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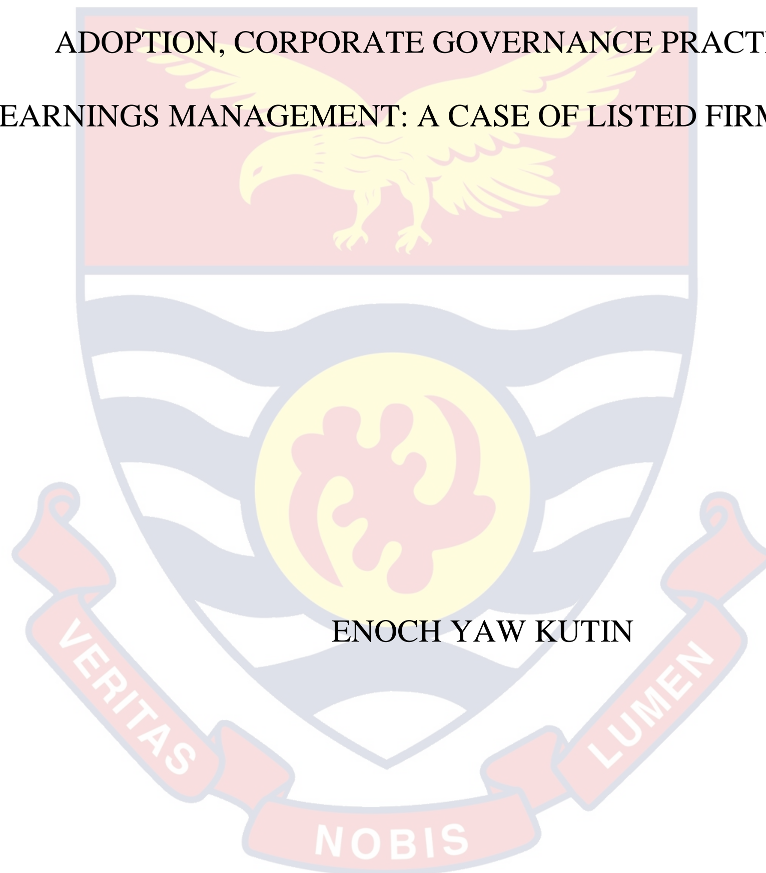
INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) ADOPTION, CORPORATE GOVERNANCE PRACTICES AND EARNINGS MANAGEMENT: A CASE OF LISTED FIRMS IN GHANA



ENOCH YAW KUTIN

2021

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INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) ADOPTION, CORPORATE GOVERNANCE PRACTICES AND EARNINGS MANAGEMENT: A CASE OF LISTED FIRMS IN GHANA

BY

ENOCH YAW KUTIN

Thesis submitted to the Department of Accounting of the School of Business, College of Humanities and Legal Studies, University of Cape Coast, in partial fulfilment of the requirement for the award of Master of Commerce degree in Accounting

SEPTEMBER 2020

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DECLARATION

Candidate's Declaration

I hereby declare that this thesis is the result of my own original research and that no part of this work has been presented for another degree in this university or elsewhere.

Candidate's Signature: ………………………………… Date…………………

Name: Enoch Yaw Kuttin

Supervisor's Declaration

I hereby declare that the preparation and presentation of the thesis were supervised in accordance with the guidelines and supervision of thesis laid down by the University.

Supervisor's Signature: ……………………………… Date…………………

Name: Mr. Seyram Kawor

VERITAS LUMEN NOBIS

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ABSTRACT

The International Financial Reporting Standards are recognized as standards with the potential to improve the quality of accounting information considering the fact that they are principled based standards and may, therefore, better reflect the companies' financial situation. Accountants and financial economists have for long identified that corporate governance affects earnings management. This study seeks to examine the impact of IFRS and corporate governance on earnings management. Using a quantitative approach, a purposive sampling technique was used to select 22 companies listed on the Ghana Stock Exchange (GSE). Secondary data was collected from the annual reports of listed companies from 2005 to 2018. Data analysis was done using a Paired T-test and regression analysis considering both fixed and random effect. The study result revealed that prior to the adoption of IFRS, earnings management was on the rise. However, the introduction of IFRS reduced the earnings management of listed companies. Findings of the study also showed that board size, board composition and firm size strongly influence earnings management. The study therefore recommends that regulatory bodies should ensure strict adherence to the corporate governance standards set out in the country as well as IFRS. Also, the study recommends a stronger enforcement mechanism for the implementation of IFRS must be instituted by the regulatory bodies to ensure its positive impact on the quality of accounting information.

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KEY WORDS

Earnings Management

International Financial Reporting Standards

Corporate Governance

Accruals

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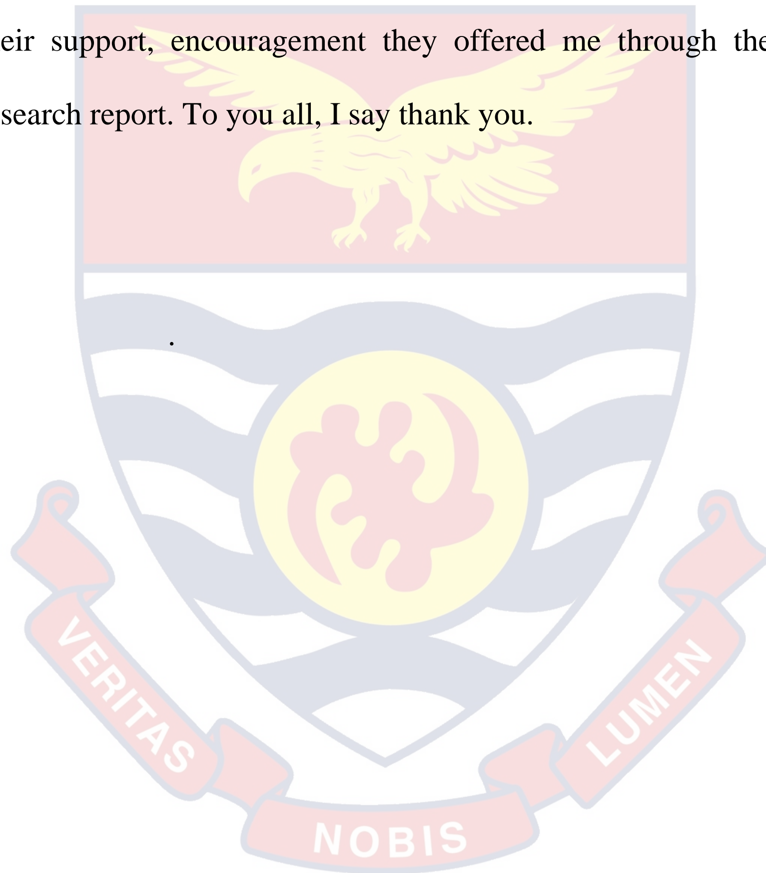
ACKNOWLEDGEMENTS

I express my deepest sincere gratitude to my supervisor, Mr. Seyram Kawor for the timely guidance, encouragement and constructive advice offered me throughout this research work. I have been extremely fortunate to have a supervisor who offered me his time out of his busy schedule to respond promptly to my questions and queries.

I am also grateful to the faculty of the university and colleagues for their support, encouragement they offered me through the writing of this research report. To you all, I say thank you.



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DEDICATION

To my parents, Mr. and Mrs. Kuttin and my siblings

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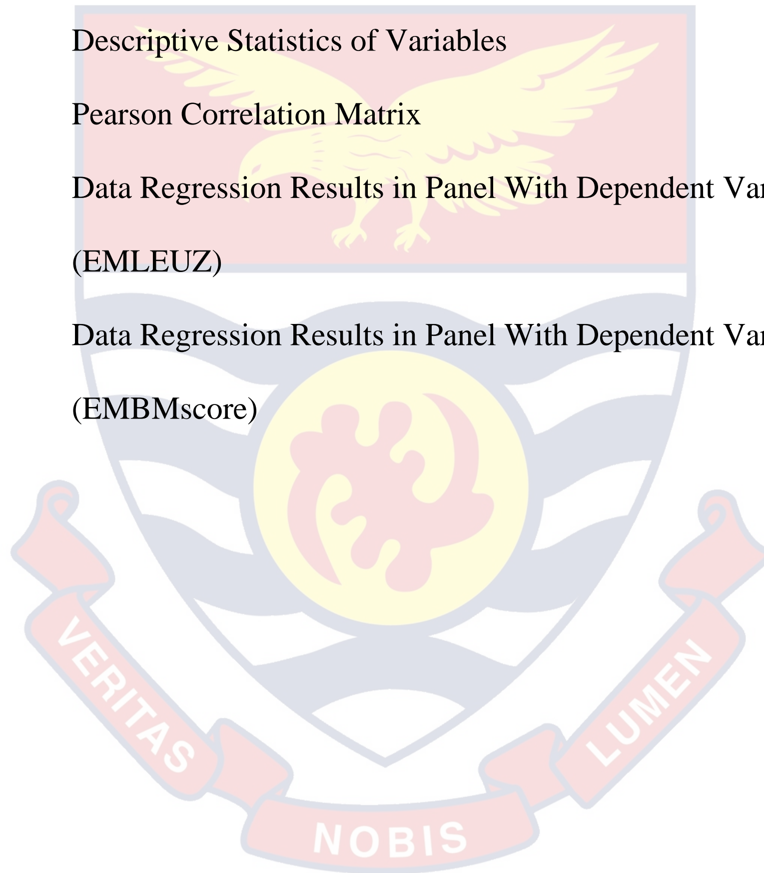

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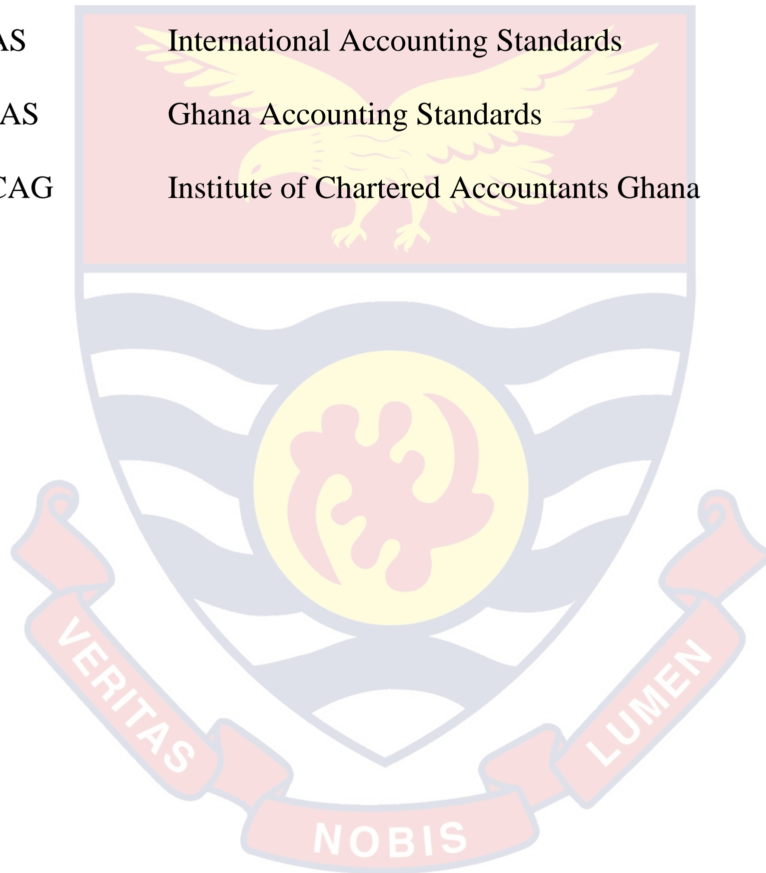
LIST OF ACRONYMS

IFRS	International Financial Reporting Standards
EM	Earnings Management
GES	Ghana Stock Exchange
SEC	Security and Exchange Commission
BoG	Bank of Ghana
IASB	International Accounting Standards Board
IAS	International Accounting Standards
GAS	Ghana Accounting Standards
ICAG	Institute of Chartered Accountants Ghana



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CHAPTER ONE

INTRODUCTION

International Financial Reporting Standards (IFRS) is introduced as a single set of global accounting standards with the aim to offer better transparency and comparability of the financial statement. Accordingly, it is expected that the outcome of this approach ensures better financial reporting quality by lowering the level of earnings management. Corporate governance mechanisms are considered to be the most important factors in assessing and monitoring the effectiveness of financial reporting and may be considered to be a cornerstone of control in general. Earnings management is considered one of the most important issues related to financial reporting, particularly after the Enron and WorldCom scandals. Earnings management behaviours are also related to low levels of corporate governance. It has been observed that the outcome of IFRS adoption and corporate governance is not conclusive and hence there is the need for further investigation in the Ghanaian context as well.

Background to the Study

One of the most powerful final accounts item is a company's published earnings. This implies that earnings have a significant impact on business operations, investment choices and decisions by management. According Healy and Wahlen (1999) management may be desirous to alter earnings in order to achieve set targets. This happens as a result of the split of decision making and risk bearing in large firms which leads to information asymmetry where one party has access to information than the other. The managers of large companies as decision makers sometimes take decisions

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that are in favour of their interest other than that of the shareholders who have taken the ultimate risk of investment due to the motivation derived from the advantage of information asymmetry enjoyed (Waweru & Riro, 2013). Such devious act is denoted as earnings management and it is where the management of an entity manipulate financial reports to suit their own interest rather than of that of their shareholders.

Varied strategies to manage earnings are used by management of companies. Instances of such means are early recognition of revenue, using approximations to inflate earnings, deliberately delaying earnings and heaps additional. These strategies blight the transparency, dependability and accuracy of final statements and can lead to dysfunctional decisions (Mintz, 2006).

The common method used to manage earnings is accruals as it gives the managers a wide range of options to determine the earnings a company reports in any given time (GarcíaMeca & Sánchez-Ballesta, 2009). A number of factors encourage earnings management decision taken by mangers. Prior studies have shown that these incentives are known as devious or opportunist earnings management and useful earnings management. Managing earnings amounts to realizing personal enticements other than the goals desired by organization refers to opportunist earnings management and managing earnings to realise stockholders' motivations constitutes favourable earnings management (Rezaei, 2012).

Earnings management led to collapse of many companies all over the world. Typical examples are America International Group, Parmalat, Enron (US) and One Tel (Australia), Nortel (Canada), and Oceanic and

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Intercontinental banks in Nigeria (Okugbo, 2011). The Cadbury case reported in 2006 when the company intentionally adjusted its earnings ascendant to an amount of $100, which led to a nose-diving of share price of the company (Abdullahi, Enyinna & Stella, 2016). The fall of these corporate giants among others has left profound scars in the entrepreneurial world, and some authors have suggested that the collapse of these organizations could have its origins in the lack of good corporate governance (Hassan Che Haat et al. 2008). These corporative scandals accelerated the understanding that the effects on the economy were generated due to weak corporate government practices, and that at the same time have negatively affected the confidence of people in the reliability of firm information.

In Ghana, some listed firms were delisted from the Ghana Stock Exchange (GSE). One of such firms is the UT bank who was delisted after their license for operations were revoked by the Securities and Exchange Commission (SEC). At an annual dinner of the Chartered Institute of Bankers, Dr Ernest Addison, Governor, Bank of Ghana (BoG), attributed the collapse of these banks to poor corporate governance practices within these institutions which led to the mishandling and embezzlement of funds. This implies that strict adherence to corporate governance principles could have prevented mismanagement and embezzlement of funds which forms part of earnings management. There is therefore the need to pay critical attention to corporate governance practices as it helps in combating earnings management.

