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RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND CREATIVE ACCOUNTING PRACTICES OF NIGERIAN BANKS

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ABSTRACT

Corporate collapse in the Nigerian banking sector and the associated crisis of confidence portends an agonizing danger for the growth of other sectors as these banks employ different creative accounting methods with a view to surmounting the intense competition, reduce cost and lessen the burden of global economic meltdown. Literature reveals that efforts geared towards performance enhancement/cost control are not unconnected with corporate governance breakdown; as such, this study evaluates the relationship between corporate governance CG (Internal control system/ ICS; audit committee experience/ ACE; board independence/BDI; external auditors independence/EXI) and creative accounting (CA) practices in Nigerian banks. Secondary data were obtained from audited financial reports of all the 15 quoted commercial banks on the Nigeria Stock Exchange (NSE) between 2008 to 2014 and were analysed using panel regression technique while error Composite Model estimation technique (Hausman specification test) lend credence to the supremacy of Random Effect Model (REM) over Fixed Effect Model (FEM) for interpretation purpose. The study finds that ICS and ACE have negative/inverse relationship (coeff= -0.3645 &-0.2956 respectively) with CA while BDI and EXI have positive relationship (coeff = 0.5789 & 2.8976 respectively) with CA. The study concludes that CG has statistically significant relationship with CA: F-stat (9.0323) and prob (F-stat) 0.0000 at 5% significance level and recommends featuring of more non-executive directors with less substantial portion of shares than the executive ones while ICS and ACE should adequately addressed to enlist compliance with good CG practices and eradicate CA practices. This will enhance bank performance, reduce confidence crisis and improve Nigeria's economic growth.

Keywords: Creative Accounting, Corporate governance, Auditors, Earnings Management

1. INTRODUCTION

Corporate financial statement is the tool for reporting and communicating financial performance and changes in financial position of an enterprise as it enable users to make informed economic decision. However, despite this role, the same financial statements could be manipulated when the accounting guidelines, regulations and rules are downplayed to suit the various purposes of management and directors or when there is weak internal control, poor corporate governance structure or weak regulatory and monitoring mechanism. This manipulation of normal accounting and

financial statements by moving accounts around, changing their locations and sub heads, redefining accounting and even inflating accounts in order to present an unattractive picture of the state of health of the organization or a rosier one, depending on the objective being pursued is referred to as creative accounting.

Creative accounting (CA) has been a concern to regulators and practitioners for several years because it erodes the quality of financial reporting and misleads users of financial statements. This according to Chen, Elder and Hsieh (2007) was achieved by providing users with false information about a firm's operating performance which had led to misguided investment, corporate governance breakdown and corporate collapse. In response to calls for strengthening corporate governance mechanisms with a view to enhance directors' oversight function and restore public confidence in the integrity of financial reporting, the Nigeria Stock Exchange (NSE) and Security and Exchange Commission (SEC) in 2003 promulgated the code of corporate governance (Ofo, 2011).

Moreover, corporate governance (CG) is concerned with the way in which stakeholders in a firm attempts to ensure managers and other insiders take measures or adopt a mechanism which safeguards their interests. Good corporate governance provides incentives for both board and/or management to pursue objectives that concur with the interest of the company and the stakeholders. It also helps in improving economic efficiency and incorporates a set of relationship between a company's management, board, shareholders and other stakeholders (Oladimeji, 2003).

A corporate collapse such as Enron in the United Kingdom and Worldcom in the United States brought the need for corporate governance to the limelight. In this regards, researchers and different countries under established authorities began to implement rules and regulations to overcome this issue. For instance, Cadbury Report was introduced in the United Kingdom, Sarbanes-Oxley Act in United States, the Dey Report in Canada, the Vienot report in France, the Olivencia report in Spain, the King's report in South Africa, principles and guidelines on corporate governance in New Zealand and the Cromme Code in Germany. The goal of these regulations was to improve firm's governance (Bhagat and Bolton, 2009). Creative accounting involves a lot of ethical issues because the personal integrity, morality, sense of judgment, belief, training and discipline of the account preparers play a significant role (Liandu, 2004).

Creative accounting irregularities and corporate financial reporting failures have occurred in corporate organisations with many unnoticed and covered up until the bubble burst in the Enron's and other corporate collapses in the United States. These corporate scandals and failures have their roots in dishonest management decision and in some cases, outright cover-ups of illicit activities. The multiplier effects of these practices brought the accounting profession under sharp scrutiny by the disturbed and bewildered public questioning the competence and integrity of accountants and accounting profession (Odia and Ogiedu, (2013). This cast doubts on the existing standards of corporate governance. Now, extra demands are being made on the auditors, audit committee, management and accounting firms to

guarantee the true and fair view of firms' financial statement in order to protect investors and other users of financial statements.

