

**CORPORATE GOVERNANCE AND EARNINGS MANAGEMENT OF FIRMS
IN NIGERIA**



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MAY, 2025.

**CORPORATE GOVERNANCE AND EARNINGS MANAGEMENT OF FIRMS
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**BEING A PROJECT WORK SUBMITTED TO THE DEPARTMENT OF
ACCOUNTING, FACULTY OF MANAGEMENT SCIENCES, UNIVERSITY
OF BENIN, BENIN CITY. IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE AWARD OF THE BACHELOR OF SCIENCE
(B.SC) DEGREE IN ACCOUNTING**

MAY, 2025.

DECLARATION

I, **FAVOUR OSARUMEN IGBINOBA** declare that this study is based on a study undertaken by me in the Department of Accounting, Faculty of Management Sciences, University of Benin, Benin City, under the supervision of **PROF. I. P OTAKEFE**

This work has not been submitted for the award of degree elsewhere.

Ideas and views are product of my personal research and where the view of others has been expressed, they have been duly acknowledged.

Any liability arising from this work is to be wholly borne by me alone

FAVOUR OSARUMEN IGBINOBA

DATE

MGS1813644

CERTIFICATION

We, certify that this research project was carried out by **FAVOUR OSARUMEN IGBINOBA** the Department of Accounting, Faculty of Management Sciences, University of Benin, Benin City, Nigeria. It is adequate in scope and quality in partial fulfilment of the requirements for the award of Bachelor of Science (BSc.) degree in Accounting.

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Prof. Osasu Obaretin
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Date

DEDICATION

This project work is dedicated to God Almighty for his sufficient grace upon my life, without him I won't have been where I am today.

ACKNOWLEDGEMENT

I am eternally grateful to God almighty for the successful completion of this project and his faithfulness all through my undergraduate program at the University of Benin.

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ABSTRACT

Accounting has been described as the science of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are in part at least, of a financial character and interpreting the result thereof. Features characterize the tertiary institution that makes it quite distinct from many other areas. Although, accounting principles remain the same in application, accounting systems are normally designed to suite the nature and need of information of the organization. This project work therefore sets to find out and document the system applicable in the tertiary institution of higher learning? Are laid down procedures followed? Are required information obtained when needed? How are contracts accounted for? What principles are laid down for cash handling? These and many others shall be answered as the work progresses. Generally, the project results shall be an aid to the public who are conscious of accounting system not only in the college of education but also in other establishment.

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ABSTRACT

This research delves into investigating the influence of corporate governance on earnings management. Despite considerable interest in the relationship between corporate governance and earnings management, prior studies have yielded inconclusive results, indicating a need for farther examination, particularly in developing countries like Nigeria, where corruption and financial statement manipulation still prevails.

The study focused on five (5) quoted companies operating on the Nigerian exchange group 2023. Primary data was collected through questionnaires administered to 50 top managers of the sampled companies, and a survey research design was employed. Data analysis involved descriptive statistics, multiple regression models using the Eviews version 10 software.

The research revealed a positive association between corporate governance (including board size board independence, audit committee, and audit committee independence) and earnings management in Nigeria as the case may be. As a result, the study recommends that organizations, managers, regulatory authorities should enhance transparency in financial reporting by providing clear and detailed disclosures, ensuring stakeholders have a comprehensive understanding of the organization's financial performance also promote a higher proportion of independent directors on the board to ensure unbiased oversight and decision-making among others.

Keywords: Corporate Governance, Earnings Management, Financial Performance, Board Independence, Audit committee.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Profitability is the goal of every business. When a company's assets and finances are properly managed, this objective can be accomplished. Financial statements that are accurate and dependable are made possible by management accountability for managing corporate finances and resources. Accounting professionals and academics have raised concerns about the possibility that these gaps are caused by the accounting standards and governance systems that generate financial information (Bowen Raj Gopal & Venkatchalam 2003).

The performance and accomplishments of the company for a specific period are covered in depth in the financial statements. The management-prepared financial report will be used

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as a guide by shareholders when making financial decisions. This suggests that accurate and trustworthy financial reporting is necessary to make decisions easier (Arifin & Destriana 2016). Investors evaluate businesses based on the financial statements' actual earnings or ratios derived from these earnings (Kouaib & Almulhim, 2019; Wasan & Kalyani, 2020).ⁱ

According to some academics, management knowingly fabricates financial figures, undermining their accuracy and integrity and having an impact on stakeholders' decision-making (Kurawa & Ahmed, 2020).

Corporate governance has emerged as a crucial topic of interest for practitioners, scholars, and policymakers worldwide. Governments around the globe are taking action to implement corporate governance measures aimed at safeguarding the corporate environment. The global corporate financial crises that caused

businesses like Enron and WorldCom to go out of business made it necessary to improve the accuracy of financial statements and look for improved governance practices globally.

Notably, many corporate scandals worldwide are related to earnings management, drawing

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significant attention from financial economists (Rashid, Asfhanorhan, et al., 2018). Corporate governance is defined as a comprehensive system of regulations that direct and measure organizations, focusing on internal and external corporate arrangements to monitor management and directors' activities (Aziz et al., 2018).

It is viewed as a concept that balances economic, social, and communal goals, yielding positive results for businesses and deterring financial report manipulation by management. Corporate governance (CG) is the integration of a complex set of practices that emphasizes what should best promote accountability and cohesion within a company. Strong corporate governance has become a topic of discussion recently (Mcconomy & Bujaki, 2000), and nations all over the world are developing regulations in response (Malyani 2020).

According (OECD 1999), the framework should guarantee the firm's methodical direction, the board's effective management oversight, and the board's accountability to the company and its shareholders. Corporate governance is a tool used to lessen the cost of agency that results from the conflict of interest between managers and shareholders. Because there is an informational imbalance between stakeholders and management, corporate governance, when applied by a corporation, will aid in safeguarding stakeholders' interests as a result of the asymmetry of information that occurs between stakeholders and management (OECD 1999).

The Nigerian financial sector has undergone significant changes over the years, influenced by deregulation, globalization, and technological innovations, among other factors. However, challenges remain,

including issues related to corporate governance practices, poor disclosure and transparency of financial statements, irregular monitoring and

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enforcement, earnings manipulation, and lack of effective regulatory control (Rashid, Zainol, et al., 2018).

According to (Dechow et al., 1996), managers who receive minimal oversight or none at all exhibit opportunistic conduct. Additionally, it was stated that dishonest methods of managing earnings have been used as a result of shareholders' inability to fully supervise management's internal operations (Dong et al., 2020).

Earnings management involves corporate managers using their judgment in financial reporting and structuring transactions to manipulate financial reports, either to mislead shareholders or influence contractual outcomes (Alfadhli, Rashid, & Yaakub, 2018). Corporate accountants utilize their knowledge of accounting rules to alter financial statement numbers in an enterprise's accounts (Mansor et al., 2018).

Corporate governance, a system designed to stop earning management exploitation, has gained attention as a potential solution. Several firms in Nigeria have collapsed as a result of deliberate income smoothing, misconduct by directors, and bad management. The persistent failures of business firms and organizations in Nigeria have posed a greater interest in the study of corporate governance. The Nigerian Code of

Corporate Governance I was published in 2018 by the Financial Reporting Council of Nigeria. The law would act as a safeguard, promoting and enabling corporate governance, financial reporting, and accountability across the nation. Despite the misconduct charges today, Nigeria is presently experiencing change, increasing transparency, and consistency (Peterson, 2020). However, there is a need for a continual rise in corporate governance practice compliance

1.2. Statement of Research Problem

Recently corporate governance and earnings management are the main topics that have taken priority of the business and academic agendas. To lessen the effects of these high- profile scandals and failures

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solutions such as (OECD 1999, ORI 2011, Nigeria code of corporate governance 2018) have therefore been established in the corporate environment. Various corporate governance mechanisms, such as CEO

duality; directors' shareholdings, board size, board composition, quality of audit committee, executive compensation, and board independence, audit committee independence have been found to have relationships with measures of earnings management (Bedard, Chtourou, and Courteau, 2004; Tehranian, Cornett, Marens and Saunders, 2006; Xie, Davidson, and Dadalt, 2001; Zhou and Chen, 2004).

To align Nigerian practices with international standards, the Peterside's Code of corporate governance in Nigeria was introduced in 2003 for public companies, and the Central Bank of Nigeria released the code of best practice on corporate governance for banks in 2006. I

The need to increase or improve the trustworthiness of reported financial information has unquestionably been one of the key impacts of corporate governance reform.

Over the past few decades, firms have failed to practice proper corporate governance (Hamdan 2020, Ana 2020; Nik & Hassan, 2014). Despite these efforts, the results achieved in improving corporate governance have been minimal, as governance malpractices persist, threatening the survival of numerous firms in various- sectors of the economy (Hassan and Ahmed, 2012). Regulators of the accounting profession in Nigeria have not sufficiently addressed the issue of earnings management accounting, which remains a widely practiced concern among many companies in the country. Additionally, users of accounting information seem to overlook the prevalence of earnings management practices that have led to the collapse of major companies both globally and locally.

Researchers recommended that in light of the ongoing rise in financial statement fraud, regulatory violations, and director misconduct at companies, there is a need for further research into this particular area of study. (Dong et al, 2020; Harris et al, 2019; Fan et al 2019; Tolulope et al 2018; Arya, Glover & Sunder 2003; Guay et al 1996; Healy & Palepu_, 1992).

Few studies have exactly assessed the effect of corporate governance on the earnings management of firms in Nigeria. Against this backdrop this study tends to expand on the knowledge of the impact of corporate governance on earnings management for the purpose of in-depth understanding and application.

