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CORPORATE GOVERNANCE AND QUALITY OF FINANCIAL REPORT

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ABSTRACT

This study, corporate governance and quality of financial report, was conducted to determine the relationship of variants of corporate governance and earning management in the firm. Six theories were reviewed out of which stakeholder theory was found to be more relevant. Data were collected from audited financial reports of 50 listed firms on Nigeria Stock Exchange. Hypothesis was formulated and regression analysis was done on data obtained using OLS. The study revealed that out of all the independent variables, ownership of equity shares in a firm, either by board members or audit committee members; have positive impacts on earning management. It is therefore recommended that both board of director and audit committee should exclude people with high units of share holding in the firm, to avoid earnings management which reduces the quality of financial report.

Key words: corporate governance, earning management, independent board, audit committee, audit, financial report.

1.0 Background Information

The need to exhibit competence and satisfy the stakeholders, especially the shareholders, by the management of corporate bodies have resulted in extinction of many companies in recent time. This has compelled the international communities to enact stringent rules as Sarbon-Oxley Act in 2002. Corporate governance codes were also introduced both internationally and locally, all in a bid to ensure transparency in financial reporting to protect the discerning investing public from window dressed reporting by corporate bodies.

As a background information, focus on measurement and determinants of quality of financial reporting (dependent variable) will be the earning management while the independent variables will be corporate governance proxied by board of directors' shares ownership, existence of audit committee, separation of the position of the board chairman from CEO of the firm, board of directors' independence, board of director's expertise, audit committee independence, audit committee meetings, audit committee size, audit committee expertise and audit committee share ownership.

Healy and Wahlen (1999) states that earnings management occurs when managers use judgement in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers.

According to Lin and Hwang (2010), the need to separate ownership and control (and the resulting agency problem) in the modern business world, makes it necessary to evolve a system of corporate governance, through which management is overseen and supervised to reduce the agency costs and align the interests of management with those of the investors. They went further by stating that the role of the corporate governance structure in financial reporting is to ensure compliance with generally accepted accounting principles (GAAP) and to maintain the credibility of corporate financial statements.

In effect, well structured and quality corporate governance mechanisms would lead to reduction of earnings management as well as the likelihood of creative financial reporting arising from fraud or errors (Beasley, 1996 and McMullen, 1996) as they provide effective and efficient monitoring of the management of financial reporting process. Quality corporate governance by the board is recognised to influence the quality of financial reporting, which in turn has an important impact on investors' confidence (Levitt, 1998 and 2000)

The literature review has been organized into three main phases: Firstly, the conceptual framework, secondly, the theoretical framework and empirical review. Hypothesis was stated and relevant model was formulated and tested.

1.1 Aim and Objective

The objective of this paper is to discuss the influence of corporate government on quality of financial reporting in corporate organizations in Nigeria.

2.0 Literature Review

2.1 Conceptual framework

Earnings: can be regarded as the net income which indicate the extent by which a company has engaged in value added activities during a period of time, sometimes 12 months. Earnings has been regarded as a signal that helps direct resource allocation in capital market as increased earnings represent an increase in company's value and vice versa, Levi (1989);

Earnings quality: any outfit report any number as its net earnings for a period, but the quality of such earnings makes the information contained there-in as reliable for decision making. Hence earning quality is the extent to which reported earnings faithfully represent the affairs of the business and the auditors and directors have great roles to play here, as Generally Accepted Accounting Principles permit many accounting choices, requiring many estimations, thereby facilitating earnings management, Schipper and Vincent (2003).

Earnings Management: is a strategy used by the management of a company to deliberately manipulate the company's earnings so that the figures could match a predetermined target – income smoothing. It is an act of intentionally influencing the process of financial reporting to obtain some private gain, Schipper (1989). It involves alteration of financial reports to boast the performance of the organisation to mislead the stakeholders. It has the negative effect of weakening the credibility of financial reporting. To control earning management, complex accounting rules and standards can be introduced, hence SEC has persistently called on standard setter to make changes to accounting standards to improve financial statement transparency and also called for increased oversight over the financial reporting process, Munter (1999). SEC has also pressed charges against the management of firms involved in fraudulent earnings management. Motivation for earning management may include:

(i) Preference for stable earnings by carrying out income smoothing;

(ii) Need to maintain certain level of accounting ratios due to debt convenants and Pressure to maintain increasing earnings to beat analyst targets, Richardson, Tuna and Wu (2002)

(iii) To keep the company's stock price up all the time.

