

Mediating Effect of Audit Quality on the Relationship between Corporate Governance Mechanisms and Accrual Earnings Management

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Abstract: Regardless of the significance of the corporate governance mechanisms and audit quality in observing earnings management, the results of prior studies have been conflicting, and the majority of the investigations have been carried out in both developed and developing nations among which Nigeria has many differences with them. However, the financial calamities in Nigeria are increasing due to the need for looking at the indicators of earnings reliability as the major factor. This study's main objective is to examine the mediating effect of audit quality on the association between corporate governance mechanisms and earnings management using the four causal stages of Baron and Kenny's assumptions for mediation. Thus, the study reported all relevant mediation model results, hence, it only considered the mediating relationship. The study used all listed firms in the Nigerian stock market from 2017 to 2021 financial year. The data was collected from secondary sources of data streams, annual reports, and accounts of the firms. The data were analyzed using multiple regression after all necessary diagnostic tests. However, seven variables of corporate governance were employed and only three of Board Size, Board Independence and Audit Committee Gender certified the conditions of mediation and four of Board Gender, Audit Committee Size and Audit Committee Accounting Expertise failed. The finding of this study highlighted to what degree the audit quality effect is mediating the mansion relationship which contributed to the relevant literature. It also provides a basis on which practitioners, corporate managers, and all users of financial reports can make a rational investment decision in Nigeria and across the globe.

Keywords: Audit Quality, Corporate Governance, Earnings Management, Nigerian, Listed Companies.

1. INTRODUCTION

Academics and industry professionals have studied corporate governance for decades, it is cherished inversely in different countries and regions. However, the recent history of financial crises has shown corporate governance's effectiveness. It commonly due to global companies' bankruptcies; governments highlight the need for a corporate governance policy to protect firms worldwide (Ekpe, Obasi, Abdullahi, Mustapha & Rashid, 2020). Corporate governance is essential for financial disclosure (Jenkinson & Mayer, 1992). Financial reporting informs stakeholders about a company's finances, it is saved as the main system companies used to educate stakeholders about their financial performance, and investors use it to make decisions (Adegbite, 2015).

The statements should not mislead the users, instead, the company should include information and footnotes to help

investors in making some decisions. Due to human frailty, accounts and yearly reports will always have defects, but that doesn't mean they're false. Legislative discrepancies and administrative leeway in accounting rules and practices make it simple. By doing so, management raises the probability that it can participate in Earnings Management for its financial reports, which could mislead users when making judgments based on firm data (Atu & Gina, 2014). Earnings Management can improve or hurt financial data reliability. Most companies worldwide use GAAP-mandated methodologies for such operations.

Thus, corporate governance methods help stakeholders manage earnings by aligning agent interests with principles' interests, improving financial information reliability, and verifying economic status (Watts, & Zimmerman, 1983). The board and operational audit committee comprise the corporate governance structural design in this study. The agency theory states that the board and the audit committee must determine whether an agent is operating in the shareholders' best interests (Jensen, 1993). Independent auditors ensure that financial reports are made thoroughly and accurately,

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which reduces financial fraud and earnings management (Wallace, 1980).

However, effective implementation of good corporate governance will manage the level of cooperate failure, as it becomes crucial when corporations fail worldwide (Hassan, Aksar, Khan, Ahmed & Zahoor, 2023). See, for example, Enron, WorldCom, and Tycon in the US; Transmile and Parmalat in Malaysia; HIH Insurance and J. P. Morgan in Australia and the US; and HIH in Italy (Bavoso, 2014). Due to these issues, worldwide financial reporting and corporate governance integrity become at risk (Imeokparia, 2013). Like all other affected countries, Nigerian firms have had financial scandals. Corporate governance issues in Nigeria arise from mismatched corporate governance aspects, which give room for financial statement manipulations (Bavoso, 2014). The 2008 Nigerian financial crisis increased attention to Earnings Management warning flags. In 2009, Nigerian equities plummeted due to the crisis (Alina, & Adejucgbe, 2015). Cadbury Nigeria PLC, African Petroleum PLC, Intercontinental Bank, and Oceanic Bank have financial issues. This has reduced investors' trust in Nigerian financial reports.

The above banks have not reinstated their MDs or finance directors. Akintola Williams Deloitte, which audited Cadbury Nigeria PLC, was fined \$130,000 (Abullahi, Enyinna, & Stella, 2010). The bank account examination dropped the stock price for the firm from N86.52 in December 2008 to N8.65 in October 2009 (Okaro, & Okafor, 2015). The collapsing banks' issues remain. After bank management infused N620 billion, or \$4.1 billion at the time, the CBN issued non-performing and unsecured loans (Kuye, Ogundele, and Obaro, 2013). A few months after auditors authenticated the banks' financial well-being, the CBN affirmed them to be in distress (Okaro, & Okafor, 2015).