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1.3. Research Questions

On the aforementioned issue, the following questions were raised

1. How does board independence impact earnings management?
2. what extent does a corporate board size affects earnings management?
3. How does audit Committee affect earnings management?
4. What extent does audit committee independence impact earnings management?

1.4. Objectives of the study

The main objective of the study is to examine how corporate governance affects earnings management in Nigeria other major objectives are:

1. Determine board independence impact on earnings management
2. Ascertain how board size affects earnings management
3. Determine how Audit Committee affect earnings management
4. Ascertain the impact of audit committee independence on earnings management.

1.5 Research Hypothesis

On the aforementioned issue, the following questions were raised;

1. Board independence does not impact earnings management
2. Board size 40 not affect earnings management
3. Audit Committee do not impact earnings management
4. There is no impact between audit committee independence and earnings management.

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1.6. Scope of the study

The purpose of this research is to discover the impact of corporate governance on earnings management corporate governance tools considered for the study include an audit committee, audit committee independence, board size and board independence. Emphasis was made on current corporate governance codes, laws, regulations, and authorities as applied to the current corporate governance mechanism or practices. The population consists of the financial firms listed on the main flow of the Nigeria Stock Exchange. This study applied the use of a secondary source data collection from annual reports, statistical bulletin, securities and exchange commission publication. The study covers the period of five years, from 2017 to 2023.

1.7. Significance of the study

The outcomes of this study will contribute to the current literature on the effect of corporate governance on earnings management. This research is relevant to all corporate institutions (both private and governmentowned), regulatory agencies such as the Financial Reporting Council, management and Accounting professionals, and academia.

Business establishments, or corporations through this research, will put in measures to

ensure credibility in their financial statements which will enhance internal control systems

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and improve their business operations. This study will assist the professional bodies in the postulation and modification of standards and guidelines that enhance transparent, informative, reliable, and relevant financial statements and reporting. The findings of this study hold significant implications for various stakeholders, including shareholders, potential investors, policy makers, regulatory bodies, and students. The study aims to strengthen the understanding of corporate governance practices among practitioners, such as external auditors and financial consultants, in managing the financial records. The results are expected to provide practical insights for the board of directors and regulatory agencies in policymaking and regulation. Additionally, the study seeks to shed light on the crucial roles of corporate governance mechanisms in preventing and minimizing opportunistic accounting practices by managers when preparing financial statements. Furthermore, the study highlights the importance of accounting ethics in preventing inadequate or misleading income disclosure. Regulators are encouraged to focus their efforts on areas where such unethical practices are likely to occur. Finally, this study is essential for further research in this area.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The literature on corporate governance and earnings management delves into various aspects of these two areas and their interconnections. Researchers have investigated the impact of corporate governance mechanisms, such as board independence, board size, CEO characteristics, ownership structure, audit committee, audit committee independence and audit quality, on earnings management practices. They have also explored the role of external factors, such as regulatory frameworks and market conditions, in shaping earnings management behavior. This literature review examines the relationship between corporate governance attributes and earnings management, aiming to fill gaps in existing research

2.2 Corporate Governance

Corporate governance plays a critical role in reducing the occurrence of earnings management practices and enhancing the financial reporting process through its monitoring functions. The quality of financial reporting is closely tied to the effectiveness of the corporate governance system.

Various empirical studies (Fama, 1980; Fama & Jensen, 1983) have established connections between corporate governance mechanisms, high-quality financial reporting, and a lower likelihood of creative accounting. As a result, there has been a growing emphasis on improving corporate governance in the context of the financial reporting process.

Brennan and McDermott (2004) highlight the crucial function of corporate governance in ensuring the quality of the financial reporting process. Therefore, the corporate governance system is a vital factor to consider among

the range of factors

that can influence

accounting 8

quality. Corporate governance encompasses efforts to establish strong and effective boards, protect the rights of shareholders and customers, enhance the control environment, and improve the quality of both financial and non-financial reporting.

Managers have been exploiting loopholes in accounting standards to manipulate earnings, as noted by Bello (2011). Sanusi (2002) emphasizes the role of corporate governance in maintaining the credibility of accounting outcomes, emphasizing the importance of disclosure and transparency as key pillars of a

corporate governance framework. These pillars provide stakeholders with the necessary information to assess whether their interests are being served.

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As noted by the OECD, governance encompasses a diverse range of processes, traditions,

policies, regulations, and structures that have an impact on the control, management, and regulation of a corporation (OECD, as cited in Velnampy, 2013). The primary focus of the I

OECD model is to address the agency dispute and ensure effective administration and supervision of the interactions between company managers and equity owners, while also considering the interests of all stakeholders and their adoption of frameworks to safeguard their interests (Velnampy, 2013).

It is essential to recognize that the definitions and scope of corporate governance exhibit variations among researchers, institutions, and corporations. This diversity arises due to the continuously expanding scope of corporate management as a subject and the debate surrounding whether directors are responsible for maximizing owners' wealth while also protecting and financing the interests of all other stakeholders (Velnampy, 2013).

The composition of the board, consisting of both executive and non-executive directors (EDs & NEDs), plays a pivotal role in a company's performance (Gambo et al., 2018). Smaller boards, ¹with advantages

in enhanced monitoring, have been suggested to be more effective than larger ones, leading to the proposal of an ideal board size ranging from 7 to

9 directors (Gamba et al., 2018). Supporting this notion, studies conducted in Nigeria have shown a positive correlation between smaller boards and higher firm value, as larger boards tend to be less efficient and independent (Badu & Appiah, 2017; Sanda et al., 2010).

The size of the board is considered a distinctive aspect of board dynamics, significantly impacting independence and the overall effectiveness of company governance (Shivdasani & Zenner, 2004). An optimal board size is crucial for efficiency and performance, as it

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affects the quality of discussions and the board's ability to make sound business decisions (Kiel & Nicholson, 2003). The establishment of an ideal board size remains a challenging and ongoing topic in corporate governance, with various scholars suggesting different ranges, such as at least seven and a maximum of nine board members (Bello, 2012; Shaw, 1981).

Furthermore, the board size can influence the actions and oversight capabilities of directors, affecting their ability to evaluate management practices and processes (Onyali & Uchenna, 2018). However, there are differing opinions in the literature regarding the impact of board size on corporate performance, reflecting the significant role of the board in policy regulation and operational matters within firms. According to the Corporate Governance Code (2011), the board's size and scale should be appropriate in relation to the company's activities. The code further stipulates that the board should consist of a minimum of five

(5) directors. However, the law does not specify a maximum limit on the number of directors that a company should appoint.

2.1.1 Nigeria Code of Corporate Governance (2018)

On January 15, 2019, the Nigerian Code of Corporate Governance (referred to as "the Code") was released by the Financial Reporting Council (FRC) of Nigeria. The Code aims to promote best practices in corporate governance among

Nigerian companies. KPMG acknowledges that strong corporate governance is crucial for sustainable business success. I

Adhering to leading governance practices will help companies establish effective processes and attitudes, enhance their reputation, and ensure long-term prosperity.

The implementation of the Code follows the "Apply and Explain" principle, meaning companies must apply all the principles and provide explanations tailored to their unique organizational context while achieving the intended outcomes of the principles. For companies that haven't previously adhered to any corporate governance codes, applying the Code might pose challenges due to the developing awareness and relatively low institutionalization of leading governance practices in Nigeria. Regarding enforcement, the FRC will oversee compliance with the Code through sectoral regulators and registered exchanges, which have the authority to impose sanctions for any noted deviations.

Additionally, the FRC may conduct reviews to assess Code implementation if deviations recur. The Nigerian Code of Corporate Governance (the "Code"), revised in 2018 by the Financial Reporting Council of Nigeria (FRCN), was issued under Sections 11(c) and 41(c)

of the Financial Reporting Council of Nigeria Act, 2011, following the suspension of the previous National Code of Corporate Governance 2016 by the Federal Government of Nigeria. The Code covers various aspects of corporate governance, including board structure and composition, chairman appointment, and roles of managing directors and non-executive directors (FRCN, 2018). It provides flexibility to boards in determining their membership based on business needs. Notably, the "cool-off" period for appointing a person previously holding executive roles as a director has been reduced to three years from the previous seven years (FRCN, 2018). The Code emphasizes the importance of non-executive directors (NEDs) possessing broad expertise, knowledge, and personal qualities, while being distinct from the day-to-day operations managed by the MD/CEO and management (FRCN, 2018). Regarding board meetings, the revised Code encourages directors to participate in all meetings, and minutes are to be drawn up, sent to directors on time, and formally reviewed and approved at the next meeting (FRCN, 2018).

The Code requires a risk management committee to meet at least twice a financial year and explicitly authorize the risk management framework (FRCN, 2018). Board evaluation and corporate governance assessment must be performed at least once every three years, supported by impartial external experts (FRCN, 2018).

The remuneration committee, consisting primarily of NEDs, is responsible for

determining appropriate pay for directors and adopting a claw-back policy to reclaim unjustified benefits from directors and senior staff (FRCN, 2018). While the whistleblowing clause is less extensive than the 2016 version, the Code highlights the need for an efficient whistleblowing system within the company, overseen by the Head of the Internal Audit Committee (FRCN, 2018).