Corporate Governance: Many studies have been carried out on corporate governance and its meaning. Dayton (1984) defined Corporate Governance as the processes, structures and relationship through which the Board of Directors oversees what the Executives do to achieve the objectives of the company. Mueller (1981) posited that "governance is concerned with the intrinsic nature, purpose, integrity and identity of the institution with a primary focus on the entity's relevance, continuity and fiduciary aspects. Governance involves monitoring and overseeing strategic direction, socio-economic and cultural context, externalities and constituencies of the institutions". OECD (1999) defined corporate governance as the system by which business organizations are directed and controlled. Nganga, Jain and Artivor (2003), in their definition considered corporate governance to be a set of mechanisms through which outside investors are protected from expropriation by insiders (management, family interests and/or governments). The term expropriation was defined variously by The Advanced Oxford Learners' Dictionary, 8th Edition, 2010, pp 518 as: a government or an authority to officially take away private property from its owner for public use and taking somebody's property and using it without permission. In order words, expropriation takes several and different dimensions, which include but not limited to:

(i) outright theft or wrongful conversion of assets, e.g. when the managing director of a company is caught moving a big generator, which was meant for use in the organisation guest house to his private residence in town or country home;

(ii) engaging in transfer pricing of the goods manufactured to a rival business owned by a powerful member of the board, by lowering the cost of production, thereby transferring at a lower price;

(iii) approving excessive executive compensation package which erodes the cash resources of the organisation and corruptly enriches top management;

(iv) entrenching inept management team which lacks focus and runs the corporate body ineffectively and

(v) committing hard-earned resources on unproductive ventures which benefit only the priviledged stakeholders.

Recently, corporate governance has received increasing attention both in practice and in theory (Sarbanes-Oxley 2002; Bebchuk and Cohen 2004, Debor and Adeyemi 2009 and Sheu 2012). According to Samaila (2013, this emphasis is due, in part, to prevalence of highly publicized and flagrant financial reporting frauds, earning restatement or earning management as in the case of Enron, Worldcom, African Petroleum Plc, Spring Bank, Wema Bank, Cadbury Plc, Aldelphia and Parmalat, which eroded the confidence of users on the financial statement.

Independent Board: according to Fama and Jensen (1983), board of director is the most important management control mechanism and its ability to function as an effective oversight of management in the areas of financial reporting rests upon its independence from the management (Beasley, 1996);

Board of director expertise: at least one of the board member should be a financial expert as such director may have greater familiarity with how earnings can be managed and therefore can take necessary measures to curb earnings management;

Board of director's share ownership: direct financial interest, such as share ownership by outside directors, may weaken the independence of directors and their effectiveness in monitoring management decisions, including financial reporting, (Gul, Lynn and Tsui, 2002) document a significant negative association between director's share ownership and earning management while Peasnell, Pope and Young (2005) report a positive though not significant association;

Board of director independent chair: Jensen (1993) claimed that it creates a conflict of interest for the CEO to serve as the board chair and perform the oversight function relatd to this process. It is therefore important to separate the CEO and the chairperson for the board to provide effective monitoring. It is only this separation of function that would bring about possible reduction of earning management;

Audit Committee existence: Audit committee is a committee of the board charged with the responsibility of overseeing financial reporting of the company. Its existence indicates higher quality monitoring and provide opportunity for the reduction of earnings management;

Audit committee independence: it is normal that independent audit committee will ensure better quality of earnings reported by the firm by restraining opportunistic earnings management (BRC 1999 and SEC 1999);

Audit committee meeting: the more the committee meets over the financial report of the firm in the year the more effective their monitoring process will become therefore BRC (1999) recommends that audit committee must meet at least once quarterly and discuss financial reporting quality with the external auditors;

Audit committee size: Both SEC and BRC expect a minimum of four directors to constitute the audit committee. Nevertheless, a larger number represents greater resources and talents to rely on in overseeing the financial reporting process, Lin and Hwang (2010)

Audit committee expertise: SEC (1999) requires that every audit committee includes at least one member qualified as financial expert and that all committee members must be financially literate. Based on Sarbanes-Oxley Act, SEC adopted in 2003 the definition of audit committee financial experts which include knowledge and experience in financial accounting and reporting, auditing and similar functions. DeZoort & Salterio (2001) argue that the audit committee financial expert (specifically those with auditing knowledge) increases the likelihood that detected material misstatements will be communicated to the audit committee and corrected in a timely fashion;

Audit committee share ownership: share ownership of audit committee members may weaken their independence and reduce the effectiveness in monitoring management of financial reporting process, which may eventually increase the occurrence of earnings management.

A number of studies have been conducted on corporate governance and financial reporting at different times in both developed, developing and emerging industrialisation countries, most of which are well documented in accounting and finance literature. These studies include that of Wright (1996); Beasely (1996, 2000); Xie, Davidson and Dadalt (2001); Adenikinju and Ayorinde (2001); Krishnamoorthy, Wright and Cohen (2002); Sanda, Mikailu and Tukur (2004); Abdulrahman and Hanifa (2005); Musa (2006); Ofoegu and Okoye (2006); Hamid (2008); Dabor and Adeyemi (2009); Tijjani and Dabor (2010); Owolabi, Owolabi and Olotu (2013); Abbas (2011); Hassan (2011, 2012); Alzoubi (2012); Samaila (2013); Siyanbola, Adedeji and Sobande (2013)

The issue of corporate governance in Nigeria was initially handled by Corporate Affairs Commission and Security Exchange Commissions when they inaugurated a 17-member committee in June 2000 under the Chairmanship of Peterside Atedo, the then Managing Director of IBTC Plc, the report of the committee, which has now become of Code of Best Practice in Corporate Governance in Nigeria, focused on the Board of Directors as the leader of corporate entities, the shareholders and the Audit Committee.