Nigerian Security and Exchange Commission (SEC) issue generated important questions about the efficiency, legitimacy, and applicability of accounting earnings. According to Opara (2017), the Securities and Exchange Commission (SEC), delisted 35 corporations in five years for controversy and non-compliance.

The study's key objective is to observe the indirect relationship between the corporate governance attribute and audit quality on earning management among the listed companies in Nigerian SEC, and precisely, the research assessed that Audit Quality may be able to mediate the immediate stated relationship. The paper is formatted as follows. With an introduction, the first section began. The second section provided a literature review on the associations between the study variables. The third section described the study's methodology, including sampling and data collection procedures. The fourth segment consists of a discussion of the results, and the fifth section concludes with a summary and recommendations.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

According to agency theory, certain corporate governance mechanisms perform a crucial role in preventing earnings management because they play a role as a control mecha-

nism. Following the theory, the accounting and finance literature has discovered a variety of associations between corporate governance variables and earnings management. As a result of the Asian financial crisis, the organisational leaders viewed compliance with the practice as regulatory requirements, international agency pressure, and the confidence of foreign investors (Olayemi, 2013). However, empirical research on the efficacy of these modifications has been scarce (Olayemi, 2013).

Mardes, (2022), highlighted that, over the years, issues related to corporate governance have been discussed and understood from different perspectives. However, a critical agenda in the global arena is the need to reinforce the board along with the audit committee. The board and audit committee are essential mechanisms as per companies' corporate governance (Alves, 2011). Other mechanisms include; the market for control and laws and regulations, which are expected to be accountable to shareholders. They play an advising and monitoring role in preventing the management against opportunistic behavior and potential exploitation of minority shareholders (Chan, Liu, & Sun, 2012; Gerald's Alves, 2011; Marra, Mazzola, & Prencipe, 2011; Mohamad, Rashid, & Shawtari, 2012).

Although various theories provide some rationalization for the conflicts of interest between many contracting parties, such as corporate management, shareholders and stakeholders, and how such parties could influence the earnings management of the firm, such theories include agency, stakeholder, stewardship and signalling (Jensen & Meckling, 1976). These theories speak to cause and effect variables which include (board: size, independence and gender and audit committee: size, expertise, meetings, gender, and the role of senior management. Therefore, corporate governance can be understood as a social relationship rather than a process-oriented structure. As such, the study considers the agency and signalling theories that are related to the variables of the study.

For audit quality as a mediator, it is defined as the greatest level of low-earning activities. DeAngelo (1981) defined audit quality as "a joint, market-based assessment of the probability that a particular auditor will detect a discrepancy in a client's reporting system, and report the violation." Therefore, it is acknowledged that an effective audit process ensures the independence and authenticity of financial information, which increases investor safeguarding and confidence (Maulana, Haridi, and Arif, 2022). Audit quality increases the level of financial disclosure and helps improve the reliability of financial reporting. According to DeFond and Zhang (2014), audit quality is a development that is being constructed to prevent earnings. Consequently, numerous researchers have employed various proxies as a measure of audit quality. DeFond and Zhang (2014) and Gaynor et al. (2016) state that there is little methodological guidance for comparing one proxy versus another.

Thus, the second study categorised audit quality by perception, input, and output. For these reasons, this study measured audit quality using audit fees. It is based on the aforementioned factors for the following reasons DeAngelo (1981) discovered that the size of the audit company, indicated by the Big N, is a strong determinant of audit quality

because large auditors are seen to have high audit fees and a strong motive to enhance auditing abilities (Mustapha, Rashid, Ado, and Ademola, 2020).

Most audit quality literature supports these claims. They show that high audit fees reduce earnings management and improve financial reporting. Franke, Johnson, and Nelson (2002) examine how audit fees affect US earnings management. Earnings management was negatively correlated with audit fees. Hoitash, Markelevich, and Barragato (2007) found a correlation between US audit fees and quality using 13,860 firm-year records. Audit expenses negatively impact earnings management. Mitra, Deis, and Hossain (2009) examined audit fees and earnings management for the Big Five's five largest US client firms. Use 6,852 firm-year observations from 2000 to 2005. They found that audit fees reduce irregular accruals, improving profit quality. In Spain, Carmona, Momparler, and Lassala (2015) examined audit fees and quality. Audit fees negatively and statistically significantly affect anomalous accruals. Earnings management and the Big Four auditors have a weak negative association.

Aliyu, Musa, and Zachariah (2015) examined Nigerian earnings management and audit quality. They sampled eleven institutions between 2006 and 2013. Audit costs positively affect anomalous loan loss provisions, according to OLS. This shows that financial reliance on auditor's increases earning management in Nigerian institutions. Abnormal loan loss provisions have a detrimental impact on the Big Four auditors. Eriabie and Dabor (2017) found this. They analysed 18 2005–2010 institutions. Audit quality negatively correlated with earnings management. Ndubuisi and Ezechukwu (2017) examined Nigeria's listed banks' audit quality variables and validated this. They sampled eleven banks between 2010–2015. According to Big 4 audits, audit fees and firm scale positively and statistically significantly affect audit quality.