Regarding external auditors, the revised Code allows them to perform additional non-audit work for firms, subject to certain conditions (FRCN, 2018) The Code grants companies the authority to

determine the size and composition of their boards, considering their: operations' scale and complexity, the need for sufficient committee members, meeting quorum requirements, and ensuring diversity. The recommended board structure consists of a mix of executive (EDs), nonexecutive (NEDs), and independent non-executive members (INEDs), with a majority of NEDs being INEDs. However, the Code doesn't specify the exact number of INEDs required on boards. Independence is expected from all directors, with an emphasis on greater independence from INEDs. Section 7 of the Code outlines criteria for establishing the independent status of an INED, aiming to strengthen

independence on the board and ensure that INEDs exhibit independence in both character and judgment.

Companies are also required to annually confirm the continued independence of each INED. Section 11 of the Code imposes additional responsibilities on the audit committee, including ensuring the development of a comprehensive internal control framework and

obtaining assurance (internal and/or external). The audit committee should report

annually on the design and operating effectiveness of the company's internal controls over financial reporting in the audited financial statements.

2.1.2 Corporate Governance Structure

The cornerstone of the corporate governance structure lies in the composition and leadership of the board of directors, which plays a pivotal and decisive role in every organization. The Corporate Governance Structure encompasses various aspects, including the arrangement of board structures and information flow.

A robust and effective corporate governance framework serves as a powerful safeguard against decisionmaking opportunism, thereby facilitating the establishment of high-quality financial disclosure (Heirany et al., 2013). Notably, the governance of companies is entrusted to the board of directors, while shareholders bear the responsibility of ensuring appropriate governance by appointing directors and auditors.

Through this approach, the board oversees the company by setting policies, providing leadership, directing management, and disclosing stewardship information to the shareholders. The examination of corporate governance structure involves four critical dimensions: board independence, corporate governance practices, audit committee independence, and board meeting frequency. Corporate Governance (CG) serves as a

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crucial system that directs and controls the activities of a company. The responsibilities of the board members involve setting strategic goals, ensuring effective strategic management, and supervising managers in business operations (OECD, 2015).

Hillman and Daziel (2003) describe CG as the management and supervision of the board, providing financial resources to enhance economic efficiency in business operations. Despite the implementation and continuous updates of codes of best governance practices in Nigeria since 2003, the achieved results are considered minimal, with governance

malpractices persisting and threatening the survival of many firms across various sectors of the economy (Hassan and Ahme 2012).

Interestingly, regulators of the accounting profession in Nigeria have remained relatively silent on the issue of earnings management accounting, despite its widespread practice among many companies in the country. This study aims to investigate the influence of corporate governance on earnings management practices within Nigeria's quoted companies, as the prevalence of earnings management remains a concern and could impact financial stability and accountability.

2.1.2.1 Corporate Governance in Nigeria

The significance of good corporate governance cannot be overstated as it attracts foreign investments to

Nigerian firms. To gain the trust of investors, the legal system in Nigeria

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must demonstrate its ability to protect minority shareholders. The increasing international economic pressure on Nigeria to adopt responsible corporate governance practices and embrace economic liberalization and deregulation has been recognized (Ahunwan, 2002).

This pressure aims to bolster investors' confidence in conducting business in Nigeria. Nigeria's evolving code of corporate governance should reflect the unique socio-political and economic situation of the country while providing assurances to current and potential shareholders (Okike, 2007). Considering Nigeria's developing economy, the corporate governance laws may differ from those of modern economies. The governance processes in private companies may vary due to the peculiar nature of developing economies like Nigeria (Yakasai, 2001).

2.1.2.2 Causes of Corporate Governance Failure

The question of why corporate governance compliance failures occur in Nigeria has multiple answers.

For instance, institutionalized corruption, political patronage, and the

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lack of enforcement and monitoring of compliance by government agencies have been identified as causes (Adekoy 2011). Corruption in the business environment and self- interested controlling shareholders who also serve as directors contribute to corporate governance problems in Nigeria (Letza, 2017; Nwidobie, 2016).

Other factors include conflicting regulatory laws, impaired board and auditor independence due to firm ownership structure, weak law enforcement

mechanisms, abuse of shareholders' rights, and lack of transparency and disclosure (Abdulmalik & Ahmad, 2016; Okp 2016).

2.1.3 Impact of Corporate Governance on Earnings Management

In theory, robust corporate governance exerts additional monitoring on managers, discouraging the manipulation of accounting numbers for earnings management purposes (Leuz et al., 2003; Klein, 2002).

Nigerian studies present evidence showing that corporate governance can have both positive and negative effects on earnings management. For example, Uwuigbe et al. (2014) investigated the impact of corporate governance mechanisms on earnings management in

Nigeria from 2007 to 2011, using discretionary accruals as a measure of earnings management. Their findings indicated that board size and board independence had a significant negative impact on earnings management, while CEO-chair duality had a significant positive impact. Larger boards with diverse expertise were more effective in

constraining earnings management due to having a higher number of independent directors

with corporate or financial expertise. Uadiale (2012) examined the role of the board of

directors and audit committee in preventing earnings management in Nigeria.

The results revealed that boards dominated by outside directors brought a greater breadth of experience to the firm and were better positioned to monitor and control manager:

leading to reduced earnings management. The study suggested that board composition

should include a greater proportion of independent outside directors with corporate experience, and audit committee members should possess a certain level of financial expertise to decrease the likelihood of earnings management.

Abdulmalik and Ahmad (2016) explored whether good corporate governance enhances financial reporting quality and found that the presence of independent non-executive foreign directors on a board improves financial reporting quality. Other studies by Usman and Yero (2012), Dibia and Onwuchekwa (2014), and Ojeka et al. (2014) further demonstrate the associations between ownership concentration, board size, audit committee effectiveness, and earnings management in Nigeria. These studies indicate significant negative relationships between ownership concentration and earnings management, implying that having a larger board size and an independent and knowledgeable audit committee can reduce the level of earnings management in Nigeria, leading to higher profitability for firms.

2.1.4 Earnings Management

Earnings management is a practice used by managers to manipulate financial reports in order to achieve stable and predictable earnings. However, the ethical implications of earnings management are debated due to the potential for managers to prioritize their own interests without considering the implications for users of the financial reports (Halton,

2005). Earnings are a crucial accounting item and serve as a guideline for investment and decision-making (Halton, 2005). The term "earnings" can have different definitions depending on the

context and objectives of the authors.

For example, the International Financial Reporting Standards (IFRS) uses the term "profit" to describe earnings, while corporations consider profit as the amount remaining after taxes are deducted from earnings.

Earnings management aims to influence short-term earnings,

either by misleading stakeholders about the company's underlying economic performance or by impacting contractual outcomes dependent on reported accounting information.

Rosner (2013) defines earnings management as the manipulation of accounting strategies to shift earnings from one quarter to another in order to smooth the path of earnings over time. Earnings management has been extensively examined and analyzed from diverse perspectives in the accounting literature.

Healy & Wahlen (1999) define earnings management as the act of managers using their judgment during financial statement preparation to alter financial transactions, potentially misleading financial users about the true economic performance of the entity. Leuz et al. (2003) characterize earnings management as changes made by management to reported economic performance to gain undue advantage in a contractual event.

Roodposhti & Chashmi (2011) identify three ways in which earnings management can occur: restructuring transactions, accounting procedure modifications, and management accruals. In this study, the management accruals approach will be utilized, which can be externally evaluated through the financial statements of selected entities. The other approaches may require access to insider information, which is not feasible in this context.

Iturriaga & Hoffmann (2005) attribute earnings management to agency problems, wherein managers may engage in creative accounting to enhance their position, disregarding the reliance stakeholders place on financial reports. Notably, corporate governance has been studied internationally and locally, revealing its potential in reducing earnings management practices executed by management and instilling greater confidence in financial reports.

Profitability

Profitability, as stated by Pearce and Robinson (2008), is the end result of numerous policies and decisions made by an organization's management. Fahrni (2012) highlights

that it serves as a measure of the efficiency in utilizing company assets. Dabor and Dabor (2015) emphasize that profitability empowers firms' management to engage in more sustainable growth and development activities.

The various components of profitability ratios, including gross profit margin, operating profit margin, net profit margin, cash flow margin, ROA, ROE, and

cash return on assets, are used to gauge the overall performance and asset management efficiency of a company (Inchausti, 1997; Lang & Lundholm, 1993; suwaidan, 1997).

Return on Assets (ROA)

ROA, according to Kabajeh et al. (2012), indicates the profitability of a firm relative to the total assets employed. It is commonly used for comparison purposes, as its interpretation heavily depends on the specific industry context. This ratio assesses a firm's effectiveness in converting the amount invested in assets through equity or debt financing into net income (Saragih, 2018).

Return on Equity (ROE)

Return on Equity provides a valuable measure of how much profit a company can generate from the equity¹ capital invested by shareholders (Kabajeh et al., 2012). It serves as a key indicator of a company's profit generation ability in relation to shareholder equity. Evaluating ROE over time helps assess changes in a company's financial situation. The ratio showcases the company's efficiency in turning invested capital into gains for its investors (Saragih, 2018). In simpler terms, ROE reveals the earnings generated per unit of equity invested and is crucial for comparing net income among companies in the same industry. Higher ROE values generally indicate better performance, as such companies are likely to produce more earnings, maintain financial strength, and provide returns to shareholders.

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Return on Investment (ROI)

ROI (Return on Investment) serves as a performance metric for any form of investment, embodying the ultimate goal of a company for its shareholders. It signifies the extent to which a specific business generates gains from capital utilization. ROI enables the evaluation of efficiency in relation to the capital invested and answers the question of whether an investment is profitable or not (Saragih, 2018). It is a vital tool for assessing the outcomes achieved concerning the resources utilized, making it possible to gauge the profitability and effectiveness of an investment. Ultimately, ROI serves as an indicator of the success or failure of an investment endeavor.