The Board of Directors has the responsibility for controlling the affairs of the entity in a lawful and efficient manner so as to improve value creation and the Chairman of the Board is to ensure effective operation of the board but not to be in executive capacity. Members should be people of diverse experience, upright character, possessing requisite core competence, knowledge on the board and entrepreneurial bias. The board shall meet regularly, at least once in a quarter, with sufficient notice and formal schedule of matters to discuss. It has the duty to present a balance, reasonable and transparent assessment of the company's position, to promote transparency in financial and non-financial reporting. The board should maintain objective and professional relationship with external auditors and ensure that the company is run as a going concern.

The shareholders, on the other hand, is charged with the responsibility of electing and approving terms and conditions of the directors, they are therefore not to be disenfranchised by the directors so elected by them, as often time AGMs are held in remote areas to prevent the shareholders from voting on an issue that might affect the directors (Siyanbola, 2012). This is part of what the Code of Best Practice aimed at resolving. Shareholders having more than 20% holding in the company shall have a representative in the board, unless that shareholder is in a competing business with the company.

To complement the efforts of the Corporate Affairs Commission and Security Exchange Commission and also sanitise the financial institutions and their role as financial intermediaries, the CBN on 1 March, 2006 announced a new code of conduct for banks in Nigeria. The code became effective from 3 April, 2006. This was done to address the flaws and challenges of Corporate Governance for banks post consolidation. Some of these flaws led to problems in some of the banks in later years, which put to question the transparency of some of the players in the industry.

2.2 Theoretical Framework

In this paper we reviewed six theories relating to the topic. These are stakeholders' theory; agency theory; stewardship theory; core competencies theory; transaction cost analysis theory and resource base view theory.

Agency Theory: The urge to separate ownership from management obliterates the classical view of firm's profit maximisation. Since ownerships are spread in large firms, agency theory was developed to explore the relationship between managers (as agent) and owners (as principal) and it is expected that managers will act and make decisions on behalf of the owners (Pike and Neali, 1999). Often times, manager's interest are at variance with that of the owners, hence agency problem arises. Agency theory was developed by Jensen and Meckling (1976). According to them the principals can assure themselves that agents will make optimal decisions on their behalf if appropriate incentives and monitoring arrangements are made. Other authors have queued behind this assertion (Court and Loch, 1999; Hanlon, Rajgopal and Shevlin, 2003 and Kanagaretnam, Lobo and Mohammad, 2008). According to Atanda (2015), short term profit maximisation goal should not be the only behavioural premise of a firm; rather, it should be the maximisation of any other quantities such as meeting the needs and interests of all stakeholders, hence managers should regard themselves as trustees and exercise their powers for the benefit of all stakeholders; adjudicating their conflicting claims because the interest of the shareholders is one out of the varieties of competing interests that a manager must mediate.

Resource based theory can be linked to Penrose (1959), Prahalad and Hamel (1990), Barney (1991) and Peteraf (1993). The theory regards a firm as a collection of unique resources and capabilities that provide the basis for the strategies that are the primary sources of earnings. According to Hamel and Prahalad (1993), a firm with a relatively small amount of resources but with high ambition can leverage its resources to achieve greater output for its smaller inputs and with increased effectiveness, the resources that will be available to the firm can be larger. This theory contrast with Donaldson and Preston (1995) input-output model and Michael Porter's Five forces model. Porter (1980) argued that it is the industry structure within which a firm competes and how the firm positions itself against that structure that determines how profitable the firm will be. However the theory of resource-based emphasises the internal capabilities of a firm in formulating strategies to achieve sustainable competitive advantage in its market and industry. While this theory of resource based is grounded in internal capability, Porter's forces model focus firm's external competitive environment. Barney (1991) is emphatic on the fact that all resources that a firm has access to may not be strategically relevant because some may prevent the firm from conceiving and implementing valuable strategies. Some of the resources may even lead to firm to inefficiency and ineffectiveness. It can then be concluded that, though the existence of resources is vital, their efficient combination to provide firm with competencies or strategic capability to mix resources in order for it to compete more successfully in the markets, matter a lot.

