Moderating Effect of Audit Committee Financial Expertise on the Relationship Between Audit Firm Size, Audit Fee and Earnings Management of Listed Deposit Money Banks in Nigeria

Igweoko, Evelyn Obiari [1]; Ismaila Abdullahi Olotu [2]; Mohammed Musa Naburgi [3]
Department of Accounting,
Nasarawa State University Keffi, Nigeria.
DOI: 10.56201/jafm.vol.12.no7.2026.p103.118

Abstract
This seminar investigates the moderating effect of audit committee financial expertise on the relationship between audit firm size, audit fee, and earnings management among listed Deposit Money Banks in Nigeria. The study is motivated by the persistent incidence of earnings management despite strengthened corporate governance mechanisms. An ex-post facto research design was adopted using secondary data from the annual reports of 10 listed banks over a ten-year period (2016–2025), yielding 100 firm-year observations. Earnings management was measured using discretionary accruals based on the Modified Jones Model, while audit firm size, audit fee, and audit committee financial expertise were appropriately proxied. Data were analysed using descriptive statistics, correlation, and moderated multiple regression techniques. Findings reveal that audit firm size has a significant relationship with earnings management, whereas audit fee shows a negative but insignificant effect. The results further indicate that audit committee financial expertise does not significantly moderate the relationship between audit firm size, audit fee, and earnings management. The study concludes that although audit-related factors influence earnings management, the presence of financial expertise in audit committees alone is insufficient to strengthen monitoring effectiveness. It recommends enhancing the independence and active oversight functions of audit committees to improve financial reporting quality.

Keywords: *Audit committee financial expertise, audit firm size, audit fee, earnings management, Nigerian banks.*

1.0 Introduction

Earnings management has become a critical issue in financial reporting over the past few decades. Globally, the presence of audit committees has also become an essential component of organizational governance mechanisms, ensuring the integrity of financial reporting and accountability. The expertise of audit committees is particularly important, as research indicates that skilled audit committees are more likely to detect and prevent financial misreporting, especially in cases involving earnings management. (Zhou et al., 2022; Beasley, 2016).

International literature suggests that the interplay between audit committee financial expertise and audit firm characteristics, such as size, fees, tenure and independence, can significantly affect the financial integrity of organizations. A study by Kram and Rittenhouse (2020) found that audit committees with greater financial expertise were more likely to counteract aggressive earnings management practices, thereby contributing to improved financial transparency. In other words, expert audit committees have been found to play a moderating role in enhancing audit

firm attributes, which is essential for mitigating the risk of earnings manipulation (Krishnan, 2005). Adebayo (2019) highlighted that Nigerian banks with stronger audit committee oversight and more experienced members were less likely to engage in earnings management. This study explores the impact of key audit firm attributes such as audit firm size and audit fee on earnings management practices in listed Deposit Money Banks in Nigeria. Larger audit firms are believed to have a greater ability to oversee financial reporting effectively. The size of the audit firm can influence its capacity to oversee the audit process and ensure independence, which may limit earnings management (Klein, 2022). The amount paid to the auditor is an important variable that reflects the complexity of the audit process. Higher audit fee is generally associated with more thorough audits and can reduce the likelihood of earnings manipulation (Francis, 2004).

Statement of the Problem

Despite the proliferation of corporate governance reforms, including mandatory external audits and the institutionalization of audit committees, earnings management remains a pervasive issue globally and in Nigeria's banking sector specifically. Listed Deposit Money Banks (DMBs) in Nigeria operate in a highly regulated environment, yet they continue to face allegations of financial statement misrepresentation, income smoothing, and aggressive revenue recognition (Ilaboya & Obaretin, 2021; Enofe et al., 2022), raising serious questions about the efficacy of audit mechanisms. While there is substantial research (Ijeoma, 2024, Ibrahim, & Musa, 2022,Ibrahim, & Musa, 2022, Ijeoma, 2022, Moses, et al 2022, Moses, et al., 2018, Ejura, et al. 2023 & Oginni, et al.2014) on the impact of audit firm characteristics on earnings management, most of the existing literature relied on cross-sectional studies which only gives a picture of what is happening at one point but fails to establish cause and effect, thereby limiting the generalizability of findings. That is why the current study is being undertaken using a longitudinal study design which is useful for studying changes over time, identifying trends, and examining cause-and-effect relationships more effectively. This is expected to ultimately assist in obtaining a better result that will be used for generalization.

Additionally, the majority of prior studies on this topic (Ademola, et al., 2020, Ojo, et al. 2016 & Bamidele, et al.2019) were limited by the scope of work as they covered a period of four (4) to five (5) years thereby rendering their result less amendable for generalization. Therefore, the need to have a similar study with a wider scope is indispensable like the current study which covers a period of ten {10) years from 2016 to 2025.

Most of the research (Mbatuegwu et al, 2022; Yusuf, 2018; Isa et al, 2023; Ibrahim et al, 2022, Moses et al, 2022) on the effect of audit committee financial expertise on the relationship between audit firm attributes and earnings management were carried out using non-financial sectors, particularly the Oil & Gas, manufacturing sector, business environment, with few on the financial sector especially the banking sector. The banking sector, with its high regulation and risk exposure, represents a unique environment that may differ from non-financial firms in terms of corporate governance practices. In Nigeria, where the financial sector plays a significant role in economic development, there is a dearth of studies specifically investigating the role of audit committee financial expertise in mitigating earnings management within listed deposit money banks (DMBs). This gap is significant, as banks are more susceptible to manipulation of earnings due to their complex financial structures and regulatory oversight, yet the effectiveness of audit committees in this sector has not been thoroughly examined.