2.1.5 Corporate Governance Attributes and Earnings Management

The study investigates this association using four corporate governance variables: board independence, board size, audit committee independence, and audit committee.

2.1.5.1 Board Independence and Earnings Management

Independent directors are considered better equipped to supervise a corporation's activities compared to other executives, as they have a vested interest in acting in the organization's best interest. They also have the incentive to establish themselves as professionals in monitoring and controlling (Mahmod et al., 2018). However, previous studies have produced mixed findings regarding the relationship between board independence and earnings management. For instance, Rashid, Zainol et al. (2018) found evidence of a negative relationship, whereas another study (Rashid, Asfthanorhan et al., 2018) reported a positive relationship. Similarly, Rashid, Daud et al. (2018) supported the negative relationship, while Rashid, Asfthanorhan et al. (2018) found a positive relationship, contrary to their previous findings.

The independence of the board is a crucial aspect of corporate governance. It is determined by the composition of the board, particularly the presence of independent non-executive directors. Hillman and Dalziel (2003) define a board as independent when it includes the required number of independent nonexecutive directors. Fama (1980) and Fama and Jensen (1983) argue that the presence of non-executive directors improves the internal control of an organization since most of them are executives in other organizations.

Ahmed and Henry (2012) reveal that organizations that voluntarily adhere to corporate governance principles can mitigate agency problems. The percentage of independent outside directors on the board is an important factor in monitoring and controlling managers. Dunn (1987) suggests that boards dominated by outsiders are better positioned for effective monitoring.

Firstenberg and Makiel (1980) note that outside directors, independent of the firm' management, bng valuable experience to the board. Fama and Jensen (1983) argue that independent directors make boards more effective in monitoring managers and exercising control on behalf of shareholders. Davidson, Goodwin-Stewart, and Kent (2005) find empirical support for the role of independent directors in constraining earnings

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management in Australian firms.

Lin and Hwang (2010) observe a negative relationship between board independence and earnings

management, while Klein (2002) finds that boards with more independent outside directors engage in less earnings management through abnormal accruals. Board independence refers to the complete and

unconditional autonomy of a corporate board in exercising its authority to fulfill its constitutional role without any bias or influence. Corporate governance emphasizes that the board of directors should be

..., independent of management and the company itself (Hermanson, 2003).

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This independence is achieved by including impartial external directors to enhance the board's ability to monitor top management more effectively (Fama & Jensen, 1983)'.
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Research has shown that the autonomy and proficiency of the board of directors have a negative relationship with earnings management (Lin & Hwang, 2010). In essence, board independence ensures that the board collectively and confidently fulfills its stated responsibilities without fear or favor.

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2.1.5. 2 Board Size and Earnings Management

Board size is seen as a crucial mechanism for effective monitoring of management in achieving organizational objectives (Musibau et al., 2018). However, studies examining

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board size as a determinant of earnings management have yielded mixed results. Ali et al. (2018) and Masud, Daud, Zainol, Rashid, and Asyraf (2018a) found a positive relationship between board size and earnings management.

Contrarily Mahmood et al, in their study indicated a negative relationship Similarly1

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Asyraf

(Masud, Daud, tainol, Rashid, d Asyraf and Noor, 2018; Norhayate, Rashid, and 2018) both supported a negative relationship, while S. A. Ismail et al. (2016) found no relationship. These inconsistent findings highlight the need for further investigation into the relationship ,between board size and earnings management.

There is a considerable body of literature examining the relationship between board size and earnings management. Jensen (1993) argues that small boards are more effective in monitoring the CEO's activities compared to large boards, which tend to focus more on politeness and courtesy, making it easier for the CEO to control them. Yermack (1997) similarly concludes that small boards are more effective monitors. This suggests that the size of a firm's board should be inversely related to earnings management, meaning that smaller boards would be associated with less discretionary accruals.

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Baysinger and Zardkoohi (1986) suggest that boards of regulated firms have more symbolic directors, while Agrawal and Knoeber (2001) find that outside directors play a political role in influencing government workings. Rahman and Ali (2006) find a positive relationship between large board size and earnings management, whereas Peasnell, Pope; and Young (20b4) find that larger boards are better at reducing earnings management compared to smaller boards. Xie, Davidson, and DaDalt (2003) argue that smaller boards are better equipped to make timely decisions, although they acknowledge that larger boards with diverse knowledge are more effective in constraining earnings management. Board size refers to the total number of directors serving on the board during an accounting year.

The optimal board size is not regulated and varies depending on factors such as the directors' number and quality. Some scholars argue that a larger board size enhances skill diversity and knowledge due to the inclusion of directors with different experiences. Determining an ideal board size at the country level is challenging due to variations in legal, social, economic, and corporate environments. Dalton et al. (1999) find a positive relationship between board size and firm performance, suggesting that larger boards facilitate better decision-making and improved firm

performance. **f**

2.1.5.3 Audit Committee and Earnings Management

Over the years, various financial crises experienced by organizations have been attributed to deficiencies *in* the internal audit department. Consequently, there has been a growing need for the board of directors to play a more active role in enhancing control and monitoring of managerial activities. The board is delegated with the responsibility of overseeing financial reports, with particular emphasis on the audit committee.

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The audit committee is expected to be independent, consisting of a minimum of three non-executive directors who possess relevant expertise and maintain neutrality to safeguard shareholders' interests. Additionally, it should include at least three representatives of the

shareholders. The Nigerian code of best governance practice emphasizes the significance

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of independence, competence, and integrity in the members of the audit committee (Uwuigbe et al., 2017).

The audit committee plays a crucial role in corporate governance, ensuring the accuracy and reliability of financial reporting. According to Eyenubo, Mohammed, and Ali (2017); the audit committee is a subcommittee of the board that provides objective advice on governance, risk, and control. As defined by the Sarbanes-Oxley Act (SOX 2002), it oversees reporting, auditing, and accounting procedures. Earnings management refers to the intentional manipulation of financial data to present a false picture of a company's financial strength and success, contrary to the best interests of stakeholders. Siddhath (2011) describes it as the purposeful modification of

financial information to make it seem compliant with Generally Accepted Accounting Principles (GAAP). Rahman,

Muniruzzaman, and Sharif (2013) view it as the alteration of reported earnings

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various accounting techniques, while Ishaku, Dandago, Muhammad, and Barde (2019) define it as the improper use of discretionary judgment to deceive stakeholders. Concerns have arisen about the audit committee's effectiveness in curbing earnings management due to high-profile accounting scandals, such as those involving Skye Bank, Intercontinental Bank Plc, Afrifb k Nigeria Plc, and Cadbury Nigeria Plc. Klein (2002) emphasizes that an independent audit committee's role is to monitor the quality of financial reporting and minimize earnings manipulations.

The effectiveness of the audit committee is attributed to its independence, authority, and resource capability to carry out its

responsibilities without requiring approval from management or the board. However, being a subunit of the board may introduce operational bottlenecks due to its jurisdiction. Studies have examined the correlation between the audit committee and earnings management, focusing on different aspects such as the composition of the board, board size, audit committee meetings, and financial expertise of committee members.

The findings suggest that independent audit committees with substantial financial expertise can significantly reduce the likelihood of earnings management practices (Al-Ajmi, 2009; Uadiale, 2012; Dabor & Adeyemi, 2009). Babalola (2013) also investigated the effectiveness of audit committees in Nigerian manufacturing organizations from 2000 to 2009 and found that board size and managerial ownership significantly impact the performance of audit committees.

Overall, the independence of the audit committee serves as a vital criterion to assess its effectiveness and establish the relationship between the audit committee and earnings management.

2.1.5.4 Audit Committee Independence and Earnings Management

The audit committee is a committee of directors established to oversee the financial reporting activities of management and protect the interests of shareholders. In Nigeria, the code of best governance practice emphasizes that the audit committee should be largely independent, highly competent, and possess a high level of integrity. Olayinka (2012) conducted a questionnaire survey to study the role of the board of directors and the audit committee in preventing earnings management in Nigeria. The results

indicated that an audit committee composed of members *with* a certain level of financial competence reduces the likelihood of earnings management.

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Klein (2002) found that firms with audit committees consisting of a minority of independent directors exhibit a higher extent of discretionary accruals. Similarly, in Australia, Benkel et al. (2006) found that higher levels of audit committee independence

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are associated with reduced levels of earnings management. Davidson et al. (2005) reported similar results within the same institutional context.

In summary, the study demonstrates that audit committee independence has a significant impact on earnings management. Independence is a crucial quality for an audit committee 24

to effectively oversee the financial reporting process and ensure the quality of reported earnings. DeZoort and Salterio (2001) find that audit committee members with accounting experience and auditing knowledge are more likely to support auditors in disputes with corporate management.

McMullen and Randghun (1996) show that firms under SEC enforcement actions are less likely to have an audit committee composed entirely of non-executive directors. Carcello and Neal (2000) find a positive

association between the presence of independent external directors on the audit committee and the probability of auditors issuing a going concern report for financially distressed firms. Chytourou, Bedard, and Courteau (2001) find that earnings management is significantly associated with a larger proportion of outside committee members who are not managers in other firms. Murhadi (2009) investigates the impact of good governance practices on earnings management and finds that audit committee independence does not have a significant effect. Lin and Yang (2006) find a negative effect, suggesting that audit committees can reduce earnings management.

