The Impact of Audit Characteristics on Earnings Management: Evidence from Dubai Banks

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Abstract: This study investigated the impact of audit committee characteristics on earnings management based on data collected from the annual reports of banks operating in Dubai from 2010 to 2022. The audit committee’s independence and the number of members had a statistically significant effect on earnings management. Nevertheless, auditor reputation, gender, financial expertise, time commitment, and the number of meetings insignificantly affected earnings management. The implications of this study benefit both business leaders and investors, who aim to observe the actual state of their company’s finances by strengthening the auditing process.

Keywords: auditor reputation; audit committee characteristics; earnings management; Dubai banks; panel regression

1. Introduction

Public firms conduct financial reporting to provide information that may help investors, creditors, and other parties make choices about resource allocation, investment, and credit (Sovaniski 2020). Nevertheless, public firms exaggerate profits primarily to avoid reporting losses, exceed the earnings recorded in prior years, or meet or exceed analyst-forecasted objectives (Burgstahler and Dichev 1997). Similarly, Francis et al. (2004) reported a negative relationship between earning quality and the cost of equity (Katsuo 2023).

Earnings management has received much scholarly attention due to its worldwide importance (Saeed and Al-Abedi 2020; Bansal 2023). In the last two decades, earnings management has become the equal focus of academicians and practitioners. Earnings management influences actual earnings reports by deliberately selecting accounting methods for the desired results. According to Cheng et al. (2011), bank managers are more inclined to control earnings if their equity incentives are significant. Although earnings management practices can be practiced across industrial sectors, the ease with which they can be practiced varies.

Dechow et al. (1995) were among the pioneering researchers who reported evidence on earnings management by showing irregular practices committed by company management personnel (Dechow et al. 2010). An accrual deviation can be used to visualize earnings management abnormalities.

Measurement of accrual variations from the standpoint of discretionary accruals has been conducted by Bartov et al. (2000) and Kothari et al. (2005). The corporate governance mechanism’s evaluation of the effectiveness of earnings management is based on measurements. In contrast, Xie et al. (2003) discovered that board characteristics, such as external directors, the proportion of the board within the firm, meeting intensity, or audit committees, were inversely related to earnings management. Due to the rules in the accounting recording system and the obligation to follow the ratio standards issued by the UAE Bank, one of the problematic practices in the banking industry is earnings management (Fricilia and Lukman 2015). By looking at this case, the lack of “good corporate governance” (GCG henceforth) practice is proven. The weak GCG practice in the UAE...
also shows evidence that GCG practices lead to efficient decision making in companies and corporate actions. Practicing GCG is vital in companies as manipulation in financial statements can be prevented. Additionally, GCG practices aim to give accountability to shareholders and other stakeholders as the practices are associated with effective decision making. Thus, strong corporate governance practice is defined as bank governance that follows the ideals of openness, responsibility, accountability, independence, and justice. The GCG concept is based on agency theory, namely, the association between shareholders and company management. Problems concerning the agency theory arise when shareholders’ and company managers’ goals are at odds or when shareholders’ and managers’ views on risk differ.

There is still a dearth of research on earnings management in the banking industry. The practices of earnings management are smaller in the banking industry than in other sectors since the former has stricter regulations than its counterparts. For example, banks are obliged to self-assess their soundness level with an individual or consolidated risk approach, including the GCG factors stipulated in the UAE Bank regulations. Moreover, there is little empirical evidence of auditor reputation and audit committee characteristics impacting natural earnings management despite the extensive body of literature on the effectiveness of audit committees.

Part of being an influential audit committee is being independent. The audit committee must be free from any influence, uncontrolled, and impartial to everyone when carrying out its duties and giving an opinion to an auditor to maintain public trust and the quality of audit services to the public accounting profession. Pamudji and Trihartati (2010) proved that the audit committee’s independence significantly and negatively affected the earnings management level. Prabowo (2014) also revealed a significant influence of independence on earnings management. Contrastingly, Dwikusumowati and Rahardjo (2013) indicated that the audit committee’s independence insignificantly impacted earnings management, and Guna and Herawaty (2010) showed that autonomy did not affect how earnings were managed.

Auditors with high reputations are motivated to deliver high-quality audits to avoid damaging their good name (Alsughayer 2021). Such auditors tend to maintain their reputation and are better at noticing material mis-statements in financial statements and informing their findings transparently. Good auditors also possess better resources, expertise, and market incentives, alleviating the risk of litigation occurrence and safeguarding their good names to limit their audit clients’ tendency to conduct aggressive reporting (Alsughayer 2021; Utami 2023). Furthermore, Alsughayer (2021) revealed that the high reputation of auditors influenced income constraints by increasing earnings management by banks. Becker et al.’s (1998) study uncovered that earnings management in companies that were Big 5 auditors’ clients was lower than that in non-Big 5 auditors’ clients. Nonetheless, Setiawan’s (2013) research showed that auditors’ reputations did not affect how earnings were managed.

