AMERICAN JOURNALS
Open Access, Peer Reviewed Journals

American Journal of Research in Humanities and Social Sciences
ISSN (E): 2832-8019 Volume 26, | July - 2024

CORPORATE GOVERNANCE MECHANISMS AND ASSET DEPRECIATION VALUE OF QUOTED MANUFACTURING COMPANIES IN NIGERIA

Itoro Monday John1
Clifford O. Ofurum2
Solomon Egbe3
1, 2& 3Department of Accounting, Faculty of Management Sciences,
University of Port Harcourt, Choba Port Harcourt, Rivers State, Nigeria

ABSTRACT

This research study investigated the relationship between corporate governance mechanism and asset depreciation value of quoted manufacturing companies in Nigeria during the period 2010 to 2022. Corporate governance mechanism was used as the independent variable, while asset depreciation value serves as the dependent variable in the investigation within 13 years coverage. This research used ex-post facto design to carry out the investigation on 56 quoted manufacturing companies. The econometric statistical view version 10 software was used in the analyses. Results showed a positive and significant relationship between two dimensions of corporate governance mechanism (internal audit quality and auditor independence) and asset depreciation value, while positive and insignificant relationship was found between board of directors' independence and asset depreciation value amongst others. The study recommended amongst others that shareholders of quoted manufacturing companies should review the current percentage in the appointment of non-executive directors.

KEYWORDS

Board of directors' independence. Internal audit quality. Auditor independence. Asset Depreciation value

Introduction

The manufacturing sector has generally been described and accepted as an engine of growth and development of any country (Ududechinyere, et al. 2018). It serves as a channel for the production of goods and services, creation of massive employment opportunities and generation of income (Olorunfemi, et al. 2013). The importance of the manufacturing sector is also realized from the fact that private consumption expenditure has significantly increased (Ku, et al. 2010). In Nigeria, the history of the manufacturing sector reflects how a nation could neglect such a vital profitable sector through economic policy inconsistencies (Adeola, 2005). Pursuant to the economic objectives of this important sector, thrive the relevance of corporate governance mechanisms and earnings management. Currently, earnings management has emerged as a subject of interest to analyst, investors, managers and other market participants (Chan, et al, 2006; Cahan, et al. 2009). Earnings management is considered to be a key indicator of financial reporting quality. Managers are much concerned about

meeting analyst forecast by maintaining sustainable growth of their companies as a means to protect themselves (Lyimo, 2014). Leuz, et al. (2003) defined earnings management as insiders' changes that affect economic performance recorded in financial reporting with the intention to influence contractual benefits or to mislead some stakeholders. Callao, et al. (2014) more recent definition combines many elements covered by previous researchers. This recent definition says that earnings management is a purposeful intervention in financial reporting, designed to reach earnings targets by varying accounting practices.

IAS 16 Property, Plant and Equipment require that the non-current assets should be depreciated over its useful life. Intangible assets such as trademarks should be amortized while natural resources such as oil and gas are subjected to depletion process. According to Franceschetti (2018) and Omar, et al. (2014) and Kighir, et al. (2013), the aforementioned items require discretionary judgment by the management to choose the depreciation method, to select the useful life of the assets and to estimate the salvage values. As well, Bishop and Eccher (2000) professed that the changes in the useful life of the non-current assets influence the reported earnings in the income statement which may be deemed as earnings manipulations. Nevertheless, under IAS 16 the residual value and the useful life of an asset should be reviewed at least annually, and in case the expectations differ from the previous estimates; any changes are accounted for prospectively as changes in estimates under IAS 8 Accounting Policies, Changes in Accounting Estimates and Error. Also, the depreciation method should reflect the pattern in which the assets` economic benefits are consumed by the entity. However, where management followed the previous rules; this technique still provides an ample space of discretionary judgment that can be exploited to manage the reported earnings. More so, if those rules are violated, then fraudulent financial statements might also occur.