Garcia-Meca and Sanchez-Ballesta (2009) argue that audit committee independence can enhance investor confidence by constraining earnings management. Other studies, such as Abbott, Park & Parker (2000) and Choi, Jeon & Park (2004), yield mixed results. Xie, Davidson, and DaDalt (2003) find no significant association between the number of directors on the audit committee and earnings management, while Yang & Krishnan (2005) report a negative association between audit committee size and earnings management.

Audit committee independence has been found to have a positive association with earnings management

(Lin & Hwang, 2010). Independence is a crucial quality required for an audit committee to fulfill its oversight function, which includes overseeing financial statements, external audits, and internal control systems. Therefore, it is expected that an audit committee composed of only independent directors will be less connected to the level of earnings management

A common expectation is that a more independent audit committee

would provide more effective oversight of the financial reporting process and ensure better quality of earnings reported by the firm by preventing opportunistic earnings management

Relationship Between Corporate Governance and Earnings Management

Corporate governance plays a critical role in shaping the growth and continuity of

organizations. Strong corporate governance ensures strategic decision-making, attracts investors, and optimizes resource management. Financial decisions, as part of strategic decision-making, contribute to the firm's resource utilization, influence investor attraction, and impact firm value and continuity. Consequently, the presentation of financial reports holds consequences for managers' job security and investors' decisions.

To enhance firm profitability and attract investors, managers may report greater earnings compared to competitors (Bolt et al., 2012; Wu et al., 2016). However, this practice can be detrimental, especially for firms facing bankruptcy risks, as it can lead to manipulation of earnings (Beneish et al., 2012; Wu et al., 2016). Earnings management practices can have varying consequences on a firm's share price and survivability, with some firms benefiting while others face negative outcomes, even leading to winding-up. In this context, corporate governance mechanisms are established to prevent earnings manipulation by self-

interested managers, aligning the interests of all stakeholders.

Previous research has shown that pressured firms at high risk of bankruptcy are more prone to earnings manipulation (Beneish et al., 2012; Wu et al., 2016). Several studies have investigated the relationship between corporate governance and earnings management, revealing significant associations between independent directors, board size, governance committee, and financial management decisions (Andreou et al., 2014).

Effective corporate governance mechanisms mitigate agency problems and contribute to

improved financial management decisions, including earnings management. Studies have also supported the inhibiting effect of corporate governance mechanisms on earnings

management practices. For instance, managerial ownership and ownership concentration were found to hinder earnings management (Kazemian & Mohd, 2015). Furthermore, the number of board meetings, independence of directors, audit committee, non-duality, audit committee size, inhouse internal audit function, and quality-differentiated auditors have been identified as corporate governance mechanisms capable of reducing earnings management activities (Mansor et al., 2013). Corporate governance mechanisms, as highlighted in emerging economies studies, significantly influence earnings management. The implementation of IFRS, however, does not deter earnings management. The number of independent directors on the board is inversely related to earnings management activities, implying that a greater number of independent directors leads to a reduction in earnings management (Rosey & Lewellyn, 2017).

2.2 EMPIRICAL REVIEW

Oserogbo (2019) conducted an empirical examination of the relationship between corporate governance structure and real earnings management in listed manufacturing firms in Nigeria over the period 2012 to 2017. The study involved forty quoted firms, and multiple regression analysis was employed to analyze the data.

The results revealed significant influences of board independence, corporate governance practices, and board gender on earnings management in Nigerian firms. Uwuigbe et al. (2018) explored the impact of corporate governance elements on earnings management of listed companies in Nigeria, using earnings persistence as a proxy for assessing earnings management.

- .. Ordinary least square regression analysis was used for analysis, and the findings indicated that corporate governance elements influence the level of earnings management practice in Nigeria. Olaoye and Adewumi (2018) conducted a study to examine the impact of

corporate governance on earnings management in listed deposit money banks in Nigeria from 2006 to 2015.

The analysis was conducted using descriptive statistics, Pearson's correlation, and regression techniques. The study found that engaging reputable audit firms had a positive but insignificant effect on earnings management, while corporate governance had a negative and insignificant effect. However, the presence of independent directors on the board and leverage had a negative but significant effect on earnings management of the sampled banks. 1

Yodbut (2017) studied corporate governance and earnings quality of financial firms in Thailand from 2011 to 2015 using multiple regression analysis. The research found no direct relationship between corporate governance and earnings quality. However, the control variable, firm size showed a positive relationship with earnings quality, indicating that the size of firms influenced their earnings quality.

In a study conducted by Raheel (2017) titled "Impact of Characteristics of the Board on Earnings Management on the Firm: Evidence from Pakistan Stock Exchange," the objective was to investigate the influence of various board of directors' characteristics on earnings management in Pakistan. The sample consisted of 100 firms listed on the Pakistan Stock Exchange from 2008 to 2014. The Modified Cross Sectional Jones Model (1995) was used to calculate discretionary accruals as a measure of earnings management. The

study examined board independence, board size, CEO duality, gender diversity, and institutional ownership as board features, while controlling for firm size, leverage, and profitability.

The findings indicated a significant negative impact of board independence on earnings management,

while CEO duality and institutional ownership showed a positive and significant effect on earnings management. However, no significant relationship was

observed between board size and gender diversity with earnings management. In a separate study by Roodposhti (2010) titled "The Effect of Board Composition and Ownership Concentration on Earnings Management: Evidence from Iran," the aim was to explore the relationship between corporate governance mechanisms and earnings management.

The sample comprised 196 companies listed on the Tehran Stock Exchange from 2004 to 2008. The study found a negative and significant relationship between ownership concentration and board independence with earnings management. Additionally, a negative and significant relationship was observed between CEO duality and earnings management. However, the study did not examine other variables of board composition apart from board independence that could potentially influence the dependent variable. Agwor and Osinachi (2018) conducted a study in Nigeria to examine the impact of audit committee expertise on earnings management techniques. They utilized discretionary accruals, as indicated by a modified Jones (1991) model, to measure earnings management. By analyzing time series data from sampled manufacturing firms, they employed Ordinary Least Squares regression to uncover the findings. The results strongly indicated that audit committee expertise can effectively limit earnings management techniques employed by listed manufacturing firms in Nigeria. Additionally, they found that as a firm grows larger, the likelihood of its managers engaging in earnings management increases.

In Jordan, Mohammad (2018) employed panel regression techniques to evaluate the influence of audit committee characteristics on firm performance. The study revealed that audit committee size, independence, and gender diversity exhibit a significant positive relationship with business performance. On the other hand, the impact of experience and meeting frequency was found to be negligible. Marziel, Alil, and Homayoon (2017) investigated the role of the audit committee and board of directors in mitigating earnings management in firms listed on the Tehran stock exchange.

Contrary to expectations, their research indicated no association between board size, board director independence, audit committee characteristics, and earnings management. Examining Nigerian money deposit

banks, Madugba and Ogbonnaya (2017) explored the relationship between corporate governance and earnings management. Utilizing multiple regression analysis on the banks' published financial statements, they found that corporate governance measures have a significant and favorable impact on earnings management.

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In Indi Mishra (2016) studied the effectiveness of audit committees in regulating earnings management using univariate correlations, multivariate linear regression, and logistic regression models. The findings indicated that the size of the audit committee, the number of directorships held by audit committee members, and the frequency of audit committee meetings have a considerable impact on earnings quality. However, other audit committee features did not show a substantial effect on earnings management. Bala and Kumai (2015) investigated the characteristics of audit committees and the earnings quality of Nigerian publicly traded companies. By analyzing data from annual reports using the multiple regression technique, they discovered a negative association between the size of the audit committee, financial expertise, and earnings management. They also found that the independence of the audit committee and the frequency of its meetings were positively correlated with earnings management.

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Salleh and Haat (2014) examined the effectiveness of audit committees in limiting earnings management among Malaysian listed companies after the revision of the Malaysian Code on Corporate Governance. They employed the Modified Jones Model (1995) as a proxy

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for earnings management, using discretionary accruals as an estimation. Hussaini and

Gugong (2014) used OLS regression in Nigeria to investigate the association between audit committee features and earnings quality.

They constructed the dependent variable using a two-step regression to determine the discretionary accrual of the sampled firms. The findings revealed a strong link between audit committee features and the quality of profits for the companies. Specifically, the size of the audit committee and the financial expertise of the committee had an inverse

association with earnings management, while the independence of the committee had a positive and significant relationship with earnings management. In Egypt, Mohamed and Aiman (2010) explored the relationship between the effectiveness of audit committees, audit quality, and earnings management practices. The results of univariate and multivariate analyses showed a substantial negative relationship between audit committee members' experience, audit committee independence, audit quality, audit committee meetings, and earnings management.

2.3 THEORETICAL FRAMEWORK

This study will extensively utilize agency theory, resource dependency theory and signaling theory to investigate the relationship between the variables under examination.

2.3.1 Agency Theory

Agency theory, originating from Alchian and Demsetz (1972) and further developed by Jensen and Meckling (1976), focuses on the separation of ownership and control in a company. It explores the relationship between principals (shareholders), agents (company executives), and managers. The theory highlights the potential agency problems that arise when principals delegate decision-making

authority to agents. These problems can occur when agents hide information or manage firms in their own interests, as seen in cases like Adelphia, Enron, WorldCom, and Parmalat. Agency theory suggests that corporate governance plays a significant role in addressing these problems by aligning the interests of executives and shareholders through incentives and sanctions (Jensen and Meckling, 1976; Roberts, 2004; Lubatkin, 2005).

Agency theory was utilized to investigate the relationship between the audit committee and earnings management, highlighting the possible agency problem when managers prioritize their self-interests over shareholders' interests (Shu, Yeh, Chiu & Yang, 2015). The term

"agency theory" was introduced by Adolf Berle and Gardener Means in 1932 to explain the dynamics between principals (owners) and agents.

