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CORPORATE GOVERNANCE AND EARNINGS MANAGEMENT: A COMPARATIVE ANALYSIS OF NIGERIA AND GHANA

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Abstract
This study contributes to the already existing literature by looking at a sub-Saharan African view on the relationship between corporate governance and earnings management, based on evidence produced from the accounts of banks in two of Africa's largest economies, Nigeria and Ghana using the Modified Jones model to estimate the accruals in an emerging economy such as Nigeria and Ghana. The study aims at examining whether the board size, audit committee independence and board structure are able to restrain earnings management practices in the banking sector in Nigeria and Ghana. The findings revealed a positive significant relationship exist between the board size, the return on assets and earnings management. It is expected that an empirical study of this model will provide a better insight about the practice of earnings management in developing economies.

Keywords: Corporate Governance, Earnings Management, Discretionary Accruals, Agency Theory, Ghana, Nigeria

1.1. INTRODUCTION

The modern conglomerates we see today were driven by the industrial revolution of the 17th century. The success of any national economy inadvertently depends on the crucial role organizations plays in that economy, their transparency in complying with disclosure requirement as well as the governance structure in place (ICAN, 2009). How corporations are managed affects all our lives, this is due to the fact that a large part of the resources of this planet are controlled by these economic entities. Clearly, decisions made by the people who run corporations do not only affect the prosperity of individuals directly involved with the particular corporations (such as their shareholders and employee's) but their decisions also have a much wider impact. Nigeria and Ghana are two of the largest economies in Africa. However, both countries have been plagued with the "white collar crimes of fraud and corruption". Nigeria has invariably earned herself the unenviable reputation as a very corrupt nation (Okike,2004). According to the latest listing of countries by the Transparency International, Nigeria marginally improve from its position last year to where it is currently standing (Transparency International Index, 2018). Ghana has also not fared well in this respect. This have wide implications on the issues of corporate governance in these countries and how it impacts on the earnings reported by organizations in both the public and private sectors of the economy. Corruption is rife in many

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developing nations of the world as well as the developed nations of the world (Wallace, 1987; Transparency International,2019). As can be seen in the following high – profile collapses of a number of large corporations in 2001-2002, the collapses of Enron, Tyco and WorldCom in the United States, Parmalat in Italy, the collapse of ABC Learning in Australia, Lehman Brothers scandal, Adelphia. In some instance those running the companies have abused their positions or have been accused of outright mismanagement of the affairs of the corporations, for example the global financial crisis, and companies polluting the environment such as the BP Gulf of Mexico oil spill are examples. In Nigeria large scale monumental fraud have also been establish especially in the banking sector e.g. Gulf Bank of Nigeria Plc, Hallmark Bank Plc, All States Trust Bank etc. The Cadbury Nigeria scandal which led to the sacking of its officials, the Managing Director and Finance Director is another pointer to weak corporate governance and unethical practices, where there was a "deliberate overstatement of the company's financial position over a number of years to the tune of about N13 to N15 billion" (Ajayi, 2006). Interest in corporate governance practices of modern corporations particularly in relation to accountability increased following these high–profile collapses. Many of this fraud involved accounting and auditing issues which raised questions world-wide about the relevance of the accounting and auditing profession where material misstatements of great magnitude are deliberately not disclose or covered up through aggressive earnings management. No governance system, no matter how well designed, will fully prevent greedy, dishonest people from putting their personal interests ahead of the interest of the companies they manage

The focus of this study is to select some of the best banks both in Nigeria and Ghana and carry out an examination of their corporate governance and related earnings management strategies. The issue being looked at here is the effect of the downturn in the economy on financial reporting and whether corporate governance indices are able to restrain earnings management practices in banks in Nigeria and Ghana. The study will also look at the current state of corporate governance practices in Nigeria and Ghana so as to inform on the nature, focus and extent that corporate governance affects earnings management in Nigeria and Ghana banking industry. The question that is being address in this paper is what are the effective corporate governance indices that effectively restrain the tendencies or art of earnings management in Nigeria and Ghana banks. The main objective of this paper is to examine the relationship that exist between corporate governance and earnings management. The paper will apart from the introduction, look at the conceptual and theoretical framework in sections II. Section III will be focused on the methodology that will be adopted in the study. Section IV and V will discuss the results and interpretation and conclusions from the study respectively.

This paper intends to contribute to increasing research on corporate governance and earnings management in emerging economies with particular emphasis on Nigeria and Ghana banks.

