Modeling the Relation between Discretionary Accrual Earnings Management, International Financial Reporting Standards and Corporate Governance

Authors : Ikechukwu Ndu

Abstract : This study examines the econometric modeling of the relation between discretionary accrual earnings management, International Financial Reporting Standards (IFRS), and certain corporate governance factors with regard to listed Nigerian non-financial firms. Although discretionary accrual earnings management is a well-known and global problem that has an adverse impact on users of the financial statements, its relationship with IFRS and corporate governance is neither adequately researched nor properly systematically investigated in Nigeria. The dearth of research in the relation between discretionary accrual earnings management, IFRS and corporate governance in Nigeria has made it difficult for academics, practitioners, government setting bodies, regulators and international bodies to achieve a clearer understanding of how discretionary accrual earnings management relates to IFRS and certain corporate governance characteristics. This is the first study to the author's best knowledge to date that makes interesting research contributions that significantly add to the literature of discretionary accrual earnings management and its relation with corporate governance and IFRS pertaining to the Nigerian context. A comprehensive review is undertaken of the literature of discretionary total accrual earnings management, IFRS, and certain corporate governance characteristics as well as the data, models, methodologies, and different estimators used in the study. Secondary financial statement, IFRS, and corporate governance data are sourced from Bloomberg database and published financial statements of Nigerian non-financial firms for the period 2004 to 2016. The methodology uses both the total and working capital accrual basis. This study has a number of interesting preliminary findings. First, there is a negative relationship between the level of discretionary accrual earnings management and the adoption of IFRS. However, this relationship does not appear to be statistically significant. Second, there is a significant negative relationship between the size of the board of directors and discretionary accrual earnings management. Third, CEO Separation of roles does not constrain earnings management, indicating the need to preserve relationships, personal connections, and maintain bonded friendships between the CEO, Chairman, and executive directors. Fourth, there is a significant negative relationship between discretionary accrual earnings management and the use of a Big Four firm as an auditor. Fifth, including shareholders in the audit committee, leads to a reduction in discretionary accrual earnings management. Sixth, the debt and return on assets (ROA) variables are significant and positively related to discretionary accrual earnings management. Finally, the company size variable indicated by the log of assets is surprisingly not found to be statistically significant and indicates that all Nigerian companies irrespective of size engage in discretionary accrual management. In conclusion, this study provides key insights that enable a better understanding of the relationship between discretionary accrual earnings management, IFRS, and corporate governance in the Nigerian context. It is expected that the results of this study will be of interest to academics, practitioners, regulators, governments, international bodies and other parties involved in policy setting and economic development in areas of financial reporting, securities regulation, accounting harmonization, and corporate governance.

Keywords : discretionary accrual earnings management, earnings manipulation, IFRS, corporate governance

Conference Title : ICAAF 2019 : International Conference on Accounting, Auditing and Finance
Conference Location : Singapore, Singapore
Conference Dates : July 04-05, 2019