CEO COMPETENCY AND EARNINGS MANAGEMENT: EVIDENCE FROM NIGERIAN FINANCIAL FIRMS

MUHAMMAD USAINI

UNIVERSITI SAINS MALAYSIA

2023

CEO COMPETENCY AND EARNINGS MANAGEMENT: EVIDENCE FROM NIGERIAN FINANCIAL FIRMS

by

MUHAMMAD USAINI

Thesis submitted in fulfilment of the requirements for the degree of Doctor of Philosophy

March 2023

ACKNOWLEDGEMENT

The foremost praise is to Allah (SWT) who blessed me with a strength, health and all abilities to complete this study. My sincere gratitude go to my indefatigable supervisor Prof. Dr. C W HOOY for his unfailing guidance, humility, motivations and patience throughout my quest in fulfilling one of the hardest task of my life. My greatest love and appreciation to my parents: Alhaji Usaini and Late Hajiya Halima (Mummy Inna) for the support and prayers. I am so short of words to gesture my gratitude to my wife Sumayya Ismail Usman who shows utmost loyalty, adoration, infinite encouragement, sacrifice, and a true definition of sportsmanship for me throughout my study. My kids: Usaini and Halima (Aslam and Arfat). I appreciate your patience, pray for your blessed and fruitful future.

My earnest indebtedness to Federal University Gusau (FUGUS) for granting me to pursue my study. I sincerely appreciate the Vice chancellor Prof Magaji Garba and all staff of the University for availing me the scholarship for this study, and my gratitude to the Tertiary Education Trust Fund (TetFUND) Nigeria.

My USM family such as: Dr Yusufu Adeneye, Dr Umar Muhmmed Taila, Dr Abdulmali Y Umar, Dr Bashir, Dr Mohammed Hassan and others.

TABLE OF CONTENTS

ACKNOWLEDGEMENT .... **ii**

TABLE OF CONTENTS .... **iii**

LIST OF TABLES .... **ix**

LIST OF FIGURES .... **x**

LIST OF ABBREVIATIONS .... **xi**

LIST OF APPENDICES .... **xiii**

ABSTRAK .... **xiv**

ABSTRACT .... **xvi**

CHAPTER 1 INTRODUCTION **1**

1.1 Division of Earnings Management 1

1.2 The Scope of Earnings Management Research 4

1.3 Consequences of Earnings Management 5

1.4 Is Earnings Management a Corporate Governance Issue? 6

1.5 Motivation of the Study 7

1.6 Problem Statement 11

1.7 Research Questions 14

1.8 Research Objectives 15

1.9 Significance of the Study 16

1.9.1 Practical 18

1.9.2 Theoretical 18

CHAPTER 2 CORPORATE GOVERNANCE OF FINANCIAL SECTOR IN NIGERIA **20**

2.1 Introduction 20

2.2 The Financial System in Nigeria 20

Conventional Banks 21

Mortgage Banks 21

Insurance Companies 21
2.3 The Major Players in the Financial System 21
2.3.1 Conventional Banks 21
2.3.2 Mortgage Banks 23
2.3.3 Insurance Companies 23
2.4 The Development of the Banking Industry in Nigeria........ 24
2.5 Corporate Governance Issues in Nigeria 27
2.5.1 Corporate Governance and Bank Performance in Nigeria........ 30
2.5.2 Corporate Governance and Earnings Management in Nigeria 31
2.6 Corporate Governance and Banking Reforms in Nigeria 32
2.6.1 Corporate Governance Reforms in Nigeria 35
2.6.2 Corporate Covernance Code Reforms 38
2.6.3 Corporate Governance for BOFIA........ 40
2.7 Causes of Corporate Governance Failures in Nigeria........ 43
CHAPTER 3 LITERATURE REVIEW 45
3.1 Introduction........ 45
3.2 Corporate Governance Indicators 45
3.2.1 Board Size 46
3.2.2 Board Independence........ 47
3.2.3 CEO Duality........ 48
3.2.4 Audit Committee........ 50
3.2.5 Summary 51
3.3 Concept of Competency........ 51
3.4 Attributes of Competency 54
3.4.1 Educational Backgrounds 58
3.4.2 Professional Qualification........ 59
3.4.3 CEO Tenureship........ 61

3.5 Working Experience 64

3.6 Empirical Model for Earnings Management 69

3.6.1 The Healy Model 70

3.6.2 The Standard-Jones (1991) Model 70

3.6.3 The Modified-Jones (1991) Model by Dechow, Sloan and Sweany (1995) 72

3.6.4 The Cross-Sectional Version of the Standard-Jones and Modified- Jones model by Defond and Jiambalvo (1994) 74

3.6.5 Industry Model by Dechow and Sloan (1991) 75

3.6.6 The Margin Model- by Peasenell et al. (2000) 75

3.6.7 Performance-Match Accruals Model by Kathori, Leone and Wasley (2005) 76

3.7 Competency and Earnings Management 78

3.8 The Moderating Role of CEO Competency 81

3.9 Theoretical Framework 82

3.10 Literature Gap 86

3.11 Hypothesis Development 87

3.11.1 Board Size and Earnings Management 87

3.11.2 Board Independence and Earnings Management 90

3.11.3 CEO-Chair Duality 92

3.11.4 Audit Committee Independence and Earnings Management 95

3.12 The Moderating Effect of CEO Competency 97

3.12.1 CEO Competency Affects CG on Earnings Management 98

3.12.2 CEO Competency Reduces the Impact of Board Size on EM 99

3.12.3 CEO competency reduces the Impact of board independence on EM 100

3.12.4 CEO Competency Reduces the Impact of Duality on EM 101

3.12.5 CEO Competency Reduces the Impact of the Audit Committee on EM 102

3.13 Summary 104

CHAPTER 4 METHODOLOGY 105

4.1 Introduction 105

4.2 Research Design 105

4.3 Population of the Study 105

4.4 Scope of the Study 106

4.5 Sample Size and Sampling Technique 107

4.5.1 Method and Sources of Data Collection 107

4.5.2 Techniques of Data Analysis 108

4.5.3 CEO Competency Index (Degree, Professional Qualification, Tenure, and Working Experience) 108

4.5.4 Model Specification 110

4.5.5 Marginal Effects Model 111

4.5.6 Diagnostic Test 112

4.5.6(a) Normality 112

4.5.6(b) Linearity 112

4.5.6(c) Multicollinearity Test 113

4.5.6(d) Heteroscedasticity Test 113

4.5.7 Dependent Variable: Discretionary Accruals Measurement 114

4.6 Control Variables 116

4.6.1 Return on Asset (ROA) 116

4.6.2 Firm Size (FS) 116

4.6.3 Cash flow 117

4.6.4 Leverage (LVG) 118

4.7 Summary 119

CHAPTER 5 DATA ANALYSIS AND RESULTS 121

5.1 Introduction 121

5.2 Descriptive Statistics 121

5.3 Frequency Distribution of Dummy Variable (CEO Duality)....................... 123

5.4 Correlation Analysis 125

5.5 Multivariate Analysis.. 128

5.5.1 Regression Results for the Corporate Governance Mechanisms as Determinants of Earnings Management................. 128