In Nigeria, the trend of cases of creative accounting practices seems to be growing as many corporate bodies in Nigeria are being investigated especially in Nigeria banks where some banks' Chief Executive Officers are being arrested and paraded by the Economic and Financial Crimes Commission (EFCC). Consequently, five (5) Chief Executive Officers of Nigerian banks (Intercontinental Bank, Oceanic Bank, Afribank, Wema Bank, and Fin Bank) were sacked by Central Bank of Nigeria and this had affected the stability and growth of these banks in particular and Nigerian financial system in general.

The reasons behind these creative accounting practices in the Nigerian banking industry according to Akenbor (2012) was to attract unsuspecting investors or obtain undeserved accounting-based rewards by presenting an exaggerated misleading or deceptive state of bank financial affairs. More so, the extent of window-dressing of banks' financial statements in Nigeria was adjudged by Ijeoma (2014) to have greatly violated all known ethical standards of the accounting and auditing profession and features itself in the form of tax evasion, non-remittance of government revenue and outright falsification of their accounts.

Preliminary findings by the House Committee on Finance in the country in 2013 according to Ijeoma (2014) showed that the published audited accounts of some banks were at variance with the figures the banks submitted to the committee during an investigation. It was then revealed that many banks blatantly engaged in the creative accounting technique of inflating their operating costs to reduce taxable income or profits. The resultant effect of this was unquantifiable but manifested in colossal loss of billions of naira (tax revenue) by Nigerian government

The need to guarantee the credibility of financial statements through ensuring a strong corporate governance and strict compliance with accounting standards as well as the growing concerns and / or need to align practices in Nigeria to International best practices led Nigerian government to enact the Peterside's code of corporate governance in the country in 2003 for public companies. Additionally, the Central Bank of Nigeria also released the code of best practices on corporate governance for banks in the post-consolidation era in 2006 all with a view to enlisting good CG practices, reduce fraudulent practices to the barest minimum, produce a true and fair view financial statements and enlist investors confidence. Unfortunately, the extent of compliance with these codes by Nigerian banks seems not to align with the business collapse that is experienced in the industry and one may wonder as it is unclear whether this lack of compliance with corporate governance codes CA practices is responsible for such business collapse or not.

The questions that come to mind relates to the kind of relationship that exists between board independence and CA practices, the extent to which internal control system affects CA practices and what effect external auditors and audit committees' independence have on CA practices in Nigerian banks.

These were relevant because board independence, internal control strength

external auditors' independence and audit committee independence were the corporate governance variables used in influencing the direction of CA practices (Organisation for Economic Co-operation and Development (OECD), 2004). Corresponding hypotheses of no significant relationships between director's independence, Internal control system, External auditor's independence and Audit committees' independence on one hand and creative accounting practices were formulated and tested with a view to address the research questions and achieve the study objectives.

Attempts to address these questions by different studies can be found in Lambert and Sponem (2005) that studied corporate governance and profit manipulation and Odia and Ogiedu (2013) that examined corporate governance and the regulatory activities of the Nigeria Accounting Standard Boards (NASB) on creative accounting. However, the concept of corporate governance and creative accounting has received either little or inadequate attention in the literature. As such, it remains unclear whether CG efforts put in place in Nigeria was a wasted effort or has some elements of efficacy as far as reducing CA practices in the country or not.

Thus, the scholarly call for such linkage is undertaken in this study to fill the existing gap in relation to the study objective which evaluates the relationship between corporate governance and creative accounting practices of commercial banks in Nigeria. Specifically, the study examines the relationship between directors' independence, internal control system external auditor's independence and audit committees' independence on CA practices in the country. These objectives were pursued between 2008 and 2014 being the period under heavy regulation and myriads of reforms, yet, it is a period associated with CG breakdown and insecurity in the sector. Period subsequent to 2014 were excluded as the period is associated with treasury single account (TSA) implementation which impairs the magnitude of CA practices in the sector. In doing this, all the fifteen (15) commercial banks listed on the Nigeria Stock Exchange (NSE) were considered. Meanwhile, the result of this study will assist to provide necessary and important information to boards of directors, business leaders, shareholders, managers, accountant, auditors, professional firms and other stakeholders in their decision-making activities. The result will also assist in the provision of bases and support for future researchers on the subject matter.

