the confidence that investors have in the firm. On the other hand, the board of directors, which is an important internal corporate mechanism responsible for mitigating conflicts between executive managers and shareholders, engaged most time in earnings management by using their judgments in preparing financial statements with the intention not to report the firm's actual

economic performance or in order to gain benefit from the "adjusted figure" (Hussainey, 2009).

The struggle by organizations to present an increase in their financial position or profitability makes managers delve into different acts, one of which includes the deliberate attempt to manipulate reports to deceive the stakeholders on the firm's economic and financial position, or rather use their personal intention to manipulate financial reports which is used to gain income from contracts and other activities. This has generated much interest among shareholder, policymakers and researchers among others. This is because the earnings management trend has been experienced in developed countries and even in developing countries of which Nigeria is among.

This suggests that earnings management is a key challenge for stakeholders in the Nigerian corporate environment since it has led to corporate scandals (Abubakar, Usman, Anuforo, & Alhaji, 2021). The challenges of the banking sector, such as the collapse of Oceanic Bank and Intercontinental Bank, can be attributed to fraudulent financial reports (Ibrahim, 2015). The event called the Economic and Financial Crime Commission (EFCC) to investigate the top management of these banks. From the international boundaries and Nigeria to be precise, these issues of accounting have diminished the confidence of investors in the quality of reports produced annually by big firms and even their financial activities call for alarm (Abbas, 2020). The repercussion of this is that there will be a continuous increase in skepticism in the mind of investors, shareholders and other stakeholders on the credibility of financial reports of corporations in Nigeria. The question is, despite the practice of policies and regulations that guide the activities of these banks, there are still increased reports of manipulations by managers. As such, it is imperative to examine the effects of audit quality and board diversity on the earnings management of banks. Hence, this study is will find out the possible ways the level of earnings manipulations which is seen as "loan loss provision" could be reduced and the investors' confidence restored.

In mitigating the problem of earning management, audit quality and board diversity have been identified as a key factor to mitigate this

menace. According to Amahalu and Beatrice, (2017), audit quality ensure the provision of financial statements that are devoid of material misstatements (including deliberate and unintentional mistakes), reduces information asymmetry between management and shareholders, and helps to protect the interests of shareholders. Therefore, high audit quality is related to the high level of information quality in financial statements and a compromise in audit quality will depend on audit firm size, the independence of the audit firm and the span (audit tenure) of time the auditor conducting a statutory audit of a company will spend before a new audit firm is engaged (Medhat, Guindy, and Basuony, 2018). Also, the diversity of the board in term of their age, race, ethnic origin, gender, and socio / cultural identity (Ramsha, Nasir, & Shahzad, 2020), the number of women director within the board (Shahwan & Almubaydeen, 2020) and the size of the board (Yu, 2013) have a significant effect on earning management. Although, this have produces controversial evidences.

In extant literatures, there are divergent views on the relationship between audit quality and earnings management of firms. The works of Tijjani (2015), Shayanfar (2016), Houque, Ahmed and Zijl (2015), Oyebamiji (2020) are of the opinion that big four audit firms are in better position to checkmate the activities of opportunistic accounting by management than smaller ones, while other studies such as Memis and Cetenak (2012), Hassan and Ibrahim (2014), and Yusuf (2020) posit that, the size of the audit firm does not matter but the presence of auditor's tenure and the compensation paid plays a prominent role in mitigating earnings management to improve quality of accounting numbers. However, some studies Farouk and Shehu (2014) and Gulzar and Wang (2011) did not see audit firm size and audit independence as strong audit quality of preventing unethical accounting by managers, but with the presence of number of the board members, non-executive directors and women directors on the board, managers are prevented from manipulating accounting numbers when preparing financial statement that affect the reported earnings.

Therefore, these controversies indicate the position of literature on the audit quality; board diversity and earnings management are

mixed and inconclusive findings. Though rare studies have attempted to look into the issue, however, there is a need for more studies to be conducted especially in the listed DMBs in Nigeria so that these results can provide a ground for comparison and generalization.

