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BOARD STRUCTURE, AUDIT COMMITTEE AND EARNINGS MANAGEMENT OF DEPOSIT MONEY BANKS IN NIGERIA

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Abstract

There is an increasing demand in the quality of earnings as this has become a key challenge for banks since the witness of financial scandals around the world. The financial scandals were blamed on pervasiveness of earnings manipulations by managers. Thus, this study examines the effect of board structure and audit committee on earnings management of listed Deposit Money Banks in Nigeria. Chang, Shen and Fang (2008) model was used to proxy earnings management, while women director, foreign director, board ownership, board size, board composition and audit committee represents board structure. Data were obtained from the annual reports and accounts of the 14 listed banks between 2006 and 2016. The study adopted Ordinary Least Square regression. The findings revealed that, women director and board size have significant negative effect on earnings management, while board ownership and audit committee were found to have significant but positive effect on earnings management of the banks. However, foreign director and board composition did not exert any significant effect on earnings management. The study recommends amongst others that the number of women director and board size be improved upon by the management, while percentage of shares held by directors and audit committee be reduced as this will ensure credibility and reliance in financial reports.

Keywords: Board Diversity, Audit Committee, Earnings Management, Agency Theory

1.0 Introduction

Earnings management has dominated the literature of accounting since the witness of reported unethical accounting practices around the world by various institutions most especially Enron Corporation, Tyco, A.P., Xerox, HealthSouth and WorldCom in the U.S, Adelphia Communication Corporation in Pennsylvania, Parmalat in Italy, African Petroleum and Cardbury in Nigeria among others have drawn the attention of many among practitioners, the regulators, researchers and other stakeholders to finding the possible solution in corporate businesses.

In November 2006, there was reported accounting scandal in Cadbury Nigeria Plc which also raised more questions than answer about quality of financial reports (Itsueli, 2006). In addition, Oceanic bank and Intercontinental bank Plc in 2009 were discovered to be involved in insider abuse and accumulating high level of non-performing loans which were attributable to poor corporate governance practices, lax credit administration processes and the absence or non-adherence to the bank credit risk management practices (CBN,

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2009). These have led to the sack of the management teams due to unethical practices (Vanguard, 14 August, 2009). Therefore, there is need to identify the factors that could reduce the level of earnings manipulations by corporation in Nigeria particularly in the Banking sector which serve as one of the pivot of Nigerian Economy.

The financial stability, quality of financial reports and continuity of any bank is very much dependent on the strength, qualities, diversity, independence, and the degree of involvement of the board in the bank's affairs (Farouk & Shehu, 2014). Board diversity in respect of gender, ownership, nationality, size, composition and audit committee have drawn scholar's attention in recent times due to its effect on earnings management.

Gender diversity is expected to be effective in meeting attendance and more adherence to ethical codes and standards by female members than their male counterparts (Farouk, 2018). As such research on ethics projected that women are less likely to engage in unethical behavior in the workplace to obtain financial rewards (Rose, 2007).In another dimension, the level of shares held by directors is expected to be associated with the level of earnings management. Another area of board diversity is the nationality of its members, foreign investors are seen as long term which have significant incentives to monitor the managers in order to protect their wealth. This monitoring role played by foreign investors is expected to curtail the opportunistic tendencies by managers against discretionary choices.

Again, it is expected that when board members have more executive directors, they will serve as better monitors to checkmate the activities of the management and as such mitigate the opportunistic tendencies of managers to manipulate accounting earnings.

The practical problem that informed this research is the need for better earnings management witnessed amongst companies in Nigeria. Thus, earnings management is a key challenge for stakeholders in the Nigerian corporate setting.

One key issue identified with troubled banks is the weak corporate governance practice and hence the need to act to protect all depositors and creditors and ensure that no one loses money due to bank failure. Hence, it is important to examine the effect of the corporate governance practices in curtailing the manipulative tendencies of the bank management. This will help ensure credibility of financial reports and also restore the investors' confidence in Nigerian banking industry.

Most studies on coeporate governance (Gulzar & Wang, 2011;Qi & Tian, 2012; Saleh & Haat, 2014; Baccouche, Hadriche & Omri, 2014) were conducted in developed countries, while few studies (Razek, 2012;Zaharadeen, 2015; Shehu & Ibrahim, 2014; Kantudu & Samaila, 2015; and Ishaq, 2017) were carried out in Nigeria. Therefore, there is the need to add to the existing literature in another dimension through the use of audit committee variables such as audit size, audit composition and audit meeting effectiveness.