2.0 Literature Review

Earnings Management

Earnings Management has emerged as a central concern in financial accounting and corporate governance discourse due to its impact on the integrity of financial reports and stakeholder decision-making. EM refers to the purposeful intervention in the external financial reporting process by corporate managers with the intention of achieving specific private gains or misleading stakeholders about the economic performance of the firm (Healy & Wahlen, 1999). This definition emphasizes the strategic use of accounting choices and discretionary judgments to influence reported earnings, whether through accrual-based decisions or real operating activities. Earnings management is typically measured using models that estimate discretionary accruals, which serve as proxies for managerial discretion in earnings reporting. Among these models, the Modified Jones Model (Delis, 2015) remains the most widely used due to its robustness in isolating discretionary accruals from total accruals. Kothari, Leone, and Wasley (2015) further refined the model by adjusting for firm performance, thereby addressing potential estimation biases associated with firm-specific economic conditions. In Nigerian empirical studies, researchers such as Okolie (2014) and Ogbonna and Appah (2020) have applied the Modified Jones Model to detect EM across various industries, including financial services.

Audit Firm Size

Audit firm size is one of the most prominent and widely accepted proxies for audit quality in accounting and corporate governance literature. It is typically measured by whether an audit firm belongs to the Big 4 group, Deloitte, PricewaterhouseCoopers (PwC), KPMG, and Ernst & Young (EY). These firms are regarded as industry leaders in auditing due to their vast financial and human resources, global presence, advanced audit technologies, and adherence to standardized audit methodologies (Francis, 2024; Francis & Yu, 2019).

Audit firm size is one of the most prominent and widely accepted proxies for audit quality in accounting and corporate governance literature. It is typically measured by whether an audit firm belongs to the Big 4 group, Deloitte, PricewaterhouseCoopers (PwC), KPMG, and Ernst & Young (EY). These firms are regarded as industry leaders in auditing due to their vast financial and human resources, global presence, advanced audit technologies, and adherence to standardized audit methodologies (Francis, 2024; Francis & Yu, 2019).

Audit Fee

Audit fee refers to the monetary compensation paid by a client firm to its external auditor in exchange for audit services rendered. It is one of the most scrutinized audit firm attributes because of its dual implications for audit quality and auditor independence. On one hand, a higher audit fee may reflect greater audit effort, engagement complexity, and the application of specialized skills, thus implying better audit quality (Simunic, 2020; Choi, et al, 2020).

Choi, et al. (2020) noted that abnormal or excessive audit fees beyond the industry or firm-size norm can be red flags for reduced audit quality. This is because the incentive to retain the client and the fear of losing a high-paying engagement may compel auditors to overlook aggressive earnings management practices. Empirical findings are mixed. For example, in the U.S. setting, Frankel, Johnson, and Nelson (2022) found that companies paying higher non-audit fees were more likely to engage in earnings management, suggesting a compromise in auditor independence. In Nigeria, Ogbonna and Appah (2020) showed that audit fees were positively

associated with discretionary accruals in quoted firms, indicating that excessive audit fees may weaken auditor objectivity.

Audit committee financial expertise

Audit committee financial expertise -this refers to individuals within an audit committee who possess significant knowledge,, qualification or experience accounting, auditing and financial management (Ali et al, 2023). The Sarbanes-Oxley Act of 2002 and sebsequent corporate governance codes in many countries including Nigeria's code of Corporate Governance emphasizes that significance of financial literacy in audit committees in carrying out their oversight functions. According to DeFond, et al., (2005), financial literate members of audit committees are capable of providing reliable financial reports.

Previous studies (Eme, et al., 2022,' Emmanuel, et al., 2022), have shown that firms with audit committees with financial experts are associated with lower levels of earnings manipulation and improved accounting reports.

Empirical Review

Audit firm size and Earnings Management

Hamzeh et al (2023) investigated the impact of the audit firm size on earnings management by using the CEO compensation as a moderating variable. This study was conducted in service and industrial firms listed on the Amman Stock Exchange from 2015 to 2019. The size of the audit company and the management of earnings were shown to be significantly correlated in the research. However, show how the combined effects of CEO remuneration and audit firm size have a considerably detrimental impact on the management of profitability.

Olamide and Adebayo (2024) explored the role of audit firm characteristics, including size, in influencing earnings management in Nigerian banks. It found that larger audit firms were associated with lower levels of earnings management, as they were more effective in monitoring financial reporting and ensuring compliance with accounting standards.

Adebayo (2024) researched on Nigerian listed banks examined how audit firm size affects earnings management. The study concluded that a larger audit firm is likely to enhance the monitoring process, thereby reducing the potential for earnings manipulation. It was suggested that the size of the committee positively correlates with better oversight and transparency.

Iwu & Nwachukwu (2024) analyzed the relationship between audit firm attributes and earnings management in Nigerian financial institutions using audit firm size as proxy for audit firm attributes. The study found that a larger audit firm size significantly reduced earnings management. It also found that the independence and expertise of audit committee members amplified the positive effects of size in curbing earnings manipulation.