Stakeholder theory begins with the assumption that values are necessarily and explicitly a part of doing business and rejects the separation thesis that assumes that ethics and economics can be neatly and sharply separated (Freeman, 1994). The focus of his theory is articulated in two core questions of what is the purpose of a firm? And what responsibility do managers of firms have to stakeholders? The first question propels firms forward and allows them to generate outstanding performances (Freeman, Wicks and Parmer, 2004). The second question pushes the managers to articulate how they want to do business and specifically the kind of relationships they want to create with their stakeholders. This theory also expects manager to develop and run their firms in a way that is consistent with the demands of the theory i.e. stakeholders' value rather than shareholder's value maximisation. This was supported by Samuel and Wilkes (1986) when they affirmed that a firm has responsibility towards its stakeholders and each of these interest groups sees the role of the company in a slightly different ways. Jensen (2000) was of the view that the long run value of a firm cannot be maximised if the varied interests of its stakeholders are ignored. He is of the view that none of the stakeholder is superior to another and that value created by a firm gives managers a way to assess the trade-offs that must be made among the competing stakeholders' interest.

Stewardship theory holds that there is no inherent general problem of executive motivation (Cullen, Kirwan and Brennan, 2006). A steward protects and maximises shareholders' wealth through firm performance, because by so doing, the steward's utility functions are maximised (Davis, Schoorman and Donaldson, 1977:25 cited in Cullen, Kirwan and Brennan, 2006:13). This theory recognises the importance of structures that empower the steward, offering maximum autonomy built upon trust, which minimises the cost of mechanism aimed at monitoring and controlling behaviour (Davis, Schoorman and Donaldson, 1997). Owolabi (2011) argued that stewards are expected to behave rationally because if they refused to take decisions that will improve performance, then the shareholder operating in a free market system can switch to a performing firm and the stewards may lose their job, so in stewardship theory it is assumed that stewards will act in the best interest of the shareholders. Muth and Donaldson (1998) described stewardship theory as an alternative to agency theory which offers opposing predictions about the structuring of effective boards. While most of the governance theories are economic and finance in nature, this theory is sociological and psychological in nature. The theory as identified by Sundara-Murthy and Lewis (2003) gives room for misappropriation of owners' fund because of its board structure i.e. insiders and the chairman/CEO duality role.

A core competency is a concept in management theory originally advocated by Prahalad and Hamel in 1990. This concept was developed on the basis of the resource based theory. They defined the core competencies as the collective learning in the organisation, especially how to coordinate diverse productive skills and integrate multiple streams. The application of the concept in corporate governance is premised on the fact that it is central to the way an organisation's employees work and fulfil their official objectives.

Transaction cost analysis provides further conceptual basis for corporate governance, Williamson (1985). It combines economic theory with management theory to determine the best type of relationship a firm develops in the market place. The central theme of this theory is that the properties of the transaction determine the governance structure. Transaction cost economics has been the most utilised theory of corporate governance. It is perceived to provide the best decision making tools to help organisations to taking cost efficient decisions.
Even though all afore-listed six theories are important to the study, the most relevant of all is the stakeholders' theory because of the fact that the tenet of stakeholders analysis is steered towards the notion that organisations will actually pursue measures that result in a net welfare gain to the environment and society.

2.3 Empirical Review

In the classical and traditional view of a firm, the shareholder view of the company is important, and the company has a binding fiduciary duty to put their needs first, to increase the value for them. Stakeholder theory instead argues that there are other parties involved, including employees, customers, suppliers, financiers, communities, government bodies, political association, trade associations and trade unions. Competitors are also considered as they have capacity to affect the firm and other stakeholders. The nature of what is a stakeholder is highly contested (Miles, 2012), with hundreds of definitions existing in the academic literature (Miles, 2011). The stakeholder view of strategy integrates both a resource-based view and a market-based view and adds a socio-political level, this is the reason why Micheal Porter's Diamond model that recognises PESTEL (Political, Economic, Social cultural, Technological, Ecological and Legal) Analysis to satisfy all stakeholders of any firm.

Many authors have written on stakeholder theory but R. Edward Freeman is the father of this theory, as his work, Strategic Management: A Stakeholder Approach is widely cited in the field as being the foundation of stakeholder theory. As popular as the theory is, it has some authors that favour it and also some that have criticised it. Those in support of the theory, with some modifications are Donaldson and Preston (1995); Mitchell, Agle and Wood (1997); Friedman and Miles (2002) and Phillips (2003). Few of those critics are Blattberg (2004) and Mansell (2003).

Donaldson and Preston agree with the theory but only extended it by pointing out to the fact that it has multiple distinct aspects that are mutually supportive. These are descriptive (approach used in research to describe and explain the characteristics and behaviour of firms); instrumental (use of empirical data to identify the connection between the management of stakeholder groups and the achievement of corporate goals) and normative approach. Mitchell, et al. derive a typology of stakeholders based on the attributes of power – the extent a party has means to impose its will in a relationship; legitimacy – socially accepted and expected structures or behaviour and urgency – time sensitivity or criticality of stakeholder's claims. Friedman and Miles explore the implications of contentious relationships between the stakeholders and organisation by introducing compatible/incompatible interests and necessary/contingent connections as additional attributes with which to examine the configuration of these relationships. Robert Allen Phillips distinguishes between normatively legitimate stakeholders (those to whom an organisation holds a moral obligation) and derivatively legitimate stakeholders (those whose stakeholder status is derived from their ability to affect the organisation).