The expertise of the audit committee has insignificant positive effects on discretionary accruals (Pamudji and Trihartati 2010). Hence, the expert audit committee is also likely to devote a significant amount of time to its work. For example, the audit committee is expected to allocate extra time to supervise the company’s financial reporting process to lower the possibility of earnings management. Moreover, audit committee members who work in important positions in many companies tend to have less time to supervise the financial reporting process (Pamudji and Trihartati 2010). The audit committee’s time commitment will affect the integrity of the financial statements. Time commitments create time pressures that can be detrimental to the public, leading to behaviors that threaten audit quality, including decreasing the level of detection and examination of the qualitative elements of mis-statements, ignoring the importance of accounting principles, conducting cursory document reviews, accepting to inadequate explanations from clients, and minimizing the audit processes. Bryan et al. (2004) discovered that the time commitment of the audit committee could increase earnings transparency. On the other hand, Pamudji
and Trihartati’s (2010) research showed that time commitment had a negative but not very important effect on earnings management. The number of members on the audit committee inversely influence the prevention of earnings management practices, where having many members improves the quality of audit reports, reducing earnings management practices. Nevertheless, Wedari (2004) found that the number of audit committee members negatively impacted earnings management. Meanwhile, Susilo (2010) revealed that the number of audit committee members in the company positively influenced earnings management.

Audit committee meetings must be held periodically, four times a year, and attended by all members to evaluate or determine strategic policies and evaluate the realization of the bank’s business plans as part of GCG practices for commercial banks. The more frequent the intensive meetings of the audit committee, the higher the quality of the financial reporting, ensuring efficient auditing (Rianti and Sari 2014).

Considering prior studies, our study has focused on variables with inconclusive outcomes. Moreover, the topic is more attractive when investigating a bank operating in Dubai since Dubai is considered a global business hub, which indicates that this might be more vulnerable to global economic turmoil. This study investigates whether independence, reputation, financial expertise, time commitment, the number of members, the number of meetings, and the gender of the audit committee influence earnings management. The implication of this study is the scientific development of the audit committee’s role in reducing earnings management. For example, the current research could inform financial statement users and company administrator practitioners on the characteristics of the audit committee, a feature of suitable corporate governance mechanisms, and earnings management practices to boost organizational value and growth. Additionally, the findings could contribute to developing financial accounting studies on agency and corporate governance theories, which conceptually affect earnings management actions. The results could also be utilized as a reference for future similar studies.

2. Literature Review

2.1. Agency Theory

The relationship (contract) between the business owner (principal) and the manager (agent) is often the subject of the agency theory (Jensen and Meckling 1976, as cited in Dodd and Dyck 2015). The agency relationship also includes the relationship between managers and investors (principals) (Hayati and Gusnardi 2012). The relationship can also be in the form of authority given by the shareholders (principal) to the manager to work for shareholders’ (principals’) objectives. Vidyantie and Handayani (2006) affirmed that the agency theory assumes that every individual in the company only acts based on self-interest (Imanta and Satwiko 2011). Problems related to the agency theory arise when shareholders and company management personnel hold conflicting desires or goals with different attitudes toward risk. Additionally, shareholders (principals) are interested in the maximum and quickest return on investment, which can be seen from the dividend portion of each share owned. Meanwhile, managers are motivated to increase the incentives on offer to them based on their abilities and the effort they have made (Imanta and Satwiko 2011). In this sense, managers have full power to manage the company according to their interests. In other words, managers no longer work to represent the interests and welfare of the shareholders but those of the managers.

2.2. Audit Committee Independence Effects on Earnings Management

The audit committee must be independent from or inaccessible to any influence, uncontrolled, and impartial to anyone when carrying out their duties and giving an opinion to auditors to maintain public trust and the quality of audit services in the public accounting profession. Pamudji and Trihartati (2010) proved that the audit committee’s independence negatively affected earnings management. Prabowo (2014) also revealed a significant
influence of independence on earnings management. Contrastingly, Dwikusumowati and Rahardjo (2013) indicated that the audit committee’s independence insignificantly impacted earnings management, and Guna and Herawaty (2010) demonstrated that autonomy did not affect how earnings were managed.

