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Corporate Governance and Earnings Management in Deposit Money Banks in Nigeria

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Abstract: This study examines corporate governance and earnings management in deposit money banks in Nigeria. The aim of the study was to examine corporate governance and earnings management in deposit money banks in Nigeria. The study was guided by the following specific objectives; to examine the relationship between size and discretionary loan loss provisions in deposit money banks in Nigeria, to determine the relationship between audit committee independence and discretionary loan loss provisions in deposit money banks in Nigeria and to evaluate the relationship between risk management committee independence and discretionary loan loss provisions in deposit money banks in Nigeria. The ex-post facto research design was adopted. The population and sample size of the study is 12 listed deposit money banks in Nigeria stock exchange. The instrument of the study was secondary data. The study adopted descriptive statistics for the research questions and simple regression analysis for the hypotheses. The findings of the study among others were that there is significant relationship between size and discretionary loan loss provisions in deposit money banks in Nigeria. Meanwhile, there is no significant relationship between audit committee independence and discretionary loan loss provisions in deposit money banks in Nigeria. Also, there is no significant relationship between Risk management committee independence and discretionary loan loss provisions in deposit money banks in Nigeria. On the basis of the findings, the following recommendations were proffered among others that; companies and Allied Matters act (CAMA) and other regulatory bodies should maintain board size of deposit money banks it checkmates discretionary loan loss provisions in in Nigeria. The study showed that audit committee independence not significantly consequently, there is the need for management to accord more independence to the audit committee in order to enable it curb earnings management practices. The study found that risk management committee independence not significantly affects earnings management and discretionary loan loss provisions; thus, it is recommended that the firms should further strengthen their risk management committee by way of increasing their independence and size, since banks are characterized by risky assets.

Keywords: Corporate Governance, Earnings, Management, Size.

INTRODUCTION

In today's worldwide economy, the success of a country economy depends largely on the essential role of banks competitiveness, transparency and governance structure which operate within her territory, since banks are the entities that generate economic value (ICAN, 2011). The importance of transparency and good governance structure in organization serves as the bedrock for investors' reliance on reports produced by management of organizations all over the world. The ever-rising occurrence of business fraud relating to overstated reported earnings have beamed a renewed international prominence on the importance of a good and efficient corporate governance. There seems to be some elements of doubt if the governance of corporate organizations is really effective considering the rate of bankruptcy and demise of large corporations all over the world, both in Nigeria and foreign countries (Inam 2016). Organizations without sound corporate governance system may present deceptive results of both economic and financial performance of their organization to bait unsuspecting prospective investors. Such presentation raised alarming U.S.A. with the collapse of the energy corporation ENRON in 2001 which filed for insolvency after adjusting its financial records (Demaki, 2011). Also, companies like National Bank of Nigeria, Parmalat in Italy, Polly Peck in US, Societe Generale Bank, Maxwell Communication and Bank of Credit and Commerce Industry (BCCI), Adelphia Communications Company, Global Crossing Limited and Tyco International Limited, went into extinction due to poor governance by their management. Even the prominent New York Stock Exchange had to do away with its director: Dick Grassodue to public uproar over excessive compensation (La Porta, et al, 2014). Hence, providers of fund and other stakeholders are more interested in the level of transparency and accountability the Board of Directors present in the financial reports of the organization which gives them confidence. Arnold (2005) posits that corporate governance has been used to adjust and bring into line the actions of the management with the interest of investors to ensure that the objectives of management are in alignment with those of the company.

The Cadbury Committee of U.K. in 2002 defined corporate governance as the system by which companies are directed and controlled. Jenkinson & Mayer (1992) cited in Mayer (2012) referred to corporate governance as the processes and structures by which the business and affairs of corporate business firms are directed and managed, in order to improve long term shareholders' value by enhancing corporate performance and accountability, while taking into account the interest of other stakeholders. Corporate governance generally refers to the mechanism by which the affairs of organizations and institutions are directed and managed, with a view to improve shareholder's wealth while taking into account the interests of other stakeholders interested in the well-being of a firm (Sanda et al. 2015; Central Bank of Nigeria, 2010; Chukwu, 2013).