5.5.2 Regression Results for the Role of CEO Competency on Earnings Management 132

5.5.3 Regression Results for the Role of CEO Competency on the Relationships between Corporate Governance Mechanisms and Earnings Management... 133

5.6 Test of Endogeneity 136

5.7 Robustness Test 138

5.8 Summary of Main Findings 144

CHAPTER 6 SUMMARY AND CONCLUSIONS 146

6.1 Introduction.. 146

6.2 Recaptulation of the Study.. 146

6.3 Summary of Findings.. 149

6.4 Discussion on Findings 150

6.4.1 H1- Corporate Governance Mechanisms and Earnings Management... 150

6.4.2 H2- CEO Competency Reduces Earnings Management 151

6.4.3 H3a- CEO Competency Reduces the effect of Board Size on Earnings Management 153

6.4.4 H3b- CEO Competency Reduces the effect of Board Independence on Earnings Management 154

6.4.5 H3c- CEO Competency Reduces the effect of CEO Duality on Earnings Management 154

6.4.6 H3d- CEO Competency Reduces the effect of Audit Committee on Earnings Management... 155

6.5 Contributions of the Study 156

6.5.1 Theoretical Implications 156

6.5.2 Methodological Implications 157
6.5.3 Practical Implications 158
6.6 Limitations of the Study and Suggestions for Future Studies 159
6.6.1 Limitations of the Study 159
6.6.2 Suggestions for Future Studies 160
6.7 Conclusion 162
REFERENCES 164
APPENDICES
LIST OF PUBLICATIONS

LIST OF TABLES

Page

Table 1.1 CEOs Competency and Financial Scandal 11

Table 2.1 Financial Institutions in Nigeria 21

Table 4.1 Population of the Study 106

Table 4.2 Variables measurement- independent and dependent variables 114

Table 5.1 Frequency of CEO Duality 123

Table 5.2 Descriptive Statistics 124

Table 5.3 Correlation Matrix 127

Table 5.4 Relationship between Corporate Governance and Earnings Management 129

Table 5.5 Relationship between CEO Competency and Earnings Management 131

Table 5.6 Moderating Role of CEO Competency on the Relationship between Corporate Governance and Earnings Management......... 134

Table 5.7 Test of endogeneity (Durbin-Wu-Hausman Estimator) 137

Table 5.8 CEO competency components and earnings management............ 142

Table 5.9 Summary of Main Findings 144

Table 6.1 Findings on research objectives and hypotheses 149

LIST OF FIGURES

Page

Figure 3.1 Stages of Competency 52

Figure 3.2 Theoretical Framework of the Study 85

LIST OF ABBREVIATIONS

ACB	African Continental Bank
ACCA	Association of Chartered Certified Accountants
AFS	Audited Financial Statements
AGM	Annual General Meeting
AIB	African International Bank
ANAN	Association of National Accountants of Nigeria
ATMs	Automated Teller Machine
BOD	Board of Directors
BOFIA	Banks and Other Financial Institutions Act
BOI	Bank of Industry
CAMA	Company and Allied Matter
CBN	Central Bank of Nigeria
CEO	Chief Executive officer
CF	Cash Flow
CFO	Chief Finance office
CG	Corporate Governance
COB	Chairman of board
DAC	Discretionary Accruals
DFIs	Development Finance Institutions
ECOWAS	Economic Community of West African States
EM	Earning Management
FAs	Financial Analyst
FS	Firm Size
GAAP	Generally Accepted Accounting Principle
ICAN	Institute of Chartered Accountants of Nigeria

ICCA	International Congress and Convention Association
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standard
LG	Leverage
MNC	Multinational Corporation
NACB	Nigeria Agricultural and Commerce Bank
NACRDB	Nigerian Agricultural, Cooperative and Rural Development Bank
NAICOM	National Insurance Commission
NBFIs	Non-Bank financial institutions
NDA	Non Discretionary Accruals
NDIC	Nigeria Deposit Insurance Corporation
NPF	National Provident Fund
NSE	Nigerian Stock Exchange
NSITF	Nigeria Social Insurance Trust Fund
OECD	Organisation for Economic Co-operation and Development
R&D	Research and Development
ROA	Return on Assets
SEC	Security and Exchange Commission
TA	Total Accruals
UDB	Urban Development Bank
VIF	Variance Inflation Factor
WCA	Working Capital Accruals
TMT	Top Management Team
DFI	Develop Finance Institute

LIST OF APPENDICES

Appendix 1 List of Registered Financial Firms in Nigeria

Appendix 2 QS World University Rankings 2020 – Top 10

Appendix 3 Comparison Information's for Both Local and Foreign Trained Chief Executives Officers (CEOs) In Nigerian Financial Sector