2.1. THE CONCEPT OF CORPORATE GOVERNANCE

The green revolution in the 17th century gave birth to the industrial revolution which brought about expansion and growth in the size of business organizations. The industrial revolution which started in the United Kingdom in 1780, brought about expansion and growth in technology, communication and finance for several decades began to further accelerate until it got to America and the rate of growth in the Americas overtook that of Europe. This economic transformation also brought about social transformation as businesses grew from being solely run by owners to partnership and then limited liability companies. The modern corporation as seen today brought about the issues of corporate governance. The globalization of trade and emergence of large corporation raised a lot of issues in corporate governance. It increasingly became difficult for owners of resources to get adequate information on how the businesses were managed. This transformation from sole trading and partnership to conglomerate is the major reason for the dichotomy between ownership and control of corporations (Owolabi,2018). This arrangement gave birth to the agency relationship. There is always a gap that needs to be bridge between owners of capital and the management. The main impetus for better practices in corporate governance began in the United Kingdom in the late 1980s and early 1990s (Unini, 2015). The debate on corporate governance emerged a great while and its of critical interest since the mid-1980s attracting a great deal of attention. However, the seemingly new interest is caused by the massive bankruptcies and corporate scandals which occurred in many countries at the beginning of the new century (e.g. Enron, Worldcom, Global Crossing in the US. Parmalat and Cirio in Italy, the East Asian crisis of 1997, international Credit Bank. Greenland Bank, Coop Bank in Uganda; the Nigerian banking crisis of the 1990 etc). These failures not only led to the loss of employment for thousands of employees, they took with them the life savings of many who were shareholders and creditors to these companies. (Adeniyi,2010). As a result of several accounting scandals that occurred in this period such as the Mirror Group, BCCI and PollyPeck, the Cadbury Committee which was set up in the United Kingdom produced a report entitled Financial Aspects of Corporate Governance popularly known as the “Cadbury Report” (ACCA 2018) which inardventedly formed the basic background of corporate governance codes today.

The term corporate governance means different things to different people. In prior studies conducted by OECD (1999) corporate governance was defined as the system by which business corporations are directed and controlled. Corporate governance is more concerned with the “governance” of the company as opposed to the “management” of the company. Corporate governance is the collection of mechanisms, processes and relations by which corporations are controlled and directed (Shailer 2004).

Corporate governance as stressed by the following scholars, Magdi and Nadereh (2002) is ensuring that business is being ran effectively and investors are given a fair return on their capital invested. Shleifer and Vishny (1997) posited that "corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment". Financiers of the organization have to assure themselves that their investment are well managed. Corporate governance also looks at how the rights and responsibilities of the different stakeholder in the corporation are distributed. The Cadbury report defines corporate governance as "the system by which companies are directed and controlled" (Cadbury Report, 1992).

Corporate governance includes the processes through which corporation objectives are set and pursued in the context of the social, regulatory and market environment. These include monitoring the actions, policies, practices and decisions of corporations, their agents and affected stakeholders (OECD 2004). Corporate governance is necessary because of the possibility of conflicts of interests between stakeholders primarily between shareholders and upper management or among shareholders.

The Organization for Economic Co-operation and Development (OECD 2010), gave a more comprehensive definition of corporate governance as a set of processes, customs, policies, laws and institutions affecting the way a corporation or a company is directed, administered or controlled. Much of the contemporary interest in corporate governance is concerned with the mitigation of conflicts of interest between stakeholders.

THEORETICAL FRAMEWORK

As a background to this study, we underpin our study on the theory of agency. As a result of the dichotomy between the owners of capital and the management of the business the theory of agency was given birth to.

AGENCY THEORY.

Agency theory studies the relationship between principals and their agents. It focuses on the stakeholders and the ethical dissociation that may arise between the stakeholder–principal and its company- agent.

Agency theory underpins most models of corporate governance. According to this theory, the board of a corporation has a fiduciary duty to act in the best interest of the company's shareholders. It hires executives, managers and employees to implement the board's strategies, to act in the best interest of the principal, irrespective of the agent's personal interest.

Agency theory assumes that conflict will arise between an agent's personal interest and those of his principals. Organization have an agency role to play towards a wide range of individuals, or stakeholder e.g. creditors, customers, suppliers etc. This also adds to further area of potential conflict. The earliest work on the agency theory was by Berle and Means (1932).

Agency theory originated formally by the independent but concurrent work of Stephen Ross and Barry Mitnick in the third quarters of the 20th century (Mitnick, 2006) but the most referenced work on agency theory in literature is that of Jensen and Meckling (1976) which prepared the agency theory of the firm, holding that managers acting as agents will not operate to maximize returns to shareholders excepts an appropriate governance structure is put in place to safeguard the interest of the shareholder.

Agency theory is used to explain the relationship whereby a person or group of person, known as the principal, employs the service of another person, called the agent to perform some activity on their behalf.

Where the interest of the agent and the principal are not aligned, there may be incentives for the manager to act in a way that might not be in the best interest of the principal. As a result of this Jensen and Meckling identified three agency costs which are monitoring costs, bonding costs, and residual loss. The corporate governance structure specifies the distribution of rights and

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responsibilities among the different participants in the organization — such as the board, managers, shareholders and other stakeholders — and lays down the rules and procedures for decision-making. By doing this, it also provides the structure through which the company objectives are set and the means of attaining those objectives and monitoring performance.