2. LITERATURE REVIEW

Conceptual Framework

Creative accounting is known by many names such as earnings management, income smoothing, earnings smoothing, financial engineering and cosmetic accounting, big bath accounting and window dressing. In the USA, the preferred term is earnings management but, in Europe, the preferred term is creative accounting (Aggarwal, 2014). However, Naser (1992) defined CA as the transformation of financial accounting figures from what they actually are to what preparer desires by taking advantages of existing rules or ignoring some or all of them.

To Merchant and Rockness (1994), CA means any action on the part of management which affects reported income and which provides no true

economic advantages to the organisation and may in fact, in the long term, be detrimental. Notwithstanding, CA first became very prevalent in the 1980s (Hussey & Ong, 1996).

Due to loopholes in accounting regulations, companies could produce accounts which flattered their financial performance with freedom in choice of methods, regarding various accounting entries like, valuation of stocks, calculation of depreciation (Naser, 1993). These avenues allow companies to tamper with the results or distort the reality regarding the financial performance of the company to get unfair advantages. The manipulation benefits provided by depreciation methods are also supported by Griffiths (1986) in spite of the fact that this deception is legitimate but unethical conduct engaged in by companies (Jameson, 1986).

Another means of carrying out CA according to Amat and Gowthorpe (2004) is by inflating the sales figure which eventually misled investors about the performance of the company concerned. This in the corporate annual report comes in form of distortion of narratives of numerical and graphical manipulation (Matis, 2012). Reasons for CA practices according to Ruland (1984) include income smoothing which involves charging provision for liabilities against assets by companies in order to reduce profit in a good year. This will enable companies showing steady growth in profit rather than fluctuating high or low (investors detest). Other reasons he gave are the need to tie in the forecast (designing accounting policies and profit to match reported earnings to profit forecast), reduce tax liability and maintain or boost company's share prices or keeping income booting alternative in hand in order to avoid unfavourable news about the company.

Opportunities or techniques for CA practices according to Schipper (1989), Largay, (2002) and Mulford and Comiskey (2002) arise due to flexibility permitted by the Generally Accepted Accounting Principle (GAAP), imprecise accounting measurement bases, lots of estimations, judgments and predictions, provision for alternative accounting treatment or measurement. It can also be found in artificial and related party transactions, insider dealings, pressure on managers to achieve short-term results, meet budget or raised market share prices (McNicholas & Wilson (1998); Okoye & Alao 2008) and as well as in the reclassification and presentation of financial numbers (Niskane & Keloharju, 2000).

Corporate governance has been increasingly researched into in the last decade (Gillan, 2006). It has also received much attention due to Adelphia, Enron, world.com, some banks failures, and other high-profit scandals, serving as the drive to such recent U.S. regulations as the Sarbanes-Oxley Act of 2002. This regulation among other reforms (capitalization of Nigerian banking sector in 2004 and Nigerian Code of CG Practices of 2003 are considered to be the most sweeping corporate governance regulations in the past years formulated with a view to enhancing the long-standing bandwagon (increasing shareholder power). According to Hugghebaert and Hulle (2004), CG concerns the development of performance to structures in corporate organisation embedded in the creation of effective monitoring of managers, and voting by shareholders is a

legal exercise for monitoring management. More so, many questions have been raised if institutional investors should be assigned an influential role in CG. CG is an important component of profitability and growth of firms through achieving the allocation efficiency by transferring funds to investment projects with higher returns. Generally, efficiency can be achieved if the investment projects offer higher returns as compared to the cost of capital (Zulkafli, Samad, & Ismail, 2003). CG mechanism provides protection to shareholders and other stakeholders particularly investors and good governance practices help to increase the share prices that could get higher capital. It also encourages international investors to lend money and purchase shares in domestic companies (Okpara, 2010). It also deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment (Schleifer and Vishny, 1997). La Porta, Lopez, Shleifer and Vishny (2000) describe CG as a set of mechanisms through which outside investors protect themselves against expropriation by the insiders; but to Aoki (2001), it is a set of self-enforceable rules (formal or informal) that regulates the contingent action choices of the stakeholders (investors, workers, and managers) in the corporate organisation domain.