In Nigeria, the term corporate governance has received so much attention from all the regulatory body concerned but the outcome of this attention has not yielded the needed result in the Nigeria economy especially in the banking industry. In spite of the contribution of good corporate governance to national economic development and growth, corporate governance was still at elementary phase as only 40% of publicly quoted companies, including banks had workable corporate governance in place (CBN, 2010). Adeniji (2014), reported that 'our banking system must be totally dedicated to the design of a good socioeconomic environment for real productive investment and not for speculation'. Also, Andres and Vallelado (2008), as cited in Kasumu et al. (2011), states that the relevance of banks in the economy and the nature of the banking industry make the problems involved in their corporate governance highly precise, as are the mechanisms available to deal with such problems. In developing countries, the banking industry among other industries has also experience many issues of liquidations, some of which include the Alpha Merchant Bank Ltd, Savannah Bank Plc, SocieteGenerale Bank Ltd, Intercontinental bank Plc, Oceanic bank Plc (all in Nigeria), The Continental Bank of Kenya Ltd, Capital Finance Ltd, Consolidated Bank of Kenya Ltd and Trust Bank of Kenya among others (Akpan, 2016). Banks liquidations in Nigeria dated back several decades and the outcome has been appalling until recently when the Nigerian Deposit Insurance Corporation (NDIC) and Central Bank of Nigeria (CBN) stepped up vigilance and loan recovery (Sanusi, 2010). The need to strengthen the level of corporate governance in Nigerian Deposit Money Banks led to the various consolidation policies being introduced by the Central Bank of Nigeria (CBN) in 2005. Weak corporate governance has often been isolated as one of the most remote sources of poor performance of Nigerian Deposit Money Banks. A weak corporate governance structure may provide an opportunity for managers to engage in behavior that would eventually result in a lower quality of reported earnings, which is a strong indication of a serious decay in business ethics (Jesus and Emma, 2013). Mehra (2011), reported that an individual will wonder at what was the problem when a bank that has been announcing massive profits massive and has been paying dividends to owners of the company is suddenly declared bankrupt. A poor corporate governance system creates room for banks management to deliberately adjust their company's reported earnings so as to achieve a set objective or to put the providers of fund mind at peace.

Earnings management is a strategy used by the management of accompany to deliberately manipulate the company's earnings so that the figures match a pre-determined target. This practice is carried out for the purpose of income smoothing (Dechow et al., 2013). Stolowy and Breton (2011), define earning management as the use of management's discretion to decide on accounting choices or to design transactions in a way that it will affect the chances of wealth transfer between the company and society, fund providers or managers. Fischer and Rosenzweiz (2014) gave a more precise definition of earnings management where they stated that it's the managers' action which increase or decrease current reported earnings of a company financials with no corresponding increase or decrease in the long-term economic gain in the company. There are various motivations of earning management: capital markets pressures such as compliance with analysts' forecasts (Dechow et al. 2013) or an increase in the issue price of shares (Torng et al. 2012), a reduction in the default probability of debt (Dechow and Skinner, 2010), an increase in managers' revenues (Holthausen et al.2013) and a decrease in political (Bartov et al. 2011) and financing costs (DeAngelo, 2012). The relationship between corporate governance and earnings management has been emphasized by Carcello, et al. (2013) and Lobo and Zhou (2012). However, one of the most important motivations in earnings management is the desire to influence the financial market's perception of the firm risk. Indeed, an increase in level of risk could be associated with high earnings management.

The challenges in the banking industry have continually been a subject matter because of the impact the banking industry has on economic growth and development of any country. It is in relation that the matter of sound banking system, through positive reforms becomes cogent (Sanusi, 2012). Majority of the challenges faced in the banking industry resulted to corporate fraud in the world at large in the past years and have clearly affected investors' trust and historical understanding in financial practices which pointed to the fact that most of the financial fraud occur as a result of poor corporate governance (Akingunola et al., 2013). This, it has led to incessant increase of scepticisms in the mind of shareholders, prospective investors and other stakeholders on the trustworthiness of financial information provided by the management of banks.

The situation in Nigeria was of no difference with the recapitalization of the banking industry in 2005 in which 25 commercial banks emerged as of December 31st the same year (as cited by Abdulazeez et al., 2016). The CBN then complemented the recapitalization in 2006 by issuing a new code of corporate governance to (provide additional strength) boost the existing code in the system. Despite the above policy, accounting manipulation was still recorded in 2009 in the Nigerian banking industry, Spring Bank, Union Bank, Oceanic Bank, AfriBank, Intercontinental Bank and FinBank (Uadiale, 2010 in Ujunwa, 2012) and also between 2017 to 2019 in Bank PHB, Diamond Bank and Skye bank. The accounting indecency discovered showed the level at which reported earnings of banks in Nigeria were being manipulated by management via discretionary loan loss provision. Earnings management being self-interested behaviour ranges from manipulation to opportunism, where opportunism is 'self-interest with guile' (Giroux, 2014). Dechowet et al. (2013), states that rather than having years of exceptionally good or bad earnings, management will ensure that figures are reasonably kept unwavering by adding and subtracting cash from reserves account. An earnings management strategy that has survived the test of time is income smoothing (Buckmaster, 2011) and the most constant used earnings manipulation employed by banks management is the discretionary loan loss provision.

Inarguably, Earnings management continue to persist in Nigeria banks even after the 2005 consolidation due to weak corporate governance mechanisms put in place by most banks and also as a result of the management conflict of interest in trying to favour dividend policy, management equity holding and so on. Roodposhti and Chasmi (2013), posit that the role of corporate governance is to reduce the divergence of interests between shareholders and managers. Such divergence of interests could border along the management of earnings through the use of accounting accruals. Despite the continual check on banks corporate governance by CBN, there are still issues of earnings management in terms of discretionary loan loss provision in banks reported earnings most especially with the advent occurrence of COVID19 in the year 2020 in which banks as to make huge loan loss provisions for non-performing loans and uncertainties in loan recovery thereby creating room for enormous earnings management to be carried out and smoothing out of income.

