

The effect of the audit committee and income smoothing practices in listed deposit money banks in Nigeria

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ABSTRACT: Income smoothing is an administrative practice in an organization's annual reports to give the impression of continuous or yearly income. To ensure that the financial statements present a truthful and fair perspective on the company's financial status, it is necessary to guarantee that the financial statements are free of errors. Effective audit committee is essential for ensuring the credibility of reported earnings and that earnings preserve their integrity, for this to happen, members of the audit committee must be competent in financial reporting to effectively question management's estimations and comprehend the accounts that management has prepared for public use. This study appraised the effect of audit committee's effectiveness and income smoothing in listed deposit money banks in Nigeria. The ex-post facto research design was selected to gather information from distinct bank annual audited reports. Nineteen (19) Deposit Money Banks quoted on the Nigerian Exchange as at December 2021 was the research population. This study used purposive sampling techniques. The sample size consisted of five (5) banks (4 with international authorization and 1 with national authorization), for a period of five years (2017 – 2021). The results of this study suggest that income smoothing by management can only be curbed when audit committee members are financially educated and possess the essential knowledge and abilities to examine and comprehend the financial statements presented by management. The study concludes that audit committee effectiveness has a significant effect on income smoothing of deposit money banks in Nigeria. The study recommends that the minimal number of members on audit committees who have financial competence must be increased. The policymakers should also mandate that the chairperson of the audit committee be someone with extensive experience in financial analysis or a certified public accountant, rather than just one member.

Keywords: Audit committee composition, audit committee expertise, audit committee, meeting, income smoothing.

INTRODUCTION

The separation of ownership and management of a company made it necessary to explain the management's stewardship of the company to its owners and other stakeholders. The management's stewardship is communicated through financial statements. The financial performance, position, and status of an organisation are revealed in the financial statements, which serve as a guide for decision-making for users (Mardessi and Fourati, 2020; Agwor and Onukogu, 2018). Income is the foundation of organisations, being the main aim of setting up a business (Adegbe *et al.*, 2019). These have prompted management to give incomes more weight and work to increase them.

Income smoothing, according to Abbadi *et al.* (2016), occurs when management takes advantage of their positions as preparers of financial statements, to use their discretionary judgement in financial reporting and transaction structuring to alter financial reports mostly by exploiting loopholes in accounting standards. The main justification for income smoothing by management is that by using different content to report better performance, managers can use the net income recorded in books to fund future demands. Management favours accounting standards, and procedures that enable them to bring forward earnings from future periods which are not illegal, to show high profits each year while bringing down

announced profits later in other periods (Al-Othman, 2019). The effects of capital markets, loan contracts, management compensation, effect of taxes, and equity issuance are only a few of the many factors that contribute to the incidence of income smoothing (Rahman and Mohammed, 2016; Uwuigbe *et al.*, 2015).

However, it has been discovered that income smoothing is a universal phenomenon. This can be seen in the case of PT Garuda Indonesia, which artificially inflated profits by declaring \$239.94 million in unearned income for the 2018 accounting period. General Electric was under investigation by the SEC's financial watchdog in August 2019 after it was charged with a larger fraud totalling \$38 billion, or more than 40% of the company's market capitalization. Also, General Electric's owners were planning to file for bankruptcy while concealing losses of up to \$29 billion from the public. WeWork, the unicorn start-up whose IPO was the most anticipated case in early 2019, was discovered to have suffered significant losses over the years that were covered up. According to Adegbe *et al.* (2019), corporate operational scandals in Nigeria were caused by flaws in the financial operations of companies, and this is clear from scandals involving companies like Cadbury Nigeria Plc., AP Nigeria Plc., Lever Brothers (now Unilever), and failed Nigerian banks. SEC (2008) findings revealed that one of the former managing directors of Cadbury Nigeria Plc had been conspiring with the board since 2002 to take advantage of the company's financial reports that were made public and filed with the Commission through expense deferrals, trade loading, and more fabricated transactions, but due to the company governance code which was not adhered to. Lever Brothers' stock was discovered to have been inflated by billions of Naira.