There are a number of standards and frameworks that define, describe and recommend the application of good CG all with the same objective of directing and controlling organisations to conduct business in such a way that is beneficial to all parties involved. A number of common elements that underlie good CG can be found within these frameworks and standards. Examples of such standards are the King III report 2009, the Guidelines on CG published by the Organisation for Economic Co-operation and Development (OECD) 2004 and the Corporate Governance Principles and Recommendations issued by the Australian Securities Exchange (ASX) Corporate Governance Council in 2007. In line with these, CG refers broadly to the systems or structures (Internal and external) processes, rules, regulations and control mechanisms that govern the conduct of an organisation for the benefit of all stakeholders. Thus, effective CG must create organisational efficiency by pacifying the rights and responsibilities of owners (shareholders); employees (Managers and staff) and third parties (Woidtke, 2002; Miller, 2004). It involves balancing shareholder interests with those of other key stakeholder groups including customers, creditors, government and communities and ensuring that the organization operates in accordance with the best practices and accepted ethical standards instituting incentive and control techniques to mitigate abuse of corporate power and other egregious frictions and distortions within the firm (Sanda, Mikailu and Garba, 2005). In short, effective or good corporate governance is the joining of both the letter and spirit of the law to achieve all the objectives and benefits ascribed to it.

Internal and External Corporate Governance

In theory, the board is an effective CG mechanism and it provides a check on the management. Shareholders elect members of the board to act on their behalf and the board in turn delegates power to top management while still monitoring management performance and ratifying

any decision that demonstrates a lack of good faith for shareholders. Bertrand and Mullainathan (2000) also consider internal governance measurements to include the percentage of independent directors on the board and the number of board meetings. Independent directors supervise the managers in the firm and reduce the misappropriation of assets by the managers at the expense of shareholders' interests. A higher percentage of the independent directors would more efficiently control the managers and provide better CG.

Shareholders provide capital to firms in exchange for control rights. This creates contractual relationships that include charters and bye-laws between shareholders and firms (Hart, 1995). Shareholders can seek legal remediation from the court if managers violate the contract under common law; they also have different rights under corporate laws, such as voting appointment or removal of directors, approval of executive service compensation contracts, and alteration of firm charters and bye-laws (Easterbrook & Fischel, 1991).

Management has day-to-day operational control of firms under the law; however, it is subject to statutory requirements including qualifications, functions, disclosures, and removal, as well as limitations of power, the duty of care, fiduciary duty and shareholders' voting rights. This legal protection can generate high costs to shareholders, and frequently requires a certain proportion of shareholders to seek court injunctions against certain actions by managers or to take legal action against firms.

Normally, firms in common law countries, where investor protection is stronger, make higher dividend payouts (Choy, Gul & Yao, 2011). This greater legal protection is associated with lower levels of information asymmetry (Gul & Qiu, 2012). Weisbach (1988) provides evidence that firms with more outside directors are more likely to remove top managers when firm performance is poor. However, shareholders have less relative protection than employees and creditors, as employees are paid for their services almost immediately and creditors receive their principal and interest before shareholders when liquidation occurs.

Hence, shareholders require stronger protection of their interests and these protections are of two types in common laws: duty of care and duty of loyalty (or fiduciary duty) and many rules and regulations deal with aspects of both elements, including approval of independent directors, subcommittee supervision, disclosure of financial information, and compensation approval from shareholders. The common law system is currently regarded to be the most effective CG system and because common law countries are regarded as having better CG, this study focuses on board structures, composition, and meetings as elements of CG.

Corporate Governance in Nigeria

Corporate governance is not an entirely new concept in Nigeria. There are a number of corporate governance provisions in the Companies and Allied Matters Act 1990, the Bank and other Financial Institutions Act 1991 (as amended), the Investment and Securities Act 1999 (as amended), the Securities and Exchange Commission Act 1988 (as amended). These laws which place the responsibility for regulating CG on the CAC, SEC and CBN reflect some of the OECD principles of corporate governance

following the growing concerns on issues of CG. Realising the need to align with the International Best practices, the Securities and Exchange Commission (SEC) in collaboration with the Corporate Affairs Commission (CAC) inaugurated a seventeen member committee to identify weaknesses in the current corporate governance practice in Nigeria and to fashion out necessary changes that will improve the country's CG practices. The final report of the committee was eventually approved by the Boards of the SEC and CAC and released as the code of best practices on corporate governance in Nigeria for public quoted companies in 2003.