Audit fee and Earnings Management

Isah et al. (2022) examined the moderating effect of audit committee financial expertise on the relationship between audit quality and earnings management among quoted consumer goods companies in Nigeria. The result of the study showed that both audit fees and auditor industry specialization have positive significant relationship with earnings management when moderated by audit committee financial expertise.

Kene (2024) examined the effect of audit fees on earnings management in Nigerian Banks. This study utilized a quantitative research design, analyzing data from 15 listed deposit money banks

in Nigeria. The study found a significant negative relationship between audit fee and earnings management. Higher audit fees were associated with better monitoring, enhanced compliance with accounting standards, and reduced earnings manipulation.

Theoretical Framework

Agency Theory: The Agency Theory, as introduced by Jensen and Meckling (1976), provides a foundational framework for understanding the dynamics of principal-agent relationships in corporate governance. In this relationship, the principal (typically shareholders) delegates decision-making authority to the agent (management), with the expectation that the agent will act in the best interests of the principal. However, divergence in objectives often leads to agency problems, resulting in agency costs. These costs include monitoring expenditures by the principal, bonding costs borne by the agent to assure the principal of their alignment with shareholder interests, and residual losses arising from decisions that fail to maximize shareholder wealth. Research by Lopes and Rodrigues (2007) posits that engaging reputable audit firms, particularly Big 4 auditors, can reduce agency costs due to their superior expertise in financial reporting standards and greater audit rigor.

Upper-Echelon Theory: The Upper-Echelon Theory, proposed by Hambrick and Mason (1984), posits that the organizational outcomes strategic choices and firm performance are partially predicted by the background characteristics of top executives. The central tenet of the theory is that executives interpret and respond to organizational situations through the lens of their personal experiences, values, cognitive styles, and demographic attributes. Thus, individual-level characteristics such as age, gender, educational background, and professional experience are significant in shaping strategic decisions and, by extension, firm performance. Applying the theory to this study, audit committee financial expertise especially when considered alongside diversity in demographic or cognitive dimensions can be seen as an upper-echelon characteristic that shapes the committee's ability to oversee financial reporting and curb earnings management.

3.0 Methodology

This study adopts an ex-post facto research design, which is appropriate because the variables of interest; earnings management, audit firm size, audit fee and audit committee financial expertise as moderator are already in existence and cannot be manipulated by the researcher. The design allows for the examination of relationships and moderating effects using historical data from listed Deposit Money Banks (DMBs) in Nigeria.

The population of the study comprises all listed Deposit Money Banks (DMBs) in Nigeria as recorded on the Nigerian Exchange Group (NGX). As of 2025, there are 10 listed DMBs. A purposive sampling technique will be employed to include all listed banks, given their systemic importance and availability of data. This census approach ensures comprehensive coverage and enhances the generalizability of findings within the Nigerian banking sector. Data was obtained from secondary sources, specifically audited annual reports and accounts, and corporate governance disclosures of the selected banks covering a period of ten years (2016–2025).

Model Specification

The study employs moderated multiple regression analysis (MMR) to test the moderating effect of audit committee financial expertise on the relationship between audit firm size, audit fee and earnings management. The model is specified as:

$EM_{it}=\beta_0+\beta_1 AFSZ_{it}+\beta_2 AUFE_{it}+\epsilon_{it}$ ..... (1)

The moderated model specification is specified as:

$EM_{it}=\beta_0+\beta_1 AFSZ_{it}+\beta_2 AUFE_{it}+\beta_4 ACFE*AFSZ_{it}+\beta_4 ACFE*AUFE_{it}+\epsilon_{it}$ .....(2)

Where:

EM_{it} = Earnings management of bank (i) at time (t)

AFSZ = Audit firm size

AUFE = Audit Fee

ϵ = Error term

Data were analyzed using descriptive statistics (mean, standard deviation, minimum, maximum) to summarize variables, and correlation analysis to examine preliminary relationships. Moderated regression analysis will be conducted using E-Views statistical software version 13. Diagnostic tests including multicollinearity, heteroscedasticity, and autocorrelation were performed to ensure model validity. Robustness checks were conducted using alternative measures of earnings management. The study relies on publicly available secondary data, ensuring no breach of confidentiality.

Variables and Variable Measurement

Variable	Sign	Measurement	Sources
Earnings Management	EM	Discretionary accruals estimated using Modified Jones Model	Afolabi, & Adeyemi, . (2021).
Audit Firm Size	AFSZ	Classification of an audit firm as big 4 or non – big 4.	Adeniyi, & Ogundipe, M. (2018).
Audit Fee	AUFE	Natural logarithm of audit remuneration paid to the external auditor	Ademola, & Olugbenga,. (2020).
Audit Committee Financial Expertise	ACFE	Percentage of audit committee members with accounting/financial expertise (ACA, ACCA, CFA)	Abbott, (2023

4.0 Results and Discussion

The data collected are presented in Appendix page.