Lin and Hwang (2010) note the need for corporate governance as a mechanism to align the interests of management with those of shareholders. Corporate governance features may be seen as a characteristic of the contract that governs relations between shareholders and managers (Bhagat & Bolton, 2008). A corporate governance system comprises of a wide range of practices and institutions, from accounting standards and laws concerning financial disclosure, to executive compensation, to size and composition of corporate boards (Javid & Igbal, 2010). Therefore, a corporate governance regime in a country has deep implications for firms, employment systems, trading relationships and capital markets (Javid & Igbal, 2010). Pointedly, the concept of corporate governance mechanism presumes a fundamental tension between shareholders and corporate managers (Berle & Mean, 1932; Jensein & Meckling, 1976).

The gap in literature is that the previous studies did not consider the new National Corporate Governance Code of 2016. Past studies hardly concluded their research investigation during the period 2010 to 2022. The results of these studies may not also be similar due to the differences in study locations and timing. Past studies hardly utilized the Modified Jones 1995 Model of Discretionary Accruals Method for earnings management. Hence, this research filled these identified knowledge gaps as it investigates the relationship between corporate governance mechanisms and asset depreciation value of quoted manufacturing companies in Nigeria during the period 2010 to 2022.

Literature Review

Theoretical Review

Resource Dependency Theory

The concept of the "Resource Dependence Perspective" (1978) gained public awareness through the book by Jeffrey Pfeffer and Gerald Salancik "The External Control of Organizations. A Resource Dependence Perspective" and became widely accepted in the Anglo-American discussion. The fact that Pfeffer and Salancik's book (1978) was republished unrevised (with a new introduction) in 2003 is not the only factor that speaks for its importance. In the important volume edited by Scott (1994) called "Organizational Sociology", RDT is one out of a total of seven theoretical approaches discussed. It also has a place within a much-heeded review by Wright & McMahan (2009) on theoretical perspectives of HR strategies. In addition to this, there are many empirical works which means that one can estimate the relative strength of its explanatory power. A fundamental assumption of Resource Dependence Theory (RDT) is that dependence on "critical" and important resources influences the actions of organizations, and that organizational decisions and actions can be explained depending on the particular dependency situation.

Resource dependency theory (RDT) draws from both sociology and management. It is argued that how the external resources of the firm affect the behaviour of the firm and takes a strategic view of corporate governance. Therefore, the acquisitions of external resources are vital for strategic management of any organization. Every corporation depends on the resources. Hence, RDT recognized that the administrative body of any firm as the linchpin among the firm and the resources that are required to accomplish the goals (Tricker, 2012). The resources emanate from the environment consist of other firms. It can be Said that the resources are in the hand of other firms. Therefore, firms are dependent on each other and exchange resources. This is why resources are the basis of power for firms because the resources are valuables, costly to imitate, rare and not substitutable (Hitt, et al. 2012) In other words, resources and power are directly linked. Those firms who have resources can be considered more powerful as compared to its competitors and those that do not have access to that. The dependence on other firms normally affects the productivity of firms. The scarcity of resources leads to uncertainty for organizations. Firms always seek to find ways to exploit the resources for the safeguard of its own long-term survival.

The resource dependency theory investigates the association between directors' inter-link and different facets of organization performance or behaviour (Pfeffer & Salancik, 1978). Resource dependency theory (RDT) equally concentrates on the role of board of Directors' in providing access to resources needed by the firm or securing essential resources to an organization through their linkages to the external environment. Resource dependency theorists provide focus on the appointment of representatives of independent organizations as a means for gaining access in resources critical to firm success. For example, outside directors who are partners to a law firm provide legal advice, either in board meetings or in private communication with the firm's executives that may otherwise be more costly for the firm to secure (Hillman, et al. 2000 cited in Abdullah & Valentine, 2009) It has been argued that the provision of resources enhances organizational functioning, firm's performance and its survival (Daily, et al. 2003).