Evaluation of these Nigerian codes appear not to be different from the general OECD principles except that it incorporates Nigerian elements. As such, the OECD principles were later adopted in 2004

OECD Principles of Corporate Governance

The main area covered by the OECD principles includes:

i. **Rights and Equitable Treatment of Shareholders:** Organization should respect the rights of shareholders and help them to exercise those rights. They can help shareholders exercise their rights by effectively communicating information that is understandable and encouraging shareholders to participate at general meetings.

i. **Interests of other Stakeholders**: Organization should recognise that they have legal and other obligations to all legitimate stakeholders, i.e. employees, customers government etc.

iii. **Roles and Responsibility of the Board:** The Board members have various ranges of skills and understanding to be able to deal with various business issues and the ability to review and challenge management performance.

iv. **Integrity and Ethical Behaviours**: Ethical and responsible decision making is not only important for public relations but it is also a necessary element in risk management and avoidance of lawsuits.

v. **Code of Conduct:** Organisations should develop a code for their Directors and Executives to promote ethical and responsible decision-making.

vi. **Disclosure and Transparency:** Organisations should clarify and make publicly known the roles and responsibilities of the Board and management, to provide shareholders with a level of accountability. They should also implement a procedure to independently verify and safeguard the integrity of the company's financial reporting systems. Disclosure of material matters concerning the organisation should be timely and balanced to ensure that all investors have access to clear and factual information.

According to Zabihollah and Richard (2010), functions of corporate governance include oversight function by the board of directors, managing the company's resources, internal and external audit as well as monitoring, compliance with regulation and legal and advisory services. Stan (2012) discussed seven characteristics of good CA to include clear strategy, effective risk management

discipline, fairness, self-evaluation, transparency and social responsibility

Corporate Governance and Creative Accounting

The conflict of interest among different interest groups or the agency theory represents the real causes of CA (Jensen & Meckling, 1976; Dye, 1988; Christensen. & Felham, 2005). Imboff (2005) identifies poor CG as responsible for CA practices, Donnelly and Lynch (2002) are of the opinion that earnings manipulation results from diffuse ownership structure. Giroux (2006), pointed out that a weak CG is more likely associated with misleading accounting information, whereas Beasley (1996) believes that, a strong CG structure is less prone to fraud, earning's manipulation and other CA practices. However, studies by Beasley (1996) and Talib (2003) found the presence of audit committee framework in firms has not successfully reduced the incidence of creative accounting where it lacks independence and ineffectiveness in performing its function. CA thrives where an auditors act in connivance with a manager and where there is a strong attachment of auditors to clients (Asein, 2002; Bazerman, Loewenstern & More, 2002).

In CG models, information asymmetry is seen as a genesis point for creative accounting occurrence such that in information asymmetries, managers can opportunistically manage the accounting number in order to present the results that are expected by the market. The information perspective and asymmetry have always allowed managers to manage financial reporting disclosures in their favour (Schipper, 1989).

Theoretical Framework

This study is anchored on the agency theory and information theory. The agency theory states that problems are bound to arise in any cooperative exchange when one party (principal) contracts with another (the agent) to make decisions on behalf of the principal (Michael, Peter, Seven-Olaf & Philippe, 2005). Going by this theory, the firm is a legal fiction which serves as a focus for the complex process in which the conflicting objectives of individuals are brought into equilibrium within a framework of contractual relations (Jensen and Meckling, 1976) as cited in Amat, Gowthorpe & Perramon (2010).

The relevance of agency theory to this study is such that accountants at times collaborate with the management to manipulate the content of financial statements. Accountants, instead of rendering the accounts of their stewardship with a true and fair view rather collude with the manager to manipulate accounting figures. In support of the above, Umar (2003) warned all accountants that, the oversight authorities could no longer put up with double standards in the practice of accounting profession in Nigeria.

The proponent of information theory Schipper (1989) opined that the theory is a key element underpinning the study of the creative accounting phenomenon. A conflict is created by the information asymmetry that exists in corporate structures between a privileged management and a more remote body of stakeholders. Managers may choose to exploit their privileged position for private gains by managing financial reporting disclosure in their own favour. The information perspective assumes that accounting disclosures have information

content that possesses value to stakeholders in providing useful signals. However, it may be difficult or impossible for individual stakeholders to discern the fact and the effect of accounting manipulation, because of their insufficient personal skill, indifference or an unwillingness to engage in a detailed analysis (the mechanistic investor hypothesis discussed by Breton and Taffler, 1995).

Empirical Studies

Lambert and Sponem (2005) conduct a research on the practices of profit manipulation and the manner in which the Anglo-Saxon CA model can lead to or discourage these practices. The authors used results from 32 interviews applied in 13 companies and find that two of the factors underlying the accounting manipulation practices are the changes occurred in the corporate governance system and shareholder's pressure that accompanies them. The study also raises the issue of implementing the Anglo-Saxon CA model in countries that do not follow the same cultural patterns, indicating that this measure may entail unexpected consequences such as the multiplication of the CA practices or the reduction of financial statements' relevance.