Onalo et al. (2013), Musa and Karmadin (2016), and Adebimpe et al. (2018), examined earnings management in banks using Modified Jones Model and Beaver & Engel Model thereby ignoring the Chang et al. model which was specifically designed for measuring discretionary loan loss provision in banks as stated by the study of Muhammed (2018). The modified jones model was built mainly by Jones for the non-financial Institution and the researchers that studied DLLP in banks ends up replacing receivables present in modified jones model with net loans so as to be able the model to DLLP in Banks. But, the Chang et al. model was mainly built to measure DLLP in banks taking all the needed variables pertaining to banks into consideration. Also, Ibrahim et al. (2019) used the Chang et al. model in testing DLLP but examined corporate governance using audit committee expertise, audit committee meeting, audit committee busyness, audit committee tenure and audit committee share ownership without examining audit committee independence and risk management committee independence, Investors Grievance Committee, Management Equity Holdings, Leverage, Board Size and Dividend Policy.

Furthermore, the research work of Onalo et al. (2013), covered from 2007-2011, Adebimpe et al. (2018), covered the period 2008-2015, and Ibrahim et al (2019) covered from 2008-2017, hence, this study fills the gaps by examining the impact of audit committee independence, and risk management committee independence on discretionary loan loss provision and earnings persistence covering the period 2011 to 2020.

In light of the gaps stated above, this research was conducted to investigate the effect of corporate governance on earnings management in DMBs in Nigeria.

Aim /Objectives of Study

The main aim of this study was to examine corporate governance and earnings management in deposit money banks in Nigeria. Specifically, the study was guide by the following specific objectives;

1. To examine the relationship between size and discretionary loan loss provisions in Deposit Money Banks in Nigeria.
2. To determine the relationship between audit committee independence and discretionary loan loss provisions in Deposit Money Banks in Nigeria.
3. To evaluate the relationship between Risk management committee independence and discretionary loan loss provisions in Deposit Money Banks in Nigeria.

Research Questions

In line with the specific objectives, the following research questions were raised for the study.

1. To what extent is the relationship between size and discretionary loan loss provisions in Deposit Money Banks in Nigeria?
2. To what extent is the relationship between audit committee independence and discretionary loan loss provisions in Deposit Money Banks in Nigeria.
3. To what extent is the relationship between Risk management committee independence and discretionary loan loss provisions in Deposit Money Banks in Nigeria.

Research Hypotheses

In line with the specific objectives, the following research questions were raised for the study.

Ho_1: There is no significant relationship between size and discretionary loan loss provisions in Deposit Money Banks in Nigeria.

Ho_2: There is no significant relationship between audit committee independence and discretionary loan loss provisions in Deposit Money Banks in Nigeria.

Ho_3: There is no significant relationship between Risk management committee independence and discretionary loan loss provisions in Deposit Money Banks in Nigeria.

Scope of the Study

Content Scope: This study focused on corporate governance and earnings management with emphasis on audit committee independence and risk management committee independence as corporate governance dimensions and earnings management was measured with discretionary loan loss provisions and earnings persistence with firm size serving as a moderator.

Unit of Analysis: The study captured the deposit money banks listed on the Nigerian Stock Exchange as at 2011 till date without de-listing in any of the years under review. This totaled twelve (12) deposit money banks as the population of the study.

Geographical Scope: The study geographically centered on the entire Nigeria.

Review of Related Literature

Concept of Corporate Governance

According to the Central Bank of Nigeria (CBN) code of corporate governance for Banks and Other Financial Institutions in Nigeria (2006), corporate governance is the process by which management actions of an establishment are directed and managed. OCED (1999) present a more detailed meaning of corporate governance by defining corporate governance as the system by which business organizations are directed and controlled. Corporate Governance addresses the ways suppliers of fund to organization guarantee themselves of realizing the desired return on their funds, (Shleifer and Vishny 1997). Frank and Graeme

(2005) were of the opinion that corporate governance is a set of processes and rules to be complied with, rather than the expected result of management, that is the power exerted with integrity over the organizations' event. The whole fundamental nature of corporate governance stated by Kajola (2008), is to guarantee that the organization is well directed and providers of fund obtain a fair profit.

Pandy (2005,) is of the opinion that a company is said to have observed corporate governance rule if the company is handled with carefulness, transparency, responsibility and accountability targeted at increasing shareholders' wealth. Nganga, et al. (2003), defines corporate governance as the set of methods through which external suppliers of resources are protected from expropriation by insiders (including management, family interests and/or governments). Adeusi, et al. (2013), explained that corporate governance is a set of rules and incentives through which the executives of a business are being directed and controlled.

The Basel Committee on Banking Supervision (1999) states that from a banking industry perspective, corporate governance involves the manner in which the business and affairs of individual institutions are governed by their boards of directors and senior management. This thus affect how banks:

i) Set corporate objectives (including generating economic returns to owners);
ii) Run the day-to-day operations of the business;
iii) Consider the interest of recognized stakeholders;
iv) Align corporate activities and behaviours with the expectation that banks will operate in safe and sound manner, and in compliance with applicable laws and regulations; and protect the interests of depositors.