According to Hillman (cited in Abdullah & Valentine, 2009), directors bring resources to the firm, such as information, skills, access to key constituents such as suppliers, buyers, public policy makers, social groups as well as legitimacy. Directors can be classified into four categories of insiders, business

experts, support specialists and community influential. First, the insiders are current and former executives of the firm and they provide expertise in specific areas such as finance and law on the firm itself as well as general strategy and direction. Second, the business experts are current, former senior executives and directors of other large for-profit firms and they provide expertise on business strategy, decision making and problem solving. Third, the support specialists are the lawyers, bankers, insurance company representatives and public relations experts and these specialists provide support in their individual specialized field (Abdullah & Valentine, 2009). In brief, the RDT recognizes that the survival of organizations is dependent on directors'/managers reasoned and intentional allocation of resources to innovative activities required of the firm by customers and investors. Thus, how managers compete and win resources (internal and external) and deploy such resources to productive engagements have impacts on their exchange-based power and control and thus significant consequences on continuity of funding sources and survival and growth of the entity (Nwaobia,2015). The resource dependency theory has become quite popular in corporate governance research.

Pfeffer and Salancik (1978) state that to 'understand the behaviour of an organization you must understand the context of that behaviour that is the ecology of the organization'. The resource dependency theory recognizes the influence of external factors on organizational behaviour. The managers have a role to play in reducing environmental uncertainty and dependence. Ulrich & Barney (1984) state that power is the key issue in environmental uncertainty, because power is required to control required resources. Organizations attempt to reduce others power over them, by attempting to increase their own power over others. Pfeffer (1987) provide that, the basic argument of the resource dependence perspective and inter-organizational relations is as follows.

First, the fundamental units for understanding inter corporate relations and society are organizations. Second, these organizations are not autonomous, but rather are constrained by a network of interdependencies with other organizations. Third, interdependence when coupled with uncertainty leads to a situation in which survival and continued success are uncertain. Fourth, organizations take action to manage external interdependencies although such actions are inevitably never completely successful and produce new patterns of dependence and interdependence. Fifth, these patterns of dependence produce interorganizational as well as intra-organizational power, where such power has some effect on organizational behaviour.

Conceptual Review

Concept of corporate governance mechanism

Corporate governance mechanism is viewed as a broad term that defines the process, customs, policies, laws and institutions that direct the organizations and corporations in the way they administer and control their operations (Khan, 2011). There is no universally held or single explanation of corporate governance mechanism and certainly no definition that all countries agree on (Mayes, et al. 2001). As a result, corporate governance mechanism can be defined and practiced in different global ways depending upon the relative power of owners, managers and provider of capital. Generally, corporate governance mechanism can be defined as procedures, customs, laws, policies, and institutions that affect the way a corporation is directed, administered or controlled. It can also be the relationships between stakeholders' and the goals that are already, laid down for the corporation, and the board of directors (Afolabi, 2013). The important objective of corporate governance mechanism is to ensure the accountability and transparency of those involved in the policy of organization through mechanisms

that would reduce the incidence of principal agent problem. Cadbury (2002) defined corporate governance mechanism as the system by which companies are directed and controlled by shareholders.

Dimensions of corporate governance mechanism

Board of directors' independence (BDI): Boards play an essential role in monitoring and directing managers to satisfying the interests of stakeholders (Habbash, 2016). However, the boards' monitoring effectiveness depends on its composition. Independent boards are more likely to inspire managers towards high transparency and disclosure quality levels (Aburaya, 2012).

According to Cotter and Silvester (n.d), full board independence is captured by the proportion of independent directors to total directors on the board, individual directors are assessed in terms of their independence from management. Essentially, independent directors are non-executive directors who do not have a business or other relationship with the firm that could interfere with their ability to act independently (Cotter & Silvester, n.d). Non-executive directors are not necessarily independent of the company's executive management, as their independence can be impaired by virtue of their other relationships or business dealings with the company, such as acting as a professional adviser to the firm (Cotter & Silvester, n.d).