The remaining parts of the paper are divided into four sections. Section 2 reviews empirical studies in relation to the variables. Section 3 is dedicated to explaining the methodology adopted for the analysis. Section 4 interprets, analyses and discusses the result from the regression. Finally, section 5 was used to conclude and make recommendations from the findings of the study.

2.0 Literature Review

A number of studies have made contributions to the literature on the effects of board characteristics, including audit committee on earnings management. This study has reviewed the findings of some of these results.

2.1.1 Women Director and Earnings Management

Eze (2017) examined the effect of corporate governance on earnings management in Nigerian food product companies using a sample of six (6) firms. A panel regression technique and a data covering twelve years between 2003 to 2014 were used. It was found that board gender reduces earnings management insignificantly. The study concluded that the application of corporate governance principles motivates institutions to ensure that earnings management practice in Nigerian food product firms if adequately supervised. There was clear absence of robustness tests and there was no justification provided for the technique of data analysis used.Firoozi, Magnan and Fortin (2016) examined the effect of board diversity on financial reporting quality of Canadian firms covering data from 2008 -2012 for sample of 260 after using filter. A multivariate analysis was carried out and the findings revealed that board gender diversity does not affect financial reporting quality of firms.

Einer and Soderqvist (2016) examined earnings management and female representation on the board of directors of companies publicly listed on Oslo Stock Exchange in Norway between 2006-2010. The sample was generated through the Orbis data base which consisted of 82 firms. It was found that female representation on board of directors enhanced the quality of earnings through reduction in earnings management of Norway firms.Van der Zwet (2015) examined the influence of board diversity on earnings management using Ordinary Least Square and robust regression technique with data from sample of U.S. firms between the period 2008 – 2013. It was found that the percentage of women on board reduces the managers' tendencies towards earnings management. Arun, Almahrog and Aribi (2015) findings of pooled OLS regression revealed that the presence of a number of female directors on the board constrains the level of earnings management. The study did not provide any evidence of robustness tests conducted and as such put to question the reliability of the inferences drawn from the findings.

2.1.2 Board Ownership and Earnings Management

Parveen, Malik, Mahmood and Ali Jan (2016) examined the impact of ownership structure on Pakistani Banking sector earnings using annual data covering 2005-2012 for 20 banks. The study used Pooled Estimated Generalized Least Square in carrying out the analysis. It was found that director ownership reduces significantly the tendencies of manipulative activities of the managers. Swai and Mbogela (2016) using 44 non-financial East African listed firms from 2003 -2013 found that managerial ownership reduces real earnings management but however found little evidence of reduced accrual based earnings management. This research failed to provide reason as to why the difference on the findings in respect of the two dependent variables used. Nguyen (2016) found that firms with higher managerial ownership marginally reduced earnings manipulation in firms subject to considerate debt level in Veitnam listed Firms. The analysis was based on a sample of 570 non-financial listed firms from 2010 to 2014. Ratnawati, Abdul Hamid and Popoola (2016) carried out a test using a sample of 115 manufacturing companies listed on the Indonesian Stock Exchange from 2008 to 2012. Their findings show that managerial ownership affects earnings management practices.

2.1.3 Foreign Director and Earnings Management

Parveen, Malik, Mahmood and Ali Jan (2016) found that foreign ownership positively and significantly influenced the tendencies of manipulative activities of the managers. Van der Zwet (2015) using ordinary least square regression, found a significant positive effect of board ethinicity on earnings management of sampled U.S firms. Van den Berg (2015) results did not support the hypothesis that firms with more nationality diverse boards of directors have lower levels of earnings management having used data from U.K covering 2007 to 2014. This implies that more nationality diverse boards of directors are not appropriate to lower levels of earnings management. The weakness of this study is the model Kothari, Leone and Wasley (2005) used to measure earnings management which have been heavily criticized by Yoon, Kim and Woodruff (2012) and they came up with better and more sophisticated measurement. Nguyen (2016) found that firms with higher proportion of foreign ownership are more likely to constrain the manipulative practices exercised by managers.

2.1.4 Board Size and Earnings Management

Daghsnii, Zouhayer and Mbarek (2016) found that size has a negative effect on earnings management which suggests that large boards (i.e increased number of board members) are more effective in curtailing management opportunistic tendencies. Jamaludina, Sanusib and Kamaluddina (2015), also showed a negative but insignificant effect of board size on earnings management for 26 Malaysian listed Government-Linked Companies (GLCs)from various industries. From Kenya, Iraya, Mwangi and Muchoki (2015) used forty nine companies and found that earnings management was negatively related to board size.Younis, Hashmi, Khalid and Nazir (2016) findings of the study in manufacturing firms listed in Karachi Stock Exchange disclose significant negative impact of board size on earnings management. Hsu and Wen (2016) results from China using a panel least square regression, show that the larger the board size, the more ability for the board to monitor whether the managers conduct earnings management behavior or not.