Aras & Crowther (2008) states that in practice, four principles of good corporate governance exist and they are: Transparency; Accountability; Responsibility; and Fairness. As per Report of the SEBI Committee on Corporate Governance, February 2003 - the fundamental objective of corporate governance is to enhance the long-term shareholder value, while at the same time protecting the interests of other stakeholders by improving the corporate performance and accountability (SEBI, 2003). Corporate Governance lays down the framework for creating long-term trust between companies and the stakeholders.

The quality of corporate governance primarily depends on the following factors, which consequently affect the corporate performance: Integrity of management, Size of Board (the larger the board, the better it is), Ability of board, qualifications/expertise and commitment of board members, Frequency of Board Meetings, Insider Trading and Whistle Blower Policy, Quality of corporate reporting, Stakeholder Engagement (participation of stakeholders in management), Independent Directors (protect overall organizational and stakeholders interest), Board Committees - Audit Committee: Frequent meetings and independence of audit committee can ensure credibility of corporate reports, Remuneration Committee: helps in deciding the suitable amount of remuneration for the top level executives like CEO, Nomination Committee: evaluates the skills, knowledge, and expertise needed to become a director and identifies the suitable candidates, Investor Grievance Committee, Risk Management Committee etc.

Principles of Corporate Governance

The revised OECD principles of corporate governance endorsed in April 2004 covered are:

i. Rights and Equitable Treatment of Shareholders: Organization should respect the rights of shareholders and help them to exercise those rights. They can help shareholders exercise their rights by effectively communicating information that is understandable and encouraging shareholders to participate at general meetings.
ii. Interests of other Stakeholders: Organization should recognize that they have legal and other obligations to all legitimate stakeholders, i.e., employees, customer's government etc.

iii. Roles and Responsibility of the Board: The Board members have various ranges of skills and understanding to be able to deal with various business issues and the ability to review and challenge management performance.
iv. Integrity and Ethical Behaviors: Ethical and responsible decision making is not.

Dimensions of Independent Variable Size

The magnitude of the committee is the sum of memberships of the group chosen by the governing bodies. This figure of memberships is taken as a sign of means accessible to the group. Where a large audit committee member exists, it is likely that possible challenges emanating from financial reporting task has the likelihood of being exposed and settled (Mohammed Nor 2010). This depends on the situation where considerable number of the size of the committee rise the available means to the committee and enhances the superiority of control. In a study by Persons (2009) and Li (2008), it indicated that the audit committee size affects corporate disclosures. Abbott, Parker and Peters (2004), investigated forty-one companies that presented deceitful financial statement and eighty-eight companies which yearly restated their results for nine years (i.e., beginning from 1991 to 1999). The findings depict that committee size has no considerable influence on quality of financial reporting. But in the work of Lin, Li and Yang (2006), indicated negative association amid committee size and financial reporting. The exact sum of members of audit committee is particularly important as it affects the commitment of memberships to monitor management and detect deceitful behaviors. A bigger size of the audit committee can alleviate material differences throughout the tested equity submissions.

Lipton and Lorsch (2011), remarked that the ability "of the audit committee" oversight function rises when the figure of its memberships increases. Yermack (1996), posits that, a lesser audit committee magnitude improves on firms‟ worth. This stand corresponds with Jensen (1993), assertion that a small sized audit committee enhances the efficiency with which the audit committee engages in oversight and control. However, Mansi and Reeb (2004), noted that an audit committee size that is large spends a considerable period and means to check the financial reporting process and internal control mechanism. These inputs suggest that size constitutes a significant factor for the effective performance of the group. Therefore, the committee's size should be appropriately stated. Having respect to Nigeria, the "Companies and Allied Matters Act" of 1999" as modified in 2004 stipulates "that the Audit Committee of a public limited liability company should be composed of a maximum of six members representing equal number of directors and shareholders". Note that effective audit committee size is important if efficient corporate financial reporting is to be obtained. This is because considerable audit committee members may produce knowledge and experience useful in embarking upon the provision of enhanced economic disclosure quality.

Audit Committee Independence

According to Companies and Allied Matters Act, 2020 as amended, public limited liability company are mandated to have an audit committee in the organisation. The members of the committee are expected to have knowledge of basic financial statements. Some of the objectives of the committee are: Assist directors in completing their responsibilities of financial reporting, underpinning the independent position of the statutory auditor and boost public confidence in the steadfastness of published financial statements. The size of the audit committee simply refers to the number of people that constitute the committee. The Companies and Allied Matters Act, 2020 stipulates that the audit committee should be maximum of six members: three members each representing the shareholders and management). Although, an audit committee size that is large may help to curb the occurrence of earnings management in business entity. Also, the audit committee are expected to be free of any form of interference or influence from the management team. Prakash & Martin 2012 posited that the interests of shareholders are adequately protected through the actions of the audit committee since management may sometimes be carried away with their own interest. It is expected then that where the audit committee number is large and within the standard set by corporate governance code, the better the result (Klein, 2002). For any of the management team and shareholders to be qualified to be elected as a member of the committee, the person must: be honest; have a good knowledge of the company's' activities; dedicated; understand the risks the entity is exposed to; able to study and understand basic financial statements; and contribute immensely when the committee is deliberating on matters.