The theory recognizes that parties with the same goal can have different motivations, leading to conflicts that manifest in various ways. Given the inherent connection between efficiency and effectiveness, conflicts of interest and information asymmetry between principals and agents are inevitable. Monitoring systems, as explained by Kazemian and

Sanusi (2015), play a vital role in aligning management and shareholders' interests and mitigating opportunistic behavior arising from conflicts of interest. Managers are hired and entrusted with authority to enhance productivity and ultimately maximize shareholders' wealth (Chen & Chu, 2005).

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In essence, the theory describes the principal-agent relationship where agents are delegated decision-making authority. When there is a misalignment within this relationship, agents may act in their own interests, leading to opportunistic behavior and conflicts of interest. Numerous studies have adopted agency theory as a fundamental framework, highlighting its broad acceptance and applicability.

Agency theory suggests that organizations face challenges due to inadequate and imbalanced information, particularly in the relationship between principals and agents (Afthanorhan et al., 2019). In this context, shareholders utilize various mechanisms to align the interests of managers with those of shareholders.

On the other hand, signaling theory focuses on the issue of information asymmetry between agents and principals. The theory emphasizes that when companies provide a

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greater amount of information to shareholders, it reduces the likelihood of earnings manipulation and promotes effective corporate governance practices.

2.3.2 Resource Dependency Theory

Resource Dependency Theory, developed by Pfeffer (1973) and Pfeffer and Salancik (1978), emphasizes the crucial role of the board of directors (BODs) in providing access to resources that enhance a firm's performance. Boards enhance organizational function by providing accessibility to resources (Daily et al., 2003) and establishing linkages with the external environment to acquire appropriate resources and create buffers against adverse external changes (Hillman et al., 2000).

Abdullah and Jalentine (2009) classify directors into four categories: insiders, business experts, support specialists, and community influencers. Insiders are current and former executives who provide expertise in specific areas of the firm, while business experts are current or former senior executives and directors from other large for-profit firms who contribute expertise in business strategy, decision-making, and problem-solving. Support specialists, such as lawyers, bankers, and insurance company representatives, offer specialized support in their respective fields, while community influencers include political leaders, university faculty, clergy members, and leaders of social or community organizations. Outside directors play a positive role in monitoring and controlling the board's functions, as the firm's value tends to increase with a higher number of outside directors (Coles et al., 2006; Abdullah and Valentine, 2009; Boubakri, 2011).

Resource Dependency Theory is particularly relevant to firms because the diverse backgrounds of directors enhance the quality of their advice (Zahra and Pearce, 1989). The theory favors larger boards, although coordination and agreement can be more challenging in larger boards (Booth and Deli, 1996; Dalton et al., 1999). However, Cheng (2008) found that larger boards of directors are not necessarily associated with higher firm value. Additionally, Brick and Chidambaran (2008) observed a negative relationship between board

independence (a higher percentage of outsiders) and firm risk, as measured by the volatility of stock returns.

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2.3.3 Stakeholder Theory

Stakeholder Theory, developed by Freeman (1984), advocates that manager in organizations have a network of relationships to serve, including employees, shareholders, suppliers, business partners, and contractors. This theory challenges the narrow perspective of agency theory, which focuses on the contractual relationship between managers and shareholders and the sole objective of maximizing shareholder wealth. Stakeholder theory considers this view to be too limited because managerial actions impact other interested parties beyond shareholders.

The essence of stakeholder theory lies in the need for managers to be accountable to stakeholders. Stakeholders are defined as "any group or individual that can affect or is affected by the achievement of a corporation's purpose" (Freeman, 1984). To ensure adequate protection of stakeholders' interests, stakeholder theory proposes the representation of various interest groups on the organization's board to foster consensus building, prevent conflicts, and harmonize efforts toward achieving organizational objectives (Donaldson and Preston, 1995).

Stakeholder theory has been criticized for burdening managers with the responsibility of being accountable to multiple stakeholders without providing specific guidelines for resolving conflicts of interest. However, Freeman (1984) argues that the network of relationships with multiple groups can influence decision-making processes, as stakeholder theory focuses on the nature of these relationships in terms of processes and outcomes for the firm and its stakeholders. Similarly, Donaldson and Preston (1995) assert that stakeholder theory emphasizes managerial decision-making, considering the intrinsic value of all stakeholders' interests without assuming dominance of one set of interests over others.

This implies that managers are expected to take into account the interests and influences of individuals who are directly or potentially affected by a firm's policies and operations

(Frederick et al., 1992). Jensen (2001) also affirms that managers should pursue objectives that promote the long-term value of the firm by protecting the interests of all stakeholders.

2.3.4 Stewardship Theory

Stewardship theory posits that managers are motivated by intrinsic satisfaction and a desire to perform challenging tasks rather than solely monetary considerations. Unlike agency theory, stewardship theory emphasizes the role of top management as stewards who integrate their goals

with the organization. They are expected to protect their organizations' reputations and maximize financial performance (Donaldson and Davis, 1991; Shleifer and Vishny, 1997).

The theory advocates for empowering governance structures, mechanisms, authority, and information to facilitate managers' autonomy and decision-making while minimizing their liability (Donaldson and Davis, 1991).

2.3.S Institutional Theory

Institutional theory emphasizes the significance of organizational rules and regulations that effectively govern the functioning of an organization. These rules and regulations play a crucial role in managing access to resources and guiding organizational activities. However, adherence to these rules does not guarantee the organization's success (Effendi et al., 2007). From the perspective of institutional theory, corporate governance is established to ensure that the objectives and goals of the organization are clearly defined. It aligns the business environment, social structure, and historical context with the organization's objectives (Effendi et al., 2007).

According to this theory, corporate governance must also consider change management and integrate changes within the organizational processes. Adoption or rejection of changes

should be based on the organization's suitable environment, considering its social, environmental, and historical context (Ebrahim, 2007).

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter addresses the methodology that will be used in attaining the set objectives of this study

stated in chapter one. The issues covered in this chapter are the research design,

population, sampling method, sources of data, and the technique employed to analyze the

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3.2 Research Design

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The research design utilized in this study is referred to as a cross-sectional research design or a social survey design (Bryman & Bell, 2011). The cross-sectional research design falls into the category of descriptive research designs, which are structured and intended to measure the characteristics described in a research question. This process typically involves formulating and testing hypotheses based on existing theories (Hair et al., 2003). The cross-sectional design involves gathering data from multiple cases at a single point in time, to collect a body of quantitative or quantifiable data related to two or more variables. Subsequently, these data are examined to identify patterns of association (Bryman & Bell, 2011). This method was chosen to refer to phenomena as they exist in real life and it is relatively economical in terms of time and resources.

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3.3 Population and Sampling

3.3.1 Population Size

The study examined the relationship between corporate governance and earnings management practices of

Nigeria companies. The population of the study is made up of all the staffs of the banks quoted on the Nigeria Exchange between 2019 and 2023 annual year

3.3.2 Sampling Method

In this research, simple random sampling will be used to obtain responses to the questions administered. According to Yomero and Agbonifo (1999), simple random sampling is used to ensure that a set of elements is selected from the population of the study in such a way that the statistics computed from simple data accurately represent the population.

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3.3.3 Sample Size

The sample size of the study comprises the Unity bank, Fidelity bank, Zenith bank, and

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Access bank which are all situated in Edo state, Benin City. This is based on the stability,

and proximity to the researcher. Bank Managers, Auditors, Accountants, Financial Analyst, Consultants and other key stakeholders will be the subject of the case study

3.4 Sources of Data

data for this study were collected through the use of questionnaires. A

questionnaire involves the use of a form on which specific questions relating to the topic

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of study are enumerated; the respondent will be simply required to give honest answers to the questions which will enable a concise conclusion to be made by the researcher. Multiple-choice questions will be used in obtaining information from the respondents. This was seen as appropriate because the respondents will be forced to choose from the available alternatives which will ensure that a conclusion is accurately drawn from the data collected. Fifty (50) copies of the questionnaire were distributed among staffs in the above banks.

3.S Method of Data Analysis

To test for the effect of corporate governance on earnings Management, the ordinary least square method (OLS) was used after coding the data obtained through the questionnaire. The result of the questionnaires were analyzed by the use of a table; each table was followed by the interpretation of the result of the table. Simple percenes were compared and findings presented, discussed, and interpreted. Deductive reasoning which is of immeasurable significance to the research objectives and hypothesis was also used.

3.6 Operationalization of Variables

The variables for this study are Earnings Management, Corporate Governance, Board Independence, board size, Audit Committee, Audit Committee Independence

The dependent variable is Earnings Management while others are classified in this study as independent variables the operational definitions of variables are stated below. 39

Table 1: Operationalization of Variables

S/n	Variables	Description	Apriori
1	Earnings Management	Earnings management refers to the manipulation of accounting methods in order to create financial statements that portray a more favorable outlook on a company's business operations and financial standing.	
2	Corporate Governance	Corporate governance refers to the amalgamation of regulations, procedures, and legislation that govern the operation, oversight, and management of businesses.	+
3	Board Independence I	Board independence refers to the level of autonomy and separation between the Board of Directors (BOD) and the management team of a company.	+
4.	Board Size	The term "board size" refers to the overall count of directors, including both external and internal directors, at a specific point in time.	+
5.	Audit Conutlittee	The Audit committee is the governing body responsible for supervising the audit and control functions of the organization.	+
6.	Audit Comittee Independence	Independence is crucial for an audit committee to operate effectively. It is important for the committee members to be able to make informed and unbiased decisions based on their own judgment. Source:	

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This research aims to investigate the effect of corporate governance on earnings management. A total of 50 questionnaires were distributed, and the 50 copies were retrieved and used in this analysis. The

EViews Statistical package for the social sciences

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was used in the analysis of the data. The research questions were answered using item means including their frequencies. The OLS regression was used to test hypotheses at a

0.05 alpha level of significance.