In Nigeria, studies in the area of have considered most of the variables in a separate causal effect to earnings management. Studies like Salihi and Jibril (2015) looked at board size and its effect on earnings management, others like Eze (2017) considered some of the variables like audit firm size, audit independence and board size as components of corporate governance mechanisms. However, there are few related studies that have considered looking at audit quality and board diversity and the role they play on earnings management. A combination of these variables can provide and insight into scenario being studied which can build upon the findings of previous studies. Hence, this study examine the audit quality and board diversity on the earnings management of listed deposit money banks in Nigeria.

LITERATURE REVIEW

Conceptual Clarification

Earnings management: Earnings management is seen as an attempt by management to induce, or influence or manipulate reported earnings by using specific accounting method or changing methods; recognizing one-time noncurrent items, deferring or increasing expenses or revenue transactions or using other methods designed to influence short term earnings (Rahman et al., 2013). Hussainey (2009) claim that earnings management occurs when the managers use their judgments in preparing financial statements with the intention not to report the firm's actual economic performance or in order to gain benefit from the "adjusted figure".

Audit Firm Size: Audit firm size is seen as a means of portraying quality in audit, this is because stakeholders believe that bigger audit firms provide the highest quality (Tan, 2020). The bigger audit firms have more power and resources to provide better quality audit, because their interest is to obtain more respect and trust in the market (Amahalu & Beatrice, 2017). However, it is believed that due to access to more

resources, the big audit firms are at advantage to train their auditors for quality audit; the big audit firms will provide better quality audit services (Tepalagul & Lin, 2015). Larger auditing firms are expected to have bigger clients; thus, it is expected that big auditors should discover distortions within the financial statements (Alhadrami, Rafiki, & Sarea, 2020).

Audit Firm Independence: The independence of the audit firm for the purposes of this study is proxy with audit fee. Dakhlallh, Rashid, and Wan (2021) argued that the level of audit fees could affect the independence of public accountants' because the big fee may make accounting firms become reluctant to oppose the will of the management, while small audit fee can limit the time and cost required to perform complete audit procedures that will produce quality audit. Audit fee is a key determinant of audit quality. According to Chen, Cheng, and Wang (2015), independent auditors tend to provide a monitoring that is very effective in richer information environment. In other words, audit independence leads to richer information that is deviod of manipulations by managers. Audit independence provides a framework for effective monitoring which leads to reduce earnings management (Idris, Siam, & Nassar, 2018).

Audit Tenure: Audit tenure is the span of time the auditor conducting a statutory audit of a company will spend before a new audit firm is engaged. Medhat, Guindy, and Basuony (2018) argued that the longer the auditor is contracted to audit the lower the audit quality as a longtime relationship with client may lead to compromise. Hence, the auditor may fail to maintain a professional attitude. Audit firm tenure is one of the indexes that is expected to constrain earnings management, unlike the proposition that longer auditor tenure impairs auditor independency because of the prior knowledge about the firm's accounting information and the close relationships with the management or owners; whereas auditors experience and knowledge about the client with the length of the audit tenure may lead to higher audit quality (Garcia-Bladon, Argiles-Bosch, & Ravenda, 2020).

Board size: The size of the board can significantly influence the direction and level of earnings management. Apart from thinking about

the size of the board, it is expected that, when board members consist of more non-executive directors, they will be better to monitor the management activities and thus mitigate the opportunistic tendencies of the managers to manipulate accounting earnings. It can also be argued that as non-executive directors do not participate in the day-to-day work of the organization, they have the knowledge of what is happening within the organization in order to protect their investments and other investors.

Board Composition: This is a proxy for board diversity. It is seen as a change in age, race, ethnic origin, gender, and socio / cultural identity among the employees of the company and the diversity of the Board of Directors in terms of gender, board size and board composition has recently brought scholars attention to its impact on earnings management (Ramsha, Nasir, & Shahzad, 2020). It can also be presented in terms of the Board expertise, managerial background, personality, learning styles, education, years and values. Therefore, the characteristics of the size of the board, the composition of the board members, in terms of the ratio of non-executive directors in relation to the number of directors and the women director are all components of board diversity (Shahwan & Almubaydeen, 2020).