Charles Blattberg has criticised stakeholder theory for assuming that the interests of the various stakeholders can be, at best, compromised or balanced against each other. He argues that this is a product of its emphasis on negotiation as the chief mode of dialogue for dealing with conflicts between stakeholder interests. He recommends conversation instead and this leads him to defend what he calls a 'patriotic' conception of the corporation as an alternative to that associated with stakeholder theory. But Mansell (2013) in criticising the theory states that by applying the political concept of a 'social contract' to the corporation, stakeholder theory undermines the principles on which a market economy is based.

Ibadin and Dabor (2015) conducted their own study on Corporate Governance and Accounting Quality: Empirical Investigations from Nigeria, to examine the relationship between corporate governance variables and accounting quality, proxied by timeliness. Secondary data from 150 companies in Nigeria were analysed using OLS of multiple regressions along with the descriptive statistics to obtain the mean, standard deviation, minimum and maximum value from 2006 to 2009. Variables of enterprise risk management disclosure and corporate governance disclosure reports were used to enhance the robustness of the corporate governance model. Findings in 2006 reveal negative impact of CEO duality on Time indicating that dual role reduces time; negative impact of corporate governance disclosure on time suggests decrease on the time at which reports are published; positive impact of enterprise risk management disclosure on time was inconsistent with earlier study conducted by Donwa and Ibadin (2010); positive impact of audit committee independence on time was in line with similar study conducted by Dye (1988) and board size negative impact on time fell in line with the finding of Staw, Pearce and Zahra (1992). Findings in 2007: Negative impact of corporate governance disclosure on time is consistent with Fama and Jensen (1983), Sarbanes-Oxley (2002) and Code of Corporate Governance (2003); enterprise risk management disclosure negative impact on time is also consistent with Donwa and Ibadin (2010); chief executive duality positive impact on time is in line with Dechow, Sloan and Sweetney (1996); audit committee independence positive impact on time is consistent with Beasley (1996), this indicates that non-executive directors are more on the Board, which will increase the time at which financial reports are published. In contrast, the board size has negative impact on time this is consistent with the study of Eisenberg and Well (1998); In 2008: all variables: corporate governance disclosure; audit committee independence; enterprise risk management disclosure; chief executive duality and board size all have negative impact on time; As far as 2009 is concerned only corporate governance disclosure has positive impact on time which is inconsistent with Eisenber et al (1998) and Code of Corporate Governance (2003) as corporate governance disclosure increases the time at which financial reports are published. As finding from the study are mixed: variables of studies reflect inconsistencies with previous studies, it is advisable that caution be exercised to make sweeping generalisation. It was therefore recommended that appropriate corporate governance variables such as more non-executive members on the board should be sustained to foster prompt and reliable financial reports; disclosure of corporate governance and enterprise risk management disclosure report should be encouraged for stakeholders' information and review; corporate policies should reflect commitment to company variables such as the present board size that will positively impact on the quality of financial reporting.

Samaila (2013) in his work: Corporate Governance and Financial Reporting Quality in Nigerian Oil Market industry, examined the impact of corporate governance on the financial reporting quality of listed oil marketing companies in Nigeria over the period of 2000-2011. The study utilized documentary data collected from annual reports and accounts of the companies for the period. Longitudinal panel data was used to account for individual heterogeneity of the sampled companies. Two steps regression was used in determining the quality of financial reports i.e. modified Dechow and Dichev's 2002 model. It was his finding that majority of the companies have separate CEOs and chairmen of the board; audit committee size and number of meetings have negative effect on quality of financial report; board independence, board meetings and managerial shareholding have positive effects. He concluded that in order to improve board efficiency and reduce agency problems, two tier leadership structure by separating the power of CEOs and Chairmen of the boards. It was therefore recommended that audit committee of the companies should constitute mostly of financially literate members in order to ensure integrity of financial report. Further, more qualitative disclosure is required on the activities of audit committee and the extent to which they fulfilled their responsibility.