CORPORATE GOVERNANCE IN NIGERIA

The nature of corporate governance in Nigeria cannot be completely separated from its political and governance antecedents (Owolabi, 2018). Nigeria, since its independence from Britain, has been governed more by unelected military elite and more recently by political elite whose regimes have been riddled with institutionalized corrupt practices. (Adekoya, 2014). The laws and principles of governance in Nigeria are modeled after the British format of institutions. Even to this day it can be seen in the way institutions are structured in Nigeria, this is largely due to the fact that before independence in 1960, most companies were owned by the British. This suggests that the system of corporate governance in Nigeria is essentially "Anglo-Saxon or the outsider control system" (Franks and Meyer,1994). The military government had no serious code of operation in running the corporation. Nigeria is a third world country and like most third world country she is lacking in basic social amenities, public and private infrastructure, high levels of unemployment for its teeming youthful population, high rates of poverty, rising incidence of bank and armed robberies, corruption, militancy to mention but a few (Adekoya, 2014.) After nearly four decades of military rule, Nigeria has had an uninterrupted civilian rule for almost 20 years without military intervention. Democratic rule is expected to deliver to the citizenry the dividends that come with it, it is expected to strengthen Nigeria's political institutions, regulatory institutions and corporate governance practices. Defining the content and relevance of corporate governance in a third world country like Nigeria is difficult due to its prevailing environment and circumstances.

Notwithstanding the Cadbury Nigeria scandal and others, the Nigerian government has put in place measures to address these issues of corporate governance weaknesses and failures. One of such measures is the establishment of the Financial reporting council of Nigeria in 2011**,** its establishment by the Financial Reporting Council Act 2011 was a welcome development in the history of corporate governance in Nigeria. The Directorate of Corporate Governance of the FRCN has the responsibility to develop principles and practices of corporate governance. The directorate can act as the coordinating body responsible for all matters pertaining to corporate governance in Nigeria. There are other various codes of corporate governance, apart from statutory provisions as spelt out in the relevant sections of the Companies and Allied Matters Act (CAMA,1990) governing director's responsibilities, these are codes of corporate governance issued by the different regulatory bodies. Codes of corporate governance are also termed code of best practice e.g. corporate governance code of Nigeria 2005, Sarbanes –Oxley Act of 2002 in the United States. Etc. The Securities and Exchange Commission's Code of Corporate Governance applies to all public companies in Nigeria, all public companies with listed securities and all public companies seeking to issue securities or seeking listing by introduction. For companies with listed securities, the code forms the basis of minimum standard of corporate behavior, while companies seeking to raise funds by issuance of securities or seeking listing by introduction are expected to demonstrate sufficient compliance with the principles and

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provisions of the code as is appropriate to their size, circumstance or operating environment. The SEC code makes wide provisions on the conduct of company's affairs.

The Central Bank of Nigeria Codes are very specific to financial institutions particularly in addressing matters that may arise after the consolidation of banks in Nigeria in 2005 (Owolabi,2005). This code was introduced to ensure accountability on the part of bank chief executive officers. It specifies fines and penalties, including jail terms for erring chief executives. It prescribes risk management measures within the organization particularly emphasizing the role and qualification of a company' internal auditor. There is also the Bank and other Financial Institutions in Nigeria Code, the National Pension Commission Code, the National Insurance Commission Code of Corporate Governance 2009. The practice of corporate governance in Nigeria is dodged by corruption, lack of transparency, weak organizational structure.

CORPORATE GOVERNANCE IN GHANA

Just like Nigeria, the nature of its corporate governance cannot be separated from its political and governance antecedents. Ghana got its independence from Britain, and like most former colonies of the British, Ghana inherited many of its rules and regulation left behind by the colonial government. The British governed their colonies with legislation imported from their territory such as the Ghana's legal system and corporate governance practice mirrors the pattern in the United Kingdom (Okike,2007). Before Ghana gained its independence, many of their activities were controlled by their colonial master and thus bring along their economic interest and their legislation. The Ghanaian Companies Code, 1963 is largely based on the English Companies Act of 1948 (Adda and Hinson,2006). The Ghana system of corporate governance just like Nigeria is essentially an "Anglo-Saxon", or the "outsider control system" (Franks and Meyer, 1994). The corporate governance practices in Ghana has evolved with the introduction of 2002 code of best practices by its SEC as well as other guidelines by other government agencies such as the SEC guidelines on Best Corporate Governance Practices which is based on OECD principles. The Bank of Ghana also incorporated some corporate governance rules into the Banking Act 2004 as amended in 2007, also the Bank of Ghana code of conduct for primary dealers. Basically, the Ghanaian regulatory framework with regard to corporate governance comprises the Ghana companies code of 1963, the Securities Industry Law1993 as amended and also the membership and Listing Regulations of the Ghana stock exchange 1990. It is also supported by the Ghana national accounting standards and the codes of professional conduct imposed by the Institute of Chartered Accountants of Ghana on its member (Tsamenyi et al,2007). The Ghana SEC (2002) is inclusive of some common elements that underlie good corporate governance practice upon which further evolution and developments in governance structures are built such as the rights of shareholders; the equitable treatment of shareholders; the roles of stakeholders; disclosure and transparency; the responsibilities of the board. These pillars are explicitly uncovered in the 2002 code of best practices released by the Ghana Securities and Exchange Commission.