2.1.5 Board Composition and Earnings Management.

Jamaludina et al. (2015) results provide significant and negative support on the association between boards of directors' composition towards earnings management. There was no evidence of robustness test conducted to validate the results of the regression and hence the findings from the study cannot be relied upon. A similar study carried out by Daghsnii, Zouhayer and Mbarek (2016) found no effect of the board independence on the earnings management which is in contradiction with previous studies that have found a significant negative relationship between these two variables. Roodposhti, Haybati, Talebnia, and Chasmi (2012) findings revealed that firms with board independence manage earnings less. The study of Oba (2014) documented negative effect of board independence on earnings management of firms in Nigeria implying that board independence increases the level of earnings management.

2.1.6 Audit Committee and Earnings Management

Yasser and Al Mamun (2016) results suggest that audit committee size is positively associated with financial reporting quality. They also noted that, instead of adding value, audit committee independence is negatively associated with reporting quality. Their results indicate that the audit committee is a less significant factor in corporate governance than suggested by many previous researchers and policy makers. Ayemere and Elijah (2015) findings confirmed that audit committee characteristics have a constraining effect on earnings management. Specifically, audit committee financial expertise, audit committee size, audit committee independence and diligence showed an inverse and significant relationship with earnings management which is in tandem with theoretical expectations and suggest that increases in these variables exert a declining influence on earnings management. On the other hand, the study conducted by Ioualalen, Khemakhem and Fontaine (2015) found that audit committee diversity does not have any significant impact on earnings management of selected Canadian firms. This implies that proportion of women in audit committee may not necessarily change the level of manipulative accounting activities of the firms.

2.2 Theoretical Framework

This study adopts agency theory as it relates to the variables used. The Agency theory view board of directors as the agent of the shareholders and as such there is need for them (board of directors) to act in the best interest of the shareholders who are the principal (owners) and whose interest is on the earnings and financial wellbeing of the firm. Meanwhile, sometimes the agent may not act in the best interest of the shareholders which often result in an agency loss situation. However, the advocates of the agency theory view the manager (directors) as an economic institution that will mitigate problems and serves as guardian to shareholders (Hermalin & Weisbach 2003).

Therefore, corporate monitoring by diverse board in terms of structure of the board and composition of audit committee is expected to constrain managers' behavior because corporate monitoring by diverse board may force managers to focus more on corporate performance and less on opportunistic or self-serving behavior (Farouk, 2018). If corporate board diversity enhances monitoring, it is expected to be associated with lower use of discretionary loan loss provision in the banks. Thus, organizations with more diverse senior managers are expected to reduce the level of earnings management.

3.0 Methodology

The study adopts the correlational research design because it aligns itself with positivism paradigm, quantitative and deductive approach**.** Fourteen (14) Deposit Money Banks listed on the NSE at 31st December, 2006 and remained listed up till 2016 were the sample. The data were sourced from their annual financial statements and reports. The first regression's residual was used to determine the Earnings management (here after refer to as EM) of the samples banks. The residual was estimated after running a regression of the variables from the Chang, Shen and Fang (2008) model as presented below. In the second regression the effects of board structure and audit committee on earnings management of the banks was measured.

The residual of the following model is used to estimate EM of the banks. The model adopted is Chang, Shen and Fang (2008) which was specifically built for financial sector which represents the dependent variable in the second model.

$DLLP_i/TA_{t-1} = LLP_{it}/TA_{t-1} - \{a_0 1/TA_{t-1} + a_1 LCO_i/TA_{t-1} + a_2 BBAL_i/TA_{t-1}\}$ ………………. *(3.1)*

DLLP represents Discretionary loan loss provision; LLP = Loan loss provision; LCO = Loan Charge-off; BBAL = Beginning Balance of loan loss; TA_{t-1} = Lagged Total Assets; a_0 = Constant. The second model is presented in the following equation which is used to estimate the measure of the predictive ability of board diversity and audit committee on EM.