4.2 Respondents' Profile

Section A: Biodata

Table 4.1 Demographic Information on Respondents

Variables	Frequency	Percentage
Gender		
Female	16	32.0
Male	34	68.0
Total	50	100.0
Age		
18-22yrs	16	32.0
23-27yrs	24	48.0
28yrs and Above	10	20.0
Total	50	100.0
Academic Qualification		
MBA/MSC	13	26.0
Bachelors' Degree/HND	34	68.0
Others	3	6.0
Total	50	100.0
Worker's experience		
Less than 5 years	35	70.0
5 - 10 yrs	8	16.0
11 - 15yrs	8	16.0
16 -20yrs	2	4.0
Total	50	100.0

Source: Researcher's fieldwork survey, 2025

Table 4.1 shows that out of a total of 50 respondents, 16 are female while 34 are male. In terms of age distribution, 16 of the respondents are within the age bracket of 18 to 22 years, 23 of the total respondents are within the age bracket of 23 to 27 years, and 10 of the total respondents are within the age bracket of 28 years and above.

In terms of academic qualification 34 of the respondents are BSC/HND holders, 13 of the respondents are MSC/MBA holders, while 3 of the total respondents are categorized under others. Also, in terms of working experience 35 of the respondents have work experience of less than 5 years, 5 of the respondents have work experience of 5 - 10 years, 8 of the respondents have worked within 11 - 15 years, while only 2 of the respondents have worked experience for 16 to 20 years.

4.3 Data Presentation/ Analysis

Question 1:How has corporate governance affected earnings management?

Table 4.2: Descriptive Results of the impact of Corporate Governance on Earnings Management

S/No	Questions	N	Total score	Mean	Decision
1.	Corporate can play a crucial role in reducing the occurrence of earnings management	50	227	4.54	Agreed
2.	Effective corporate governance mechanisms mitigate agency problems and contribute to improved financial management decisions, including earnings management	50	222	4.44	Agreed
3.	The quality of financial reporting is closely tied to the effectiveness of the corporate governance system	50	206	4.12	Agreed
4.	Robust corporate governance exerts additional monitoring on managers this will discourage earnings management manipulation.	50	217	4.34	Agreed
5.	Earnings Management aims to influence short-term earnings, by impacting contractual outcomes dependent on reported accounting information	50	213	4.26	Agreed
	Grand Mean			4.34	Agreed

Source: Researcher's fieldwork survey, (2025).

Decision rule: There is a unanimous agreement when the mean values of respondents are

above 3.0 unanimous disagreement when it is below 3.0, and also respondents are neutral

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when the mean value is equal to 3.0. Since it is a descriptive statistic, it requires no level of significance, unless it is inferential statistics. The result in Table 4 2 above shows that most of the respondents agreed that there exists a significant relationship between corporate governance and earnings management since 4.3 is above 3.0 which is the acceptance mean value.

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Question 2: n+ does board Independence Impact earnings management practices?

Table 4.3: Descriptive results of the Relationship between board Independence and earnings management practices

SIN	Questions	N	Total score	Mean	D
1.	Independent director are considered better equipped to supervise a corporation's activities compared to other executives	50	200	4.0	A
2 .	Independent directors have a vested interest in acting in the organization's best interest.	50	207	4.14	A
3 .	Boards dominated by outsiders are better positioned for effective monitoring	50	206	4.12	A
4.	Board independence ensures that the board collectively and confidently fulfills it's stated respoqsibilities without fear or favour	50	206	4.12	A
5 .	Autonomy and proficiency of the board will have a positive impact on the board	50	216	4.32	A
	Grand Mean			4.14	A

Source: Researcher's fieldwork survey, (2025).

Decision Rule: There is a unanimous agreement when the mean values of respondents are above

3.0, unanimous disagreement when it is below 3.0, and respondents are neutral when the mean value/ is equal to 3.0 Since it is a descriptive statistic, it requires no level of significance

unless it is inferential statistics. The result in Table 4.3 above shows that all

of the respondents agreed that board Independence significantly affects earnings management practices because the grand mean value of 4.14 is higher than 3.0 which is the acceptable mean value.

Question 3: How does board size affect earnings management practices?

Table 4.4: Descriptive result of the relationship between board size and earnings

management

S/No	Questions	N	Total score	Mean	Dec
1.	Board size can influence the actions and oversight capabilities of directors	50	179	3.58	Ag
2.	A larger board size may hinder effective communication and coordination in addressing and preventing earnings management practices."	50	184	3.68	Ag
3.	A larger board size enhances skill diversity and knowledge due to the inclusion of directors with different experiences	50	200	4.0	Ag

4.	A smaller board size leads to more efficient decision-making in addressing earnings management concern	50	178	3.56	Ag
5.	Smaller boards are more likely to reach consensus quickly on decisions related to addressing and mitigating earnings management risks.	50	196	3.92	Ag
Grand Mean I				3.7	Ag

Source: Researcher's fieldwork survey'(2025).

Decision Rule: There is a unanimous agreement when the mean values of respondents are above 3.0 unanimous disagreement when it is below 3.0, and also respondents are neutral when the mean value is equal to 3.0. Since it is a descriptive statistic, it requires no level of significance, unless it is inferential statistics. The result in Table 4.4 above shows that most of the respondents agreed that board size have a significant effect on the earnings management practices because the grand mean value of 3.7 is higher than 3.0 which is the acceptable mean value.

Question 4: How does audit committee affect earnings management practices?

Table 4.5: Descriptive results of audit committee and how it affects the performance of earnings management.

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S/No	Questions	N	Total score	Mean	Decision
1.	Audit committee's involvement has impact the overall financial integrity of the organization, specifically in relation to earnings management	50	194	3.88	Agree
2.	The audit committee understands and addresses the challenges associated with earnings management.	50	204	4.08	Agree
3.	The audit committee plays a significant role in fostering a culture of ethical financial reporting.	50	193	3.86	Agree
4.	The audit committee's role in overseeing financial reporting has added value to the organization in terms of reducing earnings management practices		186	3.72	Agree
5.	Audit committee plays an important role in setting and monitoring the ethical tone within the organization to discourage earnings management		191	3.82	Agree
	Grand Mean			3.8	Agree

Source: Researcher's fieldwork survey, (2022).

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Decision Rule: There is a unanimous agreement when the mean values of respondents are above 3.0,

unanimous disagreement when it is below 3.0 and respondents are neutral when

the mean value is equal to 3.0. Since it is a descriptive statistic, it requires no level of significance, unless it is inferential statistics. The result in Table 4.5 above shows that most of the respondents agreed that audit committee has a significant effect on earnings management because the grand mean value of 3.8 is higher than 3.0 which is the acceptable mean value.

Question S: To what extent does audit committee independence affects earnings management?

Table 4.6: Descriptive results of the relationship between audit committee dependence and earnings management

S/No	Questibns	N	Total score	Mean	Decis
1.	Audit committee's independence influences its effectiveness in preventing earnings management practices	50	208	4.16	Agree
2.	audit committee plays an improvement role in setting and monitoring the ethical tone within the organization to discourage earnings management	50	201	4.02	Agree
3.	the audit committee's independence contribute to the organisation's effectiveness in preventing and detecting earnings management practices	50	189	3.78	Agree

4 .	independent audit committee lead to clearer communication about financial reporting practices and potential earnings management risks		197	3 .94	Agree
5.	The level of independence within the audit committee affects the overall dynamics and effectiveness of the board in preventing earnings management.		199	3 .98	Agree
	Grand Mean			3 .9	Agree

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Source:Researcher's fieldwork survey, (2025).

Decision Rule: There is a unanimous agreement when the mean values of respondents are above 3.0, unanimous disagreement when it is below 3.0 and respondents are neutral when the mean value is equal to 3.0. Since it is a descriptive statistic, it requires no level of significance, unless it is inferential statistics. The result in Table 4.6 above shows that most of the respondents agreed that audit committee has a significant effect on earnings

management practice because the grand mean value of 3.9 is higher than 3.0 which is the

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acceptable mean value.

4.4 Regression Analysis on the impact of accounting software on the performance of accounting practices

The regression analysis is conducted to ascertain the relationship (direction and magnitude) between each independent variable and the dependent variable of the study. The regression output as retrieved from the SPSS statistical app is presented in Table 5 below:

Table 4.7: Regression Analysis

Dependent Variable: Earnings Management Method:
Least Squares
Date: 09/4/25
Time: 01:08
Sample: 1 50
Included observations: 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.312734	0.493932	4.682291	0.0000

CG	0.039698	0.115806	0.342795	0.()001
BI	0.237564	0.136970	1.734418	0.0039
BS	-0.078974	0.067791	-1.164957	0.0063
AC	0.002699	0.098525	0.027391	0.0082
AI	0.323982	0.112311	2.884683	0.0060

R-squared	0.521938	Mean dependent var	4.540000
Adjusted R-			
Squared	0.356250	S.D. dependent var	0.613122
S.E. of regression	0.491933	Akaike info criterion	1.531216
Sum squared dsid	10.64789	Schwarz criterion	1.760659
Log-likelihoo	-32.28041	Hannan-Quinn critter.	1.618589
F-statistic	6.423292	Durbin-Watson stat	2.116780
Prob(F-statistic)	0.000146		

$$AP = 2.3 + CG + BI + BS + AC + AI + e$$

$$AP = 2.3 + 0.03CG + 0.23BI + 0.07BS + 0.002AC + 0.32AI + e$$

The value of R2 which is 0.5219 indicates that around 52.19% of the difference in the

dependent variable (Earnings Management) can be accounted for by the independent

variable(s) (Corporate governance) used in the regression model. Leaving 38% captured by the error or stochastic term. The Durbin-Watson value of 2.116 indicates the absence of autocorrelation in the model.