The research' different sample sizes or units of analysis may explain the disparity. Aliyu et al. (2015) used only ten institutions, which may limit their generalizability. Okolie (2014) adopted 57 non-financial enterprises, while AbdulMalik and Che-Ahmad (2016) adopted 89. Banks are financial industry offshoots with unique characteristics and restrictions. According to the research, audit fees influence the association between study factors and audit quality.

H1_a-H1_g: Audit quality mediates the relationship between corporate governance attributes and earnings management for listed firms in Nigeria.

3. METHODOLOGY

This study uses 171 NSE-listed businesses as of December 31, 2022. The study spanned 2018–2022. The SEC (2003) Code of Corporate Governance's 2018 implementation in Nigeria and recent IFRS applications guided the study variables' selection for the period (2017–2021). Earnings management was measured using accrual earnings management. Thompson Reuters DataStream provided accrual earnings management data. Thus, corporate governance variables were independent. Nigerian public company annual reports revealed corporate governance information. Audit quality

data were collected from the selected companies' annual reports and accounts using audit fees as a proxy.

Due to their unique characteristics and the varied regulations imposed by the Nigerian Banks and Other Financial Institutions Act (BOFIA), financial services are excluded from the scope of the study. Moreover, for the filtering processes, companies with no current information are excluded from the sample. Therefore, only sixty-three non-financial companies are considered as a sample from the publicly traded companies in Nigeria. As a result, the total number of firm years evaluated in the study was 378. This research utilized panel data with two characteristics (cross-sectional and time series). The adoption of panel data is due to the study's multiyear examination of data from various corporations. Using Stata 14 statistical analysis software, the collated data was analysed. It is comprised of multiple exams to provide the most accurate results for this study. Among the diagnostic tests, descriptive statistics, and the three most well-known regressions of OLS, fixed and random effects regressions were conducted to provide details and a summary of queries and answers to the developed hypotheses.

In addition, descriptive statistics offer a comprehensive description of the nature of the data. Using correlation, the linear relationship between the variables of the study was determined. A regression analysis was used to determine the relationship between corporate governance characteristics and earnings management, as well as the mediating the effect of audit quality.

3.1. Model Specification and Variable Measurement

Based on research (Bala, 2018), the performance-matched model (Kothari, Leone, & Wasley, 2005) proxies accrual earnings management. The model's regression estimates replaced accrual earnings management for the selected organisations. Equation 1 shows the accrual earnings management that aids this study's estimating procedure:

$$AEM = [(TACC_{it} = a_0 + a_1(1/TA_{it-1}) + a_2(\Delta Sales/TA_{it-1}) + a_3(PPE_{it}/TA_{it-1}) + a_4ROA_{it} \text{ (or } it-1) + \epsilon_{it})](1)$$

Where AEM = Accrual earnings management, TACC = Total accrual measured as Net Income-Cash flow from the operation, TA_{it-1} = Lag of total assets of a firm, $\Delta SALES$ = Change in sales from the current year to last year, PPE = Gross property plant and equipment at the end of the year, and ROA = Return on asset. The proxies of the independent variables are highlighted in Table 1 below.

The following models show the study's major regression analysis using Table 1's proxies. It explained the direct and indirect links between mediating dependent, and independent factors.

Phase 1 Model

$$AEM_{it} = \beta_0 + \beta_1 BDS_{it} + \beta_2 BDI_{it} + \beta_3 BDG_{it} + \beta_4 ACS_{it} + \beta_5 ACFAE_{it} + \beta_6 ACMT_{it} + \beta_7 ACGD_{it} + \beta_8 LEV_{it} + \beta_9 FAGE_{it} + \beta_{10} FSIZE_{it} + \beta_{11} FGROWT_{it} + \beta_{12} ROA_{it} + \epsilon_{it} \quad (2)$$

Phase 2 Model

$$AUQ_{it} = \beta_0 + \beta_1 BDS_{it} + \beta_2 BDI_{it} + \beta_3 BDG_{it} + \beta_4 ACS_{it} + \beta_5 ACFAE_{it} + \beta_6 ACMT_{it} + \beta_7 ACGD_{it} + \beta_8 LEV_{it} + \beta_9 FAGE_{it} + \beta_{10} FSIZE_{it} + \beta_{11} FGROWT_{it} + \beta_{12} ROA_{it} + \epsilon_{it} \quad (3)$$

Table 3.1. Summary of Independent and Mediated Variables Measurement.