Appendix 4 Non-Financial Firms

KOMPETENSI CEO DAN PENGURUSAN PENDAPATAN: BUKTI DARIPADA FIRMA KEWANGAN NIGERIA

ABSTRAK

Kajian ini mengkaji pengaruh mekanisme tadbir urus korporat (CG) (saiz lembaga pengarah, kebebasan lembaga pengarah, dualiti CEO dan jawatankuasa audit) terhadap pengurusan pendapatan (EM) firma tersenarai kewangan. Ia juga menyiasat peranan penyederhanaan kecekapan CEO terhadap hubungan antara tadbir urus korporat dan pengurusan pendapatan. Menggunakan sampel bank wang deposit, bank gadai janji dan firma insurans di Nigeria, kajian itu menggunakan penganggar regresi panel untuk menganalisis hipotesis yang boleh diuji. Bagi menyokong teori agensi, kajian itu menemui bukti bahawa terdapat sokongan separa terhadap pengaruh mekanisme tadbir urus korporat ke atas pengurusan pendapatan kerana hanya jawatankuasa audit didapati mempunyai kesan yang signifikan terhadap pengurusan pendapatan. Pengurusan pendapatan juga boleh diminimumkan melalui kecekapan CEO. Di samping itu, kajian mendapati kecekapan CEO menyederhanakan secara signifikan perhubungan antara jawatankuasa audit dan pengurusan pendapatan manakala tiada sokongan untuk peranan penyederhanaan kecekapan CEO terhadap hubungan antara saiz lembaga pengarah, kebebasan lembaga pengarah, dualiti CEO dan pengurusan pendapatan. Interaksi kecekapan CEO dan tadbir urus korporat memberi kesan kepada pengurusan pendapatan, menunjukkan bahawa CEO menggunakan kecekapan mereka untuk mengukuhkan diri mereka untuk kepentingan peribadi mereka lebih daripada kepentingan pemegang saham. Oleh itu, walaupun kajian ini mendapat sokongan untuk teori agensi mengenai tadbir urus korporat, ia mewujudkan sedikit sokongan untuk

kecekapan CEO untuk menghakis pengurusan pendapatan. Oleh itu, kajian ini memerlukan pemantauan CEO dan mekanisme sumber yang lebih luas seperti pampasan CEO dan modal sosial CEO untuk mengurangkan kesan tadbir urus korporat ke atas pengurusan pendapatan institusi kewangan. Penyelidikan masa depan harus menyiasat pengaruh krisis Covid-19 terhadap hubungan tadbir urus korporat dan pengurusan pendapatan. Kajian masa depan juga harus mengkaji sama ada kehadiran krisis Covid-19 akan mengukuhkan atau melemahkan keberkesanan mekanisme tadbir urus korporat dalam mengurangkan pengurusan pendapatan. Dalam keadaan sedemikian, fungsi jawatankuasa risiko yang berkesan dan pengurusan risiko perusahaan (ERM) akan lebih diperlukan untuk mengurangkan kesan negatif Covid-19 terhadap prestasi syarikat. Kajian masa depan harus menggunakan saiz sampel yang besar dengan meneroka firma kewangan di negara Afrika Barat, dan ini akan membantu generalisasi penemuan mengenai perhubungan pengurusan tadbir urus korporat-pendapatan. Ini juga disokong oleh fakta bahawa kebanyakan bank di Afrika Barat dan Afrika secara amnya adalah anak syarikat syarikat induk mereka dan mempunyai ibu pejabat dan cawangan di seluruh negara Afrika.

CEO COMPETENCY AND EARNINGS MANAGEMENT: EVIDENCE FROM NIGERIAN FINANCIAL FIRMS

ABSTRACT

This study examined the influence of corporate governance (CG) mechanism (board size, board independence, CEO duality and audit committee) on earnings management (EM) of financial listed firms. It also investigated the moderating role of CEO competency on the relationship between corporate governance and earnings management. Using a sample of deposit money banks, mortgage banks and insurance firms in Nigeria, the study adopted the panel regression estimator to analyze the testable hypotheses. In support of the agency theory, the study found evidence that there is a partial support for the influence of corporate governance mechanisms on earnings management because only audit committee was found to have a significant impact on earnings management. Earnings management can also be minimized through CEO competency. In addition, the study found that CEO competency significantly moderates the relationship between audit committee and earnings management while there is no support for the moderating role of CEO competency on the relationship between board size, board independence, CEO duality, and earnings management. The interaction of CEO competency and corporate governance impacts earnings management, indicating that CEOs use their competencies to entrench themselves for their personal interests more than the interests of shareholders. Thus, while this study found support for the agency theory on corporate governance, it established little support for CEO competency to erode earnings management. Hence, this study call for a broader CEO monitoring and resource mechanisms such as CEO compensation and CEO social capital to reduce

the impact of corporate governance on earnings management of financial institutions. Future research should investigate the influence of Covid-19 crisis on the relationship of corporate governance and earnings management. Future studies should also examine whether the presence of Covid-19 crisis would strengthen or weaken the effectiveness of corporate governance mechanism in reducing earnings management. In such situation, effective risk committee functions and enterprise risk management (ERM) would be much more needed to mitigate the negative effects of Covid-19 on companies' performance. Future studies should use a large sample size by exploring financial firms in West Africa countries, and this would aid the generalization of findings on corporate governance-earnings management nexus. This is also supported by the fact that most banks in West Africa and Africa in general are subsidiaries of their holding companies and do have headquarters and branches across African countries.

CHAPTER 1

INTRODUCTION

1.1 Division of Earnings Management

One of the most critical elements in financial statements is earning. Before looking at other factors, most users of financial statements concentrate on the company's earning. Earnings reflect a company's credibility in the eyes of many investors and other financial statement consumers who use financial statements for decision-making. Earnings refers to an indicator of how much a corporation has spent on value-added activities. Therefore, earnings increase refers to an increment in the company’s value, while a decrease in earnings signals a reduction in that value.

Information about accounting earnings must be accurate. Investors must have access to accurate financial information in order to make the best possible business decisions. Firm managers collect and disseminate information from external sources for the benefit of the company. Managers may be able to exploit information asymmetry to their advantage when it comes to preparing and publishing financial statements. This could lead to an agency issue. The agency problem occurs when managers fail to act in the best interest of the company's owners. Because managers have more inside information than financial providers, there is a problem with the organization's structure (shareholders). Management uses accounting numbers to benefit themselves and accounting principles are often used to change earnings through accruals management. Management has a variety of incentives to control earnings, including compensation, avoiding debt covenant violations, meeting or exceeding benchmarks, lowering regulatory or political costs, matching analyst expectations, and making a company appear less risky (Adegbite & Nakajima, 2017).

Morally, EM with the goal of misleading users' perceptions of an organization is considered immoral.