Risk Management Committee Independence

Halim et al. (2017) described Risk Management Committee as the board of commissioners that assist the board in the implementation of supervisory duties on company risk control. The Board of Directors in every entity is sub-divided into several committees in which Risk Management Committee is one. The Risk Management Committee is responsible for assessing and reviewing the practices, procedures, and regulation put in place by management in order to manage both the internal and external risk thereby creating a strong risk management framework for the firm and also improves entity performance. In Nigerian Corporate Governance Code NCGC (2011), any organization board can establish a Risk Management Committee to support the board of directors in its responsibility for the risk management system and the risk plan to be implemented. The determinant factor in the size of the risk management committee is the number of experienced members that is in the board of directors of the entity. In Nigeria, the CBN 2014 code of corporate governance states that the risk management committee board composition shall contain at least two non-executive directors and the executive director in control of the risk management, however it has to be chaired by a non-executive director. Risk management committee Independence refers to the extent to which the members of the committee are free from any form of influence both within and outside the entity. Risk management committee independence means the number of independent non-executive directors' members sitting on the Risk management committee. The presence of large number of non-executive directors sitting on the board is recognized as a good pointer of the independence of the board from management influence.

Measures of Earnings Management
Earnings Management

Earnings management occurs when managers intentionally use judgments in financial reporting and in structuring financial transactions to alter financial reports to mislead some stakeholders about the underlying economic performance of the firm or to influence contractual outcomes that depend on reported accounting numbers. Akers, et al. (2007) defines earnings management as attempts by management to influence or manipulate reported earnings by using specific accounting methods (or changing methods), recognizing one-time non-recurring items, deferring or accelerating expense or revenue transactions, or using other methods designed to influence short-term earnings. Earnings management is the deliberate altering of financial information to either mislead investors on the underlying economic status of a firm or to gain some contractual benefits that depend largely on accounting numbers (Healy & Wahlen, 1999). Schipper (1989), sees managing earnings as the process of taking deliberate steps within the constraints of generally accepted accounting principles to bring about a desired level of reported earnings. Managing earnings is "a purposeful intervention in the external financial reporting process, with the intent of obtaining some private gain (as opposed to say, merely facilitating the neutral operation of the process)."

There are two perspectives on earnings management: the opportunistic perspective holds that managers seek to mislead investors, and the information perspective, first enunciated by Holthausen and Leftwich (1983), under which managerial discretion is a means for managers to reveal to investors their private expectations about the firm's future cash flows.

Discretionary Loan Loss Provision

Loan Loss Provision is an income statement expense set aside as an allowance for uncollected loans and loan payments. This provision is used to cover different kinds of loan losses such as non-performing loans, customer bankruptcy, and renegotiated loans that incure lower than previously estimated payments. The Chang et. al. model is used for measuring the DLLP in banks. The Chang et al Model would be used in the determination of discretionary loan loss Provision using the formula below:

$$LLP/TA_{t-1it} = \alpha_0\ 1/TA_{it-1} + \alpha_1 LCO_{it}/TA_{it-1} + \alpha_2 BBAL_{it}/TA_{it-1} + \varepsilon_{it}$$

Where:

$$DLLP_{it} = \varepsilon_{it} = LLP_{it} - (\alpha_0\ 1/TA_{it-1} + \alpha_1 LCO_{it}/TA_{it-1} + \alpha_2 BBAL_{it}/TA_{it-1})$$

Where: *LLP* = Loan Loss Provision for firm i at time t.

LCO = the Loan Charge-offs for firm i at time t.

BBAL = the beginning balance of LLP for firm i at time t.

TA = the beginning total asset of firm i at time t.

e = the error term

Earnings quality assists in determining the type of decision that will be taken by shareholders of a company in relation to investment. The size used in evaluating whether the quality of earnings is high or low, one of them is earnings persistence. Persistent earnings are earnings that can reflect the sustainability of earnings (sustainable earnings) in the future that is determined by accrual components and their cash flows. Earnings persistence is an earnings revision that is expected in the future reflected from running year earnings. Therefore, earnings persistence can be used as future earnings indicator. Sustainable earnings persistence is stated as earnings that have high quality; in the contrary, if unusual earnings are stated as earnings that have poor quality (Penman and Zhang, 2002). More persistent earnings show more informative earnings; in the contrary, if earnings are less persistent, earnings become less informative (Tucker and Zarowin, 2006). Earnings persistence is as one measurement of earnings quality by seeing the slope coefficient of current earnings regression on lagged earnings.