Financial information provided to stakeholders to a large extent depend on final accounts presented by companies to make financial and strategic decisions. Hence it is very imperative that there should be standards to guide

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how these statements are prepared so as to improve on its reliability and quality.

The International Accounting Standards Board (IASB) has become more and more important within the globe. Its prime goal is to promulgate International Financial reporting Standards (IFRS) is to improve on the quality of financial statements presented by firms irrespective of their country (Choi et al. 2004).

The late Hon. Kwadwo Baah Wiredu, the former Minister of Finance and Economic Planning in January 2007, officially launched the IFRS adoption in Ghana to replace the Ghana Accounting Standard (GAS). This was in reference to the laws issued by the World Bank. Following the launch, Ghana as an African nation in its quest to encourage increased economic growth through non-public sector-led growth replaced its non-operational Ghana Accounting standards (GAS) to IFRS with effect from 1st January 2007.

The adoption of IFRS was subsequently out doored by the council of the Institute of Chartered Accountants Ghana (ICAG), on 23rd January, 2007 and made it mandatory for all listed firms, state-owned corporations, financial institutions and insurance firms. The companies were to implement the IFRS as at 31st December, 2007 and other different entities were given an extra grace period of transition of two years to comply (United Nations, 2008). Currently, According to PricewaterCoopers, (2010), Ghana is one of the fifteen nations in Africa to have converged to IFRS

Presently, a generally accepted measure for financial reporting is the international standards. The reception and practice of IFRS has developed

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worldwide. Huge international stream of investment capital and capital instruments over geographical borders has supplemented a new incentive to the IFRS adoption. As part of this reason, investors' desire for audited financial reports to be prepared and presented not only on timely basis but also conjointly to follow international standards (Choi et al. 2002).

Corporate governance guidelines in recent times have gained much attention and have been deliberated all over the world. The application of these regulations has been of importance to both individual and state-owned companies. This has led to the designing of new corporate governance directives such as regulations to improve assurance, minimize corruption, and enhance the transparency of regulations for safeguarding the interest of creditors, bankers and investors and promotion of foreign investment. (Alhaddad, Alzurqan & Alsufy, 2011).

The Companies Act, 2019 (Act 992) is the primary legislation used in regulating governance of companies listed on the Stock Exchange of Ghana. The Companies Act contains general provisions in relation to company's framework for both private and state-owned firms. It also makes special provisions for public institutions in relation to how shares of public companies are traded. The Companies Act also makes available standards in which financial statements are reported. The Act also spells out procedures for selecting directors. Aside the Companies Act, the Security Industry Act, 2016 (Act 929) and the Security and Exchange Commission regulation, 2003 also regulate the trading of securities listed on the GSE. It also makes available financial Reporting standards for listed firms.

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In Ghana the regulations guiding corporate governance behaviour of listed firms is a blend of constitutional law, legislation, guiding principle and directives. There is no law enforcing the Corporate Governance. It simply used as a standard for evaluating the governance practices firms that run under the security industry and companies that are listed on GSE. Nevertheless, a number of regulatory bodies in the financial sector have designed comprehensive compulsory directives that regulate the corporate governance activities of companies. Failure to comply with these directives could have a negative impact on the company's licences

One of the sectors that have been able to come out with a detailed regulation for monitoring corporate governance practices of its members is the banking sector. The Bank of Ghana (BoG), in line with the Basel committee on banking supervision, published guiding principles to regulate the banks governance structures and control systems for banks as well firms specialized in taking deposits. Succeeding the failure of a number of financial institutions especially banks, BoG released detailed corporate governance directive for the banking industry, precisely for banks, savings and loans companies, finance houses and financial holding companies licensed or registered under the Banks and Specialised Deposit Taking Institutions Act, 2016.

Statement of the Problem

The topic of earnings management has in recent times gained dominance in studies relating to financial reporting, more precisely following the introduction of the International Financial Reporting Standards (IFRS). This is however based on the datum that the reporting standards which serves as benchmark for the preparation and presentation of financial statements

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determines the quality of information it contains. Blanchette, et al. (2013) posits that accounting information quality is expressively influenced by the accounting standards used in its preparation. This however not the only cause as found by Jeanjean and Stolowy (2007). It is reported in some studies that IFRS has standards of high quality which are supposed to enhance the reporting quality through worldwide acceptance (Barth, Landsman & Lang, 2008; Herbert, Wilson, Ene, Emeka & Tsegba, 2014).

Van Tendeloo and Vanstraelen (2005) postulate that the development and adoption of IFRS in known capital markets facilitates in the coordination of corporate accounting practice and help solve the problem of quality reporting. Therefore, it is believed that accounting after IFRS adoption will enhance the quality reporting (Kaaya, 2015). This is due to the fact that adoption and also application of IFRS is likely to restrain the opportunistic behaviour of managers and develop the quality of earnings and hereafter information reported will be of quality and reliable.

Accordingly advocates of IFRS are of the opinion that comparing IFRS and the local standards, IFRS are high quality rule-based standards than local standards (Barth, Landsman & Lang, 2008; Suadiye, 2012) hence it is expected to minimize the earning management in companies listed on the Stock Exchange. The motive for this is that much financial disclosures are demanded than the local standards (Limanto & Fanani, 2014). Therefore, it controls discretional reporting and information asymmetry among managers, shareholders and other relevant stakeholders (Onalo et al, 2014). Also, IFRS are principle-based hence minimizes management opportunistic behaviour (Yosr & Ezzeddine, 2014). In upshot, Cai, Rahma and Courtenay (2008) posit

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that, “the IFRS high quality reporting standards takes off many allowable accounting alternatives and expected to limit the management`s discretion to manipulate earnings, thereby improving earnings quality”. Hence the implication of this is that generally accepting and adopting IFRS which is more of a high-quality rule-based standard is likely to enhance the quality of accounting reports mostly through value relevance and minimized earnings management.

In disagreement to the contentions put out by champions of IFRS, a number of studies report that IFRS are seen as more discretional and bendable (Nobes, 2011; Lin, Riccardi & Wang, 2012) and embrace fair value measurement (Bosch, 2012; Blanchette, et al, 2013). Accordingly, IFRS has the tendency to provide greater ways for companies to engage in earnings management and increase their earnings management level. For instance, Jelic, Wolfang, Inwinkl and Scheneider (2010) posit that “under IFRS, managers tend to have more degrees of freedom to manage their earnings”. This is because companies use their personal judgement in accounting guidelines and underlying accounting standards to massage financial statements (Onalo et al, 2014). It can hence be established that managers at a particular point in time engage in earnings management using choice of accounting methods (Jelic, Wolfang, Inwinkl & Scheneider, 2010).

These arguments are supported by Ding, Ole-Kristian, Jeanjean Thomas and Heme, (2007), who argue that adopting high quality standards does not guarantee high quality information. According to them, the influence that IFRS has on financial information quality is largely affected by its actual implementation that is different across countries. For instance, certain factors

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affect accounting information quality more that the reporting regime used. Extant literature state that factors like governance structures that are strong, strong legal and sound institutional regulatory framework have significant impact on enforcing standards. This consequently influences the quality of reporting (UNCTAD, 2008: UNCTAD, 2010: Lee, Edward, Walker, Martin. & Zeng, Colin, 2013). According to Prather-Kinsey, (2006) there is not a single set of standards can be applied efficiently for all countries in dealing with quality accounting information. This is because of the differences in cultural, legal, economic and institutional settings.

From the discussions above one can say that the extent of measurement, discretion, recognition and disclosure of financial transactions is determined by accounting standards which in turn has influence on managers' ability to engage in earnings management. However, there is a debatable argument as to whether Earnings management is reduced after adoption of IFRS.

The issue of corporate governance like that of the financial reporting standards can however also not be side-lined in the discussion of earnings Management. Earnings management is explained as a deliberate attempt made by the managers to influence financial statements of a firm in order to attain certain desired outcomes. Accordingly, Hearly and Wahlen (1999) posit that the usage of personal decree to manipulate final accounts so as to either misinform key users of the accounting information about the overall performance of the company or to have an impact on the outcome of contracts that is highly dependent on reported accounting figures refers to earnings management. Managers are driven by their own interest to engage earnings

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management which may be varying with that of their shareholders and investors (Guo & Ying, 2015). Shehu and Abubakar, (2012) postulates that the introduction of corporate governance practices seeks to bring down agency cost that may come up due to the conflict of interest that occurs between managers and shareholders.

In prior studies, researchers have concluded that there is a significant association among the size of board of directors, Board Composition and Audit committee size as a component of corporate governance and earnings management (Alves, 2011; Ghosh Marra & Moon 2010; Hsu &Ying, 2015; chen & Zhang, 2012; Alhaddad et al, 2011). There is however no consensus among the researchers whether large board size or small board size will effectively mitigate earnings management or which Board composition positively or negatively affects earnings management or whether big audit committee or small audit committee will effectively eliminate earnings management.

The study conducted by Ahmed, Hossain and Adams (2006) showed that there is an inverse relationship between the size of a company's board and earnings management. According to Alves (2011) and Ghosh et al. (2010) companies with bigger board size have the tendency to reduce earnings management than companies with smaller board size. Hsu and Wen (2015) also concluded in their study that the larger the board size, the more ability for the board to monitor whether the managers conduct earnings management behaviour or not hence larger board size will minimize earnings management by managers.

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This is however contrary to Jouber and Fakhfakh (2012), who found that no significant relationship exists between Board size and earnings management. Jensen (1993) and Yermack (1996) also conclude that companies with small board size tend to mitigate earnings management better.

Chen and Zhang (2012) found that independent directors on boards are significant in minimizing earnings management. This result was also attained by Wang and Campbell, (2012) who concluded that a board made up of greater percentage of independent director's board has a negative impact on earnings management level of China companies. However, according to Hsu and Ying (2015), they established that independent directors is ineffective in curbing earnings management. Prencipe and Bar-Yosef, (2011) concluded that there is little effect of independent directors on earnings management.

Ramlugun and Seewoo (2011) concluded that companies whose levels of earnings management are low have better audit committee characteristics. Chen et al, (2012) concluded that audit committee also reduced earnings management. Similar results were as also found by Lin, Li and Yang (2006) as they concluded that there is an inverse association between a company's audit size and earnings management.

On the contrary, Baxter, (2009) found no relationship between the size of audit committee and earnings management. Alhaddad et al, (2011) found out that audit committee size has a positive relationship with earnings management implying that as size of audit committee increases earnings management will also be on the rise.

From the discussions above we can further draw a conclusion that there has been a mixed result on the impact of IFRS and Corporate governance

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on Earnings Management that needs further investigation in the Ghanaian context as well. Out of this reason, I derive the motivation for this present study.

Purpose of the Study

The study seeks to examine the impact of International Financial Reporting Standards (IFRS) adoption and Corporate Governance on Earnings Management

Research Objectives

1. To assess the difference in earnings management of listed firm Pre and Post adoption of IFRS.
2. a. To examine the effect of IFRS on Earnings Management

   b. To examine the effect of board size on Earnings Management.

   c. To examine the effect of board composition on Earnings Management.

   d. To examine the effect of audit committee on Earnings Management.

Research Hypothesis

1. **H_o**: There is no difference in earnings management of listed firms pre and post adoption of IFRS.

   H_1: There is a difference in earnings management of listed firms pre and post adoption of IFRS.
2. a**. H_o:** IFRS does not significantly effect earnings management.

   H_1: IFRS significantly effect earnings management.

   b. **H_o:** Board size does not significantly effect earnings management.

   H_1: Board size does not significantly effect earnings management.

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c. **H_o:** Board composition does not significantly affect earnings management.

H_1: Board composition significantly affect earnings management.

d. **H_o:** Audit committee size does not significantly affect earnings management.

H_1: Audit committee size does not significantly affect earnings management.

Significance of the study

The introduction of corporate governance and IFRS adoption on earnings management is distinctive. Several studies that have been conducted show inconclusive results when it comes to the association between Corporate Governance, IFRS adoption and earnings management.

Multiple studies have recorded divergent conclusions on the association that exist among corporate governance and earnings management. The findings of this work will add to the literature on corporate governance and earnings management. The result will equally benefit the regulators such as SEC and other government agencies

Other stakeholders such as shareholders and prospective investors will benefit from this study. The study will also serve as literature for future researches to consider on the relationship between corporate governance, IFRS adoption and earnings management.

Delimitations

The study is defined within the scope of evaluating the impact of IFRS adoption and corporate governance practices on earnings management. The Study considered companies listed on the Ghana Stock Exchange (GSE).

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Within this scope, the study examined the areas of corporate governance for listed companies. The study also examines the Influence of IFRS on earnings management prior to IFRS adoption and after adoption.

Limitations

Notwithstanding the contributions of this research to the body of knowledge, the study has some limitations. The researcher only focused on companies who were listed on the Ghana Stock Exchange from 2004 to 2018. Attention was not given to big companies who are not on the GSE and also Small and Medium-Scale Enterprises (SME's)

Organisation of the Study

The study is structured in five chapters. Chapter one serves as the introduction to the research which encompasses the background on current academic knowledge on IFRS, corporate governance and earnings management. It covers the statement of the problem, significance of the study, scope of the study, limitation of the study and organization of the study.

Chapter two reviews the relevant literature and theoretical frameworks developed on IFRS and corporate governance and its impact on earnings management. The second phase of this chapter will also review some empirical studies and diverse arguments advanced on the issue under study. The final phase of this chapter will present a conceptual model presenting relationships between IFRS, corporate governance and its impact earnings management.

In Chapter three, the researcher discusses the research methodology of the study. Justification and explanation of research paradigm under which the methods for the research are discussed. The sources of data, sampling

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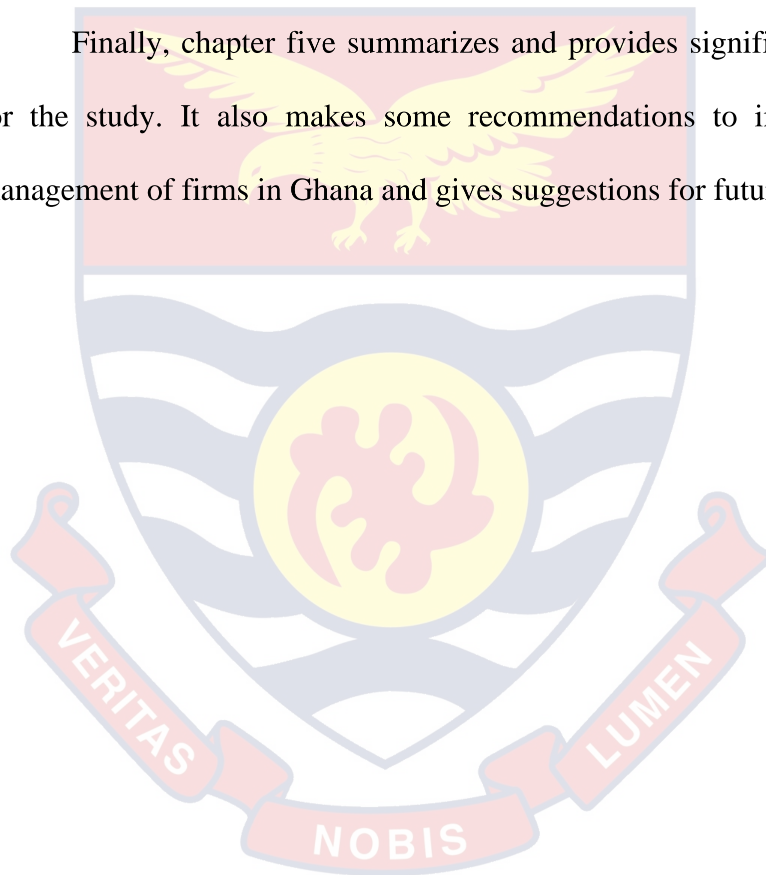
techniques as well as instrumentation are discussed in this chapter. The study population and the scope of the study are explained in addition to the data gathering procedure and data analysis.