The value of accounting earnings to a firm's stakeholders cannot be overstated, as accounting earnings are the firm's value which, its stakeholders' utter trust on. As a result, accounting scholars would be interested in seeing whether their most important variable plays a role in various users' decision-making for various applications. Earning is only relevant if it can be trusted. But EM decreases the needed reliability and hence, its relevance. Thus, to maintain its significance, the means used to enhance reporting quality earnings must be provided. After the previous global financial crisis, it has become highly essential to discover indicators of earnings reliability. EM refers to the deliberate misrepresentation of an enterprise's financial status in a financial statement by knowingly misstating or omitting sums or disclosures to mislead financial statement users.

EM happens when insiders utilize their understanding of complex accounting principles to benefit the corporation and time business transactions to manipulate earnings in the short term. Companies that reach or surpass consensus earnings goals are rewarded by the markets, whereas companies who fail to meet their earnings goals are however, penalised. Insiders at an organization benefit directly from EM despite having a fiduciary obligation to all stakeholders to maximise the company's long-term value by adhering to the company's management policy and corporate social responsibility. Executives have the right to make the most of the good earnings and profits because their success in building and maintaining value for all stakeholders, executives should be rewarded. However, earnings are considered illusory if they favour certain stakeholders while harming others in the future. When EM is misused, it takes money from the future to pay current benefits.

Managers may also use EM to escape debt covenants. Firms are more likely to handle profits to prevent disclosing losses; otherwise, they risk violating covenants and incurring higher costs. As a result, firms could overstate earnings to meet analyst expectations (Man., 2012). Smart (1999) identified various methods of EM (Creative Accounting).

i) **Accounting Choices:** A firm can choose between different treatment methods within the Generally Accepted Accounting Principle (GAAP). Thus, a company can select the accounting policies that give an ideal image. Managers can choose accounting estimates or methods that would favour their reporting.

ii) **Artificial transaction:** This can be integrated into the balance sheet to change the balance sheet's monetary value, and transfer earnings between accounting periods.

iii) **Genuine transaction:** This transaction can be arranged to provide the desired image of the account.

iv) **Certain entries:** The Generally Accepted Accounting Principles require an inevitable degree of estimate, judgment, and prediction. Many accounting options have the issue of having no clear posted limit above which they are prohibited. The Generally Accepted Accounting Principle does not tell managers what is explicitly ordinary and what is risky. For example, many managers have to make decisions regarding a product of warranty cost estimation.

Financial reporting suffers as a result of earnings manipulation, and investors' confidence in their decision-making process suffers as a result. Most financial statement consumers nowadays do not utilise accounting earnings as a main criterion

for evaluating and making decisions about performance. Investor confidence is harmed by EM, as evidenced by financial scandals all over the world.

1.2 The Scope of Earnings Management Research

Earnings manipulation refers to a manager's thoughtful involvement in the firm's reporting pattern to gain personal advantage. Managers can manipulate earnings by accrual or actual earnings manipulation, depending on their discretion. Accrual earnings management (AEM) is the intentional alteration of accounting processes or figures used in financial statement preparation. A shift in accounting procedure or the use of opportunistic figures to inflate earnings is referred to as accruals earnings management (AEM). Such manipulation has no impact on cash flows. Reporting fake profits, booking purchases with a right of return, reducing the allowance for bad debts, preventing or delaying asset and inventory write-offs, and so on are examples. As a result of this technique, the timing of earnings recognition is affected, and accruals are reversed.

EM has cost investors a lot and has frequently undermined the global economy's growth in for example, United States, the fall of Enron, WorldCom etc. In Nigeria, the Asset Management Corporation was forced to spend $366 million to save Skye Bank, Arik Airline, and Sterling Bank from collapsing, increasing EM can be accomplished by manipulating real activities (Eugene, 2019). This practice entails deviating from the usual business procedure, which directly affects the firm's market value. Real earnings management is present and growing in Nigeria (Abubakar, 2016; Adamu et al., 2017).

1.3 Consequences of Earnings Management

EM has the potential to produce waste and inefficiency in the market place as only a few businesses are consistently successful. When an organization gets a poor quarter or year, its executives should take advantage of the chance to fix all of the company's balance sheet issues at once. They are capable of detecting impairments as well as write-downs. Either way, EM can be good or bad. When company executives use EM for their own benefit instead of for the benefit of stockholders, it is bad for the company. EM is legal and profitable because administrators have a lot of control over GAAP earnings and try to share private information with stockholders and the general public, which is legal. It doesn't matter what the managers' motivations are for falsifying financial reports but misleading financial reports can hurt current and future customers, no matter what their motivations are. Because of EM, investors may have to pay for inefficient investments that do not work out well enough. As a result, EM can make accounting figures less trustworthy, which can hurt a company's reputation. EM is a type of financial fraud that can do a lot of damage to a business Chia et al. (2007), Perols and Lougee (2011), Jordan and Clark (2015) and Trejo-Pech et al. (2015).

EM is a market challenge that business executives should take advantage of to produce higher-than-normal profits to meet demands. Investors pay careful attention to such earnings reports, as well as the company's respective target, reach, or beat announcements. Although not every publicly traded corporation has a dedicated financial analyst, a large organization may have many financial analysts constantly monitoring its performance. FAs have a lot of knowledge about the businesses they observe and the market as a whole but they are still outsiders. The

merits of FA are not universally agreed upon by those in the financial and accounting industries (Fedyk, 2017; Mindak et al., 2016).

1.4 Is Earnings Management a Corporate Governance Issue?

Financial disclosure has been a concern for regulators, financial experts and accountants for a long time. Even more so now that there have been many high-profile accounting scandals and frauds involving well-known companies, like Worldcom and Enron in the United States, One Tel in Australia and Nortel in Canada, Parmalat and Transmile Group Berhad in Italy. Meanwhile, Oceanic Bank and Intercontinental Bank are in Africa happened in 2018. The management of Skye bank in Nigeria tried to make CBN and other people believe that Skye Bank was bigger than it was in 2018. One of the reasons businesses fail in Nigeria, especially in the financial sector, is because they do not follow good CG practices and this has eroded public trust among accountants. It has been said many times that public is very concerned about the way CG is done on the board. This deviation has also shown that there are problems with the way companies report their finances and with the way they keep track of their own finances, as well (Uwuigbe et al., 2014: Bendickson et al., 2016).