Klai and Omri (2011) in their work: Corporate Governance and Financial Reporting Quality: The case of Tunisian Firm, examined the effect of the governance mechanisms on the financial reporting quality for a sample of Tunisian firms from 1997 to 2007 using McNichols (2002) model to capture the standard deviations of the residuals or the error terms, as a measure of reporting quality and another model to capture the information content of earnings. Regression analysis reveals that the governance mechanisms affect the financial information quality of the Tunisian companies. Particularly, the power of the foreigners, the families and the blockholders reduces the reporting quality, while the control by the state and the financial institutions is associated with a good quality of financial disclosure. It was their conclusion that Tunisian firms are characterised by non-independence of board and high level of ownership concentration. The governance mechanisms are represented mainly by the power of the foreigners, the families, the blockholders, the institutional investors and the state. These mechanisms of control affect the financial reporting quality of the Tunisian companies. While the presence of foreigners, families and major shareholders is associated with poor accounting quality, the power of the state and the institutional investors improves the financial reporting quality. Suggestive of the fact that control by the state and the financial institution is an effective governance mechanism to constrain the opportunistic behaviour of Tunisian firm's managers and enhances the transparency and the relevance of financial reporting. These findings can help UK banks, government, investors, policy maker and shareholders for decision making and improving the performance of financial institutions in the future.

Adeyemi and Fagbemi (2010) in their work: Audit Quality, Corporate Governance and Firm Characteristics in Nigeria, examined the relationship between board composition, ownership institutional structures, CEO duality and firm characteristics on Audit quality. A sample of 58 audited financial reports of quoted companies for 2007 was used. Analysed using both descriptive and inferential Statistics. The study used frequency count, mean, standard deviation, minimum and maximum values of variables. Hypotheses formulated were tested using logistic regression model which is multiple regression but with an outcome variable that is a categorical dichotomy and predictor variables that are continuous or categorical. Their findings reveal that non-executive directors' ownership, board size and leverage significantly have relationship with audit quality, while all other variables that were not found to have significant relationship still had correlation with audit quality at certain levels. It was therefore recommended that the composition of non-executive directors as members of the board should be sustained and improved upon.

Lin and Hwang (2010) in their work: Audit Quality, Corporate Governance and Earnings Management: A Meta-Analysis technique, this technique was used to synthesize and evaluate the findings from the large number of existing studies on the determinants of earnings management. It was applied to empirical data from 48 studies to examine relationship between corporate governance and audit quality variables and earning management. A regression model was used to investigate the effects of various independent variables on earning management. Of the 17 relationships tested, 12 showed significant effects. For corporate governance: board independence, board expertise, audit committee independence, its size, expertise and number of meetings both have negative relationship to earning management but audit committee's share ownership is positively related to earnings management. For Audit quality: auditors' tenure, size, specialisation and auditor independence measured by fee ratio to total fee, all have negative relationship to earnings management. However, board of director share ownership, audit committee existence and CEO duality, all have no significant effect on earning management. Using the Stouffer combined test, this meta-analysis has identified consistent effects of a large number of audit quality and corporate governance variables. It was therefore recommended that further study should be undertaken to carry out the meta-analysis on post-SOX data to test the effects of time and other moderators so as to shed additional light on earnings management.

Kelton and Yang (2004) conducted a study on impact of corporate governance on internet financial reporting to investigate the effect of corporate governance mechanism on Internet Financial Reporting. A disclosure index was developed to measure internet financial reporting activities in the Investor relations sections of a sampled of publicly traded US firms. The regression analysis revealed that firms with weak shareholders' rights and a higher percentage of independent directors are more likely to engage in internet financial reporting.

It was concluded that board independence is effective in increasing voluntary corporate disclosures. The result provides empirical evidence to policy makers and regulators for implementing new corporate governance requirements and internet financial reporting guidelines.

3.0 Hypothesis

Ho Corporate governance variables have no significant relationship with earnings management of a firm

H1 Corporate governance variables have significant effects on earning management of a firm

4.0 Methodology

4.1 Research Design

This study adopted an explanatory non-experimental research design to investigate the relationship between corporate governance variables and earning management of a firm. Secondary data were collected from audited financial reports of 50 listed firms on Nigeria Stock Exchange. Hypothesis was formulated and regression analysis was done on data obtained using OLS. The paper is also a product of structured survey of articles and recently published texts. The emphasis of this paper was on equation models that allow the determination of the relationship between corporate governance variables and earning management (as a basis for confirming the quality of financial report by a firm) using the audited financial reports of quoted companies in 2014.

4.2 Model Specification

According to Lin and Hwang (2010), a regression model is typically employed to investigate the effects of various independent variables on earning management in the form of:

$$EMk = \beta0 + \beta1X1,k + \beta2X2,k + ...+ \beta iXi,k + \varepsilon k \qquad (i)$$

where, k = 1,2,.......,N;

EM = earnings management or dependent variable

X = independent variables under investigation

Applying this model to our study, since we have identified our independent variables to be corporate governance variables proxied as board of directors' shares ownership, existence of audit committee, separation of the position of the board chairman from CEO of the firm, board of directors' independence, board of director's expertise, audit committee independence, audit committee meetings, audit committee size, audit committee expertise and audit committee share ownership; our equation can then be expanded as follows:

$$EM = \beta0 + \beta1X1 + \beta2X2 + \beta3X3 + \beta4X4 + \beta5X5 + \beta6X6 + \beta7X7 + \beta8X8 + \beta9X9 + \beta10X10 + \varepsilon k \quad \text{(ii)}$$

where $\beta0$ = represent the intercept of the variables

X1= Board of Directors' share ownership (BODOWN);