Based on the significant and insignificant results from Paiva et al. (2016) and previous research, an inference was made; the more independent the audit committee is, the less influence business ties or other relationships will have on its ability to work independently, which will reduce earnings management practices. Hence, the hypothesis below was proposed:

**H1:** The audit committee’s independence hurts earnings management.

2.3. Auditor Reputation’s Effects on Earnings Management

Auditors with high reputations receive an incentive to deliver high-quality audits to avoid tarnishing their reputation (Alsughayer 2021). Previous research has demonstrated that auditors’ reputation has been subject to scrutiny, especially after the accounting scandals involving Enron and WorldCom in the early 2000s. The incidents led to the shutdown of one of the “Big 5”, namely, Arthur Andersen’s Public Accounting Firm, which was one of the five largest public accounting firms in the world. The incidents also impacted auditors, and public trust in auditor performance began to decrease (Nawaiseh 2016). Auditors’ reputation is also related to the integrity of the financial statements. Auditors with a good reputation are more efficient in carrying out their duties and producing information according to the fairness of the financial statements of the company. Alsughayer (2021) revealed that the high reputation of auditors influenced income constraints to increase earnings management by banks.

Based on the previous studies that demonstrated significant and insignificant results, a reputable audit committee will be able to notice earnings management early. Therefore, the following hypothesis was proposed:

**H2:** Auditor reputation has a negative effect on earnings management.

2.4. Audit Committee Financial Expertise’s Effects on Earnings Management

The audit committee’s financial expertise significantly increases earnings’ persistence and predictability (Mutmainnah and Wardhani 2013). Moreover, Dwikusumowati and Rahardjo (2013) revealed that companies with highly competent audit committees in finance or accounting tended to display better performance and management supervision, thus avoiding earnings management. In 2002 the US Senate Congress stated that “the effectiveness of the audit committee depends on the knowledge and experience of its members in auditing and finance” (as cited in Carcello et al. 2006, p. 6). SEC also necessitates that each audit committee consists of at least one member with financial expertise (Lin et al. 2006). For example, a financially expertized audit committee is more likely to identify material mis-statements, which would be reported and promptly resolved by the audit committee (DeZoort and Salterio 2001).

Lin et al. (2006), Zgarni et al. (2016), and Dwikusumowati and Rahardjo (2013) reported a negative relationship between audit committee financial expertise and the occurrence of restated earnings. Additionally, Pamudji and Trihartati (2010) revealed that audit committee expertise insignificantly and positively impacted discretionary accruals. Based on previous studies, the significant and insignificant results concluded that an audit committee with financial expertise will enhance the supervision of the financial reporting process and consequently reduce earnings management practices. Therefore, the following hypothesis was suggested:

**H3:** The audit committee’s financial expertise has a negative effect on earnings management.
2.5. Audit Committee Time Commitment’s Effects on Earnings Management

An expert audit committee is likely to devote a significant amount of time to its work. Moreover, audit committee members who work and have important positions in many companies tend to have less time to supervise the process of financial reporting (Pamudji and Trihartati 2010). Resultantly, the audit committee’s time commitment will affect the integrity of the financial statements. Time commitments create time pressures that can disadvantage the public, thus leading to behaviors that threaten audit quality, including decreasing the level of detection and examination of the qualitative elements of mis-statements, ignoring the importance of accounting principles, conducting cursory document reviews, accepting to inadequate explanations from clients, and putting in less effort to part of the audit process.

Bryan et al. (2004), and Pamudji and Trihartati (2010) argued that the audit committee’s effectiveness would decrease if they served too many companies. Core et al. (1999) emphasized that the experience gained by the audit committee while working in other companies is initially expected to boost the audit committee’s effectiveness. Nonetheless, the effectiveness will decrease when the audit committee serves more than three companies simultaneously. The audit committee will be more successful in managing the financial reporting process with more time, thus reducing earnings management practices. Therefore, the following hypothesis was formulated:

\[ H_4: \text{The audit committee’s time commitment has a negative effect on earnings management.} \]

2.6. Number of Audit Committee Members’ Effects on Earnings Management

The size of the audit committee, or the number of audit committee members, impacts the prevention of earnings management practices. A large number of audit committee members can boost the quality of audit reports, reducing earnings management practices. Following international practice and experience, the Audit Committee Task Force stipulated that an effective audit committee should have at least three to five members.