Transparent financial reporting should be one of the things that an audit committee should successfully ensure (Cadbury Committee, 1992). Agwor and Onukogu (2018) claimed that an effective audit committee is essential for ensuring the credibility of reported earnings and that earnings must preserve their integrity. For this to happen, members of the audit committee must be competent in financial reporting to effectively question management's estimations and comprehend the accounts that management has prepared. Income smoothing is an administrative practice that is reflected in an organization's annual reports to give the impression of continuous or yearly income. To ensure that the financial statements present a truthful and fair perspective on the company's financial status, it is necessary to guarantee that the financial statements are free of errors. This is to prevent management from deceiving the general population. Several laws, including the Nigeria Corporate Governance Code (NCGC) and more, have been put in place by relevant regulatory agencies because of the recent and popular corporate audit failures (international and domestic) that rocked the boat of the accounting profession to create audit committees for limited liability companies. The audit committee has been charged by

those in governance with the sole duty of examining the reporting entities' audited and unaudited financial accounts and acting as a liaison between the internal and external auditors to maintain the integrity of the audit. According to Almarayeh (2024), the audit committee's financial knowledge should be highlighted to properly carry out its tasks. The audit committee should be composed of individuals with top-notch knowledge of accounting and financial reporting, critically evaluating management's assumptions underlying the financial statements (El-Deeb and Mohamed, 2024; Kalembe *et al.*, 2024). This aligns with the principles outlined in the COSO Internal Control Framework, which emphasizes the importance of a robust control environment and independent oversight. Research outputs such as Bananuka and Nkundabanyanga (2023) found audit committee meetings contribute significantly to positive variances in IFR while audit committee expertise is adverse. In El-Deeb and Mohamed (2024) the study shows a dichotomy between manufacturing and non-manufacturing firms, for the manufacturing sector, the results showed a significant impact of audit committee meetings on IRQ, while audit committee composition and financial expertise showed insignificant association with IRQ. In contrast, audit committee financial expertise and meetings significantly impact IRQ, while audit committee composition showed an insignificant impact on IRQ in the non-manufacturing sector. The study of Raimo *et al.* (2021) revealed a positive effect of audit committee composition and meeting frequency on IRQ and a non-significant effect on audit committee expertise. All these incidents have lowered investors' trust in financial reports, which influences investments. Concerns about the audit committee's effectiveness in boosting and guaranteeing stakeholders' confidence in financial accounts have grown as a result. Most studies on audit committee effectiveness have dwelled on the quality of financial reporting, integrated financial reporting and others but not many studies have considered audit committee effectiveness and income smoothing. Based on the foregoing, this study intends to determine how income smoothing in Nigerian quoted deposit money banks is influenced by the audit committee's effectiveness.

LITERATURE REVIEW

Income smoothing

Income smoothing is a practice where companies at the discretion of management skillfully work their earnings to reduce volatility over time. It involves shifting income over periods to create a more stable earnings pattern. While income smoothing can be achieved through legitimate means, such as using conservative accounting practices, it can also involve unethical practices like aggressive accounting techniques or selective revenue recognition. Income smoothing, when conducted within the boundaries of accepted accounting standards, is a legitimate tool for financial management. To maintain legitimacy, companies

must adhere to full disclosure and ensure that stakeholders understand how earnings are calculated and adjusted. Income Smoothing for the sake of creating an illusion of stability or meeting performance benchmarks including earnings targets constitutes a deliberate attempt to deceive stakeholders and this is unethical practice. Income smoothing is the deliberate normalization of income, the object of profit, to reach a desired trend or level to the extent permitted by acceptable accounting and management standards. Abogun *et al.* (2021), describe income smoothing as management's effort to reduce atypical swings in incomes. Managers might change operations to achieve profit targets or use their judgment to influence results through alternative accounting decisions (Christensen *et al.*, 2022). The objective to smooth income may be set by management or pursued by a group of stakeholders for various reasons such as welfare and job security, to satisfy shareholders' expectations of corporate performance, and management compensation scheme, which is linked directly to the firm's performance, the threat of management displacement, to maintain growth rate and stability of a firm and many other reasons.