Women Directors: This is a proxy for board diversity. Women's directors are expected to be effective in meeting attendance and observe more to ethical codes and standards than their male counterparts(Khalil & Ozkan, 2016).To support the subsequent assertion, Bala, et al., (2020) believe that firms with an increased number of women seating on their boards tend to have increased performance overtime. The increased performance enjoyed by firms with more women on their boards has been tied to the view that women are less prone to unethical behavior in the workplace in order to receive financial awards (Alhadrami, Rafiki, & Sarea, 2020). However, it will not be out of place to examine gender diversity with the possibility of earnings management of listed Deposit Money Banks in Nigeria.

EMPIRICAL REVIEW

The relationship between audit firm sized as proxy for audit quality and earning mangement have been widely addressed in extant literature with conflicting evidence (Harahap, 2021; Iimiah, 2021; Islamiati & Suryandari, 2021; Obeidat, 2021; Tan, 2020; Kurawa and Ishaku, 2020; Sutrisno, 2019; Hoang and Nguyen, 2018). For example, Harahap (2021) in a study on manufacturing companies listed in IDX discovered that there is no relationship between firm size and earnings management of manufacturing companies.

In another related study that employed panel analysis, Iimiah (2021) reported that audit firm size and real earnings management has a significant relationship with earnings management. Applying similar method of data analysis in Indonesia, Tan (2020) was of the opinion that firm size have a significant influence on earnings management. Contrary to Iimiah (2021) and Tan (2020), the study by Hoang and Nguyen (2018) reported a negative effect of firm size and real earnings management in Vietnamese from of 241 companies, using the GMM estimator, while Sutrisno (2019) also reported a negative effect in Indonesia.

In Nigeria, a study by Kurawa and Ishaku, (2020) that employed the Arellano-Bond dynamic panel data estimation technique on listed non-financial companies in Nigeria reported a negative impact of audit firm size on earnings management. Furthermore, Tijjani (2015) also found a negative and significant relationship between audit firm size and earnings management of listed building material firms in Nigeria.

Other evidence reported that larger firm size is associated with higher sustainability (Islamiati and Suryandari, 2021), profitability (Obeidat, 2021), a negative effect on stock return (Nuryaman, 2013) and mixed evidence on discretionary accruals (Soliman and Ragab, 2014; Yasar, 2013). In other related studies, Kjaerland, Haugdal, Sondergaard, and Vagslid (2020) found that audit firm independence positively affect earnings management in the Oslo stock exchange. Likewise, Okolie (2014) reported a negative relationship between audit independence and earnings management in Nigeria.

In studies that considered firm tenure as a proxy for audit quality in relation to earnings management, Ramadhan and Sumardjo (2021), reported that audit tenure and quality control system have no significant impact on the going concern audit opinion. In the same vein, Kurawa and Ishaku, (2020) examined the impact of audit quality while using audit firm tenure as one of the proxies on earnings management in Nigeria. The study concentrated on listed non-financial companies in Nigeria and the study employed the use of an Expost-Facto research design. The study however noted that audit firm tenure has a positive impact on earnings management.

RESEARCH METHODOLOGY

Theoretical Underpinning and Model Specification

The theory underpinning the study is the Agency theory. The Agency theory views board of directors as the agent of the shareholders. As such, they are obliged (management) to act in the best interest of shareholders. In the same vein, the theory suggested that agency cost is a way out of agent-principal conflicts of interest and the answer to help reduce agents and principal conflicts of interest is audit (Jensen & Meckling, 1976). The role of audit minimizes discretionary behavior by management and managers who are responsible for protecting a firm's assets to the best interest of the owners may misuse such assets or fail to maintain them, and such actions are cannot be observed by the owner and potential investors (Medhat, Guindy, & Basuony, 2018).