The analysis of the data gathered by the researcher to obtain meaningful results is presented in the Chapter four of this work. This enables readers to follow the connection between the objectives of the study and research questions, the literature review, and theoretical framework.

Finally, chapter five summarizes and provides significant conclusions for the study. It also makes some recommendations to improve earnings management of firms in Ghana and gives suggestions for future study.



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CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter seeks to evaluate relevant literature on the study. The chapter begins with a review of both theoretical and empirical literature relating to International Financial Reporting Standards (IFRS), corporate governance and earnings management. Information asymmetry, agency theory, signal theory, stakeholder theory and threshold theory are reviewed.

Theoretical Review

There is no single theory that can be found in literature that wholly explains earnings management. The theories that underpin earnings management actions in relation to literature are agency theory, signal theory and stewardship theory. Sun and Rath (2008) posits that that most fundamental theory that underprops earnings management activities in related literature are agency theory, information asymmetry, stakeholder theory, Signal theory and threshold management theory. These are discussed in turns.

Information Asymmetry

Information asymmetries have significant repercussions on the decisions made by decision makers. The main concept behind information asymmetry theory dates back to 1970. It was presented in a paper with a title: "The Market for "Lemons": Quality Uncertainty and the Market Mechanism by Akerlof. This paper develops asymmetric information with the example case of automobile market. The basic argument is that in many markets the buyer uses certain statistics to measure the value of the goods.

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Thus, the buyer sees the average of the whole market while the seller has more intimate knowledge and information. Akerlof (1970) argues that this information asymmetry gives the seller an incentive to sell goods of less than the average market quality and so this creates the information asymmetry problem.

According to Scott (2009), when a member in a market segment possesses much understanding in relation to how an asset is bought and sold that the other in the same market has no knowledge then there is information asymmetry. Information asymmetry gives managers the advantage to undertake earnings management activities because it is challenging for shareholders and investors to have access to the extent to which earnings are influenced in firms which is as a result of opaque information environment (Lui et al., 2010). Managers are privy to certain information which are confidential about the company and its revenues streams which are undisclosed to the shareholders. Information asymmetry is highly likely to be between shareholders and managers and this could result to earnings management activities (Scott, 2009).

According to Richardson (2000), higher information asymmetry means that various stakeholders will not have adequate resources, relevant information and incentives to help check the operations of managers and this will lead to earnings management by managers. Liu et al. (2010) also contended that a when asymmetric information is on the rise, shareholders find it very difficult to track the actions of managers, resulting in mangers having the freedom to manipulate information in their financial reports.

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Agency Theory

The concept of agency theory was primarily introduced by Ross (1973) and was further developed by Jensen and Meckling (1976). According to Bhimani, (2008) the theory is much concerned about ownership and control. The theory stipulates that there exists relationship in a form of a contract where one party known as the principal employs the services of another party referred to as the agent to perform an activity on his behalf. This is characterised by delegating some decision-making power to the agent. The contract between the principal and agent is primarily designed to align the incentives between principals and agents.

It gets to a point where the purposes of both parties oppose. It hence becomes problematic and very expensive for the principal to actually know what the agent is actually doing. When this happens, we say agency problem has occurred. That is, the agent acts in self-centred manner to maximize his/her wealth to the disadvantage of the principal. So, there is a transfer of wealth from the company to the manager (Jensen & Meckling, 1976).

According to Soderstrom and Sun (2007), adoption of a common set of accounting standards such as IFRS improves earnings quality because management is under pressure to report a true and fair view and engage in fewer earnings management activities. Reflecting this line of thought, (Barth et el. 2008) find that high-quality accounting standards reduce earnings management and improve reporting quality. Barth et al. (2008) suggest that firms that adopt IFRS are less prone to engage in earnings smoothing and are more likely to recognize losses in a timely manner.

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Agency theory is a prominent explanation of earnings management behaviour in the extant literature. According to Liu et al. (2010), a conflict of interest between management and shareholders exists when managers seek to maximize their utility in a way that is not in the best interest of shareholders. As a result of this conflict, costs are incurred which are known as agency costs. According to the agency theory, managers seek to maximize their personal utility to the detriment of other stakeholders. In order to reduce this behaviour and motivate them to take care of the company right, managers are paid according to achieved result. This generates an incentive for managers to manage earnings to maximize their personal wealth.

Bhundia (2012) explains that in order to maximize their interests or keep their position, agents are willing to present a good picture of the firm's financial position to shareholders. However, agency problems arise when the maximization of the agent's wealth does not necessarily lead to the maximization of shareholders" capital. Directors possibly will have a spur to influence incomes so as to make the most of their self-regard. The writer further contends that if earnings management is carried out deviously, at that point firms will incur an agency expenditure that is high. Nevertheless, if shareholdings are controlled and managed by managers of the company, then the objectives of managers and owners ought to be brought into line so that earnings management will be reduced to its minimum since managers and shareholders have equal interest.

Implementation of accounting principles possibly will be as vital as the accounting principles (Sunder & Cyert, 1997). Strong IFRS enforcement lays pressure on managers who have much information at their disposal thus

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minimizing their scope to exercise discretion. Jiraporn et al. (2008) makes available proof that embracing accounting standards with feeble stakeholder security could possibly result in a decline in the supposed eminence of the accounting standards, and submits that it would be beneficial for the literature to commence to edifice and enumerate the country reports by bringing out more useful tests. Yu (2005) posits that accrual-based accounting standards with improved disclosure requirements, and segregation of tax and financial reporting all restrain earnings management. He also proposes that analyst estimate error are reduced when there is high quality accounting standards. According to Francis et al. (2003), they are of the view that there is no proof that improved accounting solely sovereign of a country's principal legal systems is positively associated with the development of financial market. Jiraporn et al. (2008) recommends that robust investor protection emboldens managers of companies to adhere to regulation and hence further suggests a complete measure of accounting standards implementation. The judicial structure of a country can be very operative though execution of accounting regulations may be deficient. Nonetheless, it is challenging to contemplate of circumstances where the country's jurisdictive system in a broad-spectrum performs abysmally but implementation of accounting regulation is resilient.

The Signal Theory

The signal theory was developed by Ross in 1977. This theory looked at the association that exist between prospective investors and managers of an organization with respect to asymmetric information. According to Spence (1973), signals can be explained as a noticeable trait of an object which is

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capable of being controlled by a person known as the signaller to influence the decisions of the parties, he/she is dealing with.

The signal theory stipulates that information circulated to various stakeholders is not done evenly. It is therefore evident that in an organization, managers are more privy to certain information on the future prospects of the organization and this enables them to send signals to various investors and customers outside. The access to information on the profitability and future prospects of the organization by managers enable them to indulge in earnings management by making financial statement earnings look attractive. Aerts et al. (2013) posit that the market heavily relies on the information provided by management to make their various predictions and decisions. The result of this action is that it tunes the expectations of the market to be in line with that of the management.

Firms that send indications to their prospective investors and markets have growth potentials and hence are capable of managing their earnings (Lee & Xue, 2004). In relation to this, Altamuro et al. (2005) posits that, managers practice earnings management to provide stakeholders with significant information around the forthcoming prospects of the firm.

Two classes of signals are shown in Signal theory according to literature. These are informational and opportunist signal. The informational signal is of the view that managers are privy to certain vital information and as such decides to make it known to the market. This will help minimize information asymmetry and it will also help in the revaluing of the securities of the company to reflect the current value of the company. High growth prospective companies provide information on these investment opportunities

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using earnings management (Ahmed *et al.*, 1999). The opportunist signal on the other hand, explains that managers may be able to capitalize on this form of indicator to facade unsuccessful investments and lure prospective shareholders so that they can attain individual achievement as securing their jobs and also to make the most of their funds through additions on income based on work done. The opportunist signal behaviour expressed by managers is in line the theory of management thresholds which explains the untrue signals given by management to achieve some sort of favourable results.

Stakeholder Theory

Stakeholder theory which is a further explanation to the theory of agency posits that there is an existence an agent-principal relationship among the investors and the managers. The implication of this is that to avoid any conflict that has the likelihood to breed grounds for an agency problem, the agent is supposed to perform an obligation on the principals' behalf for their preeminent concern. (Jensen & Meckling 1976).

This is however regarded as a narrow focus. Hence it is required of managers to pay much attention to the views and interest of numerous interested parties. With this theory, a broader responsibility is required of managers to take notice of the needs of the various stakeholders and not only specifically shareholders only (Donaldson & Preston 1995).

Mitchell et al. (1997) were of the view that various interest groups can be categorized by three different characteristics. Firstly, their power to have impact the firm. Secondly, their validity of association with the firm. Lastly, the importance of the stakeholders' entitlement on the firm. Stakeholders are explained as any group or individual who are either affected or can be affected

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by management's decisions. (Freeman, 1984). Examples of these groups include employees, local government, suppliers, clients, banks, and agencies, community organizations and political parties.

The stakeholder theory supports that there is network of connections that firm managers are expected to assist. In principle, the stakeholder theory accentuates the necessity for managers to be responsible to stakeholders. In order to ensure that stakeholders are sufficiently protected, stakeholder theory recommends that innumerable stakeholder groups should be represented on the board of the organization to guarantee unanimity building, duck conflicts, and complement energies to attain organizational goals (Donaldson & Preston, 1995).

There have been several criticisms about stakeholder theory excessively burdening managers with obligations of being answerable to numerous Stakeholders without precise guiding principle for unravelling glitches related with conflict of interests. There are different types of stakeholders each with different needs and goals which are difficult to all be aligned with the goal of the firm so this causes the inability to equally solve the conflict of interests between the different groups of stakeholders (Habbash, 2010).Furthermore, when managers' incentives are not aligned with the interests of the Shareholders, they use the stakeholders as a cover by claiming that this conflict is due to providing consideration to the stakeholders' goals and objectives leading to the inability to satisfy the shareholders (Healy & Palepn 2003). In addition to that, it is argued that due to the large number of stakeholders with many different needs, a huge burden on the managers is created this was documented by (Sundaram & Inkpen 2004) who also add that

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managers should only care about creating value for the shareholders as it is proposed that this will affect the decision-making process and eventually enhances the outcomes for the stakeholders.

Conversely, the system of associations among several groups can influence decision making practices, as stakeholder theory is concerned with the nature of these relationships in terms of processes and outcomes for the firm and its stakeholders, (Freeman ,1984). In line with the above, Donaldson and Preston (1995) avow that stakeholder theory lays emphasis on management decision making and stakeholders concern have inherent worth, and these set of concerns never overlap. This implies that it is required of managers to take cognizance of the interests and impacts of individuals who are one or the other affected or could be affected by a company's strategies and actions. Managers have a duty to track goals that would encourage the longstanding worth of the company by guarding the interest of all investors (Jensen, 2001).

The Threshold Management Theory

The threshold management theory was developed by Burgstahler and Dichev (1997). They stipulated managers of companies with the use of earnings management attain a standard of expected result. This is known as "threshold". Burgstahler and Dichev (1997) emerged as the first scholars who studied the misrepresentations in the circulations of accounting outcomes. They noted that there are two categories of thresholds. These are the threshold of zero result which seeks to prevent losses and the threshold of variation nil of the result seeks to avoid the lessen income. In addition, a further research

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by Degeorge *et al.* (1999) shows that the threshold of analysts' expectations is also another type of threshold that can be considered.

These thresholds are often used by financial analyst as a mechanism to appraise the performance of firms. Thus, the absence of regularities round its threshold was understood as an influence of the accounting result. Vidal (2010) posits that Corporations manage their outcomes to attain or even outdo these thresholds. In reality, management prefer a break even or even a feeble positive result than reporting losses. Mard (2003) using 294 French listed companies established that between 35% and 48% of these listed companies with risk of loss run their earnings to attract optimistic advantages.

According to Aerts et al., (2013) Managers have the sole responsibility of painting a good image to their shareholders and this encourages them to attain or even exceed their threshold (objective). This helps them to build a good standing and increase their demand on the job market.

Empirical Review

The issue of earnings management and IFRS has become a very contentious topic that has gained much interest by researchers. This section looks at works conducted by various researchers which are related to the problem under investigation in this study. It carefully considers works conducted in the area of IFRS and corporate governance impact on earnings management.

Corporate Governance and Earnings Management

Omoye and Eriki (2014) carried out a study which categorized Nigerian listed firms into upper and lower earnings management ranks and studied how corporate governance practices associated with these classes of

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earnings management levels. The study sampled of 130 firm listed on the stock exchange of Nigeria for the year between 2005 and 2010 and to ascertain the distinct corporate governance features of companies and control variables that affects company's' decision to indulge in earnings management. They piloted a descriptive survey, correlation analysis, diagnostic test and binary regressions analyses.

The result of the research conducted showed that, listed firms in Nigeria desire the usage of upper earnings management activities. Board independence had a positive and significantly affects the possibility of listed firms in Nigeria implementing complete higher earnings management, audit committee had a negative and significantly had effect on earnings management of Nigerian firms, board gender representation had a negative and significant impact on the prospect of Nigerian firms adopting outright high earnings management. However, board size and CEO shareholding were instituted to be statistically not significant in inducing the probability of Nigerian listed companies embracing high earnings management levels.

The control variable auditor type, size of firm and industry category were established to be positive and statistically significant in defining absolute high earnings management levels of Nigeria listed companies. They suggested that stakeholders in listed firms in Nigeria should ensure promotion of comprehensive audit independence, the independence of board composition should be strengthened and embolden more female representation on the board.

A study was conducted by Iraya, Mwangi, and Muchoki (2015) with its objectives to find the impact of CG mechanisms on earnings management

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of listed firms on the Nairobi Stock Exchange (NSE). The sample used comprised of 49 firms that had been in active participation and trading on the Nairobi Stock Exchange between 2010 and 2012. Data used for the study was Secondary data for the period 2010 to 2012 and analysed using linear regression. It was concluded in the study that there is an inverse association among earnings management and board size ownership structure and board independence but has a positive relationship with board activity and CEO duality.

Abdul Rahman and Ali (2006) conducted a study on the impact of the size of board on earnings management. The study used a sample size of 97 companies listed in the key boards of Bursa Malaysia, from the year of 2002-2003. The conclusion of the study showed a positive relationship between board of board size and earnings management level. In dissimilarity, Ahmed, Hossain and Adams (2006) also makes available proof that there is a negative relationship between board size and earnings management. The study was conducted in New Zealand within the period 1991 to 1997. The conceivable clarifications for the difference between these two conclusions could be as a result in the nature of CG code in both countries under study.

According to Jensen (1993), companies with smaller board of directors are more efficient in supervising the management's activities than large boards because large boards are concerned more about "politeness and courtesy" and are hence makes it easier for the management to control. Yermack (1997) also concludes that small boards are more effective monitors than large boards. Implying that, the size of a firm's board should be negatively related to earnings management.

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This is however disagreed by Ghosh, Marra, Moon and Alves (2011). The conclusion of their study showed that bigger board tends to minimize of discourage Earnings management.