Wedari (2004) discovered that the number of audit committee members negatively affected earnings management. Contrastingly, Susilo (2010) revealed a positive influence. Built upon the findings of previous studies that found significant and insignificant results, it can be suggested that more audit committee members lead to an easier and more rigorous financial reporting process. Consequently, the practice of earnings management will be reduced. Hence, the following hypothesis was proposed:

\[ H_5: \text{The number of audit committee members has a negative effect on earnings management.} \]

2.7. Number of Audit Committee Meetings’ Effects on Earnings Management

As part of GCG practices for commercial banks, the meetings among the audit committee must be held periodically, four times a year, and all members are required to attend to evaluate or determine strategic policies and evaluate the realization of the bank’s business plans. Frequent intensive meetings among the audit committee lead to a higher quality of the financial reporting, ensuring efficient auditing (Rianti and Sari 2014). Regular meetings among the audit committee ensure a smooth process of auditing and financial reporting, which prevents earnings management (Zhou and Chen 2004).

The effectiveness of the audit committee may partly depend on the frequency of audit committee meetings (Menon and Williams 1994). The number of audit committee meetings were also found to be negatively associated with discretionary accruals (Xie et al. 2003; Zhou and Chen 2004), thus indicating that the frequency of audit committee meetings is an essential factor that limits the managers’ tendency to partake in earnings management. Nevertheless, Prabowo (2014) demonstrated that the number of audit committee meetings had no impact on earnings manipulation by the company management. Additionally, Lin et al. (2006) also revealed that the number of audit committee meetings had an insignificant relationship with the occurrence of earnings restatements or with the audit
committee’s activities. Conversely, Zhou and Chen (2004) discovered that the number of audit committee meetings were significantly positively correlated with loan loss provisions. Banks that are linked with a characteristically higher rate of loan loss provisions present a lower level of earnings management. Prior research has suggested that the more frequently the audit committee holds meetings, the more efficient it will be at producing quality financial reporting, which reduces earnings management practices. As such, the following hypothesis was proposed:

\( \textbf{H}_6: \) The number of audit committee meetings has a negative effect on earnings management.

### 2.8. Audit Committee Gender Effects on Earnings Management

Men and women solve problems differently. Female auditors tend to be more thorough in identifying or solving a problem compared to men. Mason and Mudrack (1996) proposed two contradictory ideas on the ethical differences between genders. The gender socialization theory claims that men respond to a situation with a “less ethical” attitude than women as women are conditioned by society to have broader values. Contrastingly, the work socialization theory implies equal pay for men and women.

Enterprises with female directors or a greater share of female directors were of higher quality and had lower earnings management (Gul et al. 2008). As shown in a similar study, companies with a minimum of one female audit committee director have better earnings management and earnings quality (ibid.). Additionally, women not only have more ethical behavior and higher levels of risk aversion but they are also better at acquiring volunteer information, which could lessen the information imbalance between female directors and managers (ibid.). Qi and Tian (2012) discovered that female audit committees were linked to bad earnings management. Moreover, gender diversity on the board of directors can only lessen profits management in situations when gender equality is substantial (Kyaw et al. 2015).

Contrastingly, Sun et al. (2011) revealed no significant association between the female directors’ proportion on the independent audit committee and the level of earnings management. They also found no effect of gender on the effectiveness of independent audit committee examinations in hindering earnings management. The significant and insignificant results from previous studies demonstrate that female audit committees tend to be more thorough in identifying or resolving a problem or error compared to men. Resultantly, the financial reporting process will be accelerated with smooth supervision, thus reducing the practices of earnings management. Therefore, the following hypothesis was formulated:

\( \textbf{H}_7: \) The gender of the audit committee has a negative effect on earnings management.

Figure 1 revealed the conceptual framework of the study, where it illustrates six independent variables and one dependent variable in the presence of control variables.
3. Methodology

3.1. Data Description

Annual data were manually retrieved from financial statements of banks listed on the DFM from 2010 to 2022. “Independence”, “auditor reputation”, “financial expertise”, “time commitment”, “the number of members”, “the number of meetings”, and “gender of the audit committee members” were used as independent variables, whereas earnings management was taken as the dependent variable. The sample included 559 observations, which were based on data from 43 banks over 13 years.