In specifying the model, the study begins with the model as specified by chang *et al* (2008). The model is a discretionary loan loss provision model for determining residual in the financial industries. This is therefore presented mathematically as such:

$$LLP_{it} = \beta_{0it} + \beta_1 CO_{it} + \beta_2 B_BAL_{it} + \varepsilon_{it} \quad -- \quad (1)$$

Where: LLP = loan loss provisions; CO = loan charge-offs; B_BAL= the beginning balance of allowance for bad debts, ε = residuals and it = firm and year

Furthermore, in analyzing the effect of audit quality on earning management in the listed deposit money banks in Nigeria, the specification below emerge:

$$EM = \beta_0 + \beta_1 AFS_{it} + \beta_2 AFT_{it} + \beta_3 AFI_{it} + \beta_4 BS_{it} + \beta_5 COMP_{it} \beta_6 WDIR_{it} + \varepsilon \quad (2)$$

Where: EM = Earnings management; AFS = Audit firm size; AFI = Audit firm independence; AFT = Audit firm tenure; BS = Board Size; COMP = Board Composition; WDIR = Women Director; β_0 = Constant; β_1- β_6; = coefficient of the parameters; it = firm and year; Ɛ = error term.

DATA, SOURCES OF DATA, AND METHOD OF ESTIMATION

Panel data from secondary sources was considered for this study. Data used were sourced and extracted from the audited financial reports and accounts of the selected firms within the period of the study. The population of the study consists of 14 listed deposit money banks in the Nigerian Stock Exchange as at 31st December 2020. Out of the 14 banks; Jaiz Bank was not listed on the Nigerian stock exchange till February 9, 2017. The researcher, therefore, applied a purposive sampling technique to remove Jaiz bank from the list. The remaining 13 banks form the sample size for the study and cover the period 2010-2020.

The study used both descriptive and econometric tools of analysis to analyse the data. Specifically, the study adopted Panel regressions technique to ascertain the effect of the relationship between the dependent and independent variables of the study. Numerous diagnostic assessments were steered in establishing the reliability of the regression results to ensure that they give unbiased estimations. They were steered to enhance the reliability and validity of the statistical results of the findings. These robustness tests include normality, multicollinearity, heteroscedasticity and Hausman specification test.

RESULTS AND DISCUSSION

The statistical properties below in Table 4.1 below show the mean, standard deviation, minimum value, maximum value, skewness and kurtosis. This include; Earnings management, Audit firm size, Audit firm independence, Audit firm tenure, Board Size, Board Composition and Women Director of the 13 banks for the period 2010-2020.

Table 4.1: Descriptive Statistics

Variable	Mean	Std. Dev	Minimum	Maximum	Skewness	Kurtosis
EM	.02410	.00626	.01177	.05439	1.6264	7.8888
AFS	.91608	.27823	0	1	-3.0014	10.0083
AFT	.82517	.38115	0	1	-1.7122	3.9319
AFI	5.2232	.28991	4.6989	5.9590	.4644	2.4754
BS	13.5944	2.6196	9	20	.3126	2.5465
BC	.59048	.16865	11	92	.3024	3.0952
WDIR	.20860	.11916	0	66	.8949	4.8855

SOURCE: ***STATA Output 2021***

Findings as seen in Table 4.1 shows that earnings management (EM) of listed deposit money banks in Nigeria with a mean value of .02410 and standard deviation of .00626, with minimum and maximum values of .01177 and .05439 respectively. This implies that the average return on earnings management of listed deposit money banks in Nigeria is 2% and the returns range from .01177 to .05439 in the period under study with a deviation of .00626.

In the same vein, Audit firm size (AFS), Audit tenure (AFT), Audit independence (AFI), Board size (BS) and Board Composition (BC) with a mean of .91608, .82517, 5.2232, 13.5944 and .59048 respectively, and standard deviation of .27823, .38115, 2.8991, 2.6196, and .16865 respectively, implies that Audit firm size, Audit tenure, Audit independence and Board size as proxy for audit quality, strongly contribute to the earnings management of listed deposit money Banks in Nigeria during the period of study with small dispersion of the data from the mean.

However, the mean of the women directors of the listed deposit money Banks in Nigeria is .02860 with a standard deviation of .11916. This shows that the average contribution of women directors in earning management is approximately 3% and lower than other audit quality variables considered in the study. While it dispersion is 50% the size of its contribution.