Board independence denotes a balanced board whose composition is not dominated by board members with executive power, and consists of members who are independent from the management and shareholders (Shamsul 2001). Independent board is one of the effective mechanisms in monitoring the accounting process (Klein, 2002). Therefore, board of directors should consist of independent members that are non-executive and/or external directors. External directors are able to increase board's independence and able to monitor top management effectively (Ching, et al. 2002).

Internal audit quality: Internal audit quality (IAQ) is considered as an effective instrument of management in almost all organization (Belo, et al. 2017). It is considered an important element of organization in both public and private sectors. An audit must be of sufficient quality if audit failures will be reduced to the barest minimum (Okoye, et al. 2015). According to De-Angelo (1981) audit quality is the market assessed joint probability that a given auditor will both (i) identify a breach in the client company accounting system (ii) report that breach, that is the auditor has both the technical competence to detect any material errors during the audit process, and the independence to ensure that material errors and omissions are corrected or disclosed in the auditor's report. Internal audit quality is vital as it affects the reliability of the financial report and protects the interest of its owners. It also enhances transparency of reports through higher voluntary disclosures (Barros, et al. 2013).

Auditor independence: Independence is a major concern in the auditing profession. Corporate scandals like Enron failure confirmed the importance of credulity of audits (Herath & Pradier, 2018). Auditor independence refers to the ability of the external auditor to act with integrity and impartiality during auditing functions (Akpan & Dumkpah, 2013). The framework to the Independent Standards Board (ISB) defines auditor independence as the freedom from the factors that compromise, or can reasonably be expected to compromise, an auditor's ability to make unbiased audit decisions (McGrath, et al. 2001). The overall goal with independence is to ensure financial reports are reliable.

Independence is an essential attribute for audits because it determines how credible and reliable financial statements would be to investors (Herath & Pradier, 2018). Independence has been the focus of almost constant controversy, debate and analysis (Law, 2008). After corporate failures and scandals, regulators began to question how independent and competent auditors were during engagements

(Bakar, et al 2005). According to Fearnley, et al. (2005), the restatement of the Enron accounts and the collapse of Anderson shows the devastating effect of loss of confidence in the integrity of an audit firm. Auditor independence (AI) does not necessitate an auditor to be free of all factors which may influence the ability to give unbiased opinions. It simply emphasizes freedom from factors which increase the likelihood of compromising audit opinions (McGrath, et al. 2001). AI has been categorized into two; Independence in fact which is the state of mind that allows an auditor to conduct an audit with objectivity, integrity and professional skepticism, and independence in appearance which relates to how informed users perceive the auditor. This paper focuses on independence in appearance because appearances of independence are both necessary and crucial in sustaining public confidence in auditors and audit reports (Alleyne, et al. 2006; Al-Ajmi & Saudagaran, 2011). Abu Bakar, Abdul-Rahman and Abdul-Rashid (2005) also assert that auditors should not only be independent in fact, they also need to appear independent to financial statement users for their reports to be considered credible and reliable.

Asset depreciation value

The statement of financial position or statement of affairs of an organization as at a given date is traditionally referred to as the balance sheet. Its main purpose was to communicate information about the financial position of the organization. It summarizes information contained in the accounting records in a clear and meaningful pattern. A classification of the statement of financial position shows the "assets" in an order of liquidity (the ease with which assets can be converted to cash in a normal course of business without losing much fund) on one side and the "liabilities" (what the organization owes and when these amounts will fall due). An asset constitutes an investment encompassing present or future economic benefits or services acquired and can be valued in monetary units. It must have some special usefulness to the organization. Assets must therefore be differentiated from goods purchased for resale. A company trading in assorted vehicles would have the vehicles as goods bought for resale but such vehicles purposely used for the business are assets. The trading vehicles are stocks (Inventory) in the statement of financial position as current assets. Asset can be fixed or current. A fixed asset is acquired for the purpose of use within the organization and has a useful life that lasts some considerable financial period of time. It is not meant for resale in the organization. A company's investment in fixed asset is dependent, to a large degree, on its line of business. Some businesses are more capital intensive than others. A current asset is one which is either part of the operation cycle of the organization or is highly to be realized in the form of cash within a financial period. There are some other assets that are referred to as indeterminable. A trade mark or a patent on a product or process that has been developed by the organization itself falls within this category.