3.2. Measurement of Variables

3.2.1. Earnings Management

The dependent variable of this study was earnings management. Earnings management is an effort made by company managers to influence the financial statement information of the company to mislead stakeholders who are interested in learning about the company performance and state (Bansal 2023). Moreover, in order to maximize the output from the use of funds entrusted to the management, a system of corporate governance is built to carry out checks on profits management on the behalf of shareholders (Sarkar et al. 2008). Earnings management was proxied by accruals under management, according to Beaver and Engel’s (1996) special accrual model, which is expressed as follows:

\[ TA_{it} = NDA_{it} + DA_{it} \]  
(1)
The entire amount of allowance for prospective losses on earning assets (PPAP henceforth) was utilized to calculate total accruals using Beaver and Engel’s (1996) methodology. All variables were first deflated by the book value of equity before calculating the earnings management coefficient, which is expressed as follows:

\[ TA_{it} = \beta_0 + \beta_1 CO_{it} + \beta_2 LOAN_{it} + \beta_3 NPA_{it} + \beta_4 \Delta NPA_{it} + 1 + \epsilon_{it} \]  

(2)

Equation (2) produces the coefficient value of each variable, namely, \( \beta_1, \beta_2, \beta_3, \) and \( \beta_4. \) The coefficient value of each of these variables was included in Equation (2) to find the value of non-discretionary accruals per year.

Therefore, the following holds:

\[ NDA_{it} = \beta_0 + \beta_1 CO + \beta_2 LOAN_{it} + \beta_3 NPA_{it} + \beta_4 \Delta NPA_{it} + 1 + \epsilon_{it} \]  

(3)

where:

- \( CO_{it} \): charge-off loans;
- \( LOAN_{it} \): outstanding loans;
- \( NPA_{it} \): non-performing assets, consisting of earning assets which, based on their collectability, are classified as being (a) under special mention, (b) substandard, (c) doubtful, and (d) lost;
- \( \Delta NPA_{it} + 1 \): the difference between non-performing assets \( t + 1 \) and non-performing assets \( t; \)
- \( NDA_{it} \): non-discretionary accruals.

\[ DA_{it} = TA_{it} - NDA_{it} \]  

(4)

3.2.2. Audit Committee Independence (ACI)

Independence is the attitude that the audit committee must own, in the sense that the audit committee must be free from business relationships and any influence. Independence was thus measured with the following equation.

\[ ACI = \frac{\text{Number of Independent Audit Committee Members}}{\text{Number of Audit Committee Members}} \times 100\% \]  

(5)

3.2.3. Auditor Reputation (AR)

Auditors with high reputations possess more experience, resources, and market motivations, reducing their lawsuit risk and protecting their reputation by restricting their audit customers’ proclivity for aggressive reporting (Alsughayer 2021). As a dummy variable, AR was measured using a scale of “1” for prestigious auditors and a scale of “0” for non-prestigious auditors.

3.2.4. Financial Expertise (FE)

The financial expertise of the audit committee was gauged using the percentage indicator of the number of financially expert audit committee members to the total number of audit committee members. The financially expertized members in this study were defined as members with an educational background in accounting or finance (Dwikusumowati and Rahardjo 2013).

\[ FE = \frac{\text{Number of Audit Committee with Expertise}}{\text{Number of Audit Committee Member}} \times 100\% \]  

(6)

3.2.5. Time Commitment (TC)

Time commitment creates time pressures that can be disadvantageous to the public, leading to behavior that jeopardizes audit quality, including decreasing the level of detection and examination of the qualitative elements of mis-statements, ignoring the importance of the accounting principles, conducting cursory document reviews, accepting inadequate explanations of clients, and putting in less effort to part of the audit process.
Time commitment in this study was calculated using the percentage indicator of the number of audit committee members who work for no more than three companies.

\[ TC = \frac{\text{Number of Committed Audit Members}}{\text{Number of Audit Committee Members}} \times 100\% \]  \hspace{1cm} (7)

3.2.6. Number of Audit Committee Members (NAC)

The number of audit committee members influence the prevention of earnings management practices as having a large committee improves the quality of audit reports. Thus, the risk of earnings management practices is small. In this study, the number of audit committee members were gauged based on the data collected from the annual report of the firms between 2010 and 2021.

3.2.7. Number of Audit Committee Meetings (ACM)

Regular effective audit committee meetings ensure a smooth process of financial reporting and active auditing, which prevents earnings management (Zhou and Chen 2004). In this study, the number of audit committee meetings were determined based on the meetings conducted from 2010 to 2021, which were retrieved from the annual reports of the companies.

3.2.8. Audit Committee Gender (ACG)

Men and women solve problems differently. Female auditors tend to be more thorough in identifying or solving a problem compared to men. In this study, audit committee gender was determined using a dummy variable, namely, by using a scale of “1” for banking companies that had one female audit committee and a scale of “0” for companies that did not have a female audit committee.