NORMALITY TEST

In order to prove and further substantiate the absence of outliers or extreme values among the variables, some robustness tests were conducted which include Shapiro-Wilk (W) test for normal data and diagnostics test. The full result of the test is attached as an appendix.

Table 4.2 iResult of Normality Test value

Variable	Obs	Z	Prob>z
EM	143	6.094	0.00000
AFS	143	6.078	0.00000
AFT	143	3.624	0.00014
AFI	143	3.067	0.00108
BS	143	1.069	0.14250
BC	143	4.192	0.00001
WDIR	143	4.046	0.00003

Source: STATA Output, 2021

Considering the result from the normality test in table 4.2, it is seen that the observations are complete which is they are 143 as

presented in the beginning, the result is therefore based on a strong panel. Earnings management was seen to have a p-value of .00000, which implies that the data is not normally distributed. AFS also had a p-value of .00000 which also implies that the data is not normally distributed. AFT had a p-value of .00014 which is not above .05 and this implies that the data is not normally distributed. AFI was also seen to have a p-value of .00000, hence signifying that the data is not normally distributed. BS had a p-value of .14250 which is above .05, hence the data is normally distributed. BC and WDIR were seen to have p-values of .00001 and .00003 respectively. This implies that the data is not normally distributed. Hence table 4.3

Table 4.3 Correlation Matrix

VARIABLES	EM	AFS	AFT	AF	BS	C	WDIR
EM	1.0000						
AFS	0.0663	1.0000					
AFT	-0.1488	0.1263	1.0000				
AFI	-0.3933	0.2719	-0.1711	1.0000			
BS	-0.1169	0.0496	-0.1420	0.0884	1.0000		
BC	-0.0066	0.1029	0.0392	0.2168	0.2735	1.0000	
WDIR	-0.1362	-0.1969	0.0256	0.585	-0.1388	-0.3022	1.0000

Source: STATA Output, 2021

From Table i4.3, the association between audit firm size (AFS) and earnings management of listed deposit money Bank in Nigeria show a positive and is significant at i1% level as indicated by the correlation coefficient of 0.0663iwith a significant p-value of 0.000. This shows there is a strong association between audit firm size with the earning management of the sample firms.

Moreover, Audit firm tenure shows significant negative association on earnings management of the of listed deposit money

Bank in Nigeria. With the correlation coefficient -0.1488 which shows a negative association between listed deposit money Bank and earnings management (EM) with the correlation coefficient of 15% and it is statistically significant at 1% (p-value of 0.0000).

The Table further showed negative association between Audit fee independent (AFI) and earnings management of the listed Deposit money Bank in Nigeria of the sampled firms, from the correlation coefficient of **-**0.3933 which is statistically insignificant at 1% (p-value of 0.0000). The relationship of the independent variables among themselves is negatively correlated.

Table 4.3, it can be seen that the negative association between Board size (BS) and earnings management of listed deposit money Bank in Nigeria with a coefficient of -0.1169. This shows that there is a negative association between Board size and earnings management of the sample firm at i1% level as attested. The correlation coefficient of -0.1169 indicates a negative association exist between Board size and earnings management (EM). Also Board composition (BC) indicates a negative correlation between Board composition and earnings management of the sample firm in Nigeria with a coefficient of -0.0066i which is statistically insignificant with a p-value of i1% which has a negative association. This indicates that board size has negative impaction earnings management of listed deposit money Bank in Nigeria.

Lastly, Women director (WDIR) of the firm is negatively correlated with earnings management. The values of -0.1362 of the variables indicated with the p-values of 0.0000 that association between women director negatively affects the earnings management of listed deposit money Bank in Nigeria.

MULTICOLLINEARITY TEST

This study adopts further test for excessive correlation using the Variance Inflation Factor (VIF) and tolerance values. The purpose of additional investigation is to provide adequate assurance for this study.