Variable	Acronyms	Measurement
Board Size	BDS	The total number of board of directors members (Alhaji, 2014).
Board Independent	BDI	Independent/executive board members (Nugroho & Eko, 2012).
Board Gender	BG	Percentage of female board directors (Kurawa & Kabara, 2014).
AC Size	ACS	Number of board audit committee members (Sultana et al., 2013; Muhammed et al., 2017)
AC Accounting Experts	ACEXPT	Members of the audit committee who are certified public accountants (ANAN or ICAN) (Abernathy, Beyer, Masli, & Stefaniak, 2014; Krishnan, Wen, & Zhao, 2011).
AC Meetings	ACMT	Number of audit committee meetings held throughout the year (Abernathy et al., 2014; Sultana, 2015; Xie et al., 2003)
AC Gender	ACG	Percentage of female audit committee directors (Martnez et al., 2016; Thiruvadi & Huang, 2011).
Mediator (Audit Quality)	AUQ	Proxy Audit Fees
Audit Fees	AFS	The natural logarithm of annual audit fees (Abernathy et al., 2014; Carcello et al., 2002)

Phase 3 Model

$$AEM_{it} = \beta_0 + \beta_1AUQ_{it} + \beta_2LEV_{it} + \beta_3FGROWT_{it} + \beta_6ROA_{it} + \varepsilon_i \quad (4)$$

Phase 4 Model

$$AEM_{it} = \beta_0 + \beta_1BDS_{it} + \beta_2BDI_{it} + \beta_3BDG_{it} + \beta_4ACS_{it} + \beta_5ACFAE_{it} + \beta_6ACMT_{it} + \beta_7ACGD_{it} + \beta_8AUQ_{it} + \beta_9LEV_{it} + \beta_{10}FAGE_{it} + \beta_{11}FSIZE_{it} + \beta_{12}FGROWT_{it} + \beta_{13}ROA_{it} + \varepsilon_{it} \quad (5)$$

Where: AEM = accrual earnings management, BDS = board size, BDI = board independent, BDG = board gender, ACS = audit committee size, ACFAE = audit committee financial accounting expertise, ACMT = audit committee meetings, ACG = audit committee gender, AUQ = audit quality, LEV = leverage, FAGE = firm age, FSIZ = firm size, FGROW = firm’s growth, ROA = return on assets, ε_{it} = error term.

4. RESULTS AND DISCUSSION

4.1. Descriptive Statistic

Table 4.1. Descriptive Statistics.

Variable	Median	Mean	Min	Max	Sd
AEM	0.397.0	0.823.0	0.000.0	10.646.0	1.354.0
BDS	9.000.0	9.019.0	4.000.0	20.000.0	2.497.0
BDI	0.667.0	0.640.0	0.111.0	0.917.0	0.161.0
BDG	0.111.0	0.115.0	0.000.0	0.400.0	0.103.0
ACS	6.000.0	5.622.0	4.000.0	7.000.0	0.881.0
ACEXPT	0.167.0	0.230.0	0.000.0	0.750.0	0.152.0
ACMT	4.000.0	3.992.0	1.000.0	9.000.0	0.951.0
ACG	0.110.0	0.122.0	0.000.0	0.320.0	0.105.0

AUFES	16.598.0	16.503.0	13.710.0	19.536.0	1.013.0
LEV	0.343.0	0.373.0	0.007.0	1.000.0	0.226.0
FAGE	21.500.0	23.534.0	2.000.0	69.000.0	14.321.0
FSIZE	16.927.0	16.774.0	12.557.0	21.215.0	1.799.0
FGROWT	0.057.0	0.711.0	-1.000.0	35.211.0	3.751.0
ROA	0.041.0	0.018.0	-1.196.0	0.641.0	0.183.0

Note: AEM=absolute discretionary accruals, BDS=board size, BDI=board independence, BDG=board women gender. LEV = leverage, FAGE = firm age, FSIZE = firm size, FGROWT = firm growth, and ROA = return on asset.

Table 4.1 shows descriptive statistics for the model variables. Mean, standard deviation, minimum, and maximum were considered. The dependent variable of accrual earnings management has a mean of 0.823, a minimum of 0.001, and a maximum of 10.646. These values exceeded Abdulmalik & Ahmad (2016), Eze (2017), and Madawaki & Amran (2013). Thus, Genser, Cooper, Yazdanbakhsh, Barreto, and Rodrigues (2007), Patrick, Paulinus, and Nympha (2015), and Siddiqui, Afzal, Azam, and Muhammad (2017) reported lower values. Sample size, study years, and country accounting practises may explain the variations.