According to Oertel (2004) posited that despite the establishment of a seemingly robust legal regime governing corporate governance in Ghana via the companies' code of 1963, the enforcement of the provisions of the code has been relatively weak thereby leaving Ghana deficient in the corporate governance practices. According to Mensah et al. (2003) corruption has been a major factor towards the socio-economic and political development in Ghana. In their studies it showed that corruption is endemic and the transparency international index on corruption report of 2010 rated Ghana 69th. The CDD-Ghana report of 2000 showed that corruption has persistently undermine the business corporate and the country's democratic system. Notwithstanding this, the establishment of more regulatory agencies as well as revisiting the legal structure and acts of the country while putting preferences on enforcements will improve the governance status of the country.

EARNINGS MANAGEMENT

Earnings management consists of actions used by managers to increase or decrease current reported earnings so as to create a favourable picture for either short-term or long term economic profitability (Jennings, 2014). Scott (2014) defines earnings management as the choice of accounting policies by the managers to attain specific objectives. It is also considered as a determinant of earnings quality as examined by Lo (2008) based on Ball and Shivakumar (2008). According to Bowen et, 2008; Garcia Lara et al.,2009, earnings management is a process of choosing a set of accounting policies to present a particular view of the firm's performance to other parties. Accordingly, it may be intended to provide a more informative picture and signal future performance or it may be opportunistic and intended to mislead investors. Earnings management arise as a result of some incentives for executive compensation schemes. Numerous studies confirm incentives-based pay in particular the use of options, motivates managers to manage earnings to meet performance targets or thresholds (Cheng and Warfield, 2005; Bergstresser and Philippon, 2006; Houmes and Skantz, 2010). Why incentives-based pay schemes may lead to opportunism, the pressure on managers to engage in such activities is by no means consistent across countries. According to McVay et al. (2006) a weak board may manage earnings to the analysts' earnings forecast just prior to the sale of managers' shares. Another opportunistic motivation for earnings management is the incentive to meet market expectations. In Aboody et al, (2006) it was seen that firms provide earnings forecasts for the year following an IPO, this provide an incentive to manage earnings to meet the forecast.

Another reason for earnings management is to impress management where there is a change in senior management or board members. For example, a new management team can have an incentive to use income-decreasing earnings management and 'big bath' soon after their appointment, in which case lower earnings are blamed on the previous management team. The ownership structure of firms also influences incentives for earnings management. Jiraporn and DaDalt (2006) finds family controlled firms are unlikely to manage earnings as they do not face the same pressures to meet expectations as other firms.

In accounting, the term accrual refers to a journal entry where a revenue or expense item is recorded in the absence of actual cash transaction. This requires adjustment to be made for pending issues in the financial statements. These adjustments are made for mainly two reasons which are: 1) Expenses that have been incurred but not yet recorded in the accounts and 2) Revenues that have been earned but are not yet recorded in the accounts. These accruals are needed to be reported in the financial through adjusting entries. Where there is a discrepancy

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between the timing of cash flows and the timing of the accounting recognition of the transaction, this gives arise to accruals (Ronen and Yaari, 2008).

The discretionary or abnormal accruals is a proxy of earnings management which will be used in this research to determine the earnings quality. Apparent in earnings management literature is juxtaposition between earnings management and corporate governance suggesting that corporate governance can restrain the practice of earnings management. The corporate governance indices adopted in this study are the board size, ownership structure, audit committee independence and internal audit function.

BOARD SIZE

The responsibility for the setting of objectives as well as the monitoring and controlling of a firms' activities are vested with the board of directors and this is very central to decision-making within the firm as highlighted by Fama and Jensen (1983). The board's size and composition influence its ability to function effectively. According to Link et al. (2008) the board structure tends to reflect the firm's industry, the need for monitoring of activities given the available growth opportunities and the transparency of the firm's earnings. The board of directors comprises both executive and non-executive directors. The executive directors provide overall strategic guidance and are experts in their field, on the other hand the non-executive commonly are professional directors with experience in an unrelated business and substantial reputations to protect. As such, there should be an appropriate balance between executive and non-executive directors on the board.

Agency theory and the resource dependency theory are the dual schools of thought on the size of boards. The agency theory proposes smaller boards and smaller boards have been considered to be more effective in decision-making (Yermack,1996). When board size increases, agency problems also increase as the board size increases. The independence of the non-executive directors is crucial to ensure that they will be effective monitors. The expectation is that the board size will have a positive significant relationship with earnings management, therefore the study will hypothesize the following;

Ho 1: There is no significant relationship between board size and earnings management.

AUDIT COMMITTEE INDEPENDENCE

An audit committee is a sub-committee of the board of directors, usually containing equal number of executive and non-executive directors. The role and function of the audit committee should be set out in written terms of reference. The audit committee is to be established by every Public limited liability company. The issue of audit committee in Nigeria shall be considered as contained under the provisions of CAMA 1990 as amended.

SECTION 359 (3) of the Companies and Allied Matters Act provides that every public company shall establish an audit committee. The committee is to comprise of an equal number of directors and representatives of the shareholders of the company subject to a maximum number of six members. The committee will examine the auditor's report and make recommendations thereon to the annual general meeting as it thinks fit. However, earnings management occurs less frequently when the audit committee is more independent. An independent audit committee ensures there is an effective monitoring over earnings management thereby reducing the agency conflicts. The study hypothesizes the following;

Ho 2. There is no significant relationship between audit committee independence and earnings management.