Shehu and Abubakar (2012) studied the association between corporate governance on corporate financial performance when performance is exposed of the discretionary constituent of accruals. Data was derived from financial statement of the sample companies for the year 2008 -2010. A univariate Ordinary Least Square multiple regression was adopted as a statistical tool for the analysis of data. The study concluded corporate governance has significant influence on company's performance in diverse levels and directions. It was established empirically that board composition is inversely correlated with performance while a positive collaboration develops between executive compensation and firm performance regardless of the performance specification.

A study conducted by Almasarwarah (2015) on the relationship between Earnings Management, internal control and corporate governance. The study adopted mixed method approach and a sample of annual reports issued by the Ammam stock Exchange from 2005 to 2012. The study concluded that the ownership structure of a company serves an important role in compelling earnings management than features linking to the board of directors or the audit process characteristics.

On the contrary, Egbunike Ezelibe & Aroh (2015) conducted a research on corporate Governance mechanisms effect on earnings Management of listed firms in Nigeria. The study used both primary and secondary data sampled from firms listed on the Nigerian Stock Exchange

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which were selected using purposive sampling technique between the years 2011-2014. Their study findings showed that corporate governance mechanisms such as the size of firm, board size, audit committee strength and board independence, have weighty effect on earnings management practices among listed Nigerian companies. Also Abed et al (2012) showed a significant relationship between board size and earnings management.

A study researched by Mariani, Tettamanzi and Corno (2010) with 157 annual reports of companies that are not listed in Italy over 2004 – 2005. The study showed that firm audited by one of the big 4 auditors engage in earnings management. The external audit procedures comprise reviewing and observing the internal control systems of the companies. This encompasses financial statements audit to minimizing the number of errors in these reports such as, changing accounting methods and material misstatements without wholly unveiling them in the company's final report.

Klein (2002) forecasts that an audit committee independence is more to likely minimize earnings management because it is the appropriate instrument to assist and monitor the financial accounting procedures. Consequently, he finds that companies with audit committees not containing a widely held of independent members finds increasing abnormal accruals, and where a company has an independent audit committee is also likely to have lower abnormal accruals. In similarity, Saleh et al (2007) and Abbott et al (2000) found that a negative relationship exists among audit committee and earnings management earnings.

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IFRS Adoption and Earnings Management

Several works have been done in the area of IFRS and earnings Management. There has been a mixed result as to whether IFRS reduces or increases earnings management as some studies are of the view that IFRS mitigates earnings management. Other studies also show that earnings management rises when IFRS is adopted. These studies were reviewed so as to bridge the gap.

A study researched by Callao and Jarne (2010) on the topic "Have IFRS Affected Earnings Management in the European Union?" The core aim of the study was to find out if earnings management which is measured using discretionary accruals reduced or increased prior to and after adoption of IFRS in the European Union. A comparison in the discretionary accruals was done between pre adoption and post adoption of IFRS. The sample considered was firms other than non-financial companies listed on 11 European Union stock markets. The variables used in the explanation of discretions in accounting are the same for pre and post IFRS adoption (firm size, leverage, investor protection and legal enforcement). The findings obtained indicate that earnings management shot up post adoption and implementation of IFRS in Europe, as discretionary accruals was on the rise following implementation. These findings propose that disparities in earnings management may be as a result much avenue for manipulation under IFRs than the local standards.

A study done by Azzali and Fornaciari (2011) on the topic "Earning management within the banking" showed a different result. Secondary data was taken from annual reports of listed financial institution from 2002 to 2011. The purpose of the research was to examine the succeeding hypotheses:

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whether companies use Loan Loss provision to engage in Earnings (EM) and capital management; whether there has been a change in association of LLP with earnings and capital management after IFRS adoption for Italian listed banks between 2005-2011 periods; whether the association of LLP and earnings – capital management is affected by crisis within the period under study. The conclusion of the work was that IFRS reduce earnings management. Earnings and capital management were decreased by financial crisis based on accruals, in riskier banks.

Chen, Wang and Zhao (2010) conducted a study on the role IFRS plays in accounting quality: Data from companies listed on the EU. The study used data collected 15 countries of the EU at the time of the initial development of IFRS adoption. They concluded that the adoption IFRS minimizes earnings management through the restraining opportunistic management decisions with respects to financial reports. Similarly, Houqe et al. (2012) concluded that there is a rise in earnings quality and a reduction in earnings management when investors do not have a stronger protection within the investor protection administration.

Zeghal et al. (2012) found that IFRS adoption results in advanced quality in accounting report and reduced earnings management. The study sample was of 15 European Union countries. Also, they concluded that Board independence and the board of directors' efficiency, the establishment of an independent audit committee, the presence of block shareholders; external audit quality and the listing on foreign financial markets are vital factors for the implementation of IFRS in France. Compulsory IFRS adoption has

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minimized earnings management for firms who have very good corporate governance practices and those that hinge on foreign financial markets.

Doukakis (2014) conducted a study on the change in earnings management after adoption. They debate that due to the high disclosure requirements contained in IFRS, there is much room to exercise personal discretion and this minimizes the liberty to practice earnings management.

Brad et al (2016) in their study "does earnings management change after the adoption of the IFRS? Evidence from Romania" concluded that an advance in the unpredictability of net profit is observed both for individual and bootstrapping with replacement analysis, the correlation between accruals and cash flow from operation is more negative (using both estimations techniques). The results on the differences of cash flow from operations also show a rise in the value of earnings management. Hence, this implies that earnings management increases post IFRS adoption.

The study conducted by Hellman (2011) on the effect of IFRS on the final accounts in Sweden showed that on the normal, firms take advantage of the flexible nature provided by the soft adoption era to engage in earnings management and shareholders' equity aloft. The sample size used for the study was 132 Swedish listed firms.

According Ahmed et al. (2013) IFRS is a rule-based standards, which makes it further challenging to side-step. There is extra difficulty in avoiding liabilities using transaction structuring which makes it very complex to use accounting practices that may coat an exaggeratedly positive depiction of a company. He posits that IFRS gives room for fair value accounting

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measurements that may mirror the principal economics superior than the local standards.

Jeanjean and Stolowy (2008), conducted a study using countries who adopted IFRS in the intial adoption stage. These countries are Australia, France and the United Kingdom). They adopted the statistical properties of earnings method to establish thresholds. Conclusions from their study suggested that the prevalence of earnings management did not reduce post adoption of IFRS and even shot up in France.

Based on the aforesaid diverse results, the relationship that exist between IFRS and earnings management is still reflected to be a debatable topic and should be looked at in the context of Ghana.

Conceptual Review

International Financial Reporting Standards (IFRS)

The rising level of globalization and the incorporation of financial markets have necessitated the urgency for an unvarying of preparing financial reports, so as to make financial reporting, preparation and presentation and decision making more effective.

Over the past years, the adoption of IFRS in accounting has gained much attention all over the globe in accounting practice. Since 2001, there has been a rise in the number of states who have sought to integrate IFRS as the major reporting standard (AICPA, 2012). The introduction by European Union (EU) and other countries (Turkey, South Africa and Australia) on the obligatory adoption of IFRS by publicly listed companies increase the rate of adoption. Over 120 countries are demanding that listed firms adopt IFRS (IAS PLUS, 2012; PWC, 2012).

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In 1973, the International Accounting Standard Committee (IASC) was formed comprising of a professional body from 16 countries. The formation of this committee was geared towards the development of a high-quality accounting standard. These countries included Mexico, Canada, Japan, Germany, United Kingdom, Australia, the Netherlands and United States of America (Garuba & Donwa, 2011).

According to Herath and Melvin (2017) IFRS refers to a class of accounting guiding principle established and issued by the International Accounting Standards Boards (IASB). The Standards were developed to resolve any agitation between shareholders and other users of financial information succeeding the awaken of contemporary financial scandals, and the failure of a lot of first-rate organizations (Liu et al, 2012; Chua & Taylor, 2008). These financial difficulties prompted and inspired regulatory bodies in accounting to come out with a detailed financial reporting guidelines to ensure an acceptable and a transparent way of presenting and preparation of financial activities (Liu et al, 2012). To emphasize on the above contentions, Ernest and Young (2014) postulate after the financial crises globally from 2007 to 2010, countries including African countries were pressured to adopt the IFRS which was accepted globally in place of the locally accepted standards.

Ghana and International Financial Reporting Standard (IFRS) Adoption

According to Asenso-Okofo et al. (2011) factors that have affected Ghana's financial reporting processes are politics, law, international system, economy and educational system. Amankwah- Amoah and Debrah, (2014) state that several military coups that caused political instability had adverse effect on economic freedom, media and at large, the financial reporting

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procedures in Ghana. The Ghana Stock Exchange was set up in 1990 to monitor and evaluate activities of listed firms. All listed firms are obliged to conform to the regulations of the Ghana Stock Exchange and the Security and Exchange Commission concerning financial reporting. Conversely, The Ghana Stock Exchange had weak institutions and poor capacity leading to difficulty in enforcing these regulations.

In order to ensure transparency among members, the World Bank conducted a study to evaluate the accounting and auditing practices in Ghana. World Bank after its survey concluded that, the financial reporting standards that were being used by Ghanaian companies were outdated and hence could not give an efficient disclosure of financial activities of companies (World Bank, 2004). There was therefore an urgent need for the update of accounting standards.

Initially, IFRS was adopted fully by Ghana and was mandatory for both listed and unlisted companies within the country to adhere to the standards. They officially transitioned from using the Local Accounting Standard to International Financial Reporting Standards, which presently it has been recognized and used as a yardstick for financial reporting. There was however some insufficiencies in the corporate setting (ROSC, 2005). These included compliance issues, corporate governance issues that has got to do with quality and ineffective monitoring and appraisal on the part of institutions such as parliament of Ghana, Institute of Chartered Accountants Ghana and the Ghana Stock Exchange.

The adoption, implementation and compliance with the international Financial Reporting Standards became more necessary due to Ghana's

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application for full International Federation of Accountants (IFAC) membership and the need to draw international investors into the country. Hence with effect on 2007, Ghana went a step further to fully adopt IFRS. The full adoption and implementation of IFRS in Ghana saw a significant turn when the Institute of Chartered Accounts Ghana (ICAG) with the full support of the government which was headed by former president, John Agyekum Kuffuor gave a notice that mandated all listed firms, government business banks, insurance companies and other to report their financial statements in line with International Financial Reporting Standards. This was to commence from the financial year beginning after January 1, 2007. This saw all 28 Ghana Accounting Standards (GAS) being scrapped off and substituted with over 40 International Accounting Standards and 16 IFRS's. According to Appiah et al, (2016), the adoption helped international understanding of financial statements prepared by companies in Ghana and this led to the global investor confidence of stocks listed on the Ghana Stock Exchange.

Countries all over the globe were stimulated to fully approve and implement the IFRS to assist them have smooth dealings with agencies, investors partners from other countries and partners, governments, the World Bank, and the International Monetary Fund (IMF). This resulted in the awesome reception and adoption of the International Financial Reporting Standards by both developed and developing states.

Corporate Governance

The aim of corporate governance according to Jensen and Meckiling (1976) was to resolve the agency conflict that exist among the principal and

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the agent. This is done using series of contrivances that improves the security of investors return.

Corporate governance is defined as

> *"One key element in improving economic efficiency and growth as well as enhancing investor confidence. Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined"* (OECD, 2004)

Corporate governance is a phenomenon that has received much academic attention due to the several occurrences of corporate let-downs seen by several, big organizations in nations around the globe. Corporate governance machineries can be segregated into two namely internal corporate governance and External Corporate Governance. With Internal corporate governance, internal controls are developed by taking into consideration the welfares of shareholders and providing a supervisory role to the strategic level management of the firm. External corporate governance encompasses procedures used in the assessment of credit risk for customers, investment strategies, regulating the behaviour of independent directors; and monitoring the regulations that affect the company (The World Bank, 2013).

In recent times, corporate governance rule has become an essential topic for discussion in world economies. The implementation of these rules has become very important for both private and state-owned companies and this drives the formation of fresh rules of corporate governance such as

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mechanisms envisioned to augment assurance, upsurge the clearness of polices for safeguarding creditors, investors and bankers and minimization of corruption and boost foreign investment (Alhaddad, Alzurqan & Alsufy, 2011).

The components of corporate governance such as board characteristics, audit committee characteristic and external auditor factors have been used in explaining the relationship that exist between shareholders and management in the company (Kim, 2006).

Earnings Management

The earnings reported in the financial reports of companies are very keen to analyst, boards and investors for investments decisions (Degeorge et al., 1999). Due to the importance of interest on investment to the stakeholders of the firm, Board of directors who have the responsibility of effectively monitoring and controlling of performance of managers recognizes the significance of earnings to the company's claimants and hence tie management's rewards to earnings outcomes. Using information received from analyst and through published earnings Investors make decisions. Nevertheless, earnings of companies are not always favourable hence this breeds space or room for earnings to be 'managed'. According to Callao and Jarne (2010) earnings management refers to

> "*The use of accounting practices within the limits available within a comprehensive basis of accounting by management in order to achieve a desired result*".

There is a linkage between earnings management and 'earnings quality'. As Lo (2008) postulates, earnings quality is low when earnings

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management is high. The measure of reported earnings quality may be ascertained by looking at the degree to which earnings are managed with the motive of misleading investors on the underlying firm's fiscal performance or to impact contractual results that is determined by informed accounting figures. (Healy & Wahlen, 1999). Nonetheless, the implication does not mean that deficiency of earnings management is enough evidence to prove improved earnings quality. Poor standards used by accounts can also be other factors that causes poor earnings quality (Lo, 2008).

Dechow et al., (2010) posits that higher earnings quality implies that there will be the likelihood of provision of vital evidence on the financial performance of a company which will be useful to particular users for the purpose of making decision. Chief Financial Officers mostly relate improved quality of earnings with sustainability (Dichev et al., 2013). Earnings management can be performed using two approaches by preparers of financial statement. These are accrual-based earnings management and real earnings management.

Accruals Based Earnings Management (am)

The usage of accruals is one of the measures of earnings management. Earnings quality is to a large degree, reliant on accruals quality (Christensen, Frimor, & Sabac, 2013). Accruals can be sub-divided into discretionary and non-discretionary accruals. Discretionary accruals give room for modifications by managers and these modifications make managers more liable for manipulation. According Healy, (1985) it is presumed that discretionary accruals falls subject to managerial discretion. On the contrary non-discretionary accrual is the expected level of accruals in the forms provided

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there is no manipulation of earnings. Non-discretionary accrual characteristically does not provide avenue for management modification, as management's preference are limited by accounting models. Instead, non-discretionary accruals are hinged on the specific environment of the business and business model of the firm. This implies that a change in non-discretionary accruals shows the firm's organic growth (Christensen et al., 2013).

Real Activities Manipulation

Roychowdhury (2006) defines RAM as management activities that differs from normal business practice, which use industry-year averages, the abnormalities exceeding average are activities that differ from normal business practice and are not economically motivated. As mentioned, AM can be viewed as the conventional approach to earnings management, whereas manipulating real activities seems to be a more recent occurrence in academia. However, according to Graham et al. (2005) and Defond (2010) who both explored financial reporting and earnings quality, the use of this strategy is, and have been, extensively used in business. Prior research within RAM is quite scarce, the majority have found evidence of firms offering price discounts to temporarily increase their sales, aggressively reduce discretionary expenditures to boost margins, and alter production levels (overproduce to lower cost of goods sold) (Ferentinou & Anagnostopoulou, 2016).