BDS's descriptive result has a mean of 9,019 members, ranging from 4 to 20. Kibiya, Che-Ahmad, Amran, and Miko (2016) found similar results. (Amran, Saad, Abdullah, and Ibrahim, 2016) The outcome differs greatly. The study's countries may have different regulations. The table shows BDI statistics showing that independent directors make up 64% of boards. It specifies 11% to 91% independent board members. The Nigerian Code of Corporate governance (2011) recommends at least one independent board member. The value was close to Bala & Kumai (2015), Dadi Aliyu, Usman Musa, & Zachariah (2015), Hassan & Ahmed (2012),

Table 4.2. Multi-Collinearity Test by Correlation Matrix.

Variable	AEM	BDI	BDG	ACS	ACEXPT	ACMT	
AEM	1						
BDS	0.097						
BDI	0.126*	1					
BDG	0.148**	-0.017	1				
ACS	-0.125*	0.003	-0.030	1			
ACEXPT	-0.061	0.008	0.039	-0.065	1		
ACMT	0.133**	-0.064	0.096	0.104*	0.020	1	
ACGD	-0.091	0.057	-0.094	-0.059	-0.050	0.031	
AFEES	-0.159**	-0.066	0.047	0.444***	-0.018	0.249***	
LEV	0.136**	-0.044	0.123**	-0.074	-0.016	0.104*	
FAGE	0.002	0.048	0.039	0.110*	-0.038	-0.114**	
FSIZE	-0.348***	0.066	-0.049	0.338***	-0.023	0.107	
FGROWT	0.453***	0.085	0.064	0.057	-0.006	0.061	
ROA	-0.298***	-0.036	-0.177**	-0.047	0.027	-0.143**	
	ACGD	AFEES	LEV	FAGE	FSIZE	FGROWT	ROA
ACGD	1						
AFEES	-0.102*	1					
LEV	-0.062	-0.026	1				
FAGE	0.052	-0.001	0.045	1			
FSIZE	0.061	0.048***	-0.141**	0.095	1		
FGROWT	-0.019	-0.090	0.088	-0.060	-0.179**	1	
ROA	0.011	-0.077	-0.115	0.036	0.226**	-0.036	1

Note: AEM=absolute discretionary accruals, BDS=board size, BDI=board independence, BDG=board women gender. LEV = leverage, FAGE = firm age, FSIZE = firm size, FGROWT = firm growth, and ROA = return on assets.

and Okolie (2014), but lower than Bamahros & Bhasin (2016) and Krishnan, & Visvanathan (2009).

Nonetheless, the BDG statistical results in Table 5.3 revealed a minimum of 0% female representation, indicating that some companies have no women on their boards. In addition, it affirms a maximum of 40% and an average of 11% female board directors. The outcome is inferior to what Intone, Tronnes, and Vahamaa (2016) and Amran Madawaki (2013) discovered. Nonetheless, Eze (2017) and Siam, Yousef, and Khairi (2014) provided comparable findings. The ACS had a mean value of approximately 6 members, a lowest of 4 members, and a highest of 7 members. The values suggest that some companies have not complied with the CAMA's (2004) as per recommendations regarding the equal representation of directors and shareholders. Similar findings were reported in the studies of (Amran Madawaki, 2013, Moses, Ofurum, and Egbe, 2016, and Patrick et al., 2015). Certainly, the result differs from what Nelson and Devi (2013) and Patrick et al. (2015) reported. Perhaps as a significance of the changing of the code of practice of numerous countries.

Table 4.1 shows that 23% of the audit committee members were financial accountants. The table shows that some audit committees had no financial accounting professionals, while others had up to 75%. It means that certain corporations did not follow the SEC Code of Corporate Governance (2011) guideline and that the audit committee comprises at least one management and financial accounting expert. Bruynseels, Krishnamoorthy, 2015, Moses et al., 2016, and Nelson & Devi, 2013 found similar results. It also disagrees with Nelson & Devi (2013).

Nigerian audit committees meet four times a year, according to ACMT Table 4.1. They held one to nine meetings (Haji, 2016; Lee & Mande, 2005; Ogbaisi, Izedonmi & Dabor, 2016). The finding matches the most universal audit committee recommendations, which is expected. Table 4.1 shows that Nigerian audit committees lack women. ACWGEND had a mean of 13% and a maximum of 32%. Previous investigations (Carter, D'Souza, Simkins, & Simpson, 2010; Ittonen, Tronnes, Vahamaa, 2016; Kibiya et al., 2016) found

lower results. This study's era may differ from other reviews'.

The mediating variable AUFEE averaged 16.5 million (47,229 USD). It shows that the listed Nigerian corporations spend 16.5 million on auditing. Table 5.3 shows that the minimum and maximum AUFEE values are 13.7 million and 19.5 million (39,171 and \$55,821, respectively). The minimum and maximum audit fees in Nigeria were far higher for Big 4 audited companies than for non-Big 4 audited companies. Market operation differences reduced the mean value (Kim, Segal, Segal, & Yoonseok, 2016) and (Lai, Srinidhi, 2017).