OWNERSHIP STRUCTURE

The ownership structure significantly impacts earnings management. In code law countries, there are more concentrated shareholdings, complex ownership arrangements and less effective investor protection laws. On other hand, in common law countries shareholdings are more generally widely dispersed and there are strong investor protection laws to safeguard the interests of minority shareholders (La Porta et al., 1998). Although the existence of one or more concentrated shareholding is usually a source of agency concerns, it may be the case in some countries that such ownership arrangements are a substitute for an under-developed institutional framework. In eastern Asian countries for instance Japan, cross-shareholdings and controlling shareholders are commonplace and have a big influence on corporate governance. The study hypothesizes the following;

Ho 3. There is no significant relationship between ownership structure and earnings management.

3.1. METHODOLOGY

The data for this study is sourced from the annual reports and accounts of ten banks i.e. five banks from Nigeria and five from Ghana for an eight-year period, 2010-2017. The annual reports and accounts are deemed to be reliable and were the most available source of data collection. The aspects of significance in the reports and accounts are the balance sheet, the profit or loss account, the statement of cash flows, the corporate governance report and the auditor's report. The main purpose of the research is to explain how corporate governance can restrain earnings management which in this study will be measured with discretionary accruals. The discretionary accruals model is being preferred because it captures the subtle income management techniques that is allegedly used to avoid detection by outsiders according to DuCharme, Malatesta and Sefeik (2001). Accruals not only reflect the choice of accounting methods but also the effect of recognition timing for revenues and expenses, asset write-downs and changes in accounting estimates. Discretionary accruals are obtained

by subtracting non-discretionary accruals from total accruals. Non- discretionary accruals are estimated by using a regression model that regress total accruals on several explanatory variables.

EARNINGS MANAGEMENT MODEL SPECIFICATION

This study adopts the discretionary accruals as a more appropriate model to detect subtle earnings management and due to its common usage in literature (Sarkar, Subrata,& Kautsav, 2006; Hashim & Devi, 2008; Ali Shah, Zafar, & Durrani,2009), etc. The cash flow statement approach is recommended. According to DuCharme et al, (2001), accruals models are more appropriate to detect subtle earnings management techniques. The formula for the cash flow statement approach as given by Ali Shah, Ali Butt& Hassan,2009 is as follows

Total accruals are extracted as the difference between Net Income(NI) and cash flow from operation (CFO),

Tat= NIt-CFOt

Where Tat is total accruals in year t

N.I.t is the Net Income in year t

CFOt is Net cash flow from operating activities.

In this study the modified Jones model (Yoon et al, 2006) is used to determine the discretionary accruals which is more appropriate compare to the Healy Model (1985); the DeAngelo Model 1986); The Jones Model (1991);, the Industry Model(1991) due to the better estimation and misspecification problems of the earlier models (Yoon, Kim, & Woodruff,2012). Earlier studies by Islam et al, (2011) and Islam (2014) identified that the Modified Jones model (Yoon et al., 2006) is more fit than the Jones model. According to the prior study of Yoon and Miller (2002) documented that the jones model, Deshow, Sloan, & Sweeney (1995) was not well suited to eliminating the conjectured tendency to measure discretionary accruals with error when discretion is exercised over revenues. Recent studies identified that the modified jones model or other proposed model compared to the jones model are not very effective to estimate discretionary accruals in the case of developing economies. (Al-Rassas & Kamardin, 2015; Alareeni & Aljuaidi, 2014; Islam,2014; Yoon et al., 2012). The model proposed by Yoon et al. (2006) known as the Modified Jones Model which is expressed as follows with proper explanation of the variables in the model.

CONTROL VARIABLES

Although this study is based on measuring the relationship between corporate governance and earnings management, there is still need for the use of control variable to measure the effect of other external factors that can be responsible for any disparity in the relationship between the subject matter. The control variables used in this study are, leverage, return on assets, audit quality and firm's size.

Leverage is included as one of the control variables to describe the financial policy and the capital structure of firms. Leverage is measured as the ratio of long term debt to total assets. Financial leverage is found by Hashim and Devi (2008) to be negatively significant to earnings.

Return on assets is use to evaluate the performance of the firm. According to Wu & Huang, (2011) find that there is a positive relation between return on assets and earnings management. Lee, Li, & Yue (2005) reveals that there is positive relationship between discretionary accruals estimated from the Jones model and firms' performance.

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Audit quality/type is itself not directly observable so proxies are used for it, such as the size of the audit firm. Large audit firms have a more valuable reputation to protect (DeAngelo, 1981) and are a bigger target for litigation which provides them with an incentive to be more conservative and more diligent, hence the historical association of higher audit quality with larger audit firms (DeAngelo,1981); Palmrose,1998; Lennox, 1999).

Firm size is often used as a proxy for information availability in the market. Kim & Rhee (2003) observe that small firms engage in more earnings management than large and medium sized firms to avoid reporting losses.

The age of the firm is also a relevant control variable because it represents the stages in the firm's business cycle as posited by Stubben (2010). This is measured by the age from incorporation or age from the date of listing (Mnif,2009).