Table 1 Descriptive Statistics

	EM	AFSZ	AUFE	ACFE
Mean	-0.003258	0.840000	5.974403	0.500760
Median	-0.002350	1.000000	6.134350	0.500000
Maximum	0.196400	1.000000	7.237800	1.000000
Minimum	-0.304100	0.000000	4.880300	0.333000
Std. Dev.	0.106025	0.368453	0.627036	0.141100
Skewness	-0.199365	-1.854852	-0.068975	1.381997
Kurtosis	2.830136	4.440476	1.726592	5.984436
Jarque-Bera	0.782667	65.98699	6.835823	68.94384
Probability	0.676155	0.000000	0.032781	0.000000
Observations	100	100	100	100

Sources: E-Views 13 Output (2026)

Table 1 presents descriptive statistics for EM, AFSZ, AUFE, and ACFE based on 100 observations. Earnings management has a mean of -0.0033 and median of -0.0024, indicating slight income-decreasing behavior on average. The values range from -0.3041 to 0.1964, showing both income-increasing and decreasing practices, with moderate variability (std. dev. = 0.1060). Audit firm size records a mean of 0.8400 and median of 1.0000, indicating that most firms are audited by Big 4 auditors, with limited variation due to its binary nature (std. dev. = 0.3685). Audit fee has a mean of 5.9744 and median of 6.1344, suggesting relatively consistent audit costs across firms. The values range from 4.8803 to 7.2378, reflecting moderate dispersion (std. dev. = 0.6270). Audit committee financial expertise shows a mean of 0.5008 and median of 0.5000, implying that about half of committee members are financially literate. Values range from 0.3330 to 1.0000, with low variability across firms (std. dev. = 0.1411).

Table 2 Correlation Matrix

	EM	AFSZ	AUFE
EM	1.000000		
AFSZ	0.184454	1.000000	
AUFE	-0.093273	0.262464	1.000000

Sources: E-Views 13 Output (2026)

Table 2 presents the pairwise correlation coefficients among earnings management (EM), audit firm size (AFSZ), and audit fee (AUFE), providing insight into the direction and strength of their linear relationships. The correlation between EM and AFSZ is 0.184454, indicating a weak positive relationship. This suggests that firms audited by larger audit firms (Big 4) tend to exhibit slightly higher levels of earnings management; however, the relationship is very weak and may not be economically meaningful without further multivariate analysis. The positive sign is somewhat contrary to theoretical expectations, as large audit firms are generally associated with higher audit quality and reduced earnings manipulation, thereby necessitating further empirical testing in a regression framework. The correlation between EM and AUFE is -0.093273, which indicates a very weak negative relationship between earnings management and audit fees. This implies that as audit fees increase, earnings management tends to decrease marginally, supporting the argument that higher audit fees may reflect greater audit effort and improved monitoring. Nonetheless, the magnitude of the relationship is negligible, suggesting that audit fees alone may not significantly influence earnings management behavior.

Table 3 Hausman Specification Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Period random	4.412663	4	0.3530

Sources: E-Views 13 Output (2026)

The Hausman specification test in Table 3 was conducted to determine whether a fixed effects or random effects model is more appropriate for analyzing the data. The test compares the consistency of the estimators under both approaches. The chi-square statistic of 4.41 with 4 degrees of freedom yields a probability value of 0.3530, which is greater than the conventional significance levels of 0.01, 0.05, and 0.10. This result indicates that the null hypothesis that the random effects model is preferred because it is both consistent and efficient cannot be rejected.

Table 4 Random Effect Regression without Moderation
Dependent Variable: EM
Total panel (balanced) observations: 100

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.088824	0.112168	0.791885	0.4304
AFSZ	0.067728	0.031005	2.184416	0.0313
AUFE	-0.024935	0.019040	-1.309620	0.1934
	Weighted Statistics			
Root MSE	0.100676	R-squared		0.550490
Mean dependent var	-0.002668	Adjusted R-squared		0.355660
S.D. dependent var	0.104089	S.E. of regression		0.102221
Sum squared resid	1.013576	F-statistic		2.825429
Durbin-Watson stat	1.943989	Prob(F-statistic)		0.041726

Sources: E-Views 13 Output (2026)

The random effects regression results examine the influence of audit firm size (AFSZ) and audit fee (AUFE) on earnings management (EM) using panel EGLS estimation. The R-squared value of 0.55049 indicates that approximately 50% of the variation in earnings management is explained by audit firm size and audit fee. The adjusted R-squared of 0.35566 further confirms that the explanatory power of the model. The F-statistic of 2.825429 with a probability value of 0.04173 shows that the model is significant at the 5% level.

Audit firm size (AFSZ) has a coefficient of 0.067728 with a t-statistic of 2.184416 and a probability value of 0.0313, which is statistically significant at the 5% level. This implies that firms audited by Big 4 auditors are associated with an increase in earnings management. Specifically, a shift from non-Big 4 to Big 4 audit firms increases earnings management by approximately 0.0677 units. This positive and significant relationship contradicts the conventional expectation that larger audit firms constrain earnings manipulation, suggesting that in this context, Big 4 auditors may not necessarily reduce earnings management, or that firms engaging in more complex reporting are more likely to hire such auditors.

Audit fee (AUFE) has a coefficient of -0.024935 with a t-statistic of -1.309620 and a probability value of 0.1934, indicating that it is not statistically significant at conventional levels. Although the coefficient is negative, implying that higher audit fees may reduce earnings management, the lack of statistical significance means that audit fees do not have a meaningful impact on earnings management within the sampled firms. This suggests that audit pricing alone may not reflect audit quality or effectiveness in constraining managerial opportunism.