The organizations financial statement must be presented in a true and fair view. All revenues should be realized and all expenditures matched against revenues to show the true profit for the financial year. Anything short of this renders the financial statements highly misleading to the extent of the reported results in the Statement of Comprehensive Income, Statement of Financial Position, Cash Flow Statement and Valued Added Statement. The financial statement therefore does not fairly represent the state of affairs and financial performance of the organization. Another reason for calculating depreciation is to calculate the recovery of cost that is incurred on fixed assets over their useful life. This ensures the owner's capital is intact. The process is to ensure future provisions to be made for replacement costs when the present asset is out of its useful life in the business. Depreciation will help an organization to ascertain the true value of an asset; if not calculated, the asset value shown in the

accounting books would be higher than the actual or true value. Moreover, depreciation is often added to the cost of production so as to find out the actual cost of production. Machinery and equipment used to produce the product often incurs some sort of wear and tear of the asset. This must be calculated and added to the cost of producing the product. A legal point of view is the Company Act statutes, a company cannot declare dividends until it has calculated depreciation and charged it to the books. These lead to depreciation of assts (Adebayo, 2016).

Depreciation expense is an estimate of the amount of future economic benefits or service potential of tangible non- current assets that is expected to be consumed during the accounting period. It is done as a means of allocating the costs of tangible non-current assets to periods which the entity is likely to benefit from using such assets (the expected useful life). International Accounting Standard 16- Property, Plant and Equipment also provides for the reducing balance of depreciation estimation, as an alternative to the straight-line method. The reducing balance method of depreciation assumes that assets decline in value faster during the earlier years of acquisition and gradually slows down in depreciation with usage. However, both methods are based on estimates, and will producing differing results.

In valuation standards across the world, depreciation is seen as a composite term consisting of three items: physical deterioration, functional obsolescence and economic obsolescence (Ricks, 2005). Physical deterioration is depreciation that results from wear and tear over time, including any lack of maintenance. Functional obsolescence is caused by advances in technology that result in new assets capable of more efficient delivery of good and services, rendering previously existing assets fully or partially obsolete in terms of current cost equivalency. Economic obsolescence results from changed economic conditions which affect the supply and demand for goods and services produced by the asset or the cost of its operation.

Empirical Review

Okolie and Izedonni (2014) determined whether audit quality has any significant impact on and the relationship with market value per share of companies in Nigeria. With archival data extracted from the Nigeria Stock Exchange between 2006 to 2011. Multiple regression analysis showed that audit quality exerts significant influence on the market prices per share.

Bello, et al. (2017) examined the relationship between internal audit quality and organizational performance. Using primary data source, descriptive and inferential statistical analysis, the findings showed the presence of probative and significant relationship between internal audit quality and organizational performance.

Adeyemi, et al. (2012) investigated factors affecting audit quality in Nigeria. The study employed both primary and secondary data in its analysis. The study found that multiple directorships and the provision of non-audit services had a significant effect on audit quality in Nigeria. The study recommended that efforts should be made to strengthen audit quality if the quality of financial reporting were to improve. Also, the study recommended that regulatory authorities should ensure that the same firm do not render audit services and offer management advisory services in the same company simultaneously.

Omoye and Aronmwan (2013) examined audit firm rotation and audit quality using cross sectional pool data gathered from 15 banks in the Nigeria-banking sector for the period 2005-2011. The study found that audit firm rotation significantly affects audit quality although the effect is negative. A

summary of the review shows that most of the studies on audit quality in Nigeria have focused on auditor related factors with only limited studies looking at the governance mechanisms.