Table 4.4 Multicollinearity Test

Variable	VIF	1/VIF
BC	1.33	0.750690
WDIR	1.24	0.805943
BS	1.18	0.845178
AFI	1.19	0.838627
AFS	1.15	0.870271
AFT	1.08	0.930090

Source: STATA Output, 2021

To understand the level of multicollinearity amongst the variables used in the study, the variance inflation factor was used. The result of the analysis is therefore seen in table 4.1 where it was discovered that board composition represented by BC had a VIF of 1.33, which implies that there is no issue of multicollinearity with the rest of the variables since the VIF is not up to 5. The tolerance level is also not above 10 so it implies that BC is not highly correlated with the other variables. WDIR was seen to have no multicollinearity issues with the other variables because it has a VIF of 1.24 which is not up to 5. This implies that WDIR is clear from being highly correlated with the other variables. BS was seen to have a VIF of 1.18 which implies that the data on BS does not have multicollinearity issues, and this was also supported by the tolerance level which stood at 0.845178 which is not up to 10 also.

AFI was seen to have a VIF of 1.19 and a tolerance of 0.838627 signifying that audit firm size has no problem of high correlation with the other variables. This is because the VIF is below 5 and the tolerance is not above 10. AFS had a VIF of 1.15 which implies that there is no issue of multicollinearity, and this was supported by a tolerance of 0.870271. The tolerance was close to 10 however, the tolerance figure was not up to .95 which would have been approximated to be 10, so the variable cannot be termed as having issues of multicollinearity. AFT was discovered to have no issues of multicollinearity with the other variables in the model. This was seen in the VIF of 1.08 and tolerance of 0.930090.

Table 4.5: Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Chi2(1)	46.90
Prob>chi2	0.0000

Source: STATA Output 2021

The study discovered that the Breusch-Pagan / Cook-Weisberg test for heteroskedasticity showed a p-value of .0000 which implies that the data is heteroskedastic since the null hypothesis states that the data is homoscedastic, and the result showed otherwise, then the null hypothesis is therefore rejected, and it is concluded that the data is heteroskedastic. To be sure of the conclusion on whether the data is heteroskedastic, the study proceeded to use the White test for heteroskedasticity, and it was seen that the result had a p-value of .0029 which is significant just like the Breusch-Pagan. Hence the study confidently concluded that the data is heteroskedastic.
Since the data was seen to be heteroskedastic, the study proceeded to conduct the hausman test to select the model that best fits.

PANEL REGRESSION ANALYSIS AND HAUSMAN TEST

To select which model was best fit for the test of hypothesis the study proceeded to conduct the hausman test which showed that there is a p-value of -4.87, which implies that the fixed effect model is the best because it has a p-value that is below .05. Based on the result, the study proceeded to conduct the panel corrected standard error model for getting the robust fixed model. This was done to ensure that the best fixed effect model was gotten to address the issue of heteroskedasticity. Hence, table 4.6, therefore, presents the result of the panel-corrected standard error model.

Table 4.6 Correlated panel corrected standard error model

Variable	Coef.	Z	p>|z|
AFS	.0042992	2.20	0.028
AFT	-.0020818	-1.67	0.094
AFI	-.0092818	-4.56	0.000
BS	-.0004884	-2.33	0.020

BC	.0009691	-0.36	0.716
WDIR	-.0055934	-0.278	0.278
R2			**0.2391**
Wald Chi2(6)			**33.42**
Prob>F			**0.0000**

Source: STATA Output 2021

Looking at table 4.6, it is discovered that 23% or approximately 24% of earnings management is explained by audit quality and board diversity. This implies that the earnings management of the listed deposit money banks can be influenced by the audit quality and board diversity. Looking at the coefficients of the model, it is seen that AFS had a positive effect on earnings management signifying that with one unit of increase in AFS, will lead to increase in earnings management. This effect was however seen to be significant with a p-value of 0.02. AFT was also discovered to have a significant negative effect on earnings management at 10% level of significance. AFI on the other hand have a significant impact on earnings management with a p-value of 0.000 and an inverse coefficient of -.0092818. This implies that AFI decrease earnings management. BS also had an inverse impact on earnings management with a coefficient of -0.0004884 and a significant p-value of 0.02. This result implies that one unit increase in board size will decrease earnings management. BC on the other hand had an insignificant inverse impact on earnings management with a p-value of 0.716. Finally, it was seen that WDIR had an inverse insignificant effect on earnings management with a coefficient of -.0055934 and a p-value of 0.278.