3.3. Panel Regression Model

In this study, the analysis was examined by using a multiple regression analysis. The equation model used is expressed as follows:

\[
EM = \alpha + \beta_1 AC_i, t + \beta_2 AR_i, t + \beta_3 TE_i, t + \beta_4 TC_i, t + \beta_5 NAC_i, t + \beta_6 ACM_i, t + \beta_7 ACG_i, t + \beta_8 controls + \epsilon t \]  \hspace{1cm} (8)

where:

- \( EM \): earnings management;
- \( AC \): audit committee independence;
- \( AR \): auditor reputation;
- \( FE \): audit committee financial expertise;
- \( TC \): audit committee time commitment;
- \( NAC \): the number of audit committee members;
- \( ACM \): the number of audit committee meetings;
- \( ACG \): audit committee gender.
- \( Controls \): return of assets, firm size, leverage ratio, and firm’s age.
- \( \epsilon \): error term.

4. Result and Discussion

In this section, we have interpreted the results’ descriptive statistics and fixed effect model outcomes. Descriptive statistics describe the nature of the data, whereas the regression model outcome signifies the relationship between variables.

4.1. Descriptive Statistics

Descriptive statistics present the descriptive analysis of each variable used in this study, both independent and dependent variables. The descriptive analyses explain the mean, median, and standard deviation of each variable.
Table 1 reports the descriptive statistics of the underlying variables of this study. The descriptive analysis of audit committee independence revealed a median of 0.6350, a mean of 0.5719, and a standard deviation of 0.14098. The mean value of independence was higher than that of banks operating in Indonesia, with a 0.37 mean value (Mardjono and Chen 2020), thus suggesting that the average committee independence was slightly higher than half, indicating that banks operating in Doha were sufficiently independent to ensure transparency.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>Median</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit committee independence</td>
<td>0.5719</td>
<td>0.635</td>
<td>0.14098</td>
</tr>
<tr>
<td>Audit committee financial expertise</td>
<td>0.7442</td>
<td>0.67</td>
<td>0.21924</td>
</tr>
<tr>
<td>Audit committee time commitment</td>
<td>0.9284</td>
<td>1</td>
<td>0.13483</td>
</tr>
<tr>
<td>Number of audit committee members</td>
<td>4.13</td>
<td>4</td>
<td>1.346</td>
</tr>
<tr>
<td>Number of audit committee meetings</td>
<td>14.44</td>
<td>13</td>
<td>9.276</td>
</tr>
<tr>
<td>Earnings management</td>
<td>0.154</td>
<td>0.161</td>
<td>0.084</td>
</tr>
<tr>
<td>Outstanding loans</td>
<td>10.35</td>
<td>9.24</td>
<td>2.251</td>
</tr>
<tr>
<td>Charge-off loans</td>
<td>0.082</td>
<td>0.048</td>
<td>0.037</td>
</tr>
<tr>
<td>Non-performing assets</td>
<td>0.291</td>
<td>0.242</td>
<td>0.162</td>
</tr>
<tr>
<td>Return of assets</td>
<td>2.131</td>
<td>2.353</td>
<td>0.0638</td>
</tr>
<tr>
<td>Firm age</td>
<td>32.129</td>
<td>35.472</td>
<td>0.2321</td>
</tr>
<tr>
<td>Firm size</td>
<td>52.329</td>
<td>54.532</td>
<td>1.43</td>
</tr>
<tr>
<td>Leverage ratio</td>
<td>0.6413</td>
<td>0.6736</td>
<td>0.1821</td>
</tr>
<tr>
<td>Auditor reputation</td>
<td>0.691</td>
<td>1.00</td>
<td>0.418</td>
</tr>
<tr>
<td>Audit committee gender</td>
<td>0.082</td>
<td>0.079</td>
<td>0.094</td>
</tr>
</tbody>
</table>

The descriptive analysis of the financial expertise demonstrated a mean value of 0.7442, and a standard deviation of 0.219, which indicates that employees working in the audit committee of Doha banks possess higher financial expertise to manage their responsibilities.

The analysis for the time commitment variable yielded a maximum value of 1.00, a minimum value of 0.60, a median of 10.000, a mean of 0.9284, and a standard deviation of 0.13483. The stated mean value denotes little time commitment as it is below the median.

The number of members had a mean value of 4.13 and a standard deviation of 1.346. The mean value > median value (4.13 > 4.00), implying that the number of members in this study were large as the mean value is above the median. The number of meetings had a mean of 14.44, a median of 13.00, and a standard deviation of 9.276. The mean value > the median value (44.44 > 13.00), meaning that the number of meetings in this study were large because the mean value is above the median.