Theoretical Review

Agency Theory

The principal-agent relationship is regarded as a contract under which "one or more persons (principal) engage another person (agent) to perform some service on their behalf, which involves delegating some decision-making authority to the agent" (Jensen and Meckling, 1976). Most large organizations are characterized by a separation of ownership. Investors can buy shares of listed firms and become partial owner. This transfer of ownership provides cash that can be invested or enhance the financial position of the firm. When the firm's investments turn out to be profitable, investors own the right to distribute the financial benefits. However, agency theory predicts divergence of interests between the agent (management) and principal (owner). Managers will always act in their own interests when they are not closely monitored (Jensen & Meckling, 1976). Due to information asymmetry, principals are confronted with two main problems:

i. Adverse selection (how to select the most capable managers) and
ii. Moral hazard (how to provide the right incentives to managers so that they put forth the appropriate effort and make decisions which are aligned with interests of shareholders) (Kyerboah et al. 2006).

Managers have strong incentives to engage in earnings management (Degeorge, et al., 1999). Since shareholders and other potential investors derive valuable information from earnings information optimal investment decisions become difficult to make when earnings are manipulated (Davidson III et al., 2004). The monitoring problem makes it even harder to detect earnings management. According to Eisenhardt

(1989) reliable (external) financial accounting standards and good corporate governance can reduce such agency problems. These implications will be discussed in following sections.

Empirical Reviews

Abubakar et al, (2014), explores the relationship between loan loss provision and earnings management in Nigerian DMBs. Secondary data were obtained from the 8 banks' annual reports for the period of 2006 to 2011 and robust regression was used as a tool for data analysis. The result indicates that there is a positive relationship between the provision for loan losses and earnings management in Nigerian DMBs. It is therefore, recommended that, if emphasis is on the integrity of financial reports, regulators should put a ceiling on the provision for loan losses rather than leaving it at the total discretion of managers who provide it to suit their selfish interest.

Shehu and Abubakar (2012), examines the relationship between corporate governance on corporate financial performance when performance is stripped of the discretionary component of accruals. Secondary data were extracted from annual reports of the sample firms for the period between 2008 to 2010 and univariate OLS multiple regression was used as a tool for data analysis. The study documents that corporate governance significantly impact on both the adjusted and unadjusted firm performance in different magnitudes and directions. Specifically, it is empirically established that board composition is inversely related with true performance while a positive interaction emerges between executive compensation and firm performance regardless of the performance specification.

Olaleye and Amafa (2019), examined the impact of corporate governance attributes on earnings management of listed Deposit Money Banks from 2009 to 2017. The study used a sample size of thirteen (13) banks. The dependent variable was measured using Discretionary Loan Loss Provision Model by Chang, Shen and Fang (2008). Correlational design was employed; the secondary data was obtained from the annual reports of the firms and Nigerian Stock Exchange website. The results from the multiple regression analysis proved that board size has positive and significant impact on earnings management; board independence has negative and significant impact on earnings management while board of directors' ownership has insignificant impact on earnings management. The study concludes that effective monitoring role of independence directors will constrain the opportunistic behavior by managers. The paper therefore recommends among others that banks should increase the numbers of independent directors on the board to improve their monitoring effectiveness.

Methodology

Research Design

The research design adopted for this study is the ex-post facto research design: usage of secondary data (annual reports and financial statements of Deposit Money Banks in Nigeria).

Population of Study

Twelve (12) listed deposit money banks (NSE Fact book, 2022).

Sample and Sampling Techniques

The study sample size was obtained by applying Taro-Yamane formula.

$$n = \frac{N}{1+N\,(e)^2}$$

Where: n= Sample size; N = Population of the study; $(e)^2$ = Margin of error.

For the study, N =15; and a margin error of 5%

$n = 12/1 + 12\,(0.05)^2$

n = 12/1 + 12 (0.03)
n = 12/1.03
n = 12

Method of Data Analysis

The data for the study were extracted from the annual reports and accounts of the sampled banks for the study period. A panel data regression technique was employed since the data has both time series and cross-sectional attributes.

Data Presentation and Analysis of Results

Data Presentation

This study examined the effects of corporate governance on earnings management of publicly quoted deposit money banks (DMBs) in Nigeria. In order to carry out this examination, the study builds on Chang, et al. (2008), discretionary loan loss provision model of earnings management for DMBs. The estimated model was centred on panel data obtained from the annual reports and accounts of the studied DMBs in Nigeria from 2010-2020.