$EMM_{it} = \beta_{0it} + \beta_1 Wdir_{it} + \beta_2 Bown_{it} + \beta_3 Fdir_{it} + \beta_4 Bsize_{it} + \beta_5 Bodc_{it} + \beta_6 Ac_{it} + \mu_{it}$ …… *(3.2)*

$Wdir_{it}$ is Women director measured as number of women on board over the total number of board members. (Bathula, 2008);$Bown_{it}$ is Board Ownership measured as the percentage of share held by the board of directors divided by total shares in issue (Farouk, 2014); $Fdir_{it}$ is Foreign Director represented the number of foreign directors divided by total number of board members (Abdul Rauf, Johari, Buniamin, & Abd Rahman, 2012);$Bsize_{it}$ is Board Size measured as the number of Board members in a particular year. (Daghsnii, Zouhayer & Mbarek, 2016); $Bodc_{it}$ is Board Composition measured as the ratio of Non-executive director to total number of directors. (Arabborzoo, Rashidpuran & Arabi, 2015); and Ac_{it} is a composite index representing Audit Committee which is made of: (i) Audit committee size, the number of committee members, (ii) Audit committee composition, the number of shareholders over the total number of committee members, (iii) Audit committee meeting, the number of times the committee held meetings in a year. β_{1-6} = Coefficient of explanatory variables, β_o = Constant or Intercept and μ = Error Term.

4.0 Result and Discussions

This section analyzes and discusses the descriptive statistics, correlation matrix and the regression result. Based on the regression result, the hypothesis was tested. The descriptive statistics is presented in Table 1 showing the minimum, maximum, mean, standard deviation, skewness and kurtosis of the data in respect of the variables used in the study.

Table 1: Descriptive Statistics

Variables	Min	Max	Mean	Std. Dev.	Jacque Bera	N
EMM	0.00022	0.013	0.002	0.002	0.0000	154
WDIR	0	0.60	0.145	0.111	0.0000	154
BOWN	0.010	0.55	0.091	0.105	0.0000	154
FDIR	0	0.42	0.041	0.104	0.0000	154
BSIZE	5	21	14.18	2.875	0.0078	154
BODC	0.21	0.88	0.576	0.115	0.0181	154
AC	7.54	14.5	10.65	1.081	0.0001	154

Source: Authors Computation

Table 1 show that the minimum value for earnings management is 0.0002 implying that the quality of earnings was high within the banks and when compared with the highest level of discretionary accrual from the residual of the model, it still depict that earnings management was low due to the values recorded for maximum. The mean value further substantiates that earnings management was low within the study period. Women directors recorded a minimum value of 0 and maximum value of 0.60 implying that within the banking sector and the study period, there was a bank that does not have any woman on its board, while the highest value implies that there was a bank that had 60% of women on the entire board and men occupying only 40%. The mean value of 0.111 implies that on average the banks have 14% of women represented on board for all banks.

Board ownership has a minimum value of 0.01 and a maximum value of 0.55, implying that lowest percentage of shares held by directors was at 1%, while the highest percentage of shares held by directors was 55%. Overall, board ownership recorded a mean value of 0.091, implying that on average; most of the banks directors have shares to the tune of 9.1%. Foreign directors have minimum value of 0 and maximum value of 0.42 implying that there was a board in the banking sector within the study period that did not have foreign board members, meanwhile, the highest percentage recorded for foreign national amongst the board members was 42%. The mean value of about 0.041 imply that on average there was at least 4% of foreign national represented on the board of the banks.

Board size recorded a minimum value of five (5) and maximum value of twenty one (21) implying that the lowest numbers of board members in banks within the study period was five board members, while the maximum number was twenty one. However, on average, the number of board members was about fourteen (14), implying that, most of the banks have fourteen board members. Board composition has a minimum value of 0.21 and 0.88 implying the minimum percentage of non-executive directors was 21% for the banks, while the maximum composition of non-executive directors to the total number of board members was 88%. The average percentage of non-executive directors to total number of directors stood at about 58% implying that most of the banks have more non-executive directors than executive directors on board. The audit committee has minimum value 7.54 while the maximum value was 14.5 implying that the minimum number of audit committee size, composition and meetings put together was 7.5, while the maximum value for the three variables that constitute the index was 14.5.

The value of standard deviation for majority of the variables (earnings management, women director, board size, board composition and Audit committee) used implies that the mean value represents the true average for the banks except for board ownership and foreign directors. Normality test conducted using Jacque bera indicated 1% significance for all the variables implying that the data are not normally distributed.