Fizza and Qaisar (2015) investigate the issue of CA in financial reporting in Pakistan considering factors which influence the financial reporting like the role of auditors, the role of government regulations or international standards, impact of manipulative behaviours and impact of ethical values of an individual. The primary data analysis using descriptive and inferential statistics reveals that a company is involved in frauds or scandals because of several factors like unethical behaviours, agency problem and unprofessional attitude. More so, it was found that CA is neither an illegal nor legal, only the maximum use of it pushes a company in scandals.

Odia and Ogiedu (2013) examine the impact of CG and the regulatory activities of Nigerian Accounting Standards Boards (NASB) on creative accounting practices using linear regression and correlation techniques. Findings from the study reveal that CA exists in published financial statement and annual reports of companies in Nigeria and the practice is considered by many of the stakeholders especially the regulatory agencies as bad and meant to deceive or take advantage of users who usually are unable to detect such practices in financial statements.

Further results from the study reveal that CG and enforcement with monitoring activities of regulatory agencies are weakly correlated to CA practices and they have an insignificant impact on CA practices, more often than not where incidence of CA practices was manifested in the financial statement of companies, the auditors were found to be complacent over their responsibilities. The conclusion of the study was that creative accounting has some positive manifestations for example income smoothing. However, the negative aspects usually have the tendency to deceive or convey wrong information to users of companies reports in terms of paper profits and deceitful capital structure.

Amat, Gowthorce and Parramon (2003) studied the earnings management and its effect on reported earnings of larger listed companies in Spain between 1999-2001. The study finds that accountants

accept the ethical challenge in that CA raises the need to be aware of the scope for both abuses of accounting policy choice and manipulation of transactions. However, in a study carried out by Sen and Inanga (2005) in Bangladesh, it was found that CA conceal financial risk, circumvent borrowing restrictions, escape shareholder control, boost reported profits and or/ minimize reported losses, manipulate key ratios used in market analysis, enhance management performance and access to finance would otherwise be impossible. They also found that if CA is practiced by any organization, it has plenty scope of maneuvering and manipulation of accounting information and such manipulation might leave shareholders, the public, the government and other parties absolutely confused as to what is and what is not real and true in connection with a published set of accounting statements.

Velayutham (2003) in a survey of 1,500 accountants in Australia, found that CA as an ethical issue ranks above tax evasion. However, Merchant and Rockness (1994) investigated the motives for CA and found that explicit self-interest motivated CA got higher disapproval than where the motive is to promote the company. Also, they found that accountants are more critical of abuse of accounting rules than of manipulation of a transaction.

Osemene, Muritala and Olawale (2014) examine the impact of CA on firm performance in Nigeria using econometric analysis method on annual data of seven financial institutions over the period of 2006-2011. The study made use of panel regression. The results from Levin unit root test shows that the all the variables were non-stationary at level while non-performing loans are positively related to return on equity and dividend payout. Contrarily, gearing ratio and net income before tax are negatively related to both returns on equity and dividend payout. A careful analysis of these studies shows clearly that while a number of them examined performance and CA others sought after the causes and impact of CA. More so, none had ever attempted to relate CA with CG and this is the policy thrust of this paper with specific reference to commercial banks in Nigerian between 2008 and 2014.

3. METHODOLOGY

Model Specification:

In line with conceptual and empirical reviews, the CA and CG variables and their relationships is modelled as follows:

$CA = f(CGOV)$ ----------i

$CA = f(BDI, ICS, EXI, ACI)$ -------- ii

$CA_{it} = \alpha + \beta_1 BDI_{it} + \beta_2 ICS_{it} + \beta_3 EXI_{it} + \beta_4 ACE_{it} + \mu_{it}$ ----------iii

Where:

CA = Creative Accounting (Dependent variable)

(CGOV) = Corporate governance (independent variable)

BDI = Board Independence (independent variable) measured as the percentage of non-executive directors with less substantial portion of shares in a given firm to executive ones

ICS = Internal Control System (independent variable) measured as 1 if disclosed in the annual report, and 0 if otherwise.

EXI = External Auditor Independence (independent variable) measured as 1 if the auditor of a given firm belongs to the big 4, and 0 if otherwise.

ACE = Audit Committee experience (independent variable) measured as the number of members with an accounting background.