4.5 Test of Hypotheses

The hypotheses that are stated in Chapter One of the study are tested in this section using a 5% level of statistical significance. The probability values for the test of hypotheses are derived from the regression result presented in Table 4.8.

Hypothesis One

There is no significant relationship between corporate governance and earnings

In the Regression Results in Table 5, Corporate governance has a significant relationship (T - Stat

=0.347, P = .001) with the performance of earnings management. The

decision rule is to accept the Null Hypothesis if the P-value is greater than

0.05, otherwise, the alternative Hypothesis should be accepted. Therefore,

based on the statistics of corporate governance (T - Stat = 0.3427, P = .001)

the study rejects the Null Hypothesis and concludes that corporate

governance impacts earnings management practices at a So/o

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significant level.

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There is no significant relationship between board Independence and earnings management

In the Regression Results in Table 5., Board Independence has a significant relationship (T

- Stat = 1.7344, P = .0039) with earnings management. The decision rule is to accept the Null Hypothesis if the P -value is greater than 0.05, otherwise, the alternative Hypothesis should be accepted. Therefore, based on the statistics on board Independence {T - Stat = 1.7344, P = .0039), the study rejects the Null Hypothesis and concludes that board Independence iTpacts earnings management at the 5% significant level.

Hypothesis Three

There is no relationship between board size and earnings management

In the Regression Results in Table 5, board size has a significant relationship {T - Stat = - 1.1649, P = 0.003) with earnings management. The decision rule is to accept the Null Hypothesis if the P-value is greater than 0.05, otherwise, the alternative Hypothesis should be accepted. Therefore, based on the statistics on board size, the study rejects the Null Hypothesis and concludes that board size significantly affects earnings management at the 5% significant level.

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Hypothesis Four

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There is no relationship between audit committee and earnings management

In the Regression Results in Table 5, Audit committee has a significant relationship (T -

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Stat = 0.0273, P = 0.0082 with earnings management. The decision rule is to accept the

Null Hypothesis if the P -value is greater than 0.05, otherwise the alternative Hypothesis should be accepted. Therefore, based on the

statistics on earnings management, the study rejects the Null Hypothesis and concludes that audit committee significantly affects earnings management at the 5% significant level.

Hypothesis Five

r There is significant relationship between audit committee independence

In the Regression Results in Table 5, Audit committee independence has a significant relationship

(T .L Stat = 2.884, P = 0.0060) with earnings management. The decision rule is to accept the Null Hypothesis if the P - value is greater than 0.05, otherwise the alternative Hypothesis should be accepted. Therefore, based on the statistics on audit committee independence the study rejects the Null Hypothesis and concludes that audit committee independence significantly influences the practice of earnings management at the 5% significant level.

4.5 Discussion of Findings

The result shows the Effect of corporate governance on earnings management. The result

\ shows that mos' of the respondents agreed that there is a significant relationship between corporate governance and earnings management.

Specifically, most of the respondents agreed that

Corporate can play a crucial role in reducing the occurrence of earnings

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management and A robust and effective corporate governance framework serves as a

safeguard against decision-making opportunism which will lead to a high-quality

financial disclosure. This finding is in line with the result reported by

Madugba and Ogbonaya (2017) who reported that corporate governance

measures have a significant and favourable impact on earnings management.

Furthermore, the result shows most of the respondents agreed that board

Independence significantly impact earnings management. Specifically,

most of the respondents agreed that independent director is considered

better equipped to supervise a corporation's

activities compared to other executives. Independent directors have a vested interest in

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acting in the organization's best interest. Boards dominated by outsiders are better

positioned for effective monitoring. This study is in tandem with the study of Rosey

& Lewellyn (2017) who opined that the number of independent directors on

the board is inversely related to earnings management activities, implying

that a greater number of independent directors leads to a reduction in earnings management.

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Also, the result shows most of the respondents agreed that

there is a significant effect between board size and earnings

management. Specifically, most of the respondents agreed that board size can influence the actions and oversight capabilities of directors.

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A larger board size enhances skill diversity and knowledge due to the inclusion of directors with different experiences. This finding is in tandem with the study of Musibau et al, (2018) who reported that board size is seen as a crucial mechanism for effective monitoring of management in achieving organizational objectives.

Also, the result shows most of the respondents agreed that there is a significant relationship

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between audit committee and earnings management. Specifically, most of the respondents agreed that, the audit committee's role in overseeing financial reporting has added value to the organization in terms of reducing earnings management practices. Audit committee plays an important role in setting and monitoring the ethical tone within the organization to discourage earnings management.

This study is in tandem with Agwor and Osinachi (2018), who reported that audit

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committee expertise can effectively limit earnings management techniques employed by listed manufacturing firms in Nigeria. Mishra, (2016) studied the effectiveness of audit committee in

regulating earnings management, the findings indicated that audit committee

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have a considerable impact on earnings management

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Lastly, the results show that most of the respondents agreed that there's a significant relationship between audit committee independence and earnings management. Specifically, most of the respondents agree that independent audit committees lead to clearer communication about financial reporting practices and potential earnings management risks and also the level of independence within the audit committee affects the overall dynamics and effectiveness of the board in preventing earnings management.

These findings are in tandem with the report given by Benkel et al., (2006) who found that higher levels of audit committee independence are associated with reduced level of earnings management.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

S.1 Introduction

This chapter takes a look at the concluding section of the research. It highlights the summary of the findings, conclusion as well and relevant recommendations from the studies.

5.2 Summary of Findings

From the results presented in Table 2 above, the demographics show that all the items recorded a grand mean above the 3.0 benchmark. This therefore means that corporate governance impact earnings management. This finding is in line with the result of Uwuigbe, et al. (2014). Findings further indicated that all the items in tables three, four, and five were accepted and had a grand mean above 3.0. This means that earnings management practices is significantly influenced by corporate governance, board Independence, board size, audit committee, and audit committee independence.

The findings of this study show that;

1. There is a significant relationship between corporate governance and earnings

management

2. There is a significant relationship between board independence and earnings management
3. There's a significant relationship between board size and earnings management

4. There is a significant relationship between audit committee and earnings management
5. There is a significant relationship between audit committee independence and earnings management

5.3 Conclusion

The increasing international economic pressure on Nigeria to adopt responsible corporate governance practices and embrace economic liberalization and deregulation has been recognized (Ahliowan, 2002). The question of why corporate governance compliance failures occur in Nigeria has multiple answers. Institutionalized corruption, political patronage, and the lack of enforcement and monitoring of compliance by government agencies have been identified as causes. Corporate governance plays a critical role in shaping the growth and continuity of organizations. Strong corporate governance ensure strategic decision-making, attracts investors, and optimizes resource management.

This study examined the impact of corporate governance on earnings management. A sample of 50 (fifty) copies of the questionnaire were distributed to the respondents of the study in which 50 of the questionnaires were received. From the foregoing, it can be seen that the study confirms that corporate governance significantly impacts earnings management practices. Sanusi (2002) emphasizes the role of corporate governance in maintaining the credibility of accounting outcomes, emphasizing the importance of disclosure and transparency as key pillars of a Corporate governance framework

This study has proven that board independence Impact earnings management practices. They have the incentives to establish themselves as professionals in monitoring and controlling (Mahmood et al., 2018).

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The study reviewed how board size significantly impact earnings management, it was discovered by (Musibau et al., 2018) that board size is a crucial mechanism for effective monitoring of management in achieving organizational objectives.

The study revealed that audit committee and audit independence significantly impact earnings management. Overall, the independence of

the audit committee serves as a vital criterion to assess its effectiveness and establish the relationship between the audit committee and earnings management. The Nigerian code of best governance practice emphasizes the significance of independence, competence and integrity in the members of the audit committee (Uwuigbe et al.,2017).

” Based on the review on the study, it is important to note that, Nigerian studies present evidence showing that corporate governance can have both positive and negative effects on earnings management. However, in theory, robust corporate governance exerts additional monitoring on managers, discouraging the manipulation of accounting numbers for earnings management purposes (Leuz et al., 2003)

5.4 Recommendations

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Based on the findings of this study, the following recommendations are made

1. Enhance transparency in financial reporting by providing clear and detailed disclosures, ensuring stakeholders have a comprehensive understanding of the organization's financial performance.
2. Promote a higher proportion of independent directors on the board to ensure unbiased oversight and decision-making

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3. Establish effective communication channels between the board, audit committee, and external auditors to facilitate open discussions about potential earnings management

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4. It is essential to align executive compensation structures with long-term organizational performance to discourage short-term manipulation of financial results.
5. Implement robust whistleblower protection mechanisms to encourage the reporting of unethical practices related to earnings management without fear of retaliation.
6. Actively engage with shareholders to understand their concerns and expectations regarding corporate governance practices, including those related to earnings management.
7. Empower and equip the audit committee with the necessary resources and authority to effectively oversee financial reporting and reduce opportunities for earnings management.

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