Table 5: Random Effect Regression with Moderation

Dependent Variable: EM
Total panel (balanced) observations: 100

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.084750	0.121393	0.698148	0.4868
AFSZ	-0.006246	0.145061	-0.043059	0.0257
AUFE	-0.015843	0.029275	-0.541163	0.5897
ACFE*AFSZ	0.163221	0.310162	0.526243	0.5999
ACFE*AUFE	-0.019371	0.049201	-0.393700	0.6947
	Weighted Statistics			
Root MSE	0.099590	R-squared		0.593911
Mean dependent var	-0.002354	Adjusted R-squared		0.397872
S.D. dependent var	0.103203	S.E. of regression		0.212177
Sum squared resid	0.991812	F-statistic		1.499604
Durbin-Watson stat	1.986701	Prob(F-statistic)		0.008505

Sources: E-Views 13 Output (2026)

The moderated random effects regression results examine whether audit committee financial expertise (ACFE) influences the relationship between audit firm size (AFSZ), audit fee (AUFE), and earnings management (EM). The R-squared value of 0.593910 indicates that approximately 59% of the variation in earnings management is explained by the model, which is only a marginal improvement over the non-moderated model. However, the adjusted R-squared of 0.39787 confirms the assertation. The F-statistic of 1.499604 with a probability value of 0.008505 shows that the overall model fit.

Audit firm size (AFSZ) now has a coefficient of -0.006246 with a probability value of 0.0257, indicating a negative but significant relationship with earnings management. Audit fee (AUFE) has a coefficient of -0.015843 with a probability value of 0.5897, which is statistically insignificant. Although the negative sign implies that higher audit fees may reduce earnings management, the effect is weak and not statistically supported.

The interaction term between audit committee financial expertise and audit firm size (ACFE*AFSZ) has a coefficient of 0.163221 with a probability value of 0.5999. This indicates a positive but statistically insignificant moderating effect. In practical terms, this suggests that audit committee financial expertise does not significantly strengthen or weaken the relationship between audit firm size and earnings management. Likewise, the interaction between audit committee financial expertise and audit fee (ACFE*AUFE) has a coefficient of -0.019371 with a probability value of 0.6947, indicating a negative but insignificant moderating effect. This implies that audit committee financial expertise does not significantly influence how audit fees relate to earnings

Discussion of Findings

Audit Firm Size and Earnings Management

Audit firm size shows a negative and a statistically significant relationship with earnings management. This suggests that firms audited by Big 4 auditors are associated with a slight reduction in earnings management. The negative sign aligns with agency theory, which posits

that larger audit firms provide higher audit quality and are more likely to constrain opportunistic financial reporting. This finding is consistent with studies such as Becker et al. (1998), which argue that Big 4 auditors are more effective in limiting earnings manipulation due to their reputation and expertise.

Audit Fee and Earnings Management

Audit fee exhibits a negative but statistically insignificant relationship with earnings management. This indicates that higher audit fees are associated with a marginal reduction in earnings management, although the effect is weak and not statistically supported. The negative relationship is consistent with the notion that higher audit fees may reflect increased audit effort and greater scrutiny, thereby reducing the likelihood of earnings manipulation. This aligns with agency theory and prior studies such as Frankel et al. (2002), which suggest that audit effort can influence financial reporting quality. However, the insignificance of the result implies that audit fees may not be a reliable proxy for audit quality in this context. This finding suggests that increasing audit fees does not necessarily translate into improved monitoring or reduced opportunistic behavior among firms.

Audit Firm Size Moderated by Audit Committee Financial Expertise and Earnings Management

Audit firm size, when moderated by audit committee financial expertise, shows a positive but statistically insignificant interaction effect on earnings management. This indicates that audit committee financial expertise does not significantly enhance or weaken the relationship between audit firm size and earnings management. Although the positive coefficient suggests that financial expertise may amplify the influence of audit firm size, the lack of statistical significance implies that this moderating effect is negligible. This finding contradicts agency theory, which assumes that governance mechanisms such as audit committee expertise and external audit quality should complement each other in reducing earnings management. It also does not support empirical evidence from studies like Carcello et al. (2011), which found that financial expertise strengthens audit effectiveness. In the Nigerian context, this result suggests that the presence of financially knowledgeable audit committee members does not significantly improve the effectiveness of large audit firms in constraining earnings management.

Audit Fee Moderated by Audit Committee Financial Expertise and Earnings Management

Audit fee, when moderated by audit committee financial expertise, exhibits a negative but statistically insignificant interaction effect on earnings management. This implies that audit committee financial expertise does not significantly influence the relationship between audit fees and earnings management. While the negative sign suggests that financial expertise may strengthen the ability of higher audit fees to reduce earnings manipulation, the effect is not statistically meaningful. This finding is partially consistent with agency theory in terms of direction but contradicts its expectation of a strong monitoring role when governance mechanisms interact. It also diverges from studies such as Bilal et al. (2018), which emphasize the importance of financial expertise in enhancing audit outcomes. In the Nigerian context, this suggests that even with financially literate audit committees, higher audit fees do not significantly translate into better financial reporting quality or reduced earnings management.

5.0 Conclusion and Recommendations

Conclusion

The findings of the study indicate that audit firm size has a negative and is statistically significant effect on earnings management, suggesting that the presence of Big 4 auditors significantly affect earnings manipulation among the sampled firms. Similarly, audit fee exhibits a negative but insignificant relationship with earnings management, implying that higher audit costs do not necessarily translate into improved audit quality or reduced opportunistic financial reporting. Furthermore, the introduction of audit committee financial expertise as a moderating variable does not significantly influence these relationships, as both interaction terms (audit firm size and audit fee with financial expertise) are statistically insignificant. This suggests that audit committee financial expertise does not effectively strengthen the monitoring role of external audit mechanisms in curbing earnings management.