Furthermore, the hypothesis which reported that AFS had a positive and significant effect on earnings management of listed deposit money banks in Nigeria, supports the finding of Sutrisno (2019), which discovered also that audit firm size impacts on earnings management. In the same vein, with a coefficient of -.0092818, AFI had an inverse effect on earnings management of listed deposit money banks in Nigeria. This implies that when the firm increases the audit

independence then there is the likelihood of reduction in earnings management. This impact was statistically significant with a p-value of 0.000. This finding further supports the findings of Gerayli, Yanessari, and Ma'atoofi (2011) which also discovered that an inverse effect exists between AFI and earnings management. Hypothesis 2 was therefore rejected.

Having a beta coefficient of -.0020818 and a p-value of 0.094, it is seen that audit tenure had an insignificant inverse impact on earnings management. This implies that as audit tenure increases in the banks, then the earnings management will reduce. This result was statistically significant hence, the study rejected hypothesis three. The finding further supports the finding of Medhat, Guindy, and Basuony (2018) which discovered that audit tenure has an inverse impact on earnings management. Looking at the result, it is seen that board size had an inverse impact on earnings management which is seen in the beta coefficient of -.0004884. However, the finding was seen to be significant with a p-value of 0.02. Based on the finding, the study therefore rejected hypothesis four. This finding is supported by the finding of Alden, Al'azeez, Sukoharsono, Roekhudin, and Andayani (2019) which discovered that board size has an inverse effect on earnings management.

With a beta coefficient of -.0009691, it is discovered that board composition had an inverse impact on earnings management. With a p-value of 0.716, the impact was not statistically significant. Hence, the study therefore fail to reject hypothesis five. This finding supports the finding of Bilal and Ahmad, (2020) who discovered no effect between board composition and earnings management. Finally, WDIR was seen to have an inverse effect on earnings management, and this was signified with a beta coefficient of -.0055934. This impact was also seen to be insignificant with a p-value of 0.278. This finding goes in line with that of Van der Zwet (2015) which discovered that there is a significant relationship between women directors on earnings management. Based on the finding, the study therefore fail to reject hypothesis six.

CONCLUSION AND RECOMMENDATIONS

The study examine the audit quality and board diversity on the earnings management of listed deposit money banks in Nigeria Based on the findings from the study, the study therefore recommended that:

i. Management of the listed deposit money banks in Nigeria should make use of the small audit firms together with the Big4 audit firms in carrying out their activities, this can lead to a reduction in earnings management. This is seen in the result which showed that audit firm size had a positive impact on the banks. So combining the services of the big4 audit firms with that of the small audit firms will reduce earnings management issues.

ii. Since a significant negative effect between AFT and earnings management, it is therefore recommended that banks can increase the tenure of the audit firms to four years before changing them, which can reduce earnings management.

iii. The study discovered a significant inverse impact on AFI and earnings management, based on the findings, the study therefore recommended that the audit firms need to be given more independence by increasing the audit fees which will ensure that the auditors perform their work independently without allowing room for interference.

iv. Also, since the board size has a significant inverse impact on earnings management, it is therefore recommended that the board members should be increased for all the banks. Having more people on board can result to having reduced earnings management.

v. Board composition and earnings management were seen to have an inverse impact which was insignificant, based on the conclusion. Hence, the board of directors should comprise of more non-executive directors for all the banks. Having 80% of the board to be occupied by the non-executive directors reduces the rate of personal interest in the financial process, since they are not part of the operational process of the firm.

Hence, this has the likelihood of bringing more clarity to the reporting process.

vi. It is also recommended that the board should be balanced between men and women in terms of the number of the board members because presently, most of the boards are male dominated and there is increase in earnings management, so there is the possibility of reduction in earnings management if there are equal number of men and women on the board.

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