α = intercept

β_1- β_4 = parameter of estimate/ coefficients

$\mu_{it} = \varepsilon_{it} + \lambda_i$

ε_{it}= stochastic error term

λ_i = cross-sectional individual difference (Composite Error)

A priori expectation is that β_1, β_2, β_3 and $\beta_4 < 0$ such that the null hypothesis is rejected if the calculated t-stat is greater than tabulated t-stat and vice versa.

Creative Accounting (CA) is measured with the use of earnings management model propounded by Jones (1991) and modified by Dechow, Sloan and Sweeney (1995) as stated below:

$TA_{it} = TAC_{it} = \Delta CA_{it} - \Delta CL_{it} - \Delta CASH_{it} + \Delta DCL_{it} - DEP_{it}$ ----------(iv)

Where,

TAC_t = Total accruals at time t

ΔCA_t = Change in current assets at time t

ΔCL_t = Cash flow from operation at time t

$\Delta CASH_t$ = Change in cash at time t

ΔDCL_t = Change in debt included in current liabilities at time t

DEP_t= Depreciation and amortisation expenses at time t

In the second step, the parameters and the residuals are estimated by using Jones 1991 (Dechow, *et'al.* 1995) model for all firms and is specified as follows:

$TA_{it}/A_{it-1} = \alpha_0 + \alpha_1[1/A_{it}-1] + \alpha_2[\Delta REV_{it}/A_{it-1} - \Delta AR_{it}/A_{it-1}] + \alpha_3[PPE_{it}/A_{it-1}] + \varepsilon_{it}$ (2)

Where:

TA_{it} = Total accruals for firm i in year t,

α_0 = Constant term

A_{it-1} = Total assets for firm i in year t-1,

ΔREV_{it} = Change in net revenues for firm i in year t,

ΔAR_{it} = Change in accounts receivable for firm i in year t,

PPEit = Gross property plant and equipment for firm i in year t,

ε_{it} = Error term (discretionary accruals) for firm i in year t.

Research Design and Method of Analysis

The panel design of the cross-sectionals/time series type was adopted wherein secondary data (financial information) were collected from all the 15 quoted commercial banks on the Nigeria Stock Exchange (NSE)for the period of 2008 to 2014. 2008, the base year was the year when CA became highly pronounced in the country and thereafter attracted the serious attention of regulatory bodies. This study made use of panel regression analysis due to the nature of the data which comprises of a number of firms (combination of 15 banks) (cross-sectional) and for more than a year (time series). To estimate the models specified above, the study adopted Error Composite Model estimation technique to choose between Fixed Effect Model (FEM) and Random Effect Model (REM). The Hausman test rests on the null hypothesis that the FEM and ECM estimators do not differ substantially. However, the test statistic developed by Hausman has an asymptotic $\chi 2$ distribution. Thus, if the null hypothesis is rejected, the conclusion is that ECM is not appropriate and that we may be better off using FEM, in which case statistical inferences will be conditional on λi in the sample.

Although, both FEM and ECM approaches account for individual heterogeneity, fixed effect assumes γi is a fixed parameter (i.e. it does not change with time) whereas γi is assumed to be a

random parameter under random effect model.

4. RESULTS AND DISCUSSION

Preliminary Analyses

These include preliminary tests of Multicollinearity and Hausman test.

Table 1: Multi-collinearity Test – Correlation of the Independent Variables

	BDI	ICS	EXI	ACE
BDI	1.000000	-0.054184	0.308160	-0.144058
ICS	-0.054184	1.000000	0.283654	0.299007
EXI	0.308160	0.283654	1.000000	0.283451
ACE	-0.144058	0.299007	0.283451	1.000000

Source: Authors' Computations, (2016).

Table 1 shows the relationship between the independent variables used in the study. Evidence from the table reveals that the independent variables are not strongly correlated with each other (coefficients of all the variables less than 0.5), as such, there is an absence of multicollinearity among the variables included in the model.

Table 2: Correlated Random Effects – Hausman Test

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	4.824482	4	0.3058

Source: Authors' Computations, (2016).

Table 2 presents the summary results of Hausman test (fixed and random effects) of the cross-sectional data. The result of the test of individual difference among the cross-sectional units (banks) reveals that random effect is preferred since p-value 0.3058< 5% significance level. The null hypothesis was therefore accepted signifying that the individual difference among the cross-sectionals is a random effect.

Test of Hypotheses

The test of hypotheses in Table 3 assists in achieving the objectives of the study. The table shows the linear relationship between CG and CA of commercial banks in Nigeria with the use of panel regression analysis. The results obtained from the static model indicates that the overall coefficient of determination R-squared (R^2) shows that the equation has a good fit such that 65.88 percent variation in CA is explained by the predictor variables in the equation.