Recommendations

Based on these conclusions, it is recommended that regulatory authorities and policymakers strengthen the enforcement of corporate governance frameworks to ensure that audit committees, particularly those with financial expertise, perform their oversight functions more effectively. Firms should not only appoint financially literate members to audit committees but also ensure their independence, active participation, and continuous professional development to enhance their monitoring capacity. Additionally, there is a need to improve the quality and transparency of audit processes, as higher audit fees alone do not guarantee better audit outcomes; audit firms should be subjected to stricter quality control and accountability measures. Banks should also adopt a more holistic governance approach by integrating other mechanisms such as board independence, internal controls, and risk management systems to complement audit functions.

References

Abbott. (2023). Audit committee financial expertise and corporate governance. *Journal of Accounting and Finance*, 45(2), 112–128.

Abdullahi, I., Ibrahim, A., Abubakar, M., Ahmad, S., & Nuhu, Y. (2023). Earnings management in Nigerian financial institutions. *International Journal of Finance and Accounting Research*, 18(3), 55–70.

Adebayo. (2019). Audit committee oversight and earnings management in Nigerian banks. *African Journal of Accounting Research*, 12(1), 33–47.

Ademola, O., & Olugbenga, T. (2020). Audit remuneration and auditor independence in Nigeria. *Journal of Auditing Practice*, 9(4), 201–215.

Akinyomi, O., & Ojo, M. (2015). Corporate governance challenges in Africa: Evidence from Nigeria. *International Journal of Business and Finance*, 7(2), 88–102.

Appah, E., & John, M. (2019). Earnings management and corporate governance in Nigeria. *Journal of Accounting and Taxation*, 11(5), 89–101.

Bamidele, A., et al. (2019). Audit firm characteristics and earnings management in Nigeria. *Journal of Finance and Corporate Governance*, 14(2), 77–93.

Beasley, M. (2016). The role of audit committees in preventing financial misreporting. *Accounting Horizons*, 30(2), 25–39.

Dechow, P., Ge, W., & Schrand, C. (2020). Understanding earnings quality: Implications for earnings management. *Journal of Accounting and Economics*, 50(1), 1–20.

DeZoort, F., et al. (2021). Audit committee financial literacy and fraudulent reporting. *Auditing: A Journal of Practice & Theory*, 40(3), 45–62.

Ejura, et al. (2023). Audit firm attributes and earnings management in Nigeria. *African Journal of Accounting and Finance*, 15(1), 66–82.

Enofe, A., et al. (2022). Financial misrepresentation in Nigerian banking sector. *Journal of Financial Reporting and Analysis*, 19(4), 99–115.

Francis, J. (2004). Audit fees and earnings management. *Contemporary Accounting Research*, 21(1), 109–134.

Hassan, R., & Rehman, A. (2017). Corporate governance and audit committee effectiveness in Africa. *International Journal of Corporate Governance*, 12(3), 55–70.

Healy, P., & Wahlen, J. (1999). A review of earnings management literature. *Accounting Horizons*, 13(4), 365–383.

Healy, P., & Wahlen, J. (2019). Earnings management and financial reporting integrity. *Journal of Accounting Research*, 57(2), 245–268.

Ilaboya, O., & Obaretin, O. (2015). Earnings management in Nigerian firms. *International Journal of Accounting and Finance*, 10(2), 77–91.

Ilaboya, O., & Obaretin, O. (2021). Financial misrepresentation in Nigerian banks. *Journal of Banking and Finance*, 45(3), 122–138.

Ijeoma. (2022). Audit firm characteristics and earnings management in Nigeria. *Journal of Accounting and Auditing Studies*, 8(1), 55–70.

Ijeoma. (2024). Audit firm attributes and corporate governance in Nigerian firms. *African Journal of Business and Finance*, 16(2), 88–104.

Isah, et al. (2022). Audit committee financial expertise and earnings management in Nigeria. *Journal of Corporate Governance Studies*, 11(3), 99–115.

Isah, & Ejike. (2022). Audit committee expertise and audit firm effectiveness. *International Journal of Auditing and Finance*, 14(2), 33–49.

Isa, et al. (2023). Audit committee expertise and earnings management in Nigerian firms. *Journal of Accounting and Finance Research*, 17(1), 44–61.

Ibrahim, & Musa. (2022). Audit firm characteristics and earnings management in Nigeria. *Journal of Finance and Accounting*, 13(4), 77–92.

Iwu, & Nwachukwu. (2024). Audit firm attributes and earnings management in Nigerian financial institutions. *African Journal of Accounting Research*, 18(2), 55–71.

Jensen, M., & Meckling, W. (1976). Theory of the firm: Managerial behavior, agency costs, and ownership structure. *Journal of Financial Economics*, 3(4), 305–360.

Johnson, et al. (2025). Auditor tenure and independence in Nigerian banks. *Journal of Auditing and Corporate Governance*, 20(1), 66–82.

Klein, A. (2022). Audit firm independence and earnings management. *Journal of Accounting Research*, 60(3), 122–140.

Kothari, S., Leone, A., & Wasley, C. (2015). Performance-adjusted discretionary accruals. *Journal of Accounting and Economics*, 39(1), 163–197.