Another take on RAM is provided by Graham et al. (2005). They take a qualitative stance, investigating earnings management choices by interviewing multiple executives. They found that management actually preferred to use strategies classified as RAM instead of AM despite the fact

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that it implies a higher cost for the companies in the long run compared to AM. They explain that the real activities decisions might be deceptive and misleading but that the alternative of a lower earnings measure are more unfavourable. Roychowdhury (2006) recognizes three types of reactions to RAM. He categorizes them in to sales, overproduction and manipulation of discretionary expenses. He explains that sales, for instance, can be manipulated through real activities by the time of purchase. This can be done by offering large discounts or very agreeable terms of credit, all in an effort to persuade customers to purchase now rather than later. He also argues that some companies, which at the end of the year realize they might undershoot last year's sales, use discounts that are limited to the current year in order to" steal" from the coming year and boosting sales this year.

Roychowdhury (2006) argues that, overall, these actions should increase earnings. They should be recognizable through abnormally low cash flow from operations due to the discounts offered, and also abnormally high production costs due to increased amount of sales. Further, Roychowdhury (2006) explains that overproduction is done in an effort to decrease cost of goods sold. This is largely the case for companies that actually manufacture products. By increasing production, overhead costs decrease, which in turn means a lowered cost of goods sold in total. However, this relies on the condition that the variable costs do not rise with increased production. It should be mentioned that overproduction does not increase earnings per se, however it can increase a company's margins.

According to Roychowdhury (2006), actions related to overproduction should be recognized by a lower cash flow from operations due to increased

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costs as a result of overproduction. The last category, discretionary expenditures, relates to expenditures such as research and development and advertising according to Roychowdhury (2006). Further, he explains that the costs related to discretionary expenditures are normally expensed as they are arising, which makes them ideal to manipulate in order to manage earnings in a short perspective. Therefore, in order to meet earnings targets the discretionary expenditures should be diminished in order to boost earnings, this means that in or- have the final intention of displaying a misleading picture of the company to its owners and stakeholders. RAM implies manipulating the company's on-going operational activities. The on-going operational activities could for example be defined as price adjustments and expenses related to for instance R&D, maintenance and advertising (Roychowdhury, 2006). In essence, management manipulate actual managerial decisions by for instance adjusting the timing of decisions (postponing to the next year) and the weight of the decisions (Roychowdhury, 2006). One could argue that the actions classified as RAM are part of manager's normal operations, not implying earnings manipulation. Following the findings from previous studies the study conceptualizes IFRS three dimensions of CG practices: Board Size, Board composition and Audit committee. In this study, one independent variable has been established.

Figure 1 therefore shows the relationship between IFRS, the three independent variables on corporate governance practices and earnings management. The study also controls for firm-level variable such as firm size and leverage.

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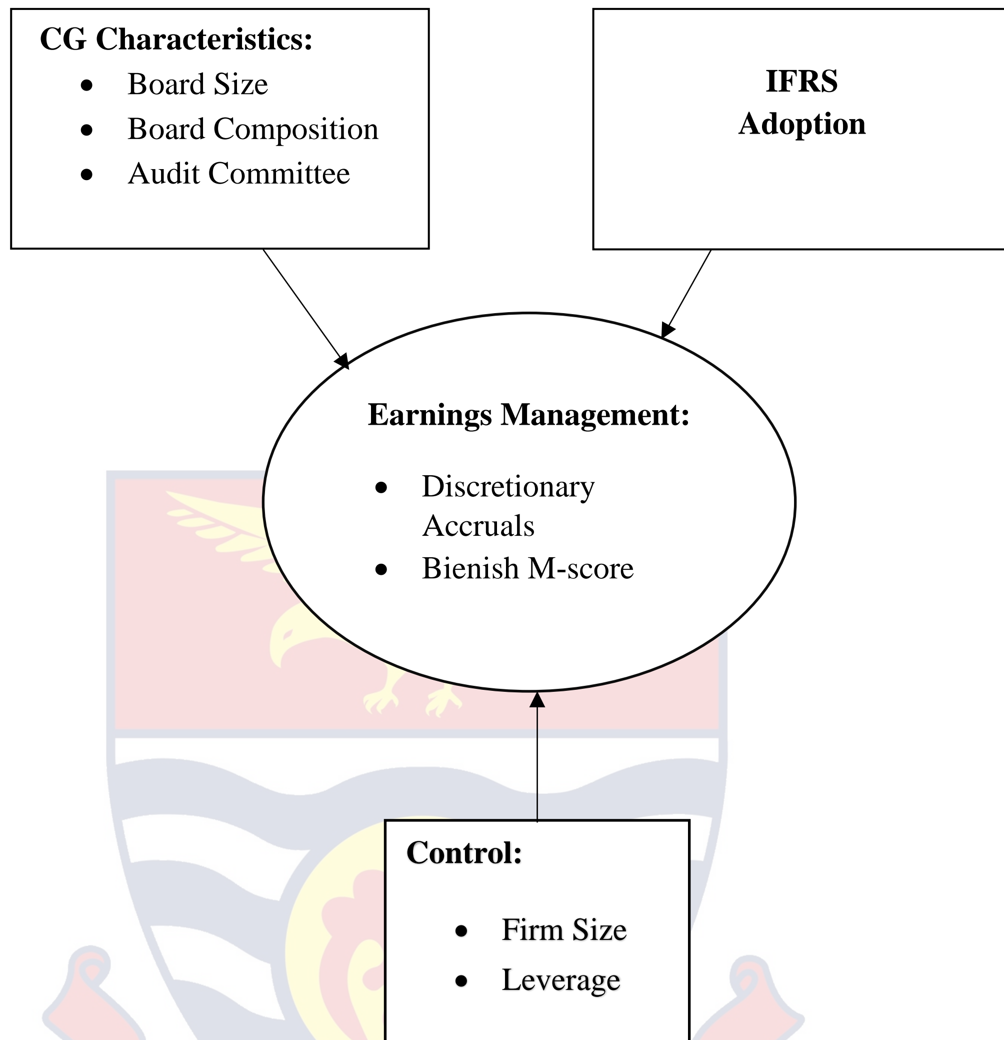

Figure 1: Conceptual Framework
Source: Author's construct (2020)

Chapter Summary

This Chapter of the study reviewed various theories that underpin this study. The Chapter also reviewed Literature relating to IFRS, corporate governance and Earnings Management. Extent literature reviewed revealed that there has been a mixed result as to whether IFRS and Corporate Governance reduce or increases Earnings Management. The study hence conceptualizes IFRS, Corporate Governance and Earnings management.

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CHAPTER THREE

RESEARCH METHODS

Introduction

Previous chapters showed the theoretical and empirical association that exist between the independent variables (IFRS Adoption and Corporate Governance) and the dependent variable (earnings management). This chapter aims to prepare for the testing of this relationship as it shows the measuring tools for measuring the dependent variable (earnings management), independent variables (IFRS Adoption and Corporate governance). It shows how the sample is selected and the methodology for collecting the data.

Therefore, this chapter will include the following sections: the research approach and design, the data source and sampling procedure, measurement of variables and the measuring tools for the independent and the dependent variable and finally a section that explains the research model that presents the regression equation of the study.

Research Approach

The study is explored by using a quantitative research approach. The quantitative approach is fitting since the study does not intend to increase the understanding of the reasons behind earnings management but merely uncover the magnitude of, and pattern behind, earnings management behaviour. Quantitative research design is in a straight line and explicitly related to descriptive, diagnostics and hypotheses-testing research studies (Ukenna, 2014). According to Harwell (2011), quantitative research approach seeks to make the most of fairness, replicability, and generalizability of results and is usually concerned in forecast.

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A deductive approach was chosen as it entails using existing literature and theory to deduce hypotheses and measures to the specific concepts, and testing these using statistical analyses with the collected data (Bryman & Bell, 2011). This was deemed appropriate since the study intends to test if previous findings can be generalized to all companies in Ghana.

Research Design

The research design employed for this study was the explanatory research design. Explanatory was chosen because it increases the researchers understanding on the issues under research (IFRS, corporate governance and earnings management). Explanatory research also helps the researcher to find the problem that was not studied before in-depth.

The research paradigm adopted for this study was the positivist research approach. The positivism approach to research stipulates that research is science hence it follows principles and it is methodical. With this philosophy, results can be obtained through observation and experimentation. As a scientific philosophy, the positivist does not rely on personal opinions and conclusion. Knowledge deducted using the positivism approach is very objective. The application of the positivism approach in this work sees to it that the conclusions of the study can be accurately be replicated using the same method, samples and test tools. The data obtained and results presented from the empirical analysis conducted in this study are strictly based on the evidence gathered from the final accounts of the selected listed companies in Ghana. The result found in this study is independent of the personal judgement made by the researcher.

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Population

Target population in statistics refers to precise populace about which facts are collected. According to Ngechu (2004), a population can be explained as a class of people, components, and occasions, group of things or households that are being examined. This definition makes emphasis on the fact that population of interest is similar. According to Mugenda and Mugenda (2003) Population also known as census are more representative because everyone is capable of being included in the ultimate sample that is drawn. The target population for this research was all 38 listed companies on the GSE. Listed firms were selected because corporate Governance practices and IFRS are mostly practices and adopted by listed. The makes it easy to access data on these variables since listed firms also are mandated to publish their accounts.

Sampling Procedure

The sample includes firms listed on the Ghana Stock Exchange before 2007. Listed firms were used because firms listed on the GSE are a blend of all the industries hence making the finds of the study applicable to all industries within the Ghana Stock Exchange. Unbalanced Panel data was collected from the yearly published reports of 22 out of the 38 firms listed in Ghana covering the period of 2005 to 2018 depending on the date of listing. The 22 companies were selected on the basis of being listed at least one year before 2007 which is the year it became mandatory for adoption IFRS in Ghana. Data points were between 2004 and 2018. This is because the Ghana Stock Exchange intensified their corporate governance policies for firm in 2004. Hence, the appropriate sampling technique used was purposive

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sampling. Table 1 shows the sample distribution for the selected listed companies.

Table 1: Sample Distribution for Listed Companies for the Study

Company	Year of listing	Pre-adoption period	Pre-adoption years	No. of years in post-adoption period (2008 – 2018)	Total number of periods
AC1	1992	2004-2007	4	11	15
AGA	2004	2005-2007	3	11	14
ALW	1996	2004-2007	4	11	15
AYRTN	2006	2007	1	11	12
BOPP	2004	2004-2007	4	11	15
CAL	2004	2005–2007	3	11	14
CLYD	2004	2005–2007	3	11	14
CMLT	1999	2004-2007	4	11	15
CPC	2003	2004–2007	4	11	15
EGH	2006	2007	1	11	12
UNI	1991	2004-2007	4	11	15
EGL	1992	2004-2007	4	11	15
FML	1991	2004-2007	4	11	15
GCB	1996	2004-2007	4	11	15
GGBL	1991	2004-2007	4	11	15
MLC	1994	2004-2007	4	11	15
PBC	2000	2004-2007	4	11	15
PKL	1995	2004-2007	4	11	15
SCB	1991	2004-2007	4	11	15
SOGEGH	1995	2004-2007	4	11	15
SPL	2002	2004-2007	4	11	15
TOTAL	1991	2004-2007	4	11	15
TOTAL					321

Source: Ghana Stock Exchange (September 2019)

Model Specification

This study seeks to create the type of association that exists among IFRS adoption, corporate governance variables and earnings management in Ghanaian listed firms. This study postulates that a negative relationship exists between corporate governance and earnings management, which implies that as corporate governance practices rise, earnings management reduce and vice

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versa. Also, the study seeks to find out if the IFRS adoption reduces earnings management

There exist a large number of corporate governance variables as well as earnings management variables. As it is not possible to take all variables into consideration, the current study includes some of the major variables of corporate governance and earnings management subject to availability of data, literature review undertaken and their relevance to the firms under study.

The dependent variables, i.e., earnings management have been collected for the period 2004-2018 to test various hypotheses. The dependent variable (earnings management) has been matched year by year and various independent variables (board size, board composition, and audit committee) have been collected by year for each company to create a panel data set. The study will look at both fixed and random effect Therefore, the estimated empirical model in this study specified as follows:

$$\mathbf{EM_{it} = \alpha + \beta 1Bodsiz_{it} + \beta 2Bodcomp_{it} + \beta 3Audcom_{it} + \beta 4IFRS_{it} + \beta 5 frmsize_{it} + \beta 6Lev_{it} + \varepsilon_{it}}$$

Where;

EM = Earnings Management

Bodsiz = Board size

Bodcomp = Board composition

Audcomm = Audit committee

IFRS = International financial Reporting Standard

FrmSize = Firm size

Lev = Leverage

B1, β2, β3, β4, β5, β6 = Estimated coefficient

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Measurement of Variables

The study aims to survey the impact of IFRS adoption and corporate governance practices on earnings management level of listed firms on the Ghana Stock Exchange. Earnings management is usually explained to mean efforts made by managers to safeguard their job and gains by making modifications to the financial information made available to investors. This mostly comes in the form of smoothing earnings.

Many challenges have cropped up the measurement of earnings management however scholars have come out with several methods. In this study, we adopted two variables to measure earnings management. These methods are accrual approach developed by Leuz, Nanda and Wysocki (2003) which was based on prior studies by Healy and Wahlen (1999), Dechow, Sloan, and Sweeney (1995), and Dechow and Skinner (2000) and the Beniesh M-score which was developed by Beneish (1999).

Measuring earnings management using the model developed by Leuz et al, (2003) involves three steps: We first calculate for accruals then cash flow from operations before calculating earnings management. The mathematical definition of accruals is:

Accruals = (ΔCA-ΔC) - (ΔCL–ΔSTD-ΔTP) –Dep ………………….Eqn (1)

Where:

ΔCA = difference in total current asset;

ΔC = difference in cash/cash equivalents;

ΔCl = difference in total current liabilities;

ΔStd = difference in short-term debt included in current liabilities;

ΔTp = difference in income taxes payable;

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Dep = depreciation and amortization expense.

We then calculate cash flow from operations which is given as:

Cash flow from operation = Operating earnings-Accruals …....Eqn (2)

Operating earnings = Operating earnings are the profit earned after subtracting from revenues only those expenses that are directly associated with operating the business, such as the cost of goods sold (COGS), general and administration (G&A), selling and marketing, research and development, depreciation, and other operating costs.

We then move forward to calculate Earnings management (EM) which is as;

$$EM = \frac{|\text{Accruals}|}{|\text{Cashflow from operation}|} \text{……………………Eqn (3)}$$

According to Leuz et al. (2003) if the Earnings Management (EM) is above greater than 7.5, it signifies managers use their own discretion to influence reported accounting earnings. On the other side, if the earnings management is small, it is an indication that reported earnings are not influenced by manager's discretion.

The second method for measuring earnings management was the Beniesh M-score model that was developed by Beniesh (1999). The use of this model was to check for consistency and robustness of the measures of earnings management. The M-score model formula Used is:

$$M = -4.84 + (0.92*DSRI) + (0.528*GMI) + (0.404*AQI) + (0.892*SGI) + (0.115*DEPI) - (0.172*SGAI) + (4.679*TATA) - (0.327*LVGI).$$

Where:

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• **DSRI (Days' Sales in Receivables Index)** = (Net Receivables$_t$ / Sales$_t$) / Net Receivables$_{t-1}$ / Sales $_{t-1}$). The higher increase in DSRI may imply revenue inflation;

• **GMI (Gross Margin Index)** = [(Sales $_{t-1}$ – Cost of Goods Sold $_{t-1}$)/Sales$_t$]/ [(Sales$_t$ – Cost of Goods Sold$_t$) / Sales$_t$]. GMI greater than 1 means deterioration in gross margin.