Table 5.3 shows the descriptive results of the control variables. The LEV averaged 0.373, ranging from 0.007 to 1.000. The FAGE recorded a mean age of 23 years, ranging from 2 to 69 years. FSIZE averages 16.774, with minimum and maximum values of 12.557 and 21.215. FGROWT ranges from -1.000 to 35.211, with a mean of 0.711. The last control variable, ROA, has a mean of 0.018, a minimum of -1.196, and a maximum of 0.641.

4.2. Correlation Matrix

Alin (2010) and Joseph (2010) define a correlation value of 0 as no association and 1.0 as perfect. According to Odoemelam & Okafor (2018) and Cohen (1988), the correlation between 0 and 1 is weak, between 0.1 and 0.29, average be-

tween 0.30 and 0.49, and strong/solid above 0.50. Gujarati (2004) states that the predictor correlation must not surpass 0.80. Multicollinearity is suspected when the correlation surpasses 80%. Table 4.2 shows a 44% link between audit fees and audit committee size. This suggests a lesser connection as Cohen (1988) deemed a correlation above 50% strong. Alin (2010) and Hair et al. (2014) suggest an estimating with a correlation of less than 90%. Thus, this association between audit fees and audit committee size did not cause the estimate model multicollinearity issues.

Table 4.2 shows a 10% significant positive correlation between BSIZE and accrual Earnings Management. Thus, ACEXPT and ACWGEND are 5% negatively associated with accrual Earnings Management. BINDEP, BWGEND, and ACMT showed a 10% positive connection with Earnings Management. The ACS also showed a negative correlation at 10% significance. AFEES showed a negative connection of 10% significance with accrual Earnings Management. Since there is no correlation, causality, regression can describe these interactions. The table shows the study's five control variables' results. Only FAGE showed a favorable association. Thus, LEV, FGROWT, FSIZE, and ROA are all adversely connected at a 10% level with accrual Earnings Management, whereas LEV is positively correlated with 5%.

4.3. Regression Result

Table 4.3. Regression Results for the Mediated Analysis of Audit Quality on the Relationship between Corporate Governance Attributes and Accrual Earnings Management.

AEM AUFES	Phase 1 P-Value [Coeff.]	Phase 2 P-Value [Coeff.]	Phase 3 P-Value [Coeff.]	Phase 4 P-Value [Coeff.]	Mediat. Result
BDS	0.005 [0.856]	0.001 [0.057]		0.009 [0.083]	Partially Mediated
BDI	0.073 [0.113]	0.034 [-0.515]		0.069 [0.112]	Partially Mediated
BDG	0.056 [-0.219]	0.830 [0.091]		0.056 [-0.220]	Not Mediated
ACS	0.960 [-0.004]	0.000 [0.200]		0.851 [-0.016]	Not Mediated
ACEXPT	0.062 [-0.745]	0.548 [0.131]		0.060 [-0.742]	Not Mediated
ACMT	0.863 [-0.123]	0.009 [0.103]		0.835 [-0.015]	Not Mediated
ACG	0.004 [0.410]	0.000 [-0.038]		0.004 [0.404]	Partially Mediated
AUFES	-----	-----	0.094 [0.130]	0.650 [0.044]	-----

LEV	0.858 [0.051]	0.489 [0.108]	0.235 [0.317]	0.876 [0.044]	Not Mediated
FAGE	0.628 [-0.002]	0.402 [-0.003]	0.205 [0.005]	0.682 [-0.002]	Not Mediated
FSIZE	0.000 [-0.211]	0.000 [0.328]	0.000 [-0.253]	0.000 [-0.221]	Partially Mediated
FGROWT	0.000 [0.114]	0.874 [-0.001]	0.000 [0.145]	0.000 [0.144]	Not Mediated
ROA	0.000 [-1.385]	0.000 [-0.736]		-0.001 [-1.358]	Partially Mediated
_CONS	0.000 [3.398]	0.000 [9.473]	0.009 [2.588]	0.025 [2.957]	
R2	0.405	0.462	0.290	0.409	
F-Stat	25.630	33.370	20.130	30.600	
P.Value	0.000	0.000	0.000	0.000	
Link Test(Hatsq)	0.136	0.626	0.752	0.127	
Hetest (Chi2)	204.260	0.580	46.970	202.220	
P.Value	0.000	0.444	0.000	0.000	
HM Test (Chi2)	28.300	40.800	0.529	30.930	
P.Value	0.005	0.000	4.140	0.002	
LM Test (Chi2)	-	-	0.270	-	
P.value	-	-	0.302	-	

Note: AEM=absolute discretionary accruals, BDS=board size, BDI=board independence, BDG=board women gender. LEV = leverage, FAGE = firm age, FSIZE = firm size, FGROWT = firm growth, and ROA = return on assets.