X2= Existence of Audit Committee (ACEX);

X3= CEO/Board Chairman Duality (CEOD);

X4= Board of Directors Independence (BODIND)

X5= Board of Directors' Expertise (BODEXP)

X6= Audit Committee Independence (ACIND);

X7= Audit Committee Meetings (ACMTG);

X8= Audit Committee Size (ACSZ);

X9= Audit Committee Expertise (ACEXP)

X10 =Audit Committee share ownership (ACOWN)

Ek = error term

The a priori expectation is such that:

$\beta1X1$ and $\beta10X10 > 0$ (implying positive relationship between the explanatory variables (board of directors' share ownership and audit committee share ownership) and the dependent variable, earning management.

$\beta2X2$; $\beta3X3$; $\beta4X4$; $\beta5X5$; $\beta6X6$; $\beta7X7$; $\beta8X8$ and $\beta9X9 < 0$ (implying negative relationship between the explanatory variables (ACEX; CEOD; BODIND; BODEXP; ACIND; ACMTG; ACSZ and ACEXP) and earnings management.

Explanation of the a priori expectation:

(i) Board of Directors' share ownership: share ownership of directors may increase the occurrence of earning management, hence a positive relationship is likely to exist between board of directors share ownership and earning management;

(ii) Existence of Audit Committee: once there is effective audit committee in existence, there is bound to be a negative relationship between that variable and earning management as their effective monitoring would reduce the occurrence of earning management;

(iii) CEO/Board chairman duality: separation of the position of CEO and the chairman of the board reduces earning management, hence negative relationship should exist between this separation of position and earning management;

(iv) Board of Directors independence: once the board is independent, proper coordination and monitoring is certain, hence negative relationship is also expected here;

(v) Board of Director expertise: board composed of specialist and professionals in their calling is likely to provide effective monitoring of all activities including audit and financial reporting, hence negative relationship is also expected here;

(vi) Audit Committee Independence: this should also be negatively associated with earning management;

(vii) Audit Committee Meetings: SEC recommends that audit committee should meeting at least once in a quarter to discuss financial reporting quality with external auditors. If this is actualised, we expect a negative relationship between this variable and earning management;

(viii) Audit Committee Size: SEC recommends at least four directors, but a larger number brings about greater resources and talents to rely on in monitoring financial reporting hence a negative relationship is also expected here;

(ix) Audit Committee expertise: the fact that the composition of this committee is made up of financial experts with years of experience, the more the thoroughness in the monitoring processes of the financial report, hence a negative relationship is also expected here;

(x) Audit Committee share ownership: just exactly as under the directors, the more the members that have shares in the company, the more it is difficult to arrest the earning management by them, hence a positive relationship is expected when we have many of those members having shares in the company.

4.3 Data Collection

The study utilized data collected from listed companies on Nigeria Stock Exchange

(NSE), hence the population of the study is made up of all companies listed on the floor of NSE. A sample of 50 listed companies was selected and their audited financial reports for the year 2014 were analysed using both descriptive and inferential statistics. Sectors chosen for this exercise were done through judgmental sampling method since sectors have varied number of companies within them.

5.0 Data Presentation and Analysis

Our sole hypothesis using equation (ii) of our model:

$$EM = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \beta 5X5 + \beta 6X6 + \beta 7X7 + \beta 8X8 + \beta 9X9 + \beta 10X10 + \varepsilon k \qquad \text{(ii)}$$

using regression and correlation analysis, since our objective is to test relationships.
We decided to make the data adjustable to econometric principle hence the introduction of unknown parameters βo – β10 and error term εk.

Ordinary Least Square (OLS) technique of data analysis was employed to estimate the specified model equation. An econometric software: E-views, was used to regress the formulated model which incorporated data on relevant variables for 2014. (R-squared); T-statistic, F-ratio, Durbin Watson (D-W) statistic, Standard error of coefficients (SER) were carried out to assess the relative significance of variables under review. The evaluations were based on the statistical significance of the estimated coefficients using 5% level of significance.

5.1 Regression Result

TABLE: POOLED OLS REGRESSION RESULT

Dependent Variable: EARNING MANAGEMENT.