Income smoothing, according to Irwanti and Ratnadi (2021), can be carried out in two different ways: real smoothing, which entails intentionally altering operating policies to affect profits, and artificial smoothing, which entails using accounting procedures to shift costs and/or revenues from one period to the next. Income smoothing variables must not commit the firm to future action, based on professional judgement within generally accepted accounting principles, and does not require transactions with second parties. Income smoothing could be viewed as a strategic management action (Baik *et al.*, 2020). Kustono *et al.* (2021), assert that because it results from different interpretations of accepted accounting principles and standards, income smoothing is frequently a ploy and infrequently based on open fraud.

Income smoothing is used by management for many reasons including reducing tax liability, attracting investors, predicting future performance, increasing the value of managers' stock-based compensation and improving their job security (Baik *et al.*, 2020; Demerjian *et al.*, 2020).

Audit committee

A statutory audit committee must be created according to law as one of the mandatory committees in Nigerian companies according to Section 404(1) of the Companies and Allied Matters Act 2020. The main object of the committee is to ensure a buffer between the management and both the internal and external audit functions of a public company. The board works to ensure that it covers all relevant audit-related themes, and the committee promotes important communication between the internal and external auditors. The audit committee's responsibilities (CAMA, 2020) include:

- Ascertaining whether the company's accounting and reporting practices are in line with the legal requirements and widely accepted ethical principles.
- Review the scope and planning of audit requirements
- Review findings on management matters in conjunction with external auditors' departmental responses thereon
- Keep under review the effectiveness of the company's system of accounting and internal control
- Make recommendations to the boards with respect to the appointment, removal and remuneration of external auditor
- Authorize internal auditor to carry out investigation into any activities of the company which may interest or concern the committee.

The audit committee ensures compliance with regulatory frameworks (Khurshid *et al.*, 2021), with the help of the IFAC Professional Accountants in Business Committee, key elements on how to improve the audit committee's efficacy were identified. These elements are:

Transparency: Since many corporate governance standards mandate audit committee disclosures, there has been a growth in voluntary disclosures, which shows that the committees are adapting to the changing expectations of investors and other stakeholders. The relevancy of disclosures may vary depending on whether they include less important information as the selection of the audit firm, the duration of the engagement, and changes in the audit fees or more important information like a discussion of the audit fees and their relationship to the quality of the audit, or important topics raised by the auditor.

Effective and efficient working methods: Due to the audit committee's increased workload and the complexity of the risks on their agendas, effective and efficient working methods are necessary for them to fulfil their oversight duties. The above-mentioned good practices, which are a factor in the improvement of audit committee effectiveness, have offered methods for how the committee may complete its function, including:

- Setting out a clear scope of responsibilities understandable by the audit committee members as well as other members of the entity and a well-defined term of reference.
- Eliminating duplication of effort, excessive spending, and ineffectiveness by properly coordinating the audit committee, the external auditor, and the internal auditor.
- Holding effective meetings with agenda that are focused on allowing attention for in-depth discussion on important topics, flexibility to include more matters as they occur, and also with enough time to attend to these.

Audit committee composition

The arrangement of the committee according to the filters or criteria used to construct it is known as the composition of the audit committee. According to CAMA 2020 section 404 (1-7) in alignment with NCCG (2018), the audit committee shall consist of five members comprising three shareholders and two non-executive directors, in which members are not entitled to remuneration and are to be elected annually. The Act mandates the members to be financially literate and at least one member should belong to a financial professional body in Nigeria. Executive directors are not permitted to serve on the audit committee under the terms of either the CAMA rules or the Financial Reporting Council of Nigeria (FRCN) Code of Corporate Governance. This is done to make sure the committee can oversee management's procedures to check the accuracy, compliance with all applicable legal and regulatory obligations, and accuracy of the company's financial statements. Evaluate the credentials and impartiality of the external auditors as well as the effectiveness of the internal audit function. This suggests that for committee governance to be effective and to support the committee's independence, more outside directors are needed (Fariha *et al.*, 2022). The audit committee, which is a component of the organisational structure of the company at the top of the corporate hierarchy, is thought to act as the shareholders' agent in managing the business to better monitor the management's activities, and it might be thought of as playing a crucial role in minimising problems brought on by the separation of ownership and control (Biswas *et al.*, 2023). An audit committee's efficacy depends on its independence. When the committee serves as an independent source of counsel to the board and is autonomous from the organization, it will be free from management influences (Drogalas *et al.*, 2020).