The earnings management variable had a mean of 0.15 and a standard deviation of 0.84. This higher standard deviation value suggests greater variations in earnings management among banks operating in Dubai. The variables used to calculate earnings management of charge-off loans, outstanding loans, and non-operating assets showed an average of 0.05, 10.35, and 0.29 for Dubai banks, with standard deviation values of 0.3, 2.25, and 0.16. Additionally, the control variable of return on assets revealed an average of over 20%, with a standard deviation of 6%. The average values of firm age, leverage ratio, and firm size were 32, 52, and 64%, with standard deviation values of 23, 1.43, and 18%, respectively. The mean value of audit committee gender was 0.082, with a standard deviation value of 0.094.

4.2. Research Results (Hypothesis Testing)

Table 2 reveals that the audit committee board independence had a significance value of 0.029, with the direction of the regression coefficient being negative at 2.854, thus indicating that committee independence significantly negatively affected earnings management. Consistent with Klein (2002) and Iqbal and Strong (2010), a higher degree of independence on the board reduces the level of earnings management. The auditor reputation coefficient of 0.235 demonstrates a statistically insignificant, positive relationship with
earnings management, with a \( p \)-value of 0.49, which is higher than 5%, indicating that the auditor reputation variable had an insignificant impact on earnings management. The audit committee’s financial expertise was reported with a positive coefficient of 0.63, indicating a higher significance value than 5%, thus suggesting an insignificantly positive impact on earnings management and that the audit committee’s financial expertise had no impact on earnings management. The time commitment coefficient of 0.445 is insignificant, demonstrating an insignificantly negative effect of time commitment on earnings management. Thus, greater time commitment will not reduce earnings management. The number of board members were reported with a significant positive coefficient of 0.48, indicating a statistically significant, positive effect on earnings management. Nonetheless, both the number of meetings and gender are reported with insignificant coefficients of 0.03 and 0.33, with \( p \)-values of 0.08 and 0.34, which are higher than the 5% level of significance, respectively. Moreover, the control variable of return on assets revealed positive results and leverage ratio had negative, highly significant results. Meanwhile, firm age and size indicated insignificant results.

Table 2. Fixed effect panel egression.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficients</th>
<th>Std Error</th>
<th>( p )-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit committee independence</td>
<td>-2.854 **</td>
<td>1.232</td>
<td>0.029</td>
</tr>
<tr>
<td>Auditor reputation</td>
<td>0.235</td>
<td>0.392</td>
<td>0.499</td>
</tr>
<tr>
<td>Audit committee financial expertise</td>
<td>0.637</td>
<td>0.897</td>
<td>0.687</td>
</tr>
<tr>
<td>Audit committee time commitment</td>
<td>-0.453</td>
<td>1.164</td>
<td>0.389</td>
</tr>
<tr>
<td>Number of audit committee members</td>
<td>0.483 ***</td>
<td>0.121</td>
<td>0.000</td>
</tr>
<tr>
<td>Number of audit committee meetings</td>
<td>0.043 *</td>
<td>0.024</td>
<td>0.087</td>
</tr>
<tr>
<td>Audit committee gender</td>
<td>0.332</td>
<td>0.387</td>
<td>0.342</td>
</tr>
<tr>
<td>Return of assets</td>
<td>0.326 ***</td>
<td>0.12</td>
<td>0.000</td>
</tr>
<tr>
<td>Firm age</td>
<td>0.427 *</td>
<td>0.24</td>
<td>0.094</td>
</tr>
<tr>
<td>Firm size</td>
<td>0.0043</td>
<td>0.0073</td>
<td>0.581</td>
</tr>
<tr>
<td>Leverage ratio</td>
<td>-0.0543 ***</td>
<td>0.003</td>
<td>0.000</td>
</tr>
<tr>
<td>Constant</td>
<td>24.449 ***</td>
<td>1.621</td>
<td>0.000</td>
</tr>
<tr>
<td>Firm effect</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>R square</td>
<td>0.376</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: *, **, and *** indicate the level of significance at 10%, 5%, and 1%, respectively.

4.3. Discussion

4.3.1. Audit Committee Independence and Earnings Management

The results reveal that audit committee independence significantly affected earnings management, which aligns with Pamudji and Trihartati (2010) that reported a significant negative influence on earnings management. Nevertheless, the findings of this study contradict Dwikusumowati and Rahardjo (2013), Guna and Herawaty (2010), Amijaya and Prastiwi (2013), who discovered no such impact on earnings management. Additionally, Prabowo (2014) demonstrated a positive but insignificant effect of committee independence on earnings management.