Table 2: Correlation Matrix

	EMM	WDIR	BOWN	FDIR	BSIZE	BODC	AC	VIF
EMM	1							
WDIR	-.4277*	1						1.64
BOWN	.1854*	.0062	1					1.89
FDIR	.2067*	-.0906	-.0912	1				1.99
BSIZE	-.2574*	.4593*	.0950	-.2003	1			1.20
BODC	.1645*	-.0616	-.1031	.3598*	-.0854	1		1.09
AC	.2307*	-.1184	.1373	-.0459	.0157	-.1763	1	3.47

Authors Extractions from Stata Software
***. Correlation is significant at 0.01 or 0.05 level (2-tailed)**

From Table 2, earnings management is 42% negatively correlated with women directors which was significant at 1%. Board ownership has significant and positive relationship with earnings management to the tune of 18%. Earnings management was found to have significant and positive relationship with foreign directors at the magnitude of 20%. Board size has significant and negatively correlated with earnings management at the magnitude of 25%. Earnings management was found to have significant and positive relationship with composition of the board of banks at about 16%. Audit committee was found to have significant and positive correlation with earnings management to the tune of about 23%.

Generally, the relationships among other independent variables themselves were found to be insignificant. Therefore, to establish, overall, that the presence of multicollinearity in the correlation matrix do not constitute a problem., the Variance Inflation Factor (VIF) and tolerance values were estimated and was found to be consistently smaller than ten and one respectively, indicating absence of multicollinearity (Cassey & Anderson, 1999).

4.2 Regression Result

The results of robustness tests which include the omitted variable test was neither significant at 5% indicating that there is no omitted variables within the panel. Also, the heteroskedascticity test (p-value = 0.01) indicates the unfitness of the Ordinary Least Square (OLS) and the study proceed with the Robust OLS; thereafter, the normality test of the standard error was conducted by first estimating the residual. The kernel density estimate of the error term was estimated and the result shows a normal bell shape indicating normality of the error term and hence the adoption and interpretation of the Robust Ordinary Least Square. Finally, the cross sectional dependence test was conducted and the result indicated absence of cross dependence within the study units. The regression result is presented below.

The cumulative R^2 of 0.3100 signifies that 31% of the total variation in earnings management of listed Deposit Money Banks in Nigeria was accounted for by the proportion of women director on the board, percentage of shares owned by the directors, ratio of foreign board members to the total number of board members, the size of board of directors, its composition in terms of ratio of non-executive director to the total number of board members and the audit committee variables used in the study. The Fisher exact test value of 8.94 which is significant at one percent indicates that board diversity, audit committee and earnings management model is fit. In addition, it implies that the independent variables reliably predict the dependent variable of the study.

Table 3: Summary of Regression Result

Variables	Coeffi	T-Stat	Prob
Constant	0.000	0.05	0.96
Wdir	-0.005	-4.02	0.00
Bown	0.004	2.00	0.05
Fdir	0.000	0.08	0.94
Bsize	-0.000	-2.97	0.00
Bodc	0.002	1.18	0.24
Ac	0.001	3.99	0.00
			1.13
R^2			0.31
F-Statistics			8.94
Prob.			0.00

Authors Extractions from Stata Results

i. Women Director and Earnings Management

From Table 3, it was observed that the t-value for women director (Wdir) was -4.02, while the coefficient value is -0.005 with significant value of 0.00. This signifies that women director reduces earnings management of Banks significantly. This finding may not be surprising because the literature on ethics considers women as people who have less possibility of getting involved in an unethical behaviour. This finding is in line with those of Eze (2017), Einer and Soderqvist (2016), Arun, Almahrog and Aribi (2015), but contrary to those of Firoozi, Magnan and Fortin (2016), Shehu and Ibrahim (2014).

ii. Board Ownership and Earnings Management

The regression results revealed that board ownership as depicted in Table 3 has a t-value of 2.00 and a coefficient value of 0.004 which is significant at 10%. This indicates that as board ownership increases, the level of earnings management of Banks also increases. This may be due to entrenchment hypothesis which state that, when managers interest in an organization increases, they may become more entrenched and as such embark on self-serving behaviour which is detrimental to the overall interest of other shareholders. The finding is in line with those of Ogbonnaya, Ekwe and Ihendinihu (2016), Fei (2015), but contrary to those of Parveen, Malik, Mahmood and Ali Jan (2016), Swai and Mbogela (2016).

iii. Foreign Director and Earnings Management

Foreign director variable has a t-value of 0.08 and a coefficient value of 0.000 which is neither significant at 10% level. This shows that foreign director has insignificant but positive effect on earnings management of Banks. This result is not surprising as well because the numbers of foreign directors on the board of banks are very few and as such their impact may not be felt significantly. This finding is in line with the studies of Parveen, Malik, Mahmood and Ali Jan (2016), van der Zwet (2015), van den Berg (2015), however in contrast to those of Nguyen (2016) and Abdul Rauf, Johari, Buniamin, and Abd Rahman (2012).