Audit committee meetings

A schedule for important meetings must be established by the audit committee, and the agenda should consider the unique conditions of the company and the committee's concerns. Therefore, it is advised that the committee hold meetings with management and independent auditors at least twice to three times a year; at the beginning and end of the annual audit to go through the internal audit plan and audit findings (Nigerian Code of Corporate Governance NCCG, 2018). The committee is encouraged to hold meetings with external auditors without the management present and to schedule separate meetings with other pertinent parties so that they can speak openly and honestly with one another. This will allow the committee to reserve enough time during meetings for these matters of concern.

The audit planning meeting reviews the external auditor's plan, non-audit services, scope, and activities for the previous year; the post-audit meeting reviews audit

findings, draft financial statements and, if applicable, a management letter. It also reviews the year's work, recommends improvements in internal controls not communicated, and approves the internal audit plan for the following year. Every meeting must have an agenda that specifies the meeting's purpose, duration, and timing as well as the sequence in which its components should be discussed. The model agenda for audit committee meetings includes schedule, goals and scope, particular tasks to be completed, and communications from the committee to the board (NCCG, 2018).

The frequency of audit committee meetings is a crucial factor in how effectively they monitor the activities of the company (Bagais and Aljaaidi (2020). As a result, the audit committee is more knowledgeable about auditing and accounting issues since it meets more frequently with the internal auditors. However, other academics claim that for the audit committee to be successful, more meetings need to be held. According to Free *et al.* (2021), the focus should be on discussing pertinent issues during the meetings rather than just holding quarterly meetings to comply with applicable requirements. Isa and Musa (2018) found a negative correlation between earnings and meeting frequency implying that the effectiveness of the audit committee is not increased by how frequently it meets and does not mitigate earnings management.

Audit committee expertise

The competency of a committee's members to perform their duties competently depends on their professional competence, technical know-how, and in-depth understanding of financial accounting and other associated accounting disciplines. Entry criteria include a demand for financial expertise, which is essential for efficient functioning (Agwor and Onukogu, 2018). Members of the committee must have this attribute since it will improve the accuracy of the financial reporting and the committee's performance of its other oversight functions. It is also advantageous to have knowledge of the appropriate financial, management accounting, and other related financial domains. The board's definition of financial literacy requires that at least one member of the audit committee be able to read and comprehend basic financial statements, evaluate or analyze financial data, possess current and useful financial knowledge, and have the necessary years of experience in accounting, financial management, and auditing. The committee's ability to perform its tasks and obligations is made possible by the existence of competence in these areas (Agwor and Onukogu, 2018).

Theory of inspired confidence

In the late 1920s, a Dutch scholar named Theodore Limperg developed this theory. The demand for and supply

of auditing services are covered under Limperg's thesis. Limperg asserts that the requirement for audit services is directly related to the participation of stakeholders in the company. These stakeholders demand managerial accountability in return for their contributions to the firm. The information provided by management may be biased, and there can be a conflict between their interests and stakeholders, necessitating an audit of the data. When addressing the degree of audit confidence that an auditor should provide, Limperg uses a normative approach (the supply side). The auditor's obligations must be fulfilled in a way that does not contradict what a reasonable outsider would expect, the auditor must take all necessary steps to live up to the reasonable expectations of the public considering these potential scenarios (Alao *et al.* 2023). The auditors' theory of inspired confidence provides a connection between users' demands for trustworthy and reliable financial reporting and the audit processes' ability to satisfy those demands (Olagunju and Owolabi, 2021; Ikpanan and Daferighe, 2019). The theory suggests that auditors must be independent when providing reasonable assurance of audit in the client's organizations to enhance audit quality and to gain the confidence of the users of financial statements (Ismail *et al.* 2020; Ismail *et al.* 2008).