In terms of the signs of the coefficients which signify the effect of CG on CA, the result in Table 3 reveals that CG: internal control system (ICS) and audit committee experience (ACE) concur with *a priori* (theoretical) expectation. This means that there is an inverse (negative) relationship between (internal control system) ICS, (audit committee experience) ACE on one hand and (creative accounting) CA on the other hand (coeff of ICS and ACE = -0.3645 & -0.2956 respectively). Contrarily, board independence (BDI) and external auditor independence (EXI) have a positive relationship (coeff= 0.5789 & 2.8976 respectively) which is at variance with *a priori* theoretical expectation. Among all these variables, it was only board of directors (BDI) independence that has a statistically significant impact (p=0.0003), other variables exert insignificant impacts on CA.

Addressing the first objective, evidence from Table 3 also reveals that the coefficients of board independent (BDI) have a significant impact on creative accounting as indicated by the coefficient (0.5786) and prob (0.0003) at 5% significance level. The null hypothesis was thereby rejected, meaning that if the percentage of the independent directors in a company's board reduces, there is a high tendency that the level of accounting manipulations will also reduce. Also, with respect to the second objective, the coefficients of the internal control system (ICS) (-0.3645) with corresponding prob (0.0314) indicates a significant effect on CA at 5% significance level. This means that if an effective internal control system is put in place, the level of CA will be minimised. Furthermore, the prob (0.0441) at 5% significance level indicates that if the member of the audit committee with background and knowledge of accounting are sufficient, the level of CA will be reduced while external auditor independence does not have significant effect on CA as indicated by coefficient (2.8976) and prob (0.3450) at 5% significance level. This finding is contrary to that of Odia *et al* (2013) and Fizza *et al* (2015).

Overall, the findings from the study revealed that CG has a significant effect on CA of commercial banks in Nigeria as indicated by F-stat (9.0323) and prob (F-stat) 0.0000 at 5% significance level. This is in consonance with the study of Odia and Ogiedu (2013)

Table 3: Corporate Governance and Creative Accounting
Cross-section random effects test equation:
Dependent Variable: CA
Method: Panel Least Squares

Total panel (balanced) observations: 105

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.646572	1.713209	2.054639	0.0461
BDI	0.578593	0.163007	3.065784	0.0003
ICS	-0.364524	0.106589	-2.149567	0.0314
ACE	-0.295632	0.121248	-1.995361	0.0441
EXI	2.897652	1.857439	1.216574	0.3521

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.658806	Mean dependent var	3.760000
Adjusted R-squared	0.527485	S.D. dependent var	1.152814
S.E. of regression	0.798172	Akaike info criterion	2.618512
Sum squared resid	22.93486	Schwarz criterion	3.153878
Log likelihood	-51.46280	Hannan-Quinn criter.	2.822382
F-statistic	9.032312	Durbin-Watson stat	2.129858
Prob(F-statistic)	0.000014		

Source: Authors' Computation, (2016).

5. CONCLUSION AND RECOMMENDATIONS

From the analysis carried out and findings of the study, it can be concluded that the higher the percentage of independent directors on the board structure of commercial banks in Nigeria, the more the magnitude of CA accounting practices envisaged. This means that independence is not a matter of a number of people or status but a matter of philosophy such that whether a director is dependent or independent has nothing to do with good or bad accounting practices.

More so, an effective internal control system also assists in the minimization of creative accounting practices in Nigeria while accounting experts in the composition of audit committee also serve as factors that reduce creative accounting practices in Nigerian banks. It was therefore concluded that corporate governance has a significant impact on creative accounting practices of commercial banks in Nigeria.

Based on the foregoing, the study recommends as follows.

i. Effective and efficient internal control system (such as proper segregation of duties, laboratory

analysis of physical and electronic evidence, physical and electronic surveillance, internet surveillance and e-mail as well as whistle blowing) should be put in place by banks management in order to minimise or eliminate level of creative accounting;

ii. At least one member of the audit committee should have background or knowledge of accounting in order to identify and reduce misuse of creative accounting practices in Nigeria's commercial banks. This knowledge of accounting/financial literacy will prompt clear understanding of financial reports prepared by the management as regards any element of CA practices and possible correction/elimination of such.

iii. Good reporting habits should be encouraged and put into practice by Nigerian banks instead of emphasising on having more independent directors on the board of directors. This will enable readers to understand the report content as to the presence or otherwise of CA practices.

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