iv. Board Size and Earnings Management

The result in respect of board size as shown on Table 3 has a z-value of -2.97 and a coefficient value of -0.000; which is significant at 1% level. This indicates that board size has negative but significant effect on earnings management of Banks in Nigeria. This finding supports call for increased number of board members beyond the benchmark of twenty members in order to encourage diversity on the board. This finding is in line with the study of Abdul Rauf, Johari, Buniamin, and Abd Rahman (2012), while other research such as Daghsnii, Zouhayer and Mbarek (2016), Younis, Hashmi, Khalid and Nazir (2016) is in contrast with findings of this study.

v. Board Composition and Earnings Management

From Table 3 above, it was observed that the z-value for board composition is 1.18, while the coefficient value is 0.002, neither, significant at 10% level. This signifies that board composition has insignificant but positive effect on earnings management of Banks. This finding may have revealed significant policy information on the level of compliance in respect of percentage of non-executive directors expected on the board. The researcher observed that most of the banks barely have non-executive directors higher than the executive directors on board. This finding is in line with those of Jamaludina, Sanusib and Kamaluddina (2015), Baimukhamedova and Baimukhamedova (2015) but contrary to those of Daghsnii, Zouhayer and Mbarek (2016), Arabborzoo, Rashidpuran, Arabi (2015).

vi. Audit Committee and Earnings Management

Audit committee recorded z-values of 3.99, while the coefficient is 0.001 with a significant value of 1%. This signifies that audit committee has significant positive effect on earnings management of Banks.This finding is in line with that of Chandrasegaram, Rahimansa, Rahman, Abdullah and Nik Mat (2013) but contrary to that of Ioualalen, Khemakhem and Fontaine (2015).

Based on the forgoing analysis in respect of all the variables, the hypothesis formulated earlier in section one of the study which stated that board diversity has no significant effect on earnings management of listed Deposit Money Banks in Nigeria was tested. Based on the Fishers exact test value of 8.94 which is significant at 1%, this implies that the independent variables significantly predict the outcome of earnings management of listed deposit money banks in Nigeria. This therefore, provides enough evidence to reject the null hypothesis earlier formulated in section one of the study.

4.3. Policy Implications of Findings

i. The result has an important policy implication for the CBN that is striving to improve transparency and quality of financial reporting in the financial sector, especially in assessing the effectiveness and otherwise of the existing audit committee and the board in ensuring quality financial reports devoid of financial misstatement.

ii. Among the important policy implications is that the variables used suggest that there is a continuous need by the CBN to encourage the full application of corporate governance codes by banks as full compliance is still lacking in some quarters. This, however, provides effective and efficient monitoring of financial reports most importantly earnings of the listed Deposit Money Banks in Nigeria, especially those banks with high percentage of board ownership and foreign directors.

iii. Another guide to policy makers, is in respect of decisions regarding the size of the board members, emphasis should be on the quality, effectiveness and efficiency of the members not just the number of the board members of the banks. Also, the Security and Exchange Commission should consider the need of all sectors in respect of the size of the board rather than assume that one size fits all.

5.0 Conclusion and Recommendations

As a result of the above findings, the study concludes that board diversity, audit committee have significantly contributed to earnings management of listed Deposit Money Banks except for foreign director and board composition that were found to have insignificant effect on earnings management. Following the conclusions drawn from the study, the study recommends that:

i. On the appointment of directors of the banks, based on the average from the descriptive statistics result, management should consider the inclusion of more women which should take at least 35% of the entire board members in order to continually reduce the level of earnings management.

ii. The regulators (e.g Central Bank of Nigeria and Securities and Exchange Commission) should make sure that the percentage of shares held by directors should not be more than 15% (based on the average from the descriptive statistics result) of the entire shares held in order not to give them too much power to override the interest of other shareholders.

iii. On foreign directors' appointment, increased percentage of representation should not be anything to worry about by management since most of them may not be attending meetings frequently and as such their level of vigilance will be very minimal this may be responsible for their positive association with earnings management.
iv. The number of board members should be maintained at minimum of ten (10) for banks by the policy makers and more emphasis should be placed on the quality of members and their effectiveness rather than just the number.
v. The number of non-executive directors should be increased to an average of sixty percent (60%) by management in order to serve as better monitors against the executive members and hence discourage them from possible earnings manipulation.
vi. Management of the banks should increase the audit committee variables since they help checkmate the activities of the management and hence reduce the level of earnings management.