Empirical review

Ladistra and Sofie (2017) investigated the effect of financial leverage, profitability, governance and firm characteristics on income smoothing. The study used data from the 52 companies listed on the Indonesia Stock Exchange period 2013 until 2015. The result of the study revealed that the audit committee had a negative and significant effect on income smoothing proxied as real and artificial smoothing. Al-Othman (2019) examined income smoothing in banks and insurance companies and its impact on earnings per share in Jordan. The study shows that income smoothing is practised by Jordanian financial institutions, indicating that companies which practice income smoothing have a higher EPS compared to those that do not practice income smoothing and that the most important goal of using income smoothing is to maintain a positive earnings level.

In Nigeria, over a ten-year period from 2009 to 2021, Dare *et al.* (2021) investigated the effects of audit committee characteristics on audit quality. It also evaluated the effect of audit committee size on audit quality. Through logistic regression, it was found that the size of the audit committee had a positive significant influence on the audit quality of the companies in Nigeria's oil and gas industry, whereas the effect of the audit committee meeting was positive but not significant. It was determined that the audit committee influences audit quality in Nigeria in a statistically meaningful way. Hamdan (2020) looked at three audit committee characteristics—audit committee independence, audit committee size, and

audit committee diligence/meetings—to see if any of them differentially affect the quality of earnings. 23 industrial companies from the financial markets of the Gulf Cooperation Council (GCC) from 2014 to 2018 were included in the sample. The results showed that larger audit committees with greater independence are more likely to be linked to high-quality profitability in GCC industrial enterprises. They also discovered that the audit committee meetings and due diligence have little bearing on the calibre of earnings.

Indrawan *et al.* (2018) examine the impact of the audit committee, firm size, profitability, and leverage on income smoothing in manufacturing companies listed on the Indonesia stock exchange for the period of 2013-2015. Regression statistics were employed to analyze the secondary source of data collected from the annual reports of the companies. Measurement of income smoothing was proxied by discretionary accruals. The audit committee size showed a negative influence on income smoothing in the listed manufacturing companies. This finding indicates the larger the audit committee size, the smaller the practice of income smoothing. This occurs because the audit committee oversight function on financial reporting is more efficiently performed.

Holinata (2020) empirically examined factors affecting income smoothing in manufacturing companies listed on the Indonesia Stock Exchange period 2016-2018. The sample selection technique used a purposive sampling method with a total sample of 44 companies. Data processing was performed with EViews 10 software and with binary logistic regression. The results showed that audit committee have no significant effect on income smoothing.

Abubakar *et al.* (2021) examined Audit committee attributes and real earnings management in Nigeria. This study extends existing research on real earnings management by examining the impacts of audit committee attributes on real earnings management in Nigeria. The analysis involves a sample of 72 non-financial firms with 360 firm-year observations for a five-year period (2014-2018). The finding shows that the audit committee financial expertise was used as monitors in curtailing earnings manipulation practices.

Mardessi (2021) investigated the effect of audit committee characteristics on financial reporting quality in the Netherlands using audit committee characteristics proxied as independent members in the audit committee, a financial expert in the audit committee, frequency of meetings and audit committee size on financial reporting quality proxied by real earnings management. The results state that audit committee characteristics have a statistically significant relationship with real earnings management. However, the effect of audit committee meetings on abnormal operating cash flow and discretionary expenses is not significant. There is also evidence that audit quality positively moderates the audit committee and real earnings management links.

Table 1. Sample size for the study

S/No	Bank	Year of Incorporation	Year of listing on the NSE
1	Fidelity Bank Plc	1987	1999
2	Sterling Bank Plc	1969	1992
3	Union Bank of Nigeria Plc	1968	1971
4	United bank for Africa	1967	1971
5	Zenith Bank Plc	1990	2004

Source: Researcher's Compilation (2022).

Table 2. Variable definition and measurement.

Variable definition (Independent Variable)	Measurement
Audit committee composition	Number of independent directors in the committee + Shareholders Number of committee members
Audit committee meetings	Number of meetings held during the year
Audit committee expertise	Number of committee members with background in accounting or audit Number of committee members

Source: Researcher's Compilation (2022).