Data Analyses and Results Interpretations

Univariate Descriptive Analysis

Descriptive Statistics

Table 1: Summary of Descriptive Statistics (2010-2020)

Variables	Mean	Median	Std. Dev.	Min. Val.	Max. Val.	Skewness	Obs.
Size. (SIZE)	41.363	81.724	14.107	00014	3.7000	1.5858	130
Audit committee independence(aci)	50.328	50.000	4.805	22.857	52.100	8.632	130
Risk mgt. committee ind.(rmci)	64.502	62.500	18.615	00032	10.100	-0.0881	130
Discr. Loan Loss Prov. (DLLP)	-0.0125	-0.0086	0.0205	-0.0898	0.1093	0.0378	130

Source: Data Result from E-view (v.12), 2023

Table 1 shows that the descriptive statistics of the data collected for the independent variable's dimensions of the study. The Size (SIZE), audit committee independence (ACI), and Risk management committee independence (RMCI) have a mean value of 41.363, 50.328 and 64.502 respectively, also, median value of 81.724, 50.000 and 62.500 respectively, also the minimum and maximum values of size (SIZE) were 00014 and 3.7000, audit committee independence (ACI) were 22.857 and 52.100 and Risk management committee independence (RMCI) were 00032 and 10.100. On the other hand, the standard deviation values of 14.107, 4.805 and 18.615 signifying that the data deviate from the mean values of the three study dimensions, which implies that there is a wide dispersion of the data from the means because the standard deviation is closed to the mean.

On the other hand, Skewness and Kurtosis calculated mean values which is a measure of the departure of a distribution from symmetry above for three study dimensions {Size (SIZE), audit committee independence (ACI), and Risk management committee independence (RMCI)}, shows a positive skewness value that is greater than 1. This indicates that the three study dimensions are normally distributed. More so, the Kurtosis result which measures the extent of flatness or peakedness of a distribution in relative terms to a normal distribution confirms that Size (SIZE), audit committee independence (ACI), and Risk management committee independence (RMCI) are normally distributed and are not platykurtic (not having negative values / flatted curved) as its kurtosis coefficient are more than 3. Also, the p-value for the three study dimensions for Jarque-Bera statistics [(JB (PValue > 0.05) = Accept Ho (Normal Distribution) and also JB (P Value < 0.05) = Reject Ho (Non-Normal Distribution)].

The table also indicates for the two measures of the dependent variable of the study that discretionary loan loss provisions (DLLP) and earnings persistence (EP) have a mean value of -0.0125 and 1.352 respectively, also, median value of -0.0086 and 0.6850 respectively, also the maximum and minimum values of discretionary loan loss provisions (DLLP) were 0.1093.

On the other hand, Skewness and Kurtosis calculated mean values which is a measure of the departure of a distribution from symmetry above for measure of discretionary loan loss provisions (DLLP) a positive skewness values that is greater than 1. This indicates that the study measures are normally distributed. More so, the Kurtosis result which measures the extent of flatness or peakedness of a distribution in relative terms to a normal distribution confirms that discretionary loan loss provisions (DLLP) is normally distributed and are not platykurtic (not having negative values / flatted curved) as its kurtosis coefficient are more than 3.

Summary Results Findings

Table 2: Summary Computation of Hypotheses Results

Hypotheses	Coefficient	Std. Error	T-Stat	P-Value 0.05	Statistical Decision	Result
$H0_1$	1.893836	2.271551	0.833720	0.0064	Significant	Rejected $H0_1$
$H0_2$	-0.283166	0.101803	-1.606893	0.1034	Not Significant	Accepted $H0_2$
$H0_3$	-18784.79	20085.16	-0.935257	0.3519	Not Significant	Accepted $H0_3$

***Source**: Researcher Computation, 2023*

From the summary of hypotheses table above, the results of the hypotheses of the study were presented in line with the statistical decision rule**:** 'if the probability value (PV) is less than 0.05 alpha level, we reject the null hypotheses and accept significant relationships. Meanwhile, if the probability value (PV) is greater than 0.05 alpha level, we accept the null hypothesis and accept an insignificant relationship. Hence:

$H0_1$: There is significant relationship between size and discretionary loan loss provisions in Deposit Money Banks in Nigeria.

$H0_2$: There is no significant relationship between audit committee independence and discretionary loan loss provisions in Deposit Money Banks in Nigeria.

$H0_3$: There is no significant relationship between Risk management committee independence and discretionary loan loss provisions in Deposit Money Banks in Nigeria.

Discussion of Findings

The continuum of literature on the corporate governance and earnings management in deposit money banks has shown that there is a divergence of views on the topic. Since research work usually aims at corroborating and/or refuting postulates already adduced by previous researchers or positing new postulates, this study has been able to establish some postulates in these directions.

H0$_1$: There is significant relationship between size and discretionary loan loss provisions in Deposit Money Banks in Nigeria.

The result of the descriptive statistics analysis of table 4.1 for audit committee independence (INDP) relationship relevance revealed a mean of 0.441535 and -0.144683, respectively. On the other hand, null hypothesis one was rejected with a (P-Value of 0.0105 < 0.05 and a coefficient value of 3.442189). Hence, there is a significant relationship between audit committee independence (INDP) relationship relevance (REV) of listed oil and gas companies in Nigeria. This finding was in corroboration with Godwin (2020), assessed the effect of corporate governance mechanisms on earnings management of listed deposit money banks in Nigeria for a period of five years (2015-2019). The study adopted a correlation research design in a sample of five Deposit Money Banks (DMBs) listed on the Nigeria Stock Exchange (NSE). The findings also revealed that audit committee independence and gender diversity have negative but insignificant and positive but significant effect on the earnings management of the listed DMBs in Nigeria respectively.