Regulators, standard-setters, and the accounting profession have all noticed EM practice (Ishola et al., 2018). Despite the fact that this practice is not a new concept in the accounting profession, it has long been a top-secret corporate habit. Even if no accounting rules are breached, EM activities that aim to manage users' expectations are considered unethical. Accounting professionals and regulators consider EM an issue requiring immediate control action. However, Healy and Wahlen (1999) assumed that companies use EM to help their investors. Due to

knowledge asymmetry, EM weakens the consistency of earning results and generates market incompetence. To protect a company's confidential information and marketing strategy, there may always be some information asymmetry. This hampers people's ability to trust financial data and make wise investment decisions. Some company leaders use EM carefully and sparingly, proving that not all EM is harmful. Others seem to over extend themselves. If business leaders make the right decision, EM goes unnoticed. Nevertheless, corporation executives who indulge in EM for an extended period can be forced to break GAAP to hide a misstated balance sheet. Public opinion holds that EM is harmful to a company, especially in the light of the recent Enron and Worldcom scandals; these events fuelled the public perception that company executives opportunistically use EM for their gain rather than stockholders' benefit (Liu & Tsai, 2015; Zhang et al., 2016).

Unfortunately, business leaders have a tendency to go over their boundaries. In the worst-case scenario, EM leads to outright fraud and financial report changes, financial scandals, corporate collapse, and a lot of losses for the people who own the company. Current and future investors can be hurt by inaccurate financial reports, no matter what the managers' motivations are for accounting misstatements. Inefficient investments made because of EM can cost investors' money in the short term (Peng et al., 2016; Welker et al., 2017).

1.5 Motivation of the Study

Widespread corporate corruption has demonstrated the relevance of good governance and accountability in modern-day Nigerian companies, as shown by recent corporate failures and relatively close disasters in the country's financial sector. Nigeria's regulatory authorities have responded by requiring companies to

follow strict CG codes. The Nigerian Stock Exchange's (NSE) Security and Exchange Commission (SEC) code of CG, which was revised in 2011, seeks to guide the conduct of public companies listed on the NSE. Among the various CG codes in Nigeria are the 2006 Central Bank of Nigeria (CBN) code, the 2009 National Insurance Commission (NAICOM) code, the 2003 Nigerian Code of CG, the 2006 mandatory Nigerian Banks Post-Consolidation Code of CG and the 2007 Nigerian Code of Conduct for Shareholder Associations.

What makes this country special, and why is it a good testing ground for the factors that affect good corporate governance? Without question, Africa's notable gap in CG literature offers an opportunity for profound and novel works. On this basis, Nigeria provides an excellent case study for analytical investigations, as foreign-trained CEOs carry out most of the financial manipulations discovered in the financial sector. Most CG codes introduced in Nigeria are designed to strengthen boards' monitoring functions to fish out any act of financial irregularities by the CEOs. However, Nigeria has a unique character because CEOs in other firms use their competency to curtail financial scandal, but in financial firms, they use it to elevate EM alongside empower and enrich themselves and the monitoring functions do not seem to work in curbing financial scandal.

Vulnerabilities in the financial system present significant challenges for monetary policymakers Draghi (2014). Prior research has shown that corporate leaders, including bank executives control their recorded earnings for various reasons.(Kanagaretman et al., 2013; Kanagaretman et al., 2014; Liu et al., 2016). The banking sector in Nigeria is filled with so many financial scandals that the CBN had to take corrective measures to improve the situation. This is done by imposing 25 billion as a capital base for the banks to remain operational. The number of banks has

declined significantly due to EM problems, and some have been unable to meet the requirements (Okoye & Nwobi, 2019).

The banking industry sank and became distressed. The CBN reduced the size from 89 to 25 banks on January 1, 2006, due to various financial scandals. As part of the consolidation exercise, the banks must increase their minimum capital base from N2 billion to N25 billion by December 31, 2005. Just 25 out of 89 banks met the current minimum capital standards and continued to exist, resulting in many mergers and acquisitions. Among the new banks established were Unity Bank Plc, Fin Bank Plc, Sterling Bank Plc, Fidelity Bank Plc, IBTC Chartered Bank Plc (now Stanbic IBTC Bank Plc), Skye Bank Plc, Bank PHB, and the United Bank for Africa.

Prior to 2009, majority of the 25 banks that seemed to be running were almost deafening in terms of technology (Soludo & Governor 2009). Most banks were accused of publishing fake earnings by then-CBN Governor Charles Soludo, leading to the firing of several bank CEOs and the subsequent merger and takeover of the impacted banks, including Afribank PLC, Finbank PLC, Intercontinental Bank Plc, Oceanic Bank Plc, and Union Bank Plc. The trends of bank collapse in Nigeria have continued till earlier 2019, which saw the takeover of the distressed Diamond bank by Access bank. In line with the agency relationship which separates the company's ownership from its control, managers' opportunistic behavior in pursuing their interest rather than those of the shareholders can increase EM's risk. Aggressive EM deficiencies and inappropriate allocation of resources are two key factors capable of weakening the firm's going-concern status, which increases the threat of financial scandal Viacheslav (2014).

The Nigeria Deposit Insurance Corporation (NDIC) said in a statement that it is monitoring the on-going investigations by law enforcement agencies into the collapsed bank's directors and management in partnership with the apex bank to determine their true level of responsibility. Mr. Godwin Emefiele, Governor of the Central Bank of Nigeria has announced the revocation of Skye Bank's licence at a news conference on Friday, September 21, 2018. Mr. Emefiele noted during the announcement that a bridge bank, Polaris Bank, had been established to take management of Skye Bank's assets and liabilities in order to secure the bank's recovery and return to profitability. The NSE halted trading in Skye Bank's stock on September 24, 2018. Efanga et al. (2020) mentioned that Mr Umaru Ibrahim, the Managing Director/Chief Executive Officer of the Nigeria Deposit Insurance Corporation (NDIC), said the government was investigating a former chairman of Skye Bank, Mr Tunde Ayeni, and a director of the defunct bank, Mr Festus Fadeyi, during a speech in Lagos a few days later.