Bagais and Aljaaidi (2020) examined corporate governance attributes and firm performance in Saudi Arabia using audit committee size, audit committee meetings and audit quality with corporate performance in the energy industry in Saudi Arabia using 54 firm-year observations for the period ranging from 2005 to 2018. The Pooled Ordinary-Least Square OLS regression results indicate that audit committee size was positively associated with corporate performance in both return on assets (ROA) and return on equities (ROE) models while audit committee meetings have a negative relationship with the ROE model, while this relationship has not been reported by the ROA model.

METHODOLOGY

The ex-post facto research design was selected to gather information from distinct bank annual reports. The 19 Deposit Money Banks quoted on the Nigerian Exchange as of December 2021 were the research population. Eight of these banks had commercial banking licenses with international authorization, while eleven had commercial banking licenses with national authorization. Given that there are several deposit money banks quoted on the Nigerian Exchange Market, this study used a purposive sampling technique. The sample size consisted of five (5) banks (4 with international authorization and 1 with national authorization), these are Fidelity bank plc., Sterling bank plc., Union bank of Nigeria plc., United bank for Africa plc. and Zenith bank plc (Table 1). The duration of these banks' existence, their size and market share in the Nigerian banking sector was a deciding factor in selecting the sample size for a period of five years (2017 –

2021). The use of only published and audited annual reports that complied with International Financial Reporting Standards (IFRS) established the validity of the source and data for this research. Table 2 shows variable definition and measurement.

TEST OF HYPOTHESIS AND DISCUSSION OF FINDINGS

Table 3 provides descriptive statistics for income smoothing audit committee composition, meetings and financial expertise. The series (ISM, ACC, ACM, and AFE) average mean values are (0.023845, 0.500000, 3.600000, and 0.580267), respectively. The difference between the two values for the proxies under consideration across the years of investigation revealed that the maximum and minimum values provided signs of significant alterations. The large discrepancies between the maximum and minimum values for the variables under examination (0.056189, 0.500000, 4.000000, and 0.670000, respectively) seem to indicate that there is a significant amount of variance between them. This demonstrates the changing relationship between operational efficiency and business value over time. The ISM and AFE variables' skewness values are positive, which means that the variable is positively skewed and that the right tail is extremely long. The skewness of the variables ACM, means that their left tails are extremely skewed, and the variable is negatively skewed. The variables ACM are leptokurtic in nature since their values are larger than 3, while the variables ISM and AFE are platykurtic in nature because their value for kurtosis is less than 3.

The null hypothesis of the Hausman specification test

Table 3. Descriptive statistics.

Parameters	ISM	ACC	ACM	AFE
Mean	0.023845	0.500000	3.600000	0.580267
Median	0.016142	0.500000	4.000000	0.500000
Maximum	0.056189	0.500000	4.000000	0.670000
Minimum	0.004673	0.500000	2.000000	0.500000
Std. Dev.	0.016160	0.000000	0.816497	0.085271
Skewness	0.712294	NA	-1.500000	0.080385
Kurtosis	2.215715	NA	3.250000	1.006898

Source: Researcher's Computation (2022).

Table 4. Regression analysis: fixed effect.

Variable	Coefficient	Std Error	t-Stat.	Prob.
C	0.095233	0.021750	4.378459	0.0003
ACC	-0.039341	0.027027	-1.455601	0.1603
ACM	-0.016137	0.002118	-7.620122	0.0000
AFE	0.012346	0.020313	0.607801	0.5498
R-squared	0.712698			
Adjusted R-squared	0.671654			
F-Statistics	17.36457			
Prob(F-Stat)	0.000007			
Diagnostic Tests	Probability			
Hausman Test	chi2(3) = 15.67 (0.000)			

Source: Researcher's Computation (2022).

was rejected by the study because the Hausman test result showed a probability value of 0.000 which is less than a 5% level of significance. As a result, the model was estimated using the fixed effect estimation technique.