EMPIRICAL MODEL

The entire estimation model is given below while controlling for firm size, leverage, audit quality type, age, and return on assets.

DAC = BO + B1BRDSIZE + B2CEO + B3AUDCOM + B4SIZE + B5AGE + B6AUDTYP + B7LEV + B8ROA + e

Where,

Dependent Variable

DAC: discretionary accruals (income-increasing and income decreasing accruals)

Independent variables

BRDSIZE: board size (number of directors on the board) for firm i

CEO: CEO duality (equals 1 if CEO is also chairperson of the board and 0 if otherwise).

AUDCOM: audit committee independence (number of Non-executive directors/size of audit committee)

SIZE: firm size (log of turnover)

LEV: leverage (the ratio of long term debt to total assets (%))

AGE: firm age (company age since incorporation)

AUDTYP: the auditor type (categorical variable where 1 is assigned to the big four audit firm and 0 otherwise).

ROA: return on assets (profit after tax/total assets)

E: an error term

But, Total Accruals = Discretionary Accruals + Non- Discretionary Accruals.

Thus, Discretionary Accruals = Total Accruals – Non Discretionary Accruals.

4.1 DATA PRESENTATION AND ANALYSIS

SUMMARY OF STATISTICAL VARIABLES (Table 1)

COUNTRIES		NIGERIA				GHANA			
VARIABLES	**Obs**	**Mean**	**Std Dev**	**Min**	**Max**	**Mean**	**Std Dev**	**Min**	**Max**
Discretionary Accruals	25	5552.28	40163.24	-84255	90426	-18539.2	89502.05	-327716	146590
Board Size	25	14.8	2.533114	12	18	9.8	4.627814	4	18
CEO Duality	25	0.2	0.408248	0	1	0	0	0	0
Audit Committee	25	5.8	0.408248	5	6	6.6	1.658312	4	8
Company Size	25	4.64961	1.314446	1.9324	5.648	4.453268	0.3538009	3.875	5.2189
Age of Firm	25	18.8	6.78233	4	26	18	7.799573	1	24
Audit Type	25	0.72	0.458258	0	1	1	0	1	1
Leverage	25	7.36406	17.35325	0	88.2498	9.766784	7.63619	1.6153	5.2189
Return on Asset	25	0.01612	0.0221416	-0.56	0.523	0.035309	0.171206	0.0067	0.0696

Note: Figures in DAC and Company Size are in Millions of USD except others in percentage and ratio

The table above shows a positive Mean of 5552.28, Minimum of -84255, and a Maximum of 90426, of **Discretionary Accruals** in Nigeria, while in Ghana, the average Discretionary Accruals records a Mean of -18539.2, Minimum value of -327716 and a Maximum of 146590 during the years of review. The negative discretionary accrual is as a result of negative total accruals prominent across firms based on negative net income and negative cash flow from operating activities.

The **Board Size** in Nigeria shows an average of 14.8 which is approximately 15 persons, with a minimum of 12 and maximum of 18. This meet the stipulated maximum by the Securities and Exchange Commission (2003) of a 15man board. In Ghana, the average **Board Size** of 9.8, which is approximately 10persons board, with a minimum of 4 and a maximum of 18 members. Since a lower board size has been known to reduce agency costs (Firth, Fung, & Rui, 2007; Ali shah, Ali Butt, & Hassan, 2009; Ning, Davidson, & Wang, 2010), deductively the average board size appears to be efficient in reducing opportunistic earnings management. Hence the mean board size may be good for controlling earnings management.

The **CEO Duality** in Nigeria shows an average of 0.2, with a minimum of 0.0 and a maximum of 1.0. From the records, only one firm among the five firms plays the dual functions of CEO and that of the Chairman of the board, while 80% of the firms separate the functions of CEO and that of the Chairman of the board in Nigeria. In Ghana, there is no record for **CEO Duality**. The low level of CEO duality is an indication to effective implementation of the code of corporate governance for best practices which is also a tool for earnings management.

On **Audit Committee** independence**,** is rated at 58% in Nigeria, while in Ghana its rated at 66%. This implies that there is a mix of directors and shareholders in the committee. A highly

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independent audit committee results in low earnings management (Zahn & Tower, 2004). Whereas an averagely independent committee would likely result in earnings management.

The **Size** of the firm surrogated by annual turnover has an average of 4.64961 Million USD in Nigeria, and an average of 4.453268 Million USD in Ghana. It is thus observed that the firms are relatively large and as such they have access to more information in the market. The large mean size also suggests that the firms benefit from activities that are related to increased firm size such as technological benefits, reduced cost of production and operational activities, and a larger market in general.

The average **Age** of the firms calculated from the date of incorporation is approximately 19 years with a minimum 4 years and maximum of 26 years in Nigeria. In Ghana, the average age is 18 years with a minimum of 1 year and maximum of 18 years during years captured in the study.

The average **Auditor Type** which is 72% shows that the auditors commonly engaged belong to the big four audit firms' category while 28% are small and medium sized audit firms in Nigeria. In Ghana, the record show 100% engagement of the big four Audit Firms. From the record so far, there is a tendency for less earnings management in the sample because majority of the sample firms engage the big four auditors. This is because the big four auditors which are global firms are expected to be more detailed, effective and efficient in executing their tasks compared to their non-big four counterparts.