Hence, the study recommends among others that, there is the need for effective corporate governance practices in DMBs in Nigeria. It is also recommended that the number of board of directors' members should be increased to a maximum size of twenty as provided by the CBN Code of Corporate Governance for Banks. This finding was in line with Olaleye and Amafa (2019), examined the impact of corporate governance attributes on earnings management of listed Deposit Money Banks from 2009 to 2017. The study used a sample size of thirteen (13) banks. The results from the multiple regression analysis proved that board size has positive and significant impact on earnings management; board independence has negative and significant impact on earnings management while board of directors' ownership has insignificant impact on earnings management. The study concludes that effective monitoring role of independence directors will constrain the opportunistic behavior by managers. The paper therefore recommends among others that banks should increase the numbers of independent directors on the board to improve their monitoring effectiveness.

H0$_2$: There is no significant relationship between audit committee independence and discretionary loan loss provisions in Deposit Money Banks in Nigeria

The finding of the research question two descriptive statistics analysis of audit committee financial expertise and relevance of 2.500000 and -0.144683, respectively. On the other hand, null hypothesis two was accepted with a P-Value of 0.3701 > 0.05 and a coefficient value of (-0.070455). Hence, there is no significant relationship between audit committee financial expertise (FINEXP) and relevance (REV) of listed oil and gas companies in Nigeria. This finding was in corroboration with Siyanbola et al (2019), examined the effect of Corporate Governance on Reported Earnings Quality in Nigerian deposit money banks. Cross sectional data were obtained from Ten (10) listed deposit money banks in Nigerian Stock Exchange for over a period of ten years (2008-2017). The study found board size having a positive and insignificant relationship with earnings quality; a negative and insignificant relationship between board independence and earnings quality; a positive and significant relationship between foreign directors on board and earnings quality; and also, a negative and insignificant relationship between firm size and earnings quality.

H0$_3$: There is a significant relationship Risk management committee independence and discretionary loan loss provisions in Deposit Money Banks in Nigeria.

On the third research question and hypothesis, the descriptive statistics reveal a mean of 4.674419 and -0.144683 for audit committee size and relevance respectively. On the other hand, null hypothesis three was rejected with a (P-Value of 0.0253 < 0.05 and a coefficient value of 0.095211). Hence, there is a significant relationship audit committee size (SIZE) and relevance (REV) of listed oil and gas companies in Nigeria.

This finding was in corroboration with Olaoye and Adewumi (2018), examined the effect of corporate governance on earnings management of listed deposit money banks in Nigeria for five years (2006- 2015). It was unexpectedly found that reputable audit firms have a positive and significant effect on the earnings management of the sampled banks while board size has negative but insignificant effect on the earnings management of the sampled firms.

Summary of Findings, Conclusion and Recommendations

Summary of Findings

This study examined the relationship between corporate governance and earnings management of publicly listed deposit money banks in Nigeria. The hypotheses result acceptance or rejection rule was in line with the statistical decision rule of the probability value (PV) 0.05 alpha level, Thus, we rejected three (3) null hypotheses of significant relationship and accepted for four (4) null hypotheses of significant relationship.

1. There is significant relationship between size and discretionary loan loss provisions in Deposit Money Banks in Nigeria.
2. There is no significant relationship between audit committee independence and discretionary loan loss provisions in deposit money banks in Nigeria.
3. There is no significant relationship between risk management committee independence and discretionary loan loss provisions in deposit money banks in Nigeria.

Conclusion

Earnings management is used to manipulate the earnings of firms to produce financial statements that present an overlying positive view. In accounting, there are some principles and practices demanding firms' management to make personal judgments on the basis of their discretion; thus, management may take undue advantage of the accounting principles and practices to manipulate earnings; this has been a practice of most banks. Thus, this study was carried out to examine the effect of corporate governance on earnings management of deposit money banks in Nigeria. The corporate governance measures employed were audit committee independence, risk management committee independence, while earnings management was proxied using discretionary loan loss provisions (using Chang model), together with earnings persistence (measured using earnings per share) and control variable: firm size (natural logarithm of total assets).

Thus, the study concludes that there is significant relationship between size and discretionary loan loss provisions in Deposit Money Banks in Nigeria. Meanwhile, there is no significant relationship between audit committee independence and discretionary loan loss provisions in deposit money banks in Nigeria. Also, there is no significant relationship between Risk management committee independence and discretionary loan loss provisions in deposit money banks in Nigeria.

Recommendations

On the basis of the findings, the following recommendations were proffered:

1. Companies and Allied Matters act (CAMA) and other regulatory bodies should maintain board size of deposit money banks it check mate discretionary loan loss provisions in in Nigeria.
2. The study showed that audit committee independence not significantly consequently, there is the need for management to accord more independence to the audit committee in order to enable it curb earnings management practices.
3. The study found that risk management committee independence not significantly affects earnings management and discretionary loan loss provisions; thus, it is recommended that the firms should

further strengthen their risk management committee by way of increasing their independence and size, since banks are characterized by risky assets.

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