• **AQI (Asset Quality Index)** = [1 – (Current Asset$_t$ + Plant$_t$, Property & Equipment$_t$ + Securities$_t$) / Total Assets$_t$] / [1 – ((Current Assets $_{t-1}$ + Plant, Property & Equipment $_{t-1}$ + Securities $_{t-1}$) / Total Assets $_{t-1}$)]. It is the ratio of asset quality in the current year (t) to asset quality in the previous year ($_{t-1}$)

• **SGI (Sales Growth Index)** = Sales$_t$ / Sales $_{t-1}$. This refers to the ratio of sales in year t to sales in year $_{t-1}$. Sales growth is not itself a measure of manipulation. However, growing firms have the tendency to find themselves under pressure to manipulate in order to keep up.

• **DEPI (Depreciation Index)** = (Depreciation $_{t-1}$ (Plant, Property & Equipment $_{t-1}$ + Depreciation $_{t-1}$)) / (Depreciation$_t$ / (Plant, Property & Equipment$_t$ + Depreciation$_t$)). This refers to the extent of the proportion of the rate of depreciation in prior year ($_{t-1}$) to the conforming rate in the present year (t). DEPI greater than 1 means that assets are being depreciated at a much slower rate. This proposes that the firm might be reviewing useful asset life assumptions upwards, or adopting a new method of depreciation.

• SGAI (Sales, General and Administrative Expenses Index) = (Selling General & Administrative Expense$_t$ / Sales$_t$) / (Selling General & Administrative Expense$_t$ / Sales $_{t-1}$).

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• **LVGI (Leverage Index)** = [(Current Liabilities$_t$ + Total Long Term Debt$_t$) / Total Assets$_t$] / [(Current Liabilities$_t$ + Total Long Term Debt$_t$) / Total Assets$_t$]. This is the ratio of total debt to total assets in current year (t) relative to the previous year ($_{t-1}$). An LVGI of exceeding 1 is an indication of an increase in leverage;

• **TATA (Total Accruals to Total Assets)** = (Income from Continuing Operations t – Cash Flows from Operations$_t$) / Total Assets$_t$.

• t is the current year; and

• $_{t-1}$ is the previous year

An M-Score lesser than -2.22 gives the implication that the company will not alter earnings whilst an M-Score of greater than -2.22 shows that the firm is likely to manipulate earnings (Beneish, 1999).

Corporate Governance

These groups of explanatory variables went through measurement and coding. These are Board independence, Audit committee and Board size.

The Size of The Board (Bodsize)

Considering works done by various authors, remarkably those of Alves, (2011), Bédard et al. (2004), Fernández and Arrondo (2005) and Zéghal et al. (2011) the variable *board size* is measured by the total number of directors that serve on the Board as reported in the financial report at the close of each financial year. Looking at it from the Agency theory view, a board with lager size reduces agency conflict (e.g. Alves, 2011; Ghosh *et al* 2010). According to Ahmed *et al,* (2006), if the board size is large, there is a high tendency that there will more educated and professional directors on the board to provide a monitory and assessing role to management behaviour.

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Board Composition (Bodcomp)

According to Solomon, Lin and Norton (2003) to the role of independent directors in protecting the welfare of investors is very important. A study conducted by Liao, Mukherjee and Wang, (2015) showed that the efficacy of a company's board in monitoring the management is largely dependent on the degree to which the board is independent of management. Research conducted by Klein (2002), Bedard, Chtourou and Courteau (2004) have showed the essence of independence of board as a Corporate Governance practice in alleviating the agency issues between management and shareholders. The South African King III report of corporate governance acclaims that a company's board should have a sense of balance of executive and nonexecutive directors, with a greater percentage being independent non-executive directors. This is to certify the independence of the board. An operative independent corporate board will have a significant influence on management choices.

This variable can be measured in several ways. With reference to Xie et *al*. (2003); Peasnell et *al*. (2005); Abbott et *al*. (2004) ; Bédard et *al*. (2004); Zéghal et *al*. (2011), it measured by number of independent outside directors / total number of directors. The inclusion of board independence is based on the assumption that the independent members may make a positive contribution to the supervision responsibilities of the board of directors which could translate into decreasing earnings management.

Audit Committee Size (AudCom)

Prior literature shows that audit committee in its quest to be effective has to be hefty enough to incorporate a variety of members that have qualified

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education and practice. This committee should apportion adequate resources to take care of complex accounting and financial concerns they would encounter (Xie *et al* 2003 and Braiotta, 2000). Yermack (1996) and Bedard et al (2004) postulate that a bigger audit committee is more seemingly to spot and avoid potential difficulties that would occur throughout the financial reporting procedure, where the monitoring of the financial reporting process is seen as the key responsibility of this committee. In step with previous works, this study measured audit committee size as the number of members on the audit committee reported in the company's annual financial reports.

Control Variables

Other factors such as leverage and firm size also affect the level of earnings management.

The Firm Size (FIRMSIZ)

The firm size is measured using the logarithm base 10 of total assets. The reason for using the logarithm is because it has the tendency of avoiding the difficulty of scale coming as a result of the small measurements of other variables in the model. This measure was adopted by, Bozec (2008) and Zéghal et *al*. (2011).

Leverage (Lev)

Leverage is exemplified as debt. Debt is an additional a humiliation to earnings management practices. Jensen and Meckling (1976) postulates that debt plays a corrective role to handle the discretionary behaviour of managers. Leverage is calculated by dividing long-term debt by total assets at the start of the year. This method was also used by DeFond and Jiambalvo (1994), Ben Othman and Zéghal (2006) and Zéghal `et al. (2011). Glaum and Street

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(2003) used leverage as a measure to determine if earning management reduced. Likewise, Wallace and Naser (1995) concluded that the degree of agreement with obligatory disclosure was inversely related with firms when leverage is used as a measure

International Financial Reporting Standard (IFRS)

Ghana adopted IFRS in 2007. All listed firms were required to adopted and comply with IFRS for reporting. The promulgation of the International Financial Reporting Standards (IFRS) was to ensure transparency and reliability of financial statements. According to Soderstrom and Sun (2007), the change to IFRS refers to a shift to a Generally Accepted Accounting Principles (GAAP) that embraces higher quality financial reporting. Some previous studies have drawn conclusion that earnings management has not been minimized as a result of IFRS. This is because accounting reports prepared in agreement with IFRS is grounded on fair value measurement which creates room for managers to manipulate financial information to suit their personal interest. This prejudice in approximating assets and revenues gives managers of companies more room to engage earnings management. Other researches also stipulate that IFRS decreases earnings management. These studies focused on early adopters. As stated by Christensen, Lee and Walker (2008), voluntary adopters are required to indeed show a drop in earnings management because the pressure IFRS puts on managers to present a true and fair view of the company's performance.

IFRS is measured as a dummy variable which implies whether the financial disclosure is done according to the International Standard. Since Ghana adopted the IFRS in 2007 we divided the sample into pre and post

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adoption period In the study, the post adoption period were considered as follows 2008-2018 which is denoted as 1: while the pre adoption period is (2004-2007=0).

Data Processing and Analysis

The methodical process of selecting, classifying, comparing, fusing and inferring data to provide enlightenment to single phenomenon of concern is referred to as data analysis. Adèr (2008) emphasized that data analysis processes must involve data editing, cleaning, transformation with the aim of highlighting the usefulness of information, submission, deductions, and supporting decision making.

The first objective of the study was analysed using the dependent T-test. This statistical technique is used to test for the difference or the change in the means of two related groups but at different times. This therefore makes it an appropriate tool to test for the difference in means of earnings management pre and post IFRS adoption.

The second objective of this research was analyzed using the Ordinary Least Squares (OLS) method of regression. The OLS also known as the Linear Least Squares is a technique for approximating the unidentified limits in linear regression (Ehikioya, 2009). The method reduces the total squared vertical distances between the experimental responses in the data set and the responses predicted by linear estimation.

The regression analysis was also conducted taking into consideration both Fixed and Random effect models. According to Kohler and Kreuter (2012), fixed-effect models control for all time-invariant differences between

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the individual sample units hence the estimated coefficients of the fixed-effects models cannot be misleading because of omitted time-invariant traits.

The fixed and random effects estimators were adopted for this study because they force any time invariant cross unit heterogeneity into the same term that is being used to capture the inefficiency. Thus, measures of inefficiency in these models may be picking up heterogeneity in addition to or even instead of technical or cost inefficiency.

Park (2009) states that in random effect model, the difference among period lies in their variance of the error term not in their intercepts. The justification behind random effects model is that differently from the fixed effect model, the unit's error term is not correlated with the predictors which allows for invariant variables to play a role as an explanatory variable.

Chapter summary

The study builds on positivists' philosophical assumptions regarding reality. The quantitative design is applied in gathering and analyzing data. The population of the study includes 38 listed firms with 22 being sampled. The dependent T-test and the Ordinary least square regression were adopted as techniques of data analysis.

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CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

This chapter shows the outcomes of the experimental research conducted as described in chapter three. This session highlights the analysis of data from 321 observations.

The hypotheses of the study are tested in this section using paired T-test and the model adopted for this research. The analysis conducted was presented according to the objectives for the study. The analysis for the first objective was the T-test of means. With the second objective, a descriptive statistic was presented, then a correlation analysis was run and finally the presentation of the regression analysis results. Also, we conducted a Hausman test to know which model best fits the study. The Hausman test enables the researcher to either select fixed effect model or the random effect model.

Differences in Earnings Management Pre and Post IFRS Adoption

This section analyses the difference in earnings management pre and Post IFRS adoption. This is done with the aid of paired T-tests used to measure the difference in the means of variables used in measuring earnings management. The study first performed a test of means for earnings management before and after IFRS adoption with earnings management being measured with model developed by Leuz et al (2003). With the second test of difference, earnings management is measured using the Beniesh M-score. Tables 2 and 3 present the results for the test conducted.

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The hypotheses stated were as follows;

H_0: There is no significant difference in earnings management of listed firms pre and post IFRS adoption

H_1: There is a significant difference in earnings management of listed firms Pre and Post IFRS adoption.

Table 2: Test of Means of EM (Leuz formula) Pre and Post IFRS adoption

Groups	Obs	Mean	St. Err	Std Dev.	95% conf.	interval
0	79	16.84	0.92	5.18577	15.010	18.66456
1	242	5.81	8.16	6.42543	5.1858	6.425427
Difference	321	11.03	0.42	7.54425	7.6922	9.349019
				t=26.62	**sig = 0.000**	

Source: Field survey, (2020)

From Table 2, earnings management variable before IFRS (0) and after IFRS (1) adoption can be described with reference to the mean and standard deviation. The average value of earnings management measured with Leuz formula before IFRS adoption using a sample size of 79 is 16.84 with a degree of variation from the mean to be standard deviation of 5.18577. The mean earnings management after IFRS from a sample size of 242 is 5.8056 with a degree of variation away from the mean to be standard deviation of 6.425. The sig value of the t-stat of 26.261 is 0.000. This is less than sig level of 5% (0.05). We thus disagree with the null hypothesis that states that “There is no significant difference in earnings management pre and post IFRS adoption” in favour of the alternate hypothesis that says that “There is a significant difference in Earnings management pre and post IFRS adoption”. Therefore, since the mean earnings management before IFRS adoption (16.837) is greater

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than the mean of earnings management after IFRS adoption (5.8056), we can conclude that there is a significant difference. The decision rule with regards to the accruals formula by Leuz, et al. (2003) is that accruals greater than 7.50 implies that firm engage in earning management. From the table 2 presented above, we can conclude that earning management pre IFRS adoption (16.837) is greater than earnings management after IFRS adoption (5.8056).

The significance of this is to help us to know that before the adoption of the IFRS, earnings management of listed firms on the GSE was on the rise as compared to after companies adopted IFRS. This can however be as a result of the stringent principles provided by IFRS in financial statements preparation that prevents managers from using their own discretion to manipulate accounting figures so as to please stakeholders and also protect their interest. This study's results are similar with the study results of Denis (2016); lui et al (2012); zeghal et al (2011) and Azzali & Forcari. (2011) who found that the IFRS adoption reduced earnings management.

In order to be sure of the results for the study, a different measurement for earnings management was adopted. This was to check whether the test results were consistent. The variable used to measure earnings management this time was the Beniesh M-score. The test result is presented in Table 3.

Table 3: Test of Means of Earnings Management (Beneish M-score) Pre and Post IFRS Adoption

Group	Obs	Mean	St. Err	Std Dev.	95% conf.	Interval
0	79	-1.256	0.163	1.45	-1.579	-0.93
1	242	-2.505	0.189	2.94	-2.88	-2.13
Difference	321	1.249	0.151	2.704	-2.49	1.9
		t = 8.271.54			**sig=0.0003**	

Source: Field survey, (2020)

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From Table 3, earnings management variable before IFRS (0) and after IFRS (1) adoption can be described with reference to the mean and standard deviation. The average value of earnings management measured with Beniesh M-score before IFRS adoption from a sample size of 79 is the mean of -1.256 with a degree of variation from the mean to be standard deviation of 1.45. The average earnings management after IFRS from a sample size of 242 is the mean of -2.505 with a degree of variation from the mean to be standard deviation of 2.94. The sig value of the t-stat of 8.271 is 0.003. This is less than sig level of 5% (0.05). We therefore discard the null hypothesis that states that "There is no significant difference in the means of earnings management before and after IFRS adoption" in favour of the alternate hypothesis that says that "There is a significant difference in the means of earnings management before and after IFRS adoption". Therefore, since the mean earnings management before IFRS adoption (-1.256) is greater than the mean of earnings management post IFRS adoption (-2.505), we can conclude that there is a significant difference.

The decision rule with regards to the Beniesh M-score is that an M-score greater than -2.22 implies that firm engage in earning management. From the Table 3 presented above, we can conclude that earning management before IFRS adoption (-1.256) is greater than earnings management after IFRS adoption (-2.505). This result is in line with the test results found in Table 2. We can there conclude that the test is consistent.

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The Effect of IFRS Adoption and Corporate Governance on Earnings Management

The research objective two studied the influence of IFRS adoption and corporate governance on earnings management of companies listed on the Ghana Stock Exchange. First, Table 4 presents the descriptive statistics of the variables used for the study. A correlational test was also run to look at the relationship that exist between the independent and the dependent variables of the study. This is presented in Table 5. A regression analysis to test for the effect of IFRS adoption and corporate governance on earnings management was performed. The study considered both fixed and random effect model. The result for this was shown in Tables 5 and 6. Finally, a Hausman test conducted to know the appropriate model to be adopted.

Descriptive Statistics

Table 4 present the descriptive statistics of IFRS Adoption, corporate governance and earnings management used in the study. The entire sample of observation for the study period (2004-2018) was considered.

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Table 4: Descriptive Statistics of Variables

Variable	Obs	Mean	Std. Dev.	Min	Max
EMLeuz	321	8.0520586	7.5425	0.04	36.5
EMBMscore	321	-2.197383	2.7035	-12.02	22.15
BODSIZE	321	8.844237	1.6939	4	17
BODCOMP	321	0.7166417	0.0907	0.4	0.96
AUDCOMM	321	3.635514	0.9656	2	7
IFRS Adoption	321	0.7538941	0.4314	0	1
LOGTAfirms	321	7.654551	1.23	4.30397	11.3426
LEV	321	0.2490205	0.4998	0.00082	8.01424

Source: Source: Field survey, (2020)
EMLeuz= Earnings Management using Leuz model, EMBMscore = Earnings Management using Beneish M-score, BODSIZE = Board size, BODCOMP = Board Composition, AUDCOMM= Audit Committee, IFRS = IFRS adoption, LOGTAfirms = Natural Log of Total Assets, LEV = Leverage.