The **Leverage** of the firms shows an average of 7.4% in Nigeria, and 9.8% in Ghana; this implies that there is less debt financing and more of equity financing 92.6% and 90.2% This suggests that the firms are faced with little or no financial risk because the major source of capital is equity based.

The **Return on Assets** as a measure of performance and profitability reflects a mean of 1.6% in Nigeria and 3.5% in Ghana which is relatively very low. The cause for this is that most firms made little profits and others made losses, while increasing their total assets base.

REGRESSION RESULT (Table 2)

METHOD: LINEAR REGRESSION DEPENDENT VARIABLE: DISCRETIONARY ACCRUALS @ 95% CONFIDENCE INTERVAL NUMBER OF OBSERVATION: 25 PERIOD: 2010 – 2014								
COUNTRIES	**NIGERIA**				**GHANA**			
INDEPENDENT VARIABLES	**Coefficient**	**Standard Error**	**T-Stat**	**Prob.**	**Coefficient**	**Standard Error**	**T-Stat**	**Prob.**
Constant	-81734.25	1031658	-0.08	0.938	423641.6	537471.7	0.79	0.441
Return on Asset	893470.6	397201.8	2.25	0.039	378355.6	2100599	0.18	0.859
Age of Firm	-1318.483	1590.77	-0.83	0.419	-12170.46	9349.306	-1.30	0.209
Company Size	-11192.18	73308.76	-0.15	0.881	-845.0208	85439.98	-0.01	0.992
Audit Committee	28364.81	220014.9	0.13	0.899	-943.7329	25248.51	-0.04	0.971

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Board Size	-1801.122	6907.827	-0.26	0.798	-19799.62	16415.26	-1.21	0.243
Leverage	1291.861	457.4448	2.85	0.012	3418.506	3243.672	-0.05	0.306
CEO Duality	14600.31	30035.67	0.49	0.633				
Audit Type	-804.1248	18137.11	-0.04	0.965				
F(6, 18)	54.52				0.56			
Prob. > F	0.0000				0.7576			
R-Squared	0.5159				0.1447			
OBSERVATION	25				25			

The relationship between **CEO duality** contribute positively to earnings management but insignificant. The regression results provide evidence that CEO duality does not really affect earnings management. Drawing from the result from the descriptive, the reduced level of CEO duality and a greater separation of the roles of chairman and CEO among the sample firms does not have an impact on earnings management in Nigeria particularly. This evidence is corresponds to the findings of Chtourou, Bedard, & Courteau (2001); Hashim & Devi, (2008); Johari,Saleh, Jaffar, & Hassan(2008); Chen & Liu, (2010); Garcia-Meca & Sanchez-Ballesta, (2009) who argue that the separation of the roles of CEO and Chairman has no effect on earnings management. Therefore, the hypothesis relating to an insignificant relationship between CEO duality and earnings management is accepted. In this view, the agency theory perspective on zero tolerance for CEO duality does not hold because a separation of the positions has no effect on earnings management in Nigeria during the years under review.

In Nigeria, **return on assets** contribute positively to earnings management. The return on assets shows a positive significant relationship at 3.9% level of significance with earnings management. This proves that the performance of the firms affects earnings management. Lee, Li, & Yue (2005) and Wu & Huang (2011) have found out same that a higher return on assets results in higher earnings management. Hence the hypothesis proposing a positive significant relationship between return on asset and earnings management is accepted.

In Ghana, the return on asset shows a positive insignificant relationship to earnings management. This is contrary to the views of Lee, Li, & Yue (2005) and Wu & Huang (2011). Hence the hypothesis proposing a positive significant relationship between return on asset and earnings management is rejected

Financial **Leverage** is also found to have positive and significant relationship with earnings management. The financial leverage shows a positive significant relationship at 1.2% level of significance with earnings management, though the firms do really finance operations with debt but use more of equity. This can be attributed to the maximum of 88% leverage from the sample firms in the descriptive statistics. Therefore, there are no debt pacts to be upheld by the sample firms. Hence the hypothesis proposing a positive significant relationship between financial leverage and earnings management is accepted.

In Ghana, financial leverage records a positive insignificant relationship to earnings management. Therefore, there are no debt pacts to be upheld by the sample firms. Hence the

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hypothesis proposing an insignificant relationship between financial leverage and earnings management is accepted.

The **Audit type** shows a negative insignificant relationship with earnings management from the sampled firm in Nigeria and Ghana as well. The negative and insignificant relationship is consistent with the results of Lee & Byeonghee (2002). This might be as a result of the fact that the exercise of professional judgement on financial reporting issues still lies with the management while auditing remains a task for assessing compliance with standard in financial reporting and fraud detection. It is also possible the type of auditor engaged in the firm has no impact on earnings management because the auditors failed to ensure transparency in financial reporting. Hence the hypothesis proposing an insignificant relationship between audit type and earnings management is accepted.