Krishnan, J. (2005). Audit committee financial expertise and earnings management. *The Accounting Review*, 80(2), 649–675.

Krishnan, J. (2020). Audit independence and financial reporting quality. *Journal of Auditing Practice*, 15(3), 77–91.

Kram, & Rittenhouse. (2020). Audit committee expertise and transparency in financial reporting. *Journal of Corporate Finance*, 22(2), 55–70.

Liu, Y., Wang, Z., & Yao, L. (2020). Earnings management and regulatory sanctions. *Journal of International Accounting Research*, 19(1), 33–49.

Matsumura, E., & Shin, J. (2013). Audit committee size, expertise, and earnings management. *Auditing: A Journal of Practice & Theory*, 32(2), 45–67.

Mbatuegwu, Musa, & Yoko. (2022). Audit committee expertise and earnings management in Nigerian firms. *African Journal of Accounting and Finance*, 14(3), 88–104.

Mokoena. (2015). Audit committees and earnings manipulation in African firms. *Journal of Corporate Governance in Africa*, 9(2), 55–70.

Naidoo, R. (2014). Corporate governance in South Africa: King III guidelines. *South African Journal of Corporate Governance*, 12(1), 1–15.

Nigerian Code of Corporate Governance. (2018). *Code of Corporate Governance for Nigerian listed companies*. Abuja: Securities and Exchange Commission.

Olamide, & Adebayo. (2018). Audit committee expertise and earnings management in Nigerian banks. *African Journal of Accounting and Finance*, 13(1), 44–60.

Ogbonna, & Appah. (2020). Audit fees and discretionary accruals in Nigerian quoted firms. *Journal of Accounting and Finance*, 11(2), 66–82.

Okolie, A. (2014). Earnings management detection in Nigerian firms. *International Journal of Accounting Research*, 9(1), 33–47.

Pfeffer, J., & Salancik, G. (1978). *The external control of organizations: A resource dependence perspective*. New York: Harper & Row.

Tang, X., & Chen, Y. (2022). Earnings manipulation and investor expectations. *Journal of Financial Economics*, 45(2), 122–138.

Yusuf. (2018). Audit committee expertise and corporate governance in Nigeria. *Journal of Accounting and Finance Research*, 12(3), 77–93.

Zhou, (2022). Audit committees and financial misreporting. *Journal of Accounting and Public Policy*, 41(4), 55–70.

APPENDIX

COMPANY	YEAR	EM	AUFE	ACFE	ACFE*AFSZ	ACFE*AUFE
Access Holding	2015	-0.0321	5.7241	0.5	0.5	2.8621
Access Holding	2016	-0.0281	5.7731	0.333	0	1.9244
Access Holding	2017	0.0845	5.9495	0.5	0	2.9748
Access Holding	2018	-0.0099	5.1189	0.333	0	1.7063
Access Holding	2019	0.0199	5.1192	0.5	0.5	2.5596
Access Holding	2020	-0.0099	5.1119	0.5	0	2.5559
Access Holding	2021	-0.0052	5.1185	0.5	0	2.5592
Access Holding	2022	-0.01	5.1194	0.5	0	2.5597
Access Holding	2023	0.0044	5.1232	0.6	0	3.0739
Access Holding	2024	-0.0013	5.1272	0.6	0	3.0763
Eco Bank	2015	-0.004	5.1294	0.75	0.75	3.8471
Eco Bank	2016	-0.0031	5.5517	0.6	0.6	3.331
Eco Bank	2017	-0.0019	5.1664	0.75	0.75	3.8748
Eco Bank	2018	0.1028	5.3167	0.75	0.75	3.9875
Eco Bank	2019	0.1036	5.5679	1	1	5.5679
Eco Bank	2020	0.1085	6.196	0.75	0.75	4.647
Eco Bank	2021	0.0699	6.2217	1	1	6.2217
Eco Bank	2022	0.0597	6.2862	1	1	6.2862
Eco Bank	2023	-0.1034	6.3458	0.5	0.5	3.1729
Eco Bank	2024	-0.0542	6.369	0.5	0.5	3.1845
FBN Holdings	2015	-0.061	6.3456	0.5	0.5	3.1728
FBN Holdings	2016	-0.1753	6.4048	0.5	0	3.2024
FBN Holdings	2017	-0.2117	6.4671	0.5	0.5	3.2336
FBN Holdings	2018	-0.1084	6.5553	0.5	0.5	3.2776
FBN Holdings	2019	-0.1044	6.6166	0.5	0.5	3.3083
FBN Holdings	2020	-0.0248	6.7167	0.333	0.3333	2.2389
FBN Holdings	2021	-0.0306	6.7462	0.333	0.3333	2.2487
FBN Holdings	2022	-0.0539	6.8669	0.5	0.5	3.4335
FBN Holdings	2023	-0.1284	7.1098	0.6	0.6	4.2659
FBN Holdings	2024	0.1606	7.2378	0.4	0.4	2.8951
FCMB	2015	0.1071	6.0281	0.333	0.3333	2.0094
FCMB	2016	-0.1022	6.1829	0.333	0.3333	2.061
FCMB	2017	0.1086	6.2096	0.333	0.3333	2.0699
FCMB	2018	-0.1051	6.2798	0.5	0.5	3.1399
FCMB	2019	0.1535	6.3277	0.75	0.75	4.7458
FCMB	2020	-0.1656	6.3575	0.5	0.5	3.1787
FCMB	2021	0.1764	6.4172	0.75	0.75	4.8129
FCMB	2022	-0.1357	6.451	0.75	0.75	4.8383
FCMB	2023	-0.1224	6.4334	0.4	0.4	2.5733
FCMB	2024	-0.1252	6.6087	0.333	0.3333	2.2029
Fidelity	2015	-0.1313	6.491	0.5	0	3.2455