Table 2, as observed, earnings management which is measured using a measure adopted by Leuz (2003) showed the following statics; Mean =8.5206, Std = 7.5325. This shows the measure to which earnings management for the distribution exhibits a significant crowding around the mean, max = 36.5 and Min =0.04. Another variable used to measure Earnings management was the Beneish M-score (EMBscore) showed the following statistics; Mean = -2.197, Std =2.7035. The maximum M-score for the period understudy was 22.15 and the minimum M-score was -12.02. The means of the two variables for measuring earnings management is an indication that some listed companies engage in earnings management than others. Board size (BODSIZE) showed the following statistics; Mean = 8.844 which stands to reason that the usual number of Board of Directors on the company's board is roughly 9 for the

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sample used for the study. Std. Dev = 1.694, Max = 17 and Min = 4. For board bomposition (BODCOMP), Mean = 0.716 which implies that a company's Board of Directors comprises of about 71.6% independent executives. Std = 0.091, Min = 0.4 and Max = 0.96. Audit committee (AUDCOMM) has Mean = 3.64 which is an indication that on an average the audit committee of a company is made up of 4 members. Firm size signified by LOGTAfirms which is the log 10 of firm total assets shows the highest mean value amongst the control variables with a Mean = 7.654, Max = 11.42, Min = 4.31 and with a standard deviation = 1.23. Leverage (LEV) had a Mean = 0.25 and Std Dev = 0.4998.

Correlation Matrix

The objective of the correlation analysis to look at the association that exist between the independent and dependent variables. This analysis also helps to examine the relationship among the independent variables as well to help check for the problem of multicollinearity. Correlation must be two tailed if the hypothesis does not state in specifics the precise direction for the relation between the independent variables and the dependent variable (Ho, 2006). For the purpose of this study, the correlation in this study is two tailed as the hypotheses are not specifying a certain specific direction.

According to Bryman and Cramer, (1997), the Pearson's correlation between independent variables should not be more than an absolute 0.8 to show that multicollinearity does not exist among the variables.

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Table 5: Pearson Correlation Matrix

	EMLeuz	EMMBScore	Bodsize	Bodcomp	Audcomm	IFRS	LOGTAfirms	Lev
EMLeuz	1							
EMBMScore	0.12	1						
Bodsize	-0.65	-0.6	1					
Bodcomp	-0.62	-0.54	0.04	1				
Audcomm	-0.09	-0.02	0.28	0.05	1			
IFRS	-0.74	-0.69	0.08	-0.09	0.11	1		
LOGTAfirms	-0.45	-0.55	0.32	0.05	0.27	0.09	1	
Lev	0.17	-0.01	0.09	-0.1	0.06	0.07	-0.18	1

Source: Source: Field survey, (2020)

EMLeuz= Earnings Management using Leuz model, EMBMScore = Earnings Management using Beneish M-score, BODSIZE = Board size, BODCOMP = Board Composition, AUDCOMM= Audit Committee, IFRS = IFRS adoption, LOGTAfirms = Natural Log of Total Assets, LEV = Leverage.

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As presented in Table 5, IFRS adoption and earnings management (EMLeuz) has the highest correlation with the value of -0.74. The table also shows that there is no multicollinearity problem between the independent variables used in this study, as its coefficients do not exceed the 0.8.This table also shows direction of the relationship among the variables as well as the strength of the relation. For clearer explanation of the multicollinearity, Brooks (2008) in his book posits that when adopting OLS estimation technique, there is an implied postulation that is made which states that the independent variables are not correlated with each other. Independent variables are said to be orthogonal if there is no relation between them. If the explanatory variables were not orthogonal to one another, this implies that adding or removing a variable from a regression equation would not cause the values of the coefficients on the other variables to change.

Table 5 portrays the correlation matrix of the test variables to show the extent of relationship between the dependent variables (EMLeuz and EMBMscore) and the explanatory variables (BODSIZE, BODCOMP, AUDCOMM, IFRS, LOGTAfirms, LEV). The table shows a significant correlation coefficient (r) result ($r = -0.74$, $n = 321$, $p < 0.05$) for International Financial Reporting Standard adoption (IFRS) and Earnings management (EMleuz). They are negatively correlated which implies that the adoption of IFRS reduces earnings management. This is also same with the correlation between IFRS and earnings management measure using the Beneish M-score. There is a significant moderate negative correlation between these variables ($r = -0.69$, $n=321$, $p<0.05$) with the adoption of IFRS leading to a decrease in earnings management. The two earnings management variables (EMLeuz and

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EMBMscore) also record a significant relationship with Board Size (BODSIZE) (r = -0.65, r= -0.6). The relationship is however negative which implies that the larger board size leads to a drop in earnings management. There is also a negative significant relationship (r= -0.62, r= -0.54) between Board Composition (BODCOMP) and the earnings management variables (EMLeuz and EMBMscore). Table 5 also shows that Audit committee (AUDCOMM) also recorded negative correlations with the earnings management variables. However, both relationships were insignificant (r= 0.09, r=-0.02). The firm size (LOGTAfirm) also had negative significant (r= 0.45, r=-0.55) relationships with the earnings management variables. The implication is that as firm size increases, earnings management reduces. Leverage also had a very weak positive insignificant correlation (r= 0.17) with earnings management (EMleuz). On the contrary, the relationship between leverage and earnings management (EMBMscore) showed a different result. There was very weak negative insignificant correlation between these two variables. We progress to perform the regression analysis as the result provided in the correlation analysis does not give a better picture for estimating causality between variables.

Regression Analysis

Regression analysis can be explained as defining and evaluating the link between a variable and one or more other variables, According to Brooks (2008), regression analysis explains the movements in a variable with reference to movements in one or more other variables.

Multiple regression analysis is used as this research studies the effect of multi variables on earnings management. The model of this study contains

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both dummy and continuous variables. On this basis, the Ordinary Least Square regression (OLS) is the best to be used (Hutchinson & Gul 2004; Uwuigbe et al 2015; Habbash 2010). Since previous sections of this study have established already the absence of multicollinearity problem, the multivariate hypothesis test is used.

In the previous section of the correlation analysis, table 5 showed the Pearson correlation which explains the relation between the dependent variable (earnings management) and the independent variables (IFRS, Board Size, Board composition, Audit committee, Firm Size and leverage). However, the regression analysis, at this stage is more powerful than the correlation as it does not only explain the relation between the variables but it also shows the causal effect of the relationships.

Two different regression analyses were conducted. The first is where the dependent variable which is earnings management is measured by adopting the measurement by Leuz *et, al*. (2003). The second regression analysis conducted is where earnings management is measure using the Beneish M-score. This was to check if the results obtained in the first regression analysis are consistent. Both fixed and random effect models were conducted for this analysis.

Table 6 presents the statistics of the regression analysis. The panel data regression was made for both fixed effects and Random Effect models.

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Table 6: Data Regression Results in Panel with Dependent Variable (EMLeuz)

Variable	Fixed Effects			Random effects		
	Coefficient	t-stat	Sig	Coefficient	t-stat	Sig
BODSIZE	-0.7791	-2.96	0.001*	-0.630	-2.68	0.007*
BODCOMP	-6.328	-2.741	0.003*	-3.54	-2.83	0.004*
AUDCOMM	-0.807	-0.48	0.632	-0.158	0.04	0.965
IFRS	-10.373	-14.49	0.000*	-10.811	-15.2	0.000*
LOGTAfirm	-2.1102	-3.327	0.001*	-0.41	-1.03	0.301
LEV	0.4386	0.64	0.522	1.321	1.98	0.048*
Constant	38.2637	6.69	0.000	24.11	5.96	0.000
R Square (R^2)			0.511			0.4965
F-Stat	51.05		0.000	275.89		0.000
						(X^2) =94.42
Hausman Test						0.000

Source: Field Survey, (2020)

Table 6 displays the regression result investigating the effect of IFRS adoption and corporate governance characteristics on earnings management (EMLEUZ). The regression analysis is conducted using two model effects namely fixed effect and random effect. The R^2 for the full sample estimation show a value of 0.511 for the fixed effect model estimation which explains that the model explains about 51.1% of the systematic variations in earnings management over the study period. The F-stat is 51.05 with p-value = 0.000 which is significant at 5% and suggest we cannot reject the hypothesis that there is a significant direct association between the dependent and independent variable. It is also indicating a joint statistically significant of the model.

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Commenting on the effects of the IFRS and Corporate governance variables, we observe that for Board size (BODSIZE) has negative significant coefficient (-0.7791), with a t-stat (-2.96) and statistically significant (p= 0.001). Board composition (BODCOMP) has a negative coefficient (-6.328), with a t-stat (2.741) and is also statistically significant (p=0.001). International Financial Reporting Standard (IFRS) has a negative significant coefficient (-10.733) effect, with a t-stat (-14.49) and also statistically significant (p= 0.000). Audit committee (AUDCOMM) has a negative coefficient (-0.1807) effect, with a t-stat (-0.48). It was however not statistically significant (p= 0.632). An estimation of the control variables discloses that Firm size (LogTAfirm) has a negative (-2.11) effect and statistically significant (p= 0.001). Leverage (LEV) has a positive coefficient (0.4386) effect though it is not statistically significant (p= 0.522). The negative significant relationships between earnings management (EMLEUZ) and Board size, Board composition, IFRS and Firm size is in line with agency and stakeholder theory which proposes that rises in these variables will lead to a decreasing influence on earnings management.

The R^2 for the full sample estimation shows a value of 0.4965 for the random effect model estimation which explains that about 49.65% of the systematic variations in earnings management is explained by IFRS and Corporate Governance variables over the study period. The F-stat is 275.89 with p-value = 0.000 which is significant at 5% and suggest the hypothesis that there is a linear association between IFRS, CG and Earnings management cannot be rejected. It is also suggesting that there is a joint statistical significance of the model. Commenting on the random effects of the IFRS and corporate governance variables on earnings management board size

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(BODSIZE) has negative significant coefficient (-0.630), with a t-stat (-2.68) and statistically significant (p= 0.007). Board composition (BODCOMP) has a negative coefficient (-3.54), with a t-stat (-2.83) and is also statistically significant (p=0.004). International Financial Reporting Standard (IFRS) has a negative significant coefficient (-10.811) effect, with a t-stat (-15.20) and also statistically significant (p= 0.000). Audit committee (AUDCOMM) has a negative coefficient (-0.158) effect, with a t-stat (-0.04). It was however not statistically significant (p= 0.965). An analysis of the control variables discloses that Firm size (LogTAfirm) has a negative (-0.410) effect and statistically insignificant (p= 0.301). Leverage (LEV) has a positive coefficient (0.1.321) effect and statistically significant (p= 0.048). The inverse and significant relationships between earnings management (EMLEUZ) and Board size, Board composition, IFRS and Leverage implies that rise in these variables will lead to a decreasing influence on earnings management. On the contrary the positive relationship is an indication that a rise in the variable will cause earnings management to also increase.

To decide on whether fixed or random effect model best fits the study, a test known as the Hausman was conducted. The null hypothesis of this test states that "the preferred model is random effect". This test applied to the model displayed an x^2 equal to 94.42 and a p-value equal to 0.000. This result of the test concludes that that we reject the null hypothesis and accept the alternative hypothesis that says "the preferred model is fixed effect". The justification for the fixed model effect over the random effect is that fixed-effect models controls for all time-invariant differences between the individual

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sample units hence the estimated coefficients of the fixed-effects models cannot be misleading because of omitted time-invariant traits.

Based on the results discussed fixed effect model, the findings in this study are similar to Doukakis (2014) who did a study on the difference in earnings management post IFRS adoption. They found that IFRS comprises a greater disclosure request which does not give chance to managers to use personal discretion and decrease the freedom to manage earnings. A study conducted by Chen et al. (2010) also concluded that IFRS decreases earnings management by restricting managers' opportunistic discretions in deciding accounting figures. The results of the study conducted Azzali & Fornaciari (2011) showed that IFRS reduce earnings management.

According to Ahmed et al. (2013) IFRS is more of a principle- based standard, and this makes it tougher to circumvent. He also deliberates that under IFRS, measurements are authorized, such as fair value accounting, which may show the underlying economics better than locally used standards.

The study of Egbunike, Ezelibe & Aroh (2015) research results showed that corporate governance mechanisms such as the firm size, board size and board independence, have significant impact on earnings management practices among Nigerian listed companies. This is seen to be very consistent with the findings of this study. The study of Abed et al (2012) also showed a substantial relationship among board size and earnings management which also aligns with the findings of this study.

Backaliden and Nilhag (2017) also found that post IFRS adoption; the use of discretionary accruals has reduced comparing it to the pre IFRS adoption time period. In both time periods, the general pattern is to create

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hidden reserves. The magnitude of earnings management has decreased substantially following IFRS adoption among Swedish listed companies.

We find results unsupportive to Ramlugun and Seewoo, (2011) who concludes that an earnings management is lower at companies with big audit committee size. Saleh *et al* (2007) and Abbott *et al* (2000) also found similar as they concluded that the association between earnings management and audit committees' size is negative. Chen et al, (2012) concluded that audit committee also reduced earnings management. Similar results was as also found by Lin, Li and Yang (2006) as they concluded that there is an inverse association between a company's audit size and earnings management.

The study however supports the conclusion of Baxter, (2009) who found no relationship between the size of audit committee and earnings management.

In other to ensure consistency in results found, another measure for earnings management was employed. Results are presented specifically to indicate the replacement of earnings management (EMLeuz) with earnings management (EMBscore) as the measurement the dependent variable. Our independent variables and control variables remain the same. The results of the regression analysis are reported in Table 7.

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Table 7: Data Regression Results in Panel with Dependent Variable (EMBMscore)

Variable	Fixed Effects			Random effects		
	Coefficient	t-stat	Sig	Coefficient	t-stat	Sig
BODSIZE	-0.329	-2.49	0.013*	-0.296	-2.9	0.004*
BODCOMP	-1.342	-2.78	0.011	-0.939	-2.75	0.006*
AUDCOMM	0.534	0.28	0.778	0.0671	0.4	0.69
IFRS	-1.03	-2.99	0.003*	-1.154	-3.36	0.001*
LOGTAfirm	-0.323	-3.15	0.002*	-0.176	-2.7	0.007*
LEV	0.127	0.37	0.712	0.35	0.43	0.664
Constant	0.834	0.3	0.761	-1.023	-0.65	0.517
RSquare(R2)			0.633			0.613
F-Stat	36.30		0.0011	22.15.		0.0021
						(X^2) =1.15
Hausman Test						0.979

Source: Field survey, (2020)

After conducting the regression analysis, the R^2 of the fixed effect model as shown in Table 7 amounts to (0.633) which means that 63.3.3% variation in the dependent variable (earnings management) is explained by the independent variables (IFRS and Corporate Governance characteristics). This value implies that other factors that might affect earnings management rather than the IFRS and corporate governance characteristics account for the 36.7 % variation. The F-stat is 36.30 with p value =0.0011 which is significant at 5%. The implication of this is that there is a significant linear association existing between the dependent variable and the independent variable and hence we fail to the hypothesis of significant relationship. It also shows that there is a joint statistically significant of the model.

The R^2 for the random effect model as depicted in table 7 amounts to 61.3% variation in the dependent variable is explained by the independent

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variables. The F-stat is 22.15 with p value = 0.0021 implies that the relationship between the dependent and the independent variables are linear.