Model

$$\text{ISM} = f(\text{ACC}, \text{ACM}, \text{AFE})$$

$$\text{ISM} = \beta_0 + \beta_1 \text{ACC} + \beta_2 \text{ACM} + \beta_3 \text{AFE} + \mu_1$$

$$\text{ISM} = 0.095 - 0.039 \text{ACC} - 0.016 \text{ACM} + 0.012 \text{AFE} + \mu_1$$

Interpretation

The result of the regression model presented in Table 4 evidenced that audit committee composition (ACC) has a negative insignificant effect on income smoothing ($\alpha = -0.039$, $p=0.16$); a unit increase in ACC would lead to a 0.039 per cent decrease in income smoothing. The Audit committee meeting (ACM) has a negative significant effect on income smoothing ($\alpha = -0.016$, $p=0.000$); a unit increase in ACM would lead to a 0.016 per cent decrease in income smoothing. Audit financial expertise (AFE) has a positive insignificant effect on income smoothing ($\alpha = 0.012$, $p=0.5498$); a unit increase in AFE would lead to a

0.012 per cent increase in income smoothing. The coefficient of determination of adjusted R^2 which is the explanatory power of the model is 0.67. This implies that within the model context, the independence of audit committee effectiveness is responsible for 67% variations in income smoothing while the remaining 33% is explained by other factors that can influence the dependent variable. Hence, the coefficient of determination shows that the main model has an explanatory on the dependent variable of income smoothing. This is further emphasized by the probability of the F-statistics indicating that this model is statistically significant. At the level of significance of 0.05, the F-statistics is 17.36, where the p-value is 0.000 which is less than 0.05 level of significance adopted for this study. The null hypothesis that audit committee effectiveness does not have a significant effect on the income smoothing of quoted money deposit banks in Nigeria was rejected and the alternate hypothesis was accepted that audit committee effectiveness has a significant effect on income smoothing. The result of this study aligns with Holinata (2020), that the audit committee has no significant effect on the income smoothing of the companies examined. Ladistra and Sofie (2017), that audit committee has a negative and significant effect on income smoothing. In Indrawan *et al.* (2018), the findings indicate the larger the audit committee size, the smaller the practice of income smoothing, this is evidenced as audit committee had a negative and insignificant effect on income smoothing. The

results of this study suggest that profits management can only be curbed when audit committee members are financially educated and possess the essential knowledge and abilities to examine and comprehend the financial statements presented by management.

Conclusion

Financially knowledgeable audit committee members are better at spotting income smoothing which lowers the possibility of managers providing aggressive earnings management. It is further established that managers may influence earnings even in the absence of audit committee independence. This study therefore concludes that audit committee effectiveness has a significant effect on the income smoothing of quoted deposit money in Nigerian banks.

Recommendations

The owners of quoted deposit money banks in Nigeria should make sure that the CAMA's requirements for having five members with equal representation three shareholders and two non-executive directors are strictly followed. By imposing a punishment or penalty on any corporation that violates the law, regulatory authorities like the CBN and FRCN should compel those companies to scrupulously follow the laws and regulations.

The minimal number of members on audit committees who have financial competence should be increased. The policymakers should also mandate that the chairperson of the audit committee be someone with extensive experience in financial analysis or a certified public accountant, rather than just one member.

Contribution to Knowledge

By reiterating the importance of financial savvy of audit committee members in earning management, the study has added to the body of literature. This is important to the accounting industry since it calls for more of its members to serve on audit committees.

The study has added to theory by supporting the inspired confidence idea, which states that having members on the audit committee who are financially educated will minimize earnings management.

According to our findings, the study has established a significant correlation between audit committee effectiveness and income smoothing. This has strengthened the argument that the audit committee's independence improves the credibility of the financial statements and would help the government make sound policy decisions.

Suggestions for further research

The performance of Nigerian quoted deposit money banks'

audit committees and income smoothing throughout a five-year period, from 2017 to 2021, were studied in the research work. Future replications of the study that include time spans past 2021 are required to address this. The characteristics of audit committees in various industries should be the subject of further study.

CONFLICTS OF INTEREST

The authors declare that they have no conflict of interest.

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