Zayol, et al (2017) investigated the effect of auditor independence on audit quality. The study adopted the ex post facto research design relying on secondary information obtained from journals, text books and other internet materials. Based on the review, they concluded that there is a strong relationship between auditor independence and audit quality. They also revealed that there are four threats to auditor independence, which they listed as client importance, non-audit services (NAS), audit tenure, and client's affiliation with CPA firms.

Babatolu, et al. (2016) examine the effect of auditors' independence on audit quality among seven (7) purposively selected deposit money banks in Nigeria from 2009 to 2013. The population of this study comprised of twenty (20) listed Deposit money banks in Nigeria. Adopting descriptive statistics, correlation and ordinary least square (OLS) regression technique, their findings revealed that there is a positive relationship between audit fee, audit firm rotation and audit quality, while a negative relationship exists between audit firm tenure and audit quality. On the correlation matrix, the association between audit quality and leverage was strong, negative and statistically significant, while that between audit quality and company size was equally strong, positive and statistically significant.

Okolie (2014) examines the relationship and effects of auditor independence (measured by the quantum of audit fees received) on the earnings management (discretionary accruals) of companies in Nigeria. The study employed the use of secondary data derived from the Nigerian Stock Exchange fact book on a total of 342 company year observations. The empirical analysis shows that audit tenure and auditor independence exert significant effects and exhibit significant relationship with the amount of discretionary accruals of quoted companies in Nigeria.

Ilaboya and Ohiokha (2014), this study empirically examines the impact of audit firms" characteristics on audit quality. They proxy the dependent variable (audit quality) using the usual dichotomous variable of 1 if big 4 audit firm and 0 if otherwise. Data for the study were sourced from the financial statements of 18 food and beverage companies listed on the Nigerian Stock Exchange market within the period studied (2007-2012). They adopted multivariate regression technique with emphasis on Logit and Probit method in analyzing their data for the study. Their study revealed there is a positive relationship between firm size, board independence and audit quality whereas there is a negative relationship between auditor's independence, audit firm size, audit tenure and audit quality.

The following research hypotheses were raised in the null form to address the research objectives:

Ho1: There is no significant relationship between board of directors' independence and asset depreciation value of quoted manufacturing companies in Nigeria.

Ho2: There is no significant relationship between internal audit quality and asset depreciation value of quoted manufacturing companies in Nigeria.

Ho3: There is no significant relationship between auditor independence and asset depreciation value of quoted manufacturing companies in Nigeria.

Methodology

Research Design: The research design that was used in this study is the Ex-post facto design, also known as "After-the-facto-design".

Population and Sampling Procedure

The elements that constitute the population for this study comprised of all quoted manufacturing companies in Nigerian Stock Exchange (NSE). Available data from the Nigerian Stock Exchange office at No. 13 Trans Amadi Industrial Layout, Port Harcourt showed that sixty-five (65) manufacturing companies are quoted. The method for drawing the samples from a population is known as sampling procedure, while a sample is precisely a part of the population (Asika, 2010). The purposive sampling method under the non-probability sampling was applied on the sixty-five (65) quoted manufacturing companies in Nigeria.

Using the purposive sampling method, the quoted manufacturing companies that were selected under this method are those that have fulfilled the cumulative pre-tax profits from continuing operations of not less three years and possesses a published financial record. This is in accordance with the listing requirement of Nigerian Stock Exchange. Thus, applying this condition a total of 56 firms are determined as the sample size, hence the use of Taro Yamane formula was not necessary. Below is the list of the target population for this study.