Commenting on the performance of the IFRS and corporate governance variables, we observe that International Financial Reporting Standard (IFRS) has a negative coefficient and statistically significant under both fixed (ß=-1.03, p= 0.003) and random (ß=-1.154, p= 0.001) effect model. This implies that as firms adopt IFRS, earnings management reduces. Hence there is an inverse association between IFRS and earnings management. Board size (BODSIZE) also has a negative effect and statistically significant for both fixed (ß=-0.329, p= 0.013) and random (ß=-0.296, p= 0.004) effect model. The negative coefficient signifies an inverse association between board size of a company and earnings management. We therefore conclude that the larger the board size, the less earnings management within the company. Board composition (BODCOMP) also has a negative effect and statistically significant effect for both fixed (ß=-1.342, p= 0.011) and random (ß=-2.959, p= 0.006) effect model. The implication of this is that the more independent executives on the board the more earnings management is prevented in the company hence showing an inverse relationship. Firm size (LOGTA) which was used as control variable also has a negative coefficient and is also significant under both fixed (ß= -0.232, p= 0.002) and random (-0.1176, p= 0.007) effect models. This means large firms do not management earnings. However smaller have the tendency to manage earnings so as to attract investors. From the Table 7 Audit committee and leverage have a positive coefficient under both fixed and random effects. This implies that the company has more members on the audit committee the more the company

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engages in earnings management. Also, a company with a higher leverage is more likely to manage earnings by massaging loan figures in financial statements to make it look attractive. However, these two variables are not statistically under both models as presented in table 7.

In order to decide to select the appropriate retained effect (random effects or fixed effect model), researchers often depend on the Hausman, (1978) specification test. The Hausman test is used as the basis when selecting whether the best model is fixed effect Model (FEM) or random effect model (REM). The hypothesis for the Hausman test was stated as follows;

Ho: The appropriate model is random effect. There is no correlation between the error term and the independent variables in the panel data model

Ha: The appropriate model is fixed effect. There is a significant correlation between the error term and the independent variables in the panel data model

From Table 7, this test applied to the model displayed an $x^2 = 1.15$ and a p-value equal to 0.979 this result suggests that we cannot reject the null hypothesis at the expense of the alternative hypothesis. Hence, we can conclude that the random effect model is most valid. The results showed under the random effect model in table 7 is not significantly different from the results obtained from our original regression model. We can therefore conclude on the robustness of the test carried out.

Chapter Summary

This chapter applies the tools to measure the variables and it presents the results after conducting several types of analyses and statistics. Those analyses are the descriptive statistics that describe the data, the T-Test that

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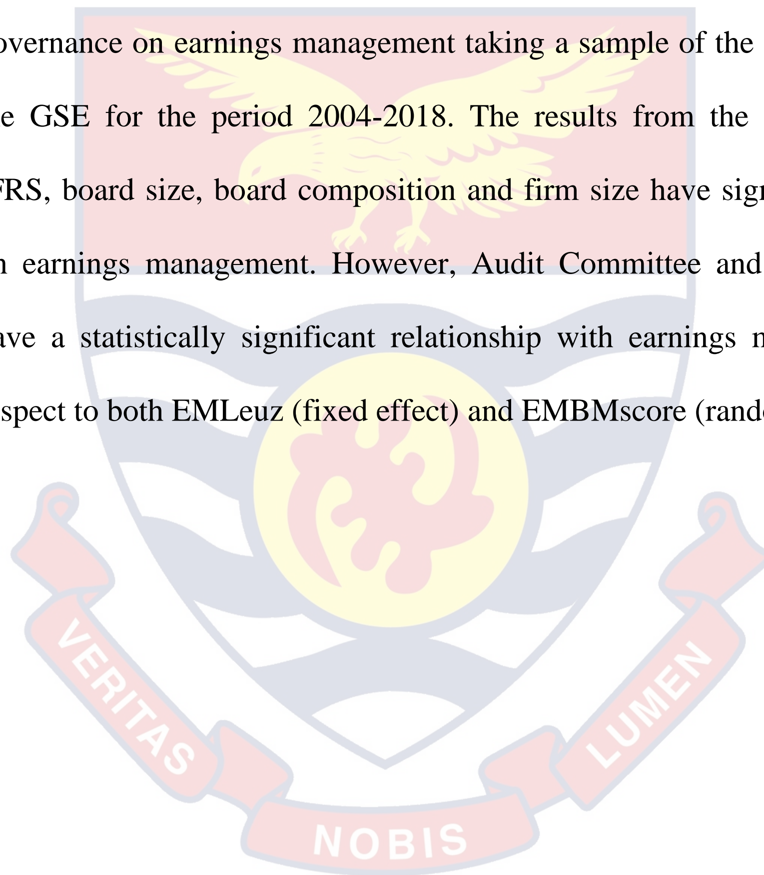
compare means between two groups as well as the correlation analysis that shows Pearson's correlation that is used to check for the multicollinearity problem. In addition, the regression analysis is conducted using the Ordinary Least Square regression (OLS) that shows the significance level of the model as well as the R^2 and the significance level of each independent variable with the dependent variable.

The results of this study that tests the impact of IFRS and corporate governance on earnings management taking a sample of the 22 firms listed in the GSE for the period 2004-2018. The results from the test indicate that IFRS, board size, board composition and firm size have significant influence on earnings management. However, Audit Committee and leverage do not have a statistically significant relationship with earnings management with respect to both EMLeuz (fixed effect) and EMBMscore (random effect).



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CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

Chapter Five of this study summarizes the findings from the study, presents the conclusions and recommendations for policy direction. It is recalled that the main purpose of this work was to study the effect of IFRS and corporate government practices on earnings management of listed companies in Ghana. Two independent variables namely corporate governance practices (board size, board composition and audit committee) and IFRS; two dependent measures for variable earnings management were, thus investigated. Using, a quantitative approach, the study sampled 22 companies over a 321 firm-year period.

Summary of Key Findings

Irrespective of the country of origin, International Financial Reporting Standards (IFRS) enhances transparency and consistency in the final reports of firm. Several factors affect the financial reporting procedures in Ghana. These are economy, international relations, law, educational systems and politics. Studies that have looked at the influences of IFRS shows that IFRS has helped in improving earnings quality and minimized earnings management. Earnings management has become an essential topic for academics and experts (Dechow & skinner, 2011) because earnings management can misinform stakeholders, and thus the earnings management literature is widespread. After a careful assessment of relevant literature, there are quite a number of reasons why managers engage in earnings management. One of the incentives for managers to manage earnings is because of huge compensation benefits. Also,

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in order to escape sanctions linked with breach of debt contract, or to avoid regulatory and governmental interferences, some managers engage in earnings management.

In summary, the implication of the descriptive statistics is that listed firms engage in earnings management on the average (Mean (EMLeuz) = 8.52, Mean (EMBMscore = -2.20). Also, we can imply from the descriptive statistics that on an average, board size of listed companies comprises 9 members and out of this about 72% are independent executives. This means that majority of the board members are independent. Also, the average members on the board's audit committee are 4 members.

Regarding objective one of this study, the following hypotheses were stated;

H_0: There is no difference in earnings management of listed firms pre and post adoption of IFRS.

H_1: There is a difference in earnings management of listed firms pre and post adoption of IFRS.

The study found that there is a significant difference in the mean earnings management pre and post adoption. The earnings management before adoption was greater than the earnings management after adoption. This implies that before the introduction of IFRS, earnings management was very high as compared to after the introduction of IFRS. Hence, introduction of IFRS has minimized the rate at which firms manipulate earnings to influence stakeholders' decision.

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Regarding objective two, the following hypotheses were established;

H_0: IFRS and corporate governance (board size, board composition and audit committee size) does not significantly affect earnings management.

H_1: IFRS and corporate governance (board size, board composition and audit committee size) significantly affect earnings management.

The study found out the following;

- There is a negative significant effect of IFRS on earnings management. The study found that IFRS strongly influence Earnings management by causing it to reduce. This is because IFRS are high quality principle-based standards more than GAAP hence probable to decrease the earning management in listed companies. The motives for this are that IFRS necessitate superior financial disclosures than most local standards (Limanto & Fanani, 2014), therefore limits discretional reporting and information asymmetry among managers, owners and other users of financial statements.
- The study also established a significant negative relationship between board composition which is the number of independent directors with the board of directors and earnings management. This implies that a board with more independent directors have a greater tendency of reducing earnings management than board with less independent directors.
- The study also found a significant negative relationship between board size and earnings management. Larger board size tend to minimize Earnings management than Companies with smaller Board size.

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- The study also established that one of the control variables (firm size) also has a negative association with earnings management. From the study, we established that larger firm size reduces earnings management than smaller firm size.

Conclusions

From the analyses made on the data collected, it can be concluded that IFRS and corporate governance (board size, board composition and firm size) reduces earnings management. Hence, there is a negative relationship between IFRS board size, board composition and firm size.

Based on the objective one, the study concludes that there is a significant difference in the earnings management of listed companies pre and post adoption of the International Financial Reporting Standards. Consistent with the alternate hypothesis, the T-test results show that earnings management after the adoption of IFRS was much lower than earnings management before IFRS adoption.

With regards to our second Objective, there is a strong negative significant effect of board size on earnings management of listed companies in Ghana. This conclusion is derived from the fact that ideal board size with creative abilities is essential to prevent earnings management. The study concludes that there is a strong negative significant effect of board composition and earnings management of listed companies in Ghana. This conclusion was derived from the findings that independent directors are capable of making decision that are free from biases and personal interest and hence the existence of external non-executive directors to have independent oversight role on the firm which helps to hinder earnings management.

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The study concludes that there is a strong negative effect of IFRS on earnings management of listed companies in Ghana. This result concludes that IFRS is more of highly principled based standards that does not give much room for personal manipulation by managers.

The study also concludes that firm size which is a control variable of the study also has a significant negative effect on earnings management. From the results of the studies, the relation between the Boards audit committee and earnings management of listed firms is insignificant.

Recommendations

In view of the outcomes of this study, the following recommendations have been made for policy deliberations in reducing earnings management that is practiced by firms.

1. The study recommends that listed firms should begin to see IFRS and corporate governance practices as practices for every industry. This recommendation is to help small businesses erase the impression that the concept "Corporate" and "Governance" are big words reserved for certain companies within some particular industries. This recommendation is also timely as the findings have proved that IFRS and corporate governance practices have contributed in reducing earnings management. Furthermore, the study recommends that forthcoming studies should also consider private firms and SMEs since they also adopt IFRS and *IFRS for SMEs*.
2. Regulatory bodies like the Ghana Stock Exchange (GSE), Security and Exchange Commission (SEC) in Ghana should pay keen consideration to the board size, the board composition and firm size since they

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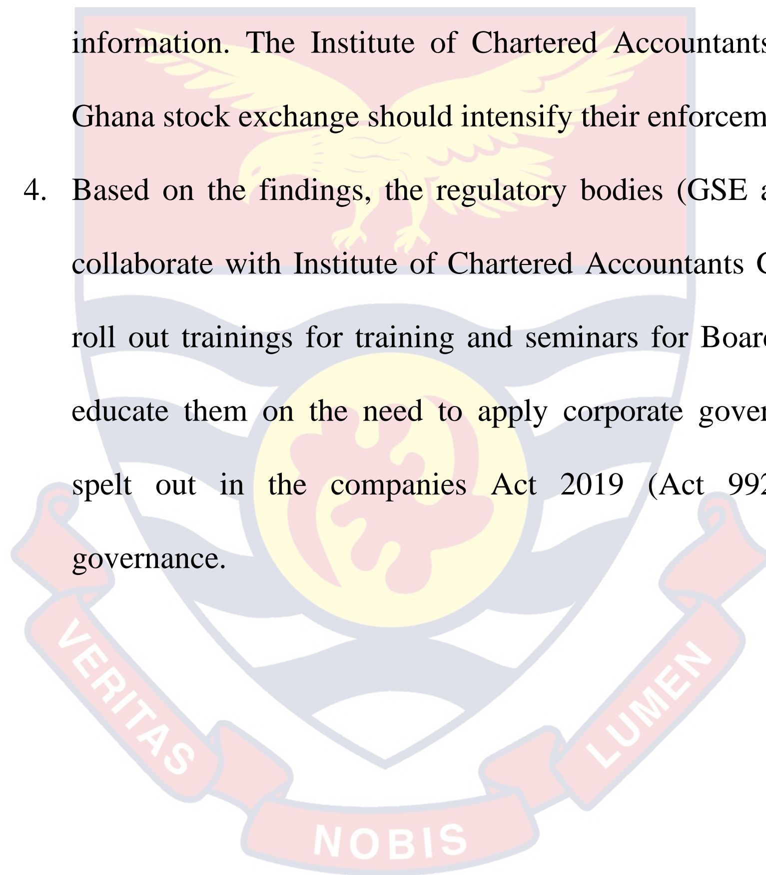
translate into decrease in earnings management. Regulatory bodies should make sure there is stern compliance to corporate governance practices.

3. Our findings further suggest that due to the fact that there relatively newer environment of the introduction of IFRS in Ghana, a stronger compliance mechanism for the implementation of IFRS must be instituted to ensure its positive impact on the quality of accounting information. The Institute of Chartered Accountants Ghana and the Ghana stock exchange should intensify their enforcement.
4. Based on the findings, the regulatory bodies (GSE and SEC) should collaborate with Institute of Chartered Accountants Ghana (ICAG) to roll out trainings for training and seminars for Board of Directors to educate them on the need to apply corporate governance principles spelt out in the companies Act 2019 (Act 992) on corporate governance.



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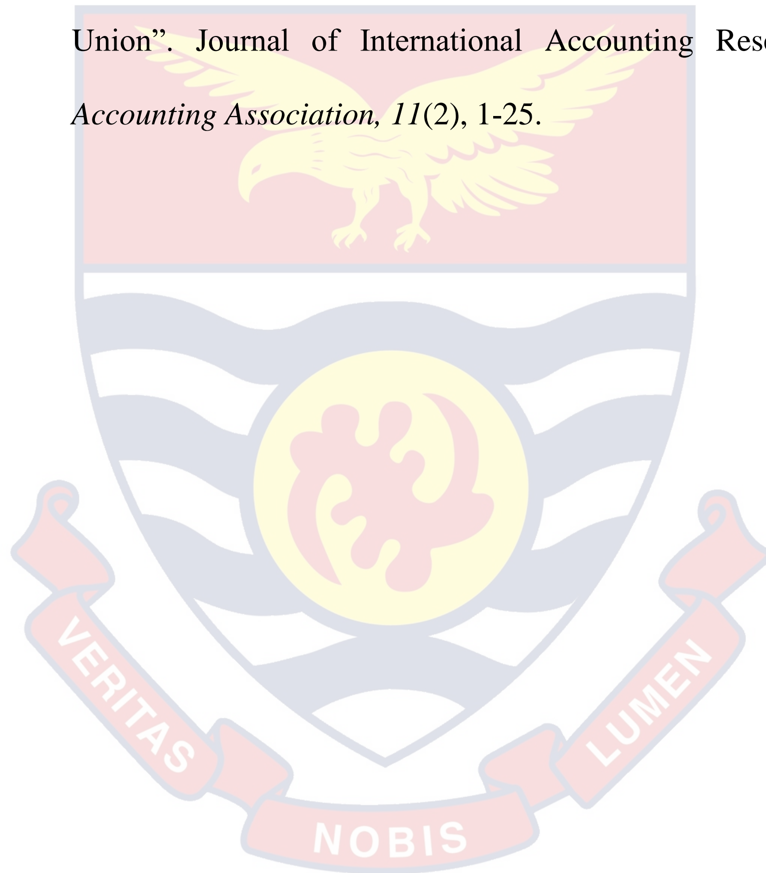

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