Method: Least Squares

Date: 06/06/16 Time: 09:01

Included observations: 60

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.5327165	0.099913	3.836117	0.0002
BODOWN	0.2031180	0.038984	6.799818	0.0087
ACEX	-0.230083	0.080268	-5.312386	0.0065
CEOD	-0.789264	1.385609	-8.498666	0.0097
BODIND	-0.180264	0.191629	-3.296295	0.0082
BODEXP	-0.037174	0.085333	-6.582147	0.5830
ACIND	-0.005378	0.069340	-5.072623	0.7689
ACMTG	-0.067853	0.066376	-2.711890	0.0075
ACSZ	-0.186236	0.075982	-3.769086	0.0056
ACEXP	-0.219452	0.089686	-2.758672	0.0065
ACOWN	0.355469	0.145862	2.053267	0.0015

R-squared	0.458261	Mean dependent	2.826625
Adj. R-squared	0.392625	S.D. dep. var	0.961422
S.E. of regression	0.959890	Akaike info criter	2.538275
Sum squared resid	105.0609	Schwarz criterion	2.148235
Log likelihood	-139.7284	**F-statistic**	4.431295
Durbin-Watson stat	**2.293768**	**Prob (F-statistic)**	**0.000195**

Source: eview program

5.2 Interpretation of Model Estimation Result

Above table shows the pooled multiple regression analysis for corporate governance variables and earnings management of selected quoted firms in Nigeria. The result suggests that board of directors' share ownership (BODOWN) with a probability of 0.0087 is less than 0.05, that is (0.87%<5%) with a t-statistic of 6.799818, therefore there is a positive relationship between board of directors share ownership in the firm and earning management;

Audit committee experience (ACEX) with a probability of 0.0065 is less than 0.05, i.e. (0.65%<5%) with a t-statistic of -5.312386, therefore there is a significant negative relationship between audit committee existence and earning management;

Separation of CEO and board of directors chairman position (CEOD) with a probability of 0.0097 is less than 0.05, i.e. (0.97%<5%) with a t-statistic of -8.498666, therefore there is a significant negative relationship between separation of CEO from chairman of board of director and earning management;

Board of director independence (BODIND) with a probability of 0.0082 is less than 0.05, i.e. (0.82%<5%) with a t-statistic of -3.296295, therefore there is a significant negative relationship between board of director independence and earning management;

Board of directors expertise (BODEXP) with a probability of 0.5830 is greater than 0.05, i.e. (58.3%>5%) with a t-statistic of -6.582147, therefore there is a significant negative relationship between board of directors expertise and earning management;

Audit committee independence (ACIND) with a probability of 0.7689 is greater than 0.05, i.e. (76.89%>5%) with a t-statistic of -5.072623, therefore there is a significant negative relationship between audit committee independence and earning management;

Audit committee meeting (ACMTG) with a probability of 0.0075 is less than 0.05, i.e. (0.75%<5%) with a t-statistic of -2.711890, therefore there is a significant negative relationship between audit committee meetings and earning management;

Audit committee size (ACSZ) with a probability of 0.0056 is less than 0.05, i.e. (0.56%<5%) with a t-statistic of -3.769086, therefore there is a significant negative relationship between audit committee size and earning management;

Audit committee expertise (ACEXP) with a probability of 0.0065 is less than 0.05, i.e. (0.65%<5%) with a t-statistic of -2.758672, therefore there is a significant negative relationship between audit committee expertise and earning management;

Audit committee members share ownership (ACOWN) with a probability of 0.0015 is less than 0.05, i.e. (0.15%<5%) with a t-statistic of 2.053267, therefore there is a significant positive relationship between audit committee members share ownership in the firm and earning management;

The R-squared (coefficient of determination) of 0.46 and adjusted R-squared of 0.39 indicate that the variables combined determine about 46% and 39% respectively of the impact on earning management. This implies that 54% and 61% of earning management is not as a result of the variable in the model. The f-statistics and its probability shows that the regression equation is well formulated explaining that the relationship between the combined variables of corporate governance and earning management are statistically significant (f-statistic = 4.431295; f-pro. 0.000195). However, the Durbin Watson statistic that assumes the value of 2.293768 indicates that there is absence of positive auto correlation among the values in the residual model.

The result is consistent with the study conducted by Yang and Krishnan (2005); Lin et al (2010); Beasley (1996); Fama and Jensen (1983); Gul et al (2002); Jaggi and Leung (2007); Xie et al (2003); Choi et al (2004) that there is a significant relationship between corporate governance and earnings management of a firm.

Summarily, at 5% level of significance, the calculated value of f-statistics is greater than the corresponding value from f-table. Thus the null hypothesis is rejected and the alternative validated, which implies that effective corporate governance have significant impact on earnings management by firms in Nigeria.

6.0 Conclusion and Recommendation

The study revealed that out of all the independent variables, ownership of equity shares in a firm, either by board members or audit committee members; have positive impacts on earning management. It is therefore recommended that both board of director and audit committee should exclude people with high units of share holding in the firm, to avoid earnings management which reduces the quality of financial report. Furthermore, SEC should evolve a monitoring system that would ensure strict compliance to this golden rule to ensure sanity in financial reporting in the country.

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