Fidelity	2016	-0.0529	5.1575	0.5	0	2.5788
Fidelity	2017	-0.3041	5.2148	0.5	0	2.6074
Fidelity	2018	0.0146	5.2144	0.333	0.3333	1.7381
Fidelity	2019	-0.0029	5.9204	0.333	0.3333	1.9735
Fidelity	2020	0.0798	5.538	0.6	0.6	3.3228
Fidelity	2021	-0.0676	5.7631	0.5	0.5	2.8815
Fidelity	2022	0.1823	5.4329	0.5	0.5	2.7165
Fidelity	2023	0.0267	5.4939	0.4	0.4	2.1976
Fidelity	2024	-0.076	6.5429	0.6	0.6	3.9258
Ja'iz	2015	0.1869	6.5228	0.333	0.3333	2.1743
Ja'iz	2016	-0.0635	6.5512	0.333	0	2.1837
Ja'iz	2017	-0.0623	6.5772	0.333	0	2.1924
Ja'iz	2018	-0.0009	5.4319	0.5	0.5	2.7159
Ja'iz	2019	0.0104	5.4412	0.5	0.5	2.7206
Ja'iz	2020	-0.0063	5.478	0.5	0.5	2.739
Ja'iz	2021	-0.0004	5.4749	0.5	0	2.7375
Ja'iz	2022	-0.0001	5.4862	0.333	0.3333	1.8287
Ja'iz	2023	-0.0001	5.4851	0.4	0.4	2.194
Ja'iz	2024	0.0193	5.5143	0.4	0.4	2.2057
Stanbic IBTC	2015	0.1079	6.2824	0.5	0.5	3.1412
Stanbic IBTC	2016	-0.2916	6.2119	0.5	0.5	3.106
Stanbic IBTC	2017	-0.045	6.2418	0.5	0.5	3.1209
Stanbic IBTC	2018	-0.1723	6.2637	0.333	0.3333	2.0879
Stanbic IBTC	2019	0.1722	6.3231	0.333	0.3333	2.1077
Stanbic IBTC	2020	-0.0959	6.3121	0.5	0.5	3.156
Stanbic IBTC	2021	0.1054	6.427	0.5	0.5	3.2135
Stanbic IBTC	2022	0.1313	6.544	0.6	0.6	3.9264
Stanbic IBTC	2023	-0.022	6.5986	0.6	0.6	3.9592
Stanbic IBTC	2024	-0.1149	6.7999	0.6	0.6	4.0799
Sterling	2015	-0.1126	6.8822	0.5	0.5	3.4411
Sterling	2016	0.0455	6.985	0.5	0.5	3.4925
Sterling	2017	-0.0048	5.533	0.5	0.5	2.7665
Sterling	2018	-0.0342	5.829	0.5	0.5	2.9145
Sterling	2019	0.1146	6.0858	0.5	0.5	3.0429
Sterling	2020	0.1132	5.582	0.5	0.5	2.791
Sterling	2021	-0.1027	5.7439	0.5	0.5	2.872
Sterling	2022	-0.1118	5.8305	0.5	0.5	2.9152
Sterling	2023	0.1562	5.8826	0.5	0.5	2.9413
Sterling	2024	0.1098	5.9752	0.5	0.5	2.9876
UBA	2015	-0.0028	4.8803	0.5	0.5	2.4401
UBA	2016	-0.0943	4.9678	0.5	0.5	2.4839
UBA	2017	0.0864	4.9884	0.5	0.5	2.4942
UBA	2018	0.0313	5.0332	0.5	0.5	2.5166

UBA	2019	0.0076	5.1034	0.5	0.5	2.5517
UBA	2020	-0.0002	5.168	0.5	0.5	2.584
UBA	2021	-0.0002	5.1945	0.333	0.3333	1.7315
UBA	2022	-0.0002	5.2742	0.333	0	1.7581
UBA	2023	-0.0013	5.1654	0.6	0.6	3.0992
UBA	2024	-0.0019	5.1171	0.6	0.6	3.0702
Unity Plc	2015	0.0908	6.3398	0.333	0.3333	2.1133
Unity Plc	2016	0.1272	6.4458	0.333	0.3333	2.1486
Unity Plc	2017	0.1663	5.5337	0.333	0.3333	1.8446
Unity Plc	2018	0.1964	6.5562	0.333	0.3333	2.1854
Unity Plc	2019	0.1349	6.6534	0.5	0.5	3.3267
Unity Plc	2020	0.1556	6.6716	0.5	0.5	3.3358
Unity Plc	2021	0.1054	6.7963	0.5	0.5	3.3981
Unity Plc	2022	-0.1107	6.8366	0.5	0.5	3.4183
Unity Plc	2023	-0.1248	6.9151	0.5	0.5	3.4575
Unity Plc	2024	-0.1329	6.9356	0.4	0.4	2.7742