4.3.2. Auditor Reputation and Earnings Management

The results demonstrate that auditor reputation insignificantly impacted earnings management, agreeing with Andini and Sulistyanto (2011), Fricilia and Lukman (2015), and Setiawan (2013). A possible explanation is that the role of building an auditor’s reputation is marginal in preventing or reducing earnings management practices as banking companies implement strict regulations. Nonetheless, Kanagaretan et al. (2010) contradicted this finding, finding that auditor reputation did negatively impact earnings management. Moreover, Becker et al. (1998) discovered that earnings management within companies that were the Big 5 auditors’ clients was lower compared to the non-Big 5 auditors’ clients.
4.3.3. Financial Expertise and Earnings Management

The findings demonstrate that financial expertise had no significant effect on management. A plausible reason is that the financially expertized audit committee might not perform duties properly and that the formation of financially expertized audit committee members is simply to comply with the regulations issued by BAPEPAM. As such, the audit committee’s financial expertise did not affect the audit committee’s performance in reducing earnings management practices, which aligns with Pamudji and Trihartati (2010) in reporting an insignificant positive impact on earnings management. Nevertheless, some studies proved a significant influence on earnings management (Dwikusumowati and Rahardjo 2013), while others found significant negative links instead (Lin et al. 2006).

4.3.4. Time Commitment and Earnings Management

The results indicate that time commitment had no significant effect on earnings management, which implies that the role of time commitment of the audit committee in preventing or reducing the practice of earnings management is marginal. Similar to Pamudji and Trihartati (2010), the time commitment of the audit committee insignificantly and negatively impacted earnings management, but Core et al. (1999) and Bryan et al. (2004) proved otherwise, suggesting that time commitment could lead to greater earnings management.

4.3.5. The Number of Members and Earnings Management

The number of audit committee members positively affected earnings management. A plausible explanation is that reaching the recommended number of members might be only to comply with the guidelines. As such, the role of the number of members in preventing or reducing the practice of earnings management is marginal. The direction of the results align with Susilo (2010), who found a positive effect on the firm earnings management, but contradict Wedari’s (2004) findings suggesting a significant and negative impact on earnings management.

4.3.6. The Number of Audit Meetings and Earnings Management

The results demonstrate that the number of meetings had no significant influence on earnings management, which aligns with Prabowo (2014) and Lin et al. (2006). Nevertheless, Menon and Williams (1994) revealed that the number of meetings could assess the effectiveness of an audit committee. In this study, the number of meetings of the audit committee were negatively correlated to discretionary accruals, indicating that the meeting frequency was vital in minimizing earnings management (Xie et al. 2003; Zhou and Chen 2004). Zhou and Chen (2004) also discovered that the number of audit committee meetings significantly affected how well low-income households manage their income.

4.3.7. Gender and Earnings Management

The results reveal that gender had no significant impact on earnings management due to the differences in identifying and solving problems between women and men, which leads to a lack of results in the observations. As such, the irrelevance of gender in earnings management may also be justified by the marginal role of the auditor’s gender in preventing or reducing earnings management practices. A similar result was also discovered by Sun et al. (2011), who found no significant relationship between the female directors’ proportion on the independent audit committee and the earnings management level. Additionally, they found no effect of gender on the effectiveness of independent audit committee examinations in impeding earnings management. Nonetheless, previous findings have demonstrated a negative impact of female members’ proportion of the audit committee on earnings management (Qi and Tian 2012).
5. Conclusions

This study investigated the effect of independence, auditor reputation, financial expertise, time commitment, the number of members, gender, and the number of meetings on earnings management in banks listed in DFM from 2010 to 2022. Based on the hypothesis tests in the study, the accepted hypothesis was that the audit committee’s independence negatively affected earnings management. Meanwhile, the rejected hypotheses were that auditor reputation, financial expertise, time commitment, the number of members, the number of meetings, and the gender of the audit committee negatively affected earnings management. Further research, including samples from all industrial sectors of DFM companies and adding more years of data, is recommended following the possibility that the current hypotheses were rejected due to insufficient tested data. This study’s major limitation is, first, data availability, since the data are manually collected from the bank’s reports, and second, this study could have used other control variables such as size, complexity (number of segments), and age to strengthen our existing results. Moreover, the data availability limits the robustness of our analysis, as does the lack of other control variables. In the future, these study data can be extended to GCC countries. Moreover, the research can also be extended to examine other, more specific factors, such as the religion of an audit committee board member, the report quality, and the amount of financial information provided.

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Conflicts of Interest: The authors declare no conflicts of interest.

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