This section summarises the study's findings on audit quality's moderating effect on corporate governance quality and accrual earnings management of listed Nigerian companies. Table 4.3 shows the coefficient (β), robust standard error, t-values, and p-values used for interpretation.

Table shows the regression findings from the first, second, and fourth stages to compare mediation condition certifications. Table 4.3 does not need the phase three result to examine the mediation connection because the dependent variable is highly associated with the mediating variable (Appendix A). Audit fees moderated corporate governance attributes because good board and audit committee monitoring boosts earnings manipulation control.

BDS and accrual earnings management are significantly correlated ($= 0.85$ and P -value $= 0.005$), meeting the first condition. BDS and AUFES were likewise linked to the second condition (p -value $= 0.00$ and 0.057). The third condition, AUFES and AEM, had a significant beta coefficient and p -value ($= 0.130$ and 0.094 , respectively). BDS had a significant beta coefficient (0.083) and p -value (0.009) for the fourth condition. The causal step technique has been met. The AUFES mediated the BDS-AEM connection of Nigerian-listed firms.

According to the Phases' coefficient values, AUFES reduces BDS's impact on accrual earnings management. The study's hypothesis (H1a) that audit quality as measured by AUFES mediates the association between BDS and accrual earnings management of listed Nigerian companies was confirmed. The majority of Nigerian board members may lack financial understanding. They also oversee the company's financial reporting.

Nigerian board members must pay high audit fees to get a greater audit assurance from the external auditor to legitimately perform their oversight and monitoring duties. The board of directors is considered an irregularly convened formal assembly, while external auditors actually monitor the organisation (Baker & Owsen, 2002; Marini et al., 2016; Nababan, Tono, Simorangkir, & Hutagolung, 2023).

The second independent variable explored is BDI. The first BDI condition correlated with accrual earnings management ($= 0.113$, p -value $= 0.073$). Second BDI and AUFES condition. The AUFES was likewise linked ($= -0.515$, p -value $= 0.034$). However, the beta coefficient and p -value ($= 0.130$ and 0.094) showed that the third AUFES and AEM condition supported the research hypothesis. The fourth condition BDI had a significant beta coefficient and p -value ($= 0.109$ and 0.008). The causal steps approach has been completed. Thus,

the AUFES largely mediated the BDI-AEM relationship of Nigerian-listed enterprises.

Table 4.3 supports the hypothesis (H1b) that audit quality as measured by AUFES mediates the link between BDI and accrual earnings management of listed Nigerian companies. AUFES significantly affect BDI earnings manipulation company's earnings involvement in Nigeria looks to decrease with more outside directors. Reduce income-boosting strategies. Ismail and Kamarudin (2017) predicted that independent non-executive directors on the board could signal to owners that the company has strong corporate governance, which will eventually protect investors (Saleh, Afifa, and Alkhawaja, 2022; Thomas, 2022).

Table 4.3 showed that BDG was significantly correlated with AEM in the first condition ($= -0.219$, p -value $= 0.056$). The second BDG and AUFES condition showed no significant connection ($= 0.091$ and p -value $= 0.830$). The research hypothesis predicted a beta coefficient of 0.030 and a p -value of 0.094 for the third condition of AUFES and AEM. The causal step method's fourth requirement was unsatisfied since the second of the antecedent three conditions was unsatisfied. Thus, the BDG met only two of the three conditions, disproving (H1c) that the BDG mediates the AEM via the AUFES.

ACS and AEM were not significantly related in the first condition ($= -0.004$ and $p = 0.960$). The second ACS-AUFES condition showed a significant connection ($= 0.200$ and p -value $= 0.000$). The beta coefficient and p -value ($= 0.130$ and 0.094 , respectively) showed that the third AUFES and AEM condition supported the research hypothesis. Two of the causal step method's antecedent three conditions were met, but the fourth was not. The ACS did not meet the first requirement, hence the results did not support (H1d) mediation of the ACS on the AEM via the AUFES.

Audit committee accounting expertise, study included ACEXPT. The ACEXPT and AEM were significantly related in first condition testing ($= -0.745$ and p -value $= 0.049$). The second ACEXPT-AUFES condition had no statistically significant correlation ($= 0.131$ and p -value $= 0.548$). The third AUFES and AEM condition supported the research hypothesis, while the beta coefficient and p -value were 0.130 and 0.094, respectively. The fourth criterion was untestable since the second condition was not met. The ACEXPT only met requirements three and one, and the data did not support the (H1e) mediating effect of the AUFES on the AEM.

ACMT and AEM did not show a significant connection ($= -0.123$ and $p = 0.863$). The second ACMT-AUFES condition had a significant association ($= 0.103$ and p -value $= 0.009$). Given the third AUFES and AEM condition, the beta coefficient and p -value of ($= 0.130$ and 0.094 , respectively) confirmed the research hypothesis. The first condition could not be supported, hence the fourth condition could not be met. Thus, the ACMT only met two of the three conditions, disproving (H1f) that the ACMT mediates the AEM via the AUFES.