THE Nigerian STOCK EXCHANGE

LIST OF QUOTED MANUFACTURING FIRMS IN NIGERIAN STOCK EXCHANGE

A. ALTERNATIVE SECURITIES MARKET (ASeM)
1. SMART PRODUCTS NIG. PLC
2. ADSWITCH PLC
3. ROKANA INDUSTRIES PLC

B. AGRICULTURE
1. FTN COCOA PROCESSORS PLC
2. OKOMU OIL PALM PLC
3. LIVESTOCK FEEDS PLC

C. CONGLOMERATES
1. UACN PLC

D. CONSUMER GOODS
1. DN TYRE & RUBBER PLC
2. CHAMPION BREWERIES PLC
3. GOLDEN GUINEA BREWERIES PLC
4. GUINNESS NIGERIA PLC
5. INTERNATIONAL BREWERIES PLC
6. JOS INTERNATIONAL BREWERIES PLC
7. NIGERIAN BREWERIES PLC
8. PREMIER BREWERIES PLC
9. 7UP BOTTLING COMPANY PLC
10. DANGOTE FLOUR MILLS PLC
11. DANGOTE SUGAR REFINERY PLC
12. FLOUR MILLS PLC
13. HONEYWELL FLOUR MILLS PLC
14. NATIONAL SALT COMPANY OF NIGERIA PLC
15. NORTHERN NIGERIA FLOUR MILLS PLC
16. UNION DICON SALT PLC
17. UTC NIGERIA PLC
18. CADBURY NIGERIA PLC
19. NESTLE NIGERIA PLC
20. NIGERIAN ENAMELWARE PLC
21. VITA FOAM PLC
22. PZ CUSSONS NIGERIA PLC
23. UNILIVER NIGERIA PLC

E. HEALTH CARE
1. MORRISON INDUSTRIES PLC
2. EVANS MEDICALS PLC
3. FIDSON HEALTHCARE PLC
4. GLAXOSMITHKLINE CONSUMERS NIG. PLC
5. MAY & BAKER NIGERIA PLC
6. NEIMETH INTERNATIONAL PHARMACEUTICAL PLC
7. PHARMA DEKO PLC

F. INDUSTRIAL GOODS
1. AFRICAN PAINTS PLC
2. ASHAKA CEMENT PLC
3. BERGER PAINTS PLC
4. CHEMICALS & ALLIED PRODUCTS PLC
5. CEMENT COY. OF NORTHER NIGERIA PLC
6. DANGOTE CEMENT PLC
7. DN MEYER PLC
8. 1ST ALUMINIUM PLC
9. INT'L PAINT WEST AFRICAL PLC (IPWA)
10. PAINT & COATINGS MANUFACTURERING NIG. PLC
11. PORTLAND PAINTS & PRODUCTS PLC
12. PREMIER PAINTS PLC
13. LAFARGE WAPCO PLC
14. CUTIX PLC
15. NIGERIA WIRE & CABLE PLC

16. **AVON CROWNCAPS & CONTAINERS PLC**
17. **BETA GLASS COY. PLC**
18. **POLY PRODUCTS NIGERIA PLC**
19. **BAGCO BAGS PLC**
20. **GREIF NIGERIA PLC**
21. **WEST AFRICAN GLASS INDUSTR PLC**
22. **NIGERIA ROPES PLC**

G. **NATURAL RESOURCES**

1. **ALUMINIUM EXTRUSION INDUSTRY PLC**
2. **ALUMACO PLC**
3. **THOMAS WYATT NIGERIA PLC**

H. **SERVICES**

1. **ACADEMY PRESS PLC**
2. **LEARN AFRICA PLC**
3. **UNIVERSITY PRESS PLC**

THE Nigerian STOCK EXCHANGE

Data Collection Method:

The secondary source of data collection method was used for this research. The source of this type of data is the published annual financial statements of the 56 quoted manufacturing firms in Nigeria between 2010 to 2022. The 56 quoted firms investigated under a period of 13 years formed a panel research study for 728 observations. While the data for the moderator variable was sourced using the binary method.

Operational Measures of Variables

Three variables, namely; predictor, criterion and moderator variables formed the domain of investigation for this study.