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APPENDIX A

```
. xtset id year, yearly
       panel variable:  id (strongly balanced)
        time variable:  year, 2006 to 2016
                delta:  1 year

. xtsum emm wdir bown fdir bsize bodc ac
```

Variable		Mean	Std. Dev.	Min	Max	Observations
emm	overall	.0021138	.00238	.000215	.0125	N = 154
	between		.0015022	.000522	.00546	n = 14
	within		.0018855	-.0018262	.0091538	T = 11
wdir	overall	.1448052	.1111039	0	.6	N = 154
	between		.0754949	0	.3154545	n = 14
	within		.0837682	-.0606494	.4293507	T = 11
bown	overall	.0913672	.1054665	.010171	.551934	N = 154
	between		.0768128	.0115938	.2653325	n = 14
	within		.0748906	-.1005654	.3779686	T = 11
fdir	overall	.040974	.1039027	0	.42	N = 154
	between		.1048781	0	.3181818	n = 14
	within		.0226996	-.0644805	.1855195	T = 11
bsize	overall	14.18182	2.875305	5	21	N = 154
	between		1.855217	10.27273	17.54545	n = 14
	within		2.247333	5.818182	18.90909	T = 11
bodc	overall	.5755195	.1151926	.21	.88	N = 154
	between		.0764963	.4672727	.7118182	n = 14
	within		.0883183	.2855195	.8637013	T = 11
ac	overall	10.64729	1.08123	7.541667	14.5	N = 154
	between		.6178594	9.265151	11.36742	n = 14
	within		.9012543	7.848044	13.8935	T = 11

```
. sktest emm wdir bown fdir bsize bodc ac
```

Skewness/Kurtosis tests for Normality

Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	joint adj chi2(2)	joint Prob>chi2
emm	154	0.0000	0.0000	59.31	0.0000
wdir	154	0.0000	0.0003	27.20	0.0000
bown	154	0.0000	0.0000	50.32	0.0000
fdir	154	0.0000	0.0000	58.86	0.0000
bsize	154	0.0026	0.1645	9.70	0.0078
bodc	154	0.0112	0.1216	8.03	0.0181
ac	154	0.0009	0.0005	18.67	0.0001

```
. spearman emm wdir bown fdir bsize bodc ac, star (0.05)
(obs=154)

             |      emm     wdir     bown     fdir    bsize     bodc       ac
-------------+---------------------------------------------------------------
         emm |   1.0000
        wdir |  -0.4277*  1.0000
        bown |   0.1854*  0.0062   1.0000
        fdir |   0.2067* -0.0962  -0.0912   1.0000
       bsize |  -0.2574*  0.4593*  0.0950  -0.2003*  1.0000
        bodc |   0.1645* -0.0616  -0.1031   0.3598* -0.0854   1.0000
          ac |   0.2307* -0.1184   0.1373  -0.0459   0.0157  -0.1763*  1.0000
```

```
. reg emm wdir bown fdir bsize bodc ac

      Source |       SS       df       MS              Number of obs =     154
-------------+------------------------------           F(  6,   147) =   11.01
       Model |  .000268636     6  .000044773           Prob > F      =  0.0000
    Residual |  .000598008   147  4.0681e-06           R-squared     =  0.3100
-------------+------------------------------           Adj R-squared =  0.2818
       Total |  .000866644   153  5.6643e-06           Root MSE      =  .00202

------------------------------------------------------------------------------
         emm |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
        wdir |  -.0051672   .0015763    -3.28   0.001    -.0082823   -.0020521
        bown |   .0039178   .0015742     2.49   0.014     .0008067    .0070289
        fdir |   .0001671   .0017204     0.10   0.923    -.0032328     .003567
       bsize |  -.0002543   .0000613    -4.15   0.000    -.0003755    -.000133
        bodc |   .0019687   .0015281     1.29   0.200    -.0010512    .0049886
          ac |   .0004747   .0001545     3.07   0.003     .0001693      .00078
       _cons |  -.0000836   .0020948    -0.04   0.968    -.0042235    .0040562
------------------------------------------------------------------------------
```

```
. ovtest

Ramsey RESET test using powers of the fitted values of emm
       Ho:  model has no omitted variables
                 F(3, 144) =      1.60
                  Prob > F =      0.1916
```

```
. hettest

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
         Ho: Constant variance
         Variables: fitted values of emm

         chi2(1)      =    82.08
         Prob > chi2  =   0.0000
```