Table 1: Panel A revealed that 30 of the 67 CEOs received international training and 22 of them (32.8%) were involved in the scandal. 34 CEOs were educated locally, and 16 of them (23.8%) were implicated in the scandal. Furthermore, the remaining three CEOs, accounting for nearly 3% of the total, are alleged cases that have also undergone local training. As a result, Nigeria has a distinct character, as those CEOs who received international training account for one-third ($^{1}/_{3}$) of all cases. Instead of using their expertise to mitigate the scandal, they use it to enrich themselves. However, locally educated CEOs were less interested in the scandals, possibly because they lacked the necessary skills. Table 1.1 Panel B depicted that out of 112 CEOs of non-financial companies, 73 of them, which is 65%, have earned local training and only 4 of them, which is 3.5%, were

involved in the scandals. Nevertheless, out of the 32 CEOs, or 28.5%, that have received international training, only two of them (1.7%) were involved in controversies and one (1%) being a suspect case.

Table 1.1

CEOs Competency and Financial Scandal

CEO in Financial Firm	Total	Accounting degree	Professional qualification	Foreign working experience	Confirmed Scandal Cases	Suspect Scandal Cases
Panel A: CEO in Financial Firm						
Foreign trained CEOs	30	21	9	30	22 (73%)	-
Local trained CEOs	37	22	17	37	16 (43%)	3 (8%)
Total	**67**	**43**	**26**	**67**	**38 (57%)**	
Panel B: CEO in Non-Financial Firm (All listed firms except financial=112)						
Foreign trained CEOs	32	24	6	19	1	1
Local trained CEOs	80	31	16	73	4	-
Total	**112**					**1%**

1.6 Problem Statement

The Central Bank of Nigeria (CBN) and the Nigeria Deposit Insurance Corporation (NDIC) nationalised three Nigerian Stock Exchange-listed banks in 2011 as a result of unethical EM. These financial institutions were Bank PHB Plc, Afribank Plc, and Spring Bank Plc. Keystone Bank, Mainstreet Bank, and Enterprise Bank were the new names for these institutions respectively. By altering estimations in 2018, Skye Bank's management mislead the CBN and others. The defunct Skye

Bank Plc's management, the lender's top executive allegedly engaged in repeated report manipulations, fraudulently masking documents with the primary goal of deceiving authorities, including the CBN and the Nigerian Stock Exchange (NSE). According to the Guardian, preliminary investigations revealed deceptive and incorrect accounting report fabrication to portray fake profits and percentages, excessive loan and credit facilities, non-disclosure of directors' interests, and lending above the single obligor limit (Ozili, 2020).

SEC survey found that Nigeria's CG were bad as only 40% of the publicly traded firms have acknowledged the existence of CG code in effect. As several more corporate bodies in Nigeria are still being investigated, the list of recent innovative accounting practices appears to be rising. African International Bank (AIB), Savannah Bank, Intercontinental Banks, Societe General Bank, and most recently, Sky Bank have all been linked to EM in Nigerian public companies, and that led to the eventual sack of five bank managers (CBN, 2006).

Critics of CG contend that one of the primary reasons boards lack effective oversight over management is that CEOs frequently have significant influence over the board selection process. This straightforward evidence supports the assumption that when the CEO is involved in director selection, independent directors, who are more likely to oversee the CEOs are chosen less frequently. This information could be seen as evidence that competent CEOs employ influence in the directors' selection process to mitigate the performance pressures associated with board oversight.

Similarly, it demonstrates that boards with a majority of outside directors serving on three or more committees are less likely to remove a CEO for EM. Investors and policymakers generally agree that serving in many boards can result in overworked directors who are incapable of serving as effective monitors in any board. As a result, crowded boards exhibit patterns indicative of lower CG. The issue persists because excessive directorships may impair outside directors' efficacy as corporate monitors. Boards that rely significantly on outside directors who serve on several boards are likely to see degradation in the quality of their CG.

CEOs who also serve as board chairmen frequently must shift gears between their duties. A challenge that some CEOs have is defining the line between their board and management responsibilities. Businesses that expect a single individual to perform both roles may discover that they are spreading the board chair/responsibilities CEO's too thinly. In reality, there may not be enough time for one person to manage both responsibilities effectively.

CEOs who have received international training from some of the world's most prestigious universities/institutions use it to achieve an unfair advantage in companies where they pay little or no attention to the CG. Due to poor CG practice in place, the CEO can use their competencies to spike EM. As such, the problem of EM in Nigerian financial firms is widespread, as thirty of the country's 67 CEOs received international training, and 22 of them were implicated in the scandal. While (37) CEOs educated locally were less involved in financial scandals. Therefore, Nigerians have unique characters because the CEOs that had foreign training constitutes one third ($^{1}/_{3}$) and instead of using the competency to minimize the scandal, they end up spiking and enriching themselves leaving the locally-trained

CEOs following a relatively good CG practice perhaps for lacking some requisite competencies to involve in these scandals.

Obtaining a degree from prestigious and high-ranking schools provides CEOs with competency, especially degrees in accounting or finance-related fields, which can provide CEOs with financial expertise, to help the firms' financial management in the production of high-quality financial reports. As a result, CEOs allow personal interests to take precedence over general interests. Therefore, CEOs use accounting tactics to exaggerate firms' financial statements with a positive picture.

1.7 Research Questions

This study addresses the following research questions:

a) Does board size impact on earnings management?

b) Does board independence impact on earnings management?

c) Does CEO-duality impact on earnings management?

d) Does audit committee impact on earnings management?

a) Does the impact of CEO competency moderate the relationship between board size and earnings management?

b) Does the impact of CEO competency moderate the relationship between board independence and earnings management?

c) Does the impact of CEO competency moderate the relationship between CEO-duality and earnings management?

d) Does the impact of CEO competency moderate the relationship between the audit committee and earnings management?

1.8 Research Objectives

This study examines whether good corporate governance affects earnings management and examines whether CEO competency moderates Nigerian corporate governance. Specifically, this study has eight (8) objectives, these are:

1) to examine the impact of good corporate governance on earnings management.

    a) to examine the impact of board size on earnings management.

    b) to examine the impact of board independence on earnings management.

    c) to examine the impact of CEO-duality on earnings management.

    d) to examine the impact of the audit committee on earnings management.

2) to examine whether CEO competency, affect the relationship between corporate governance mechanism control on earnings management.

    a) to examine if the impact of CEO competency, moderate the relationship between board size and earnings management.

    b) to examine whether the impact of CEO competency moderates the relationship between board independence and earnings management.

    c) to examine if the impact of CEO competency moderates the relationship between CEO-duality and earnings management.

    d) to examine how the impact of CEO competency moderates the relationship between the audit committee and earnings management.