Firm **Size** is found to have no effect on earnings management in Nigeria as well as Ghana during the years covered in the study. This suggests that the benefit of economies of scale accruing to firms as a result of the size has no effect on earnings management. Hence the hypothesis proposing an insignificant relationship between firm size and earnings management is accepted.

Age of the firm is also negative and insignificant for both Nigeria and Ghana, this is perhaps because a young or old firm may be naturally be inclined with earnings management. This implies that the stage of a firm in its business cycles does not really affect its earnings management. Hence the hypothesis proposing an insignificant relationship between age of firm and earnings management is accepted.

Audit committee independence, on the other hand shows a positive insignificant relationship with earnings management in Nigeria. This correspond with the findings of Roodposhti & Chashmi (2010) who find that a possible explanation for the insignificant relationship is that the board of directors is seen as ineffective in discharging their duties due to management dominance overboard matters.

Contrary to the above is in Ghana where a negative insignificant relationship with earnings management. Hence the hypothesis proposing an insignificant relationship between audit committee and earnings management is accepted.

The **Board size** reflects a negative insignificant relationship with earnings management in Nigeria as well as Ghana. This is as a result of the tendency of larger boards to increase agency costs one of which is earnings management. Also, larger boards are perceived to contribute to agency conflicts because the more the board members, the longer the time spent in decision making, and the greater the conflict of personalities. The result is inconsistent with the findings of Rashidah & Fairuzanana (2006) that says a positive relationship exists between corporate governance and earnings management. The negative insignificant relationship suggests that larger boards members are not appropriate to reduce earnings management. Hence the hypothesis proposing an insignificant relationship between board size and earnings management is accepted.

The R squared depicts that the model explains 51.6% of the variation in earnings management. Also the F-statistic shows P-value is 0.0000, we reject the null and conclude that both variables have indeed a positive significant with earnings management in Nigeria.

In Ghana, the R squared depicts that the model explains 14.5% of the variation in earnings management. F-statistic shows that the model is significant at 76% level. Thus the model measuring the relationship between corporate governance and discretionary accruals is only valid at 24% confidence level, we therefore accept the null hypothesis that both variables have a negative insignificant with earnings management.

CONCLUSION AND RECOMMENDATION

The study examined the relationship between corporate governance and earnings management with evidence from Nigeria and Ghana, using linear regression on 10 (ten) selected firms in the banking sector from Nigerian and Ghana. Five banks were selected from each country, making a total of ten banks for a five-year interval, specifically 2010 – 2014 fiscal years.

It is primarily observed that the relationship between corporate governance indicators and earnings management provides mixed outcomes in both economies. Audit type, Company Size, Age of Firm and Board Size as corporate governance indicators have no significant relationship with earnings management both in Nigeria and Ghana. Whereas CEO duality and Audit Committee reflects a positive insignificant relationship in Nigeria, while in Ghana it was a negative insignificant relationship.

In the case of Nigeria where the company laws prescribe that the audit committee should consist of an equal number of directors and shareholders, the above could mean that this committee is either ineffective and redundant as far as protecting the interest of shareholders is concerned. In view of Okike (2007), Adegbite (2010) and Uche (2011) provide evidence in support of this assertion. According to Peace Okougbo and Elewechi Okike (2015) there is now such a proliferation of shareholder associations in Nigeria (because many of their members want to sit on the board of listed firms) to the point that the SEC now regulates shareholder associations in Nigeria. Firms with a smaller board size therefore engage less in earnings management and vice versa.

The statutory specification through the Securities and Exchange Commission Code of Corporate governance in Nigeria (2003) specifies a maximum of fifteen (15) board members, and the average board size from the descriptive is 14.8 and 9.8 for Nigeria and Ghana respectively. Yet there remains this underlying question to what is the expected number for smaller board size and its impact to earnings management?

From the analysis, it is empirically detected that return on assets and leverage were the only control variable that have a positive significant relationship which with earnings management as seen in Nigeria. In view of the above, Peace Okougbo and Elewechi Okike (2015) stress the need for performance, to them it is the "key determinants of earnings management because the more the profitability, the greater the earnings management. This does not relay that performance inhibitors should be employed to reduce earnings management because the primary goals of firms are to maximize both profit and shareholders' wealth". Preferably, firms should work towards higher levels of profits and overcome every possible element that can lead to losses so as to preclude downward management of earnings. This would lead to the attraction of foreign investments, as investors are more likely to invest in a profitable and well-managed company than one making losses and poorly managed as seen mostly in Ghana as well as Nigeria during the years covered in this study.

It is worthy of note at this point that apart from corporate governance, other factor may be responsible for income decreasing and increasing accruals. From the descriptive and the analysis, it is clear that firms in both countries made a lot of losses during the years covered in this study. A negative total accruals will definitely lead to a negative discretionary accruals. Thus, the mixed outcome observed in the control variable and earnings management can be attributed to other economic factor or challenges experienced in these country during the period covered.

For future researches on this topic, discretionary accruals can be categorized into income increasing and income decreasing discretionary accruals and test for individual relationship with corporate governance. Also, these variables should be measure against the influence of economic factors like inflation or deflation on corporate governance and earnings management. This will help to explain the differences experienced between Nigeria and Ghana in this study and other studies with varying results in earnings management according to different economies.

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