The study's final independent variable was the audit committee ACG gender. However, the ACG-AEM association was significant ($= 0.399$ and $p = 0.004$) in the first condition. Under the second criterion, the ACG and AUFES were also

significantly related ($= -0.038$ and p -value $= 0.000$). The third condition of AUFES and AEM also supported the study's hypothesis, as shown by its beta coefficient and p -value ($= 0.130$ and 0.094). ACG had a significant beta coefficient and p -value ($= 0.29$ and 0.003) in the fourth condition. It claims that all causal stage prerequisites have been met. Thus, the AUFES may have mediated the ACG-AEM relationship of the listed Nigerian enterprises.

The study's hypothesis (H1g) that audit quality utilising AUFES mediates the association between ACG and accrual Earnings Management of listed Nigerian businesses was confirmed. An increase in women on the audit committee enhances their diligence in negotiating for the highest audit quality at the lowest audit cost, which reduces negative income and accrual earnings in Nigerian companies, mitigating Earnings Management.

Dobija, Dorota, and Skorulska (2016) found women more aggressive and cautious than men. However, this shows that women are not inferior to males because they can develop differently while preserving beneficial abilities. Thus, more women directors improve the audit committees' audit quality and earnings manipulation monitoring in this study's sample companies. Female audit committee directors reduce profit manipulation and enhance the likelihood that auditors will not report financial statement uncertainty (Thiruvadi & Huang, 2011). Based on the previous conversations, the study only investigated variables verified as meeting mediation standards, ignoring all other independent and control factors in the primary discussions. Thus, Table 1.4 summarises all factors.

5. CONCLUSION AND RECOMMENDATIONS

This investigation found faults in the Nigerian Code of Corporate Governance. The code clearly requires at least one independent non-executive director on the board and financial experience on the audit committee. Global best practices require audit committee independence, yet there is none. This study shows that women on the board and the audit committee communicate to investors that the company has effective corporate governance, which protects financial reporting integrity. This report suggests the Nigerian SEC recognize the greatest proportion of women on audit committees and boards of directors in the future code.

The Code also defines financial expertise ambiguously. Section 30(1) of the Code requires "at least one committee member must have financial knowledge." Section 30(2) requires "committee members must have basic financial literacy and the ability to read financial statements." One member should know accounting or finance. Interpretation issues may cause noncompliance with the preceding unclear statements. This study recommends that the Nigerian SEC define financial expertise in the forthcoming code as: (i) a person with a bachelor's degree and a financial accounting professional qualification; and (ii) a person with at least five years of experience in a finance-related position or audit firm. (iii) At least two audit committee members should have professional credentials. This will help them grasp corporate financial data and appreciate collaborative accountability. Legal specialists should also be on the board and audit committee, as this study showed.

Finally, investors, academics, and analysts who need to understand the causal relationship between corporate governance features, audit quality, and earnings management benefit from the study. The study studied earnings management and board and audit committee characteristics. Thus, these linkages will help investors, scholars, and analysts understand how these variables improve financial disclosure and investor trust.

This study only examined board and audit committee characteristics as corporate governance variables. The study used audit fees alone to measure audit quality. The study monitored accrual earnings manipulation using Kothari's performance-matched approach. Ownership structure, risk management committee, CEO traits, and internal audit processes affect earnings practices. Other audit quality measures include audit scale and dual audit firms. This study only examined accrual earnings manipulations and ignored real earning practices to assess Earnings Management. As a result, the study suggests that future research can address the issue.

The Nigerian financial sector needs a study like this using global financial academic models. This would allow comparison and advice for all Nigerian economic sectors. New research should expand the study time. To compare the country's Code of Corporate Governance to its predecessor, research should be done to assess its effects. Finally, this research suggests investigating more data for the sampled organizations to enhance sample size and improve future decisions.

LIST OF ABBREVIATIONS

GAAP	=	Generally Accepted Accounting Principles
CBN	=	Central Bank of Nigeria
SEC	=	Security and Exchange Commission
BDS	=	Board Size
BDI	=	Board Independent
BG	=	Board Gender
ACS	=	Audit Committee Size
ACEXPT	=	Audit Committee Accounting Experts
ACMT	=	Audit Committee Meetings
ACG	=	Audit Committee Gender
AUQ	=	Audit Quality
FS	=	Audit Fees

ACKNOWLEDGMENTS

This research did not have any direct funding.

CONFLICT OF INTEREST

The authors affirm that they have no any conflict of interest.

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Received: July 20, 2023

Revised: July 26, 2023

Accepted: Nov 19, 2023

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