1.9 Significance of the Study

The degree to which people appreciate their jobs and have faith in one another directly affects the economy. When it comes to today's dynamic and constantly changing market, trust and confidence are more crucial than ever before. Financial scandals put financial firms' credibility and objectivity in jeopardy and the financial reporting process's integrity and consistency. As such, investors and market players lose faith in the accuracy of financial data and this decreases the productivity of the capital market. Litigation damages are the most common outcome of financial scandals and negatively impact a country's growth and development. Moreover, it also wreaks havoc on the regular activities and performance of the alleged organizations thereby destroying the lives of those involved in the scandal and causes the company involved in the scandal to go bankrupt or suffer financial losses. It also promotes increased regulatory interference. As for the financial loss, the impact of financial scandals on public trust cannot be overstated. Companies suffer a major financial loss as a result of investors losing faith in the company's management, directors and professional accountants tasked with preparing financial statements, and lastly, audit firms tasked with keeping an eye on the books.

Organizations' image: Financial scandals tarnish an organization's public image; thus, a firm has to pay a higher credit interest rate and will be refused union membership, or be passed over for a strategic alliance. High Audit Costs: Companies that are audited and have been involved in a financial scandal, especially if the scandal was committed by company management are likely to be classified as having a high audit risk. Consequently, before signing off on a company's financial statements, auditors scrutinize the books more closely. The cost of an audit rises if an auditor is expected to conduct further procedure.

Having a good reputation is important, but maintaining it is much more important. This is especially true for a serious-minded company which relies on its credibility. In view of the public backlash following the bankruptcy of multiple financial institutions throughout the world, distrust has recently surfaced as a serious problem in financial organizations. Remember that maintaining public trust requires more than simple honesty; it requires the ability to uphold solid moral convictions as well. Corporate scandals have caused consumers to lose faith in company reports Clifford & Onuoha (2012). The financial scandal jeopardises the reputation of workers and those involved in the financial reporting process. Corporate scandals have consistently shattered public confidence in corporate behavior (Adeleke, 2016). Company executives, boards of directors, and independent auditors were responsible for financial reporting fraud that resulted in the loss of investments, creditor and other interest groups, and the incompetence of regulatory and rating agencies contributed to the failure of corporations. Rebuilding consumer trust in financial reporting necessitates a determined effort on the part of all company executives.

It's crucial to understand that regardless of the degree of assurance, the public assumes that the competent accountants performed their due diligence while preparing the financial statements. As a result, accountants must remember that building trust necessitates more than just honesty: it necessitates the ability to practice sound moral principles, also known as drivers of public confidence. Openness - The standard of 'openness' has an ethical undertone since the disclosure of information helps those who are influenced by it to either advance or protect their interests. Failure to effectively reveal such information prevents those who are impacted by improving or defending their interests. As a result, lack of transparency from skilled accountants would be viewed as unreasonable or unethical by their

customers and other main stakeholders, undermining public expectations of the professionals' trustworthiness. Competence – in light of recent accounting scandals, accountants must behave following the code of ethics for accountants, as well as their competency to provide professional service with the requisite skill while taking a realistic and objective approach to problem-solving. Integrity - In all professional and business relationships, professional accountants are supposed to be forthright and truthful. Integrity also entails honesty and equal dealings.

1.9.1 Practical

The research result would help auditors know whether or not the study's variables (i e; Board Size, Board Independence, CEO duality, and Audit Committee) effectively check the manipulation of earnings. This would enable them to make a timely decision regarding their audit assignment. The study's findings could help policymakers in Nigerian listed banks, and insurance firms to determine a management's conformity to the code of CG and the board's credibility in controlling managers' opportunistic conduct. The result may also provide information that is more valuable to Nigerian accounting regulators in making recommendations for CG practice.

1.9.2 Theoretical

The philosophy of agency theory is used to clarify and resolve issues in the interaction between the principals of an organization and its agents. The most well-known example is the interaction between shareholders, who serve as delegates and corporate executives that operate as agents. The importance of maintaining public trust in financial reporting of organizations cannot be overstated. As a result, the

following importance of the study would significantly reduce corporate financial scandals and restore the firms' image and public confidence.

The research work contributes to agency theory by revealing financial scandals involving CEOs of various financial companies. It would also be significant as it encourages organizations to respect locally-trained CEOs and foreign-trained CEOs. The study would assist in the reduction of agency issues and costs. The research work is important because exposing the financial scandal surrounding CEOs allows an institution to take corrective steps to regain its credibility, which has been tarnished in the past. The research would help companies form a disciplinary board within Securities and Exchange Commission (SEC) to expedite inquiries into accused companies. It would also assist companies in convincing auditors to take an extra action in their quest to expose scandals. It would assist the company in requesting and evaluating the efficacy of its internal control mechanism in making the report accessible to investors. It should be made mandatory to disclose non-financial details to highlight what would lead to the company's potential performance. In addition to company filings with the SEC, the report assists businesses in considering Management's Debate and Review (MD & A). The study also assists companies in providing careful monitoring of their compliance level with auditing exposure draft by company auditors and an enhanced reporting model that can offer higher quality reports to all investors and increase the likelihood of better investment decisions.

CHAPTER 2

CORPORATE GOVERNANCE OF FINANCIAL SECTOR IN NIGERIA

2.1 Introduction

Nigeria is one of Africa's largest nations with a wide demand for goods and services (Ozili, 2020). Nigeria comprises 36 states and Abuja, the Federal Capital Territory, with a combined landmass of 910770 km^2, about the same size as California. According to the 2006 census, Nigeria has a population of more than 140 million people. Based on the data published by the Nigerian National Population Commission in 2015, previous survey patterns expect a 3.5% annual growth rate. As of 2015, the total population is about 180 million, according to 2006 population estimates.

2.2 The Financial System in Nigeria

Nigeria has one of the Sub-Saharan Africa's major financial structures. It includes 89 commercial and merchant banks, more than 1000 rural-oriented community banks, peoples' banks, 7 development finance institutions (DFIs), 229 licensed finance firms, more than 195 primary mortgage institutions, over 100 insurance companies, 5 discount houses, various pension schemes and over 100 bureau de change. Money and capital markets are also just getting started. However, the system's apparent diversity is misleading. Regular bank deposits are the most common form of financial savings, and commercial banks dominate the financial sector (with 93% of non-central bank assets). The elements of the Nigerian financial system are depicted in Table 2.1.