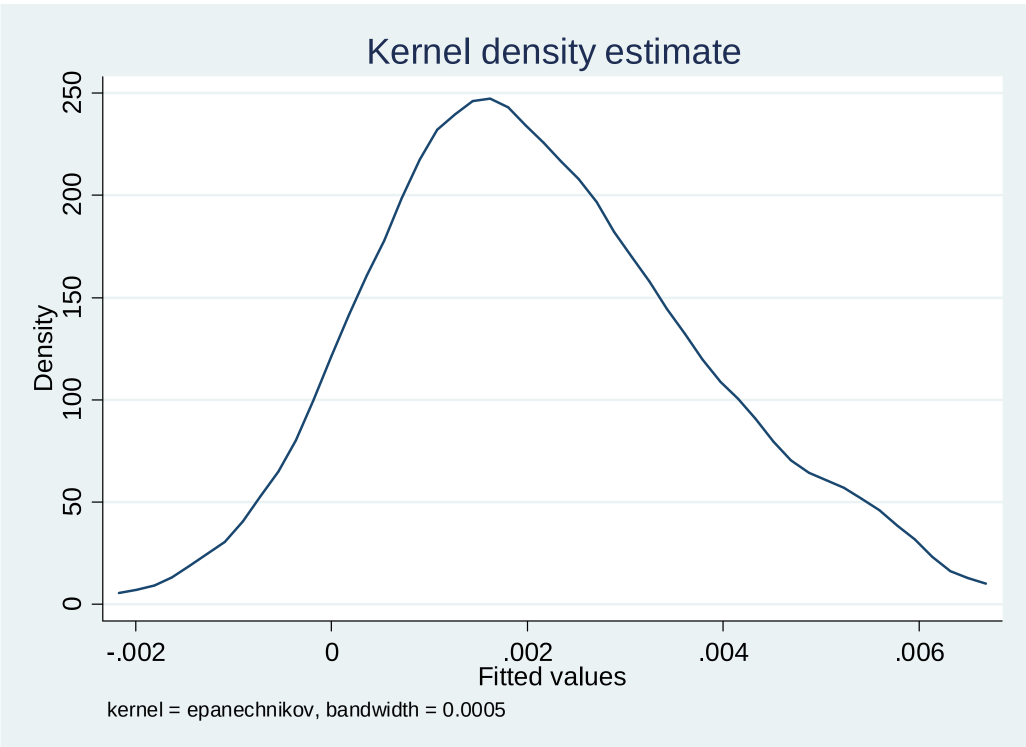
```
. reg emm wdir bown fdir bsize bodc ac, robust

Linear regression                                      Number of obs =     154
                                                       F(  6,   147) =    8.94
                                                       Prob > F      =  0.0000
                                                       R-squared     =  0.3100
                                                       Root MSE      =  .00202
```

emm	Coef.	Robust Std. Err.	t	P>|t|	[95% Conf.	Interval]
wdir	-.0051672	.0012864	-4.02	0.000	-.0077094	-.002625
bown	.0039178	.0019587	2.00	0.047	.000047	.0077886
fdir	.0001671	.0021184	0.08	0.937	-.0040194	.0043535
bsize	-.0002543	.0000857	-2.97	0.004	-.0004236	-.000085
bodc	.0019687	.0016727	1.18	0.241	-.001337	.0052744
ac	.0004747	.000119	3.99	0.000	.0002395	.0007098
_cons	-.0000836	.0018471	-0.05	0.964	-.0037338	.0035666

```
. predict e
e already defined
r(110);

. kdensity e
```



```
. xttest0

Breusch and Pagan Lagrangian multiplier test for random effects

        emm[id,t] = Xb + u[id] + e[id,t]

        Estimated results:
                         |       Var     sd = sqrt(Var)
                ---------+-----------------------------
                     emm |   5.66e-06        .00238
                       e |   2.99e-06       .0017284
                       u |   7.12e-07       .0008441

        Test:   Var(u) = 0
                             chibar2(01) =    25.27
                          Prob > chibar2 =   0.0000
```

APPENDIX B

Table 6: Population of the Study

S/N	BANKS	DATA PERIOD	OBSERVATION
1	Access Bank Plc	2006 – 2016	11
2	Diamond Bank Plc	2006 – 2016	11
3	Fidelity Bank Plc	2006 – 2016	11
4	First Bank of Nigeria Plc	2006 – 2016	11
5	FCMB Plc,	2006 – 2016	11
6	Guaranty Trust Bank Plc	2006 – 2016	11
7	Skye Bank Plc	2006 – 2016	11
8	Stanbic IBTC Plc	2006 – 2016	11
9	Sterling Bank Plc	2006 – 2016	11
10	United Bank for Africa Plc	2006 – 2016	11
11	Union Bank of Nigeria Plc	2006 – 2016	11
12	Unity Bank Plc	2006 – 2016	11
13	Wema Bank Plc	2006 – 2016	11
14	Zenith Bank Plc	2006 – 2016	11
	Total Observations		154

Source: NSE Fact Book 2016