Table 2.1

Financial Institutions in Nigeria

Conventional Banks	Mortgage Banks	Insurance Companies
The Central Bank of Nigeria	Bank of Industry (BOI)	Nigeria Social Insurance Trust Fund (NSITF), formerly National Provident Fund – NPF
The Nigeria Deposit Insurance Corporation (NDIC)	Bank of Agriculture (formerly Nigerian Agricultural, Cooperative and Rural Development Bank (NACRDB)	Hire purchase and finance companies
Commercial banks (now Deposit money bank)	Federal Mortgage Bank(FMB)	Insurance companies
Microfinance banks (formerly Community banks)		Investment companies
Savings Institutions, e.g. Federal Mortgage Bank of Nigeria (FMBN)		Co-operative and credit societies

2.3 The Major Players in the Financial System

2.3.1 Conventional Banks

The CBN's responsibilities include acting as a bank and financial institutions' regulator (Gadi et al., 2015). The CBN started its job as Nigeria's bank regulator in 1959. First Bank, Union Bank, and the United Bank of Africa became Nigeria's first banks (Ajibo, 2015). 120 banks, as well as regulatory bodies such as the Nigeria Deposit Insurance Corporation (NDIC) and the Financial Services Coordinating Committee were formed between 1985 and 1992 (Ajibo, 2015).

African Banking Corporation, the first Nigerian bank was founded in 1892, marking Nigeria's proper banking activities. The Bank of British West Africa, the second bank in Nigeria was established in 1894 (Osemeke & Adegbite, 2016). Then, the banking sector was mostly concerned with British government agencies'

reservations about Nigerian shipping and trading at the time (Osemeke & Adegbite, 2016). Five new banks were allowed to open legally in the region in 1952. The Bank of British West Africa, Barclay Bank and French Bank were the international banks, while the National Bank of Nigeria and the African Continental Bank were the two local banks then (Adegbite 2012).

Nigerians' needs were met by local banks. To meet the public's growing demand, more banks sprung up. To increase bank demand, the African Continental Bank (ACB), the Industrial Bank, the commercial banks, and Agbonmagbe (now Wema) Bank were established. In 1931, the Mercantile Bank was founded, and in 1947, the Nigerian Farmers and Commercial Bank were established. Majority of these banks failed within a few years. Uncoordinated activities and poor rendition of reports were to blame for these banks' collapse Adegbite (2012).

The Banking Act of 1952 controlled the business and ensured that commercial banking operations were conducted in a lawful and orderly fashion across the world (Jakada & Inusa, 2014). Because of the lack of sustainable banking regulations, Nigeria experienced free banking from 1892 to 1952. The CBN as the regulatory body was founded in 1959. Between 1959 and 1989, the economy was deregulated as part of the country's economic reform program. There were more banking institutions and other deposit-taking agencies created. The People's Bank, the Federal Mortgage Bank, loan houses, and discount houses were among those institutions. The federal government established the People Bank and Mortgage Bank to meet the needs of the people. The Nigerian Deposit Insurance Corporation (NDIC) was founded in 1988 to assist the Central Bank of Nigeria (CBN) with supervisory reforms. The NDIC ensures safe banking services across the country, ensures bank deposits and assists the CBN in its general supervisory role.

The CBN's new regulation of raising the capital base caused 21 banks in Nigeria to go bankrupt between 1990 and 2000 Otusanya and Uadiale (2014). Insider abuse, fraud, and embezzlement were among the other factors for banks' failure in Nigeria (Otusanya & Uadiale, 2014). The Central Bank of Nigeria (CBN) increased banks' approved share capital from N2 billion to N25 billion naira in 2004 (Hassan & Farouk, 2014).

2.3.2 Mortgage Banks

Mortgage is a contract in which a person borrows money from a lender (usually a mortgage lending institution) to buy a home and then pledges the home to the lender, who then takes ownership of the home if the borrower fails to repay the money. The Companies and Allied Matters Act (CAMA) 1990 regulates the disclosure of details in audited financial statements (AFS) in Nigeria. The Act's section 334(2) specifies the information that must be revealed. Banks and other financial institutions including Primary Mortgage Institutions (PMIs) are also required to obey the Banks and Other Financial Institutions Act (BOFIA) 1991 and the Nigeria Deposit Insurance Corporation (NDIC) Act 2006. "Any insured person shall submit to the Corporation such returns and details as may be required from time to time within the stipulated period", says Section 27(1) of the NDIC Act. Registered companies are required to provide externally audited Call Reports, AFS and Statements of Deposit Liabilities, among other things.

2.3.3 Insurance Companies

Nigerian government launched a series of interventions to boost insurance firms and increase their global competitiveness; their respective thrusts have

demonstrated important legislation in this direction. This includes the Insurance Companies Act of 1961, which established a restricted control mode and provided for the registration of insurance companies; the Insurance (Miscellaneous Provision) Act of 1964, which governs insurance funds; and the Insurance (Miscellaneous Provision) Act of 1965, which regulates insurance funds (Okwor, 2019 & Barros et al., 2008). The Insurance Companies Regulation of 1968 was passed to improve pre-registration conditions; the Insurance Acts of 1976 implemented the registration and oversight of intermediaries; the Insurance Acts of 1991 addressed issues that arose during the implementation of the 1976 Act, and the Insurance Acts of 1991 addressed issues that arose during the implementation of the 1976 Act; and the Insurance Acts of 1997 reclassified the insurance sector and reclassified the minimum paid-up share capital requirements (Okwor, 2019 & Barros et al., 2008). In addition, Section 3 of the Insurance Act of 2003 stipulated that no insurance company may invest more than 35% of its assets in real estate property, as well as introducing the first major re-capitalization process, which raised the minimum capital requirement by up to 65%, leaving the capital base below N500 million (Ojo, 2012). In 2005, the re-capitalization order raised the capital base for life insurance to 2 billion Naira, non-life insurance to 3 billion Naira, and re-insurance firms to 10 billion Naira.

2.4 The Development of the Banking Industry in Nigeria

Banking regulation ensures compliance by controlling, governing, and supervising banking operations (Ajibo, 2015). CBN regulates commercial banks, merchant banks, and microfinance banks (Ajibo, 2015). The CBN is in charge of ensuring that banks follow laws and procedures to avoid failure and restore public