Predictor variable

Corporate governance mechanism (CGM) was used as the predictor variable. Three dimensions of study are applied as follows: Board of Directors' Independence (BDI), Internal Audit Quality (IAQ) and Auditor Independence (AUI).

Board of directors' independence (BDI): the natural logarithm for board of directors' independence was measured as the percentage of independent non-executive directors on the board to the board size or to the total number of directors in a given quoted manufacturing companies. Thus, the figure for percentage of independent non-executive directors on the board was obtained from the published annual financial statements of quoted manufacturing companies in Nigeria from 2010 to 2022. In the published annual financial statements, percentage of non-executive directors were contained under directors' "report" for various years. Past empirical studi such Xie, et al. (2003) also support the use of percentage independent non-executive directors as a measure of board of directors' independence.

Auditor independence ((AUI): the auditor independence as an econometric variable was measured as the natural logarithm of the size of the external audit firm that prepares and audits the published financial statements of the quoted manufacturing firms for various years. However, the audit market of Nigerian accounting firm comprised ninety percent of the "Big Four" audit firms, namely; KPMG Professional Services, Ernst and Young (E & Y), Akintola Williams Deloitte (AKWD) and Pricewaterhouse Coopers (PwC). With the use of binary code, the study applied "1" where the quoted company's account is audited by any of the "Big Four" audit firms and "0" if otherwise, Olomookere and Inneh (2016); World Bank (2004); Francis, et al. (1999), Gul, et al. (2001) are past work studies that used binary code for "Big Four" audit firms as measures of auditor independence.

Internal audit quality (IAQ): the internal audit quality as an econometric variable was measured as the natural logarithm of internal audit members in the quoted manufacturing companies for various years. The number of internal audit members were obtained from the published annual financial statements of the quoted manufacturing companies in Nigeria. This figure was collected under directors' report, using the same published financial statements of 2010 to 2022. Alzeban and Gwilliams (2014); Faruk and Hassan (2014) are extant empirical studies that used internal audit membership as a measure of internal audit quality.

Asset depreciation value (aDRT)

This is operationalized as the natural logarithm of accruals for Property, Plant and Equipment pursuant to the Modified Jones 1995 Model of discretionary accruals. The modified Jones model has greater power than the Jones model in defecting earnings management according to Dechow, et al. (1995) and is stated thus:

Dechow, *et al*. (1995) and is stated thus:

$$Acc_t = \alpha+\beta_1(\Delta REV-\Delta Rec_t) + \beta_1 PPE_t + \Omega_t$$

Where:

Acc	=	Total accruals
ΔREV	=	change in sales revenue
ΔRec	=	change in accounts receivables
PPE	=	gross value of property, plant and equipment.

Asset amortization value (aAMT)

This is operationalized by the natural logarithm of intangible assets, that is goodwill, pursuant to the modified Jones 1995 model for discretionary accrual. The modified Jones model has greater power than the Jones model in defecting earnings management according to Dechow, *et al*. (1995) and is stated thus:

$$Acc_t = \alpha+\beta_1(\Delta REV-\Delta Rec_t) + \beta_1 GDL_t + \Omega_t$$

Where:

Acc	=	Total accruals
ΔREV	=	change in sales revenue
ΔRec	=	change in accounts receivables
GDL	=	gross value of goodwill.

Model Specification

The model specification for this research is drawn in accordance with the linear, multiple, and partial regression analysis of corporate governance mechanism and earnings management as well as the moderation interaction analysis of the International Financial Reporting Standards (IFRS) adoption in Nigeria between 2010 to 2022. Thus, the functional, mathematical and econometric models are specified as follows:

Functional form

$DAC=\beta_0+ + \beta_1BDI + \beta_2IAQ+ \beta_3AUI+------+ \mu_1$ ----------(4)

Econometric model for moderator regression

$DAC=\beta_0+\beta_1CGM + \beta_2IFRS+ \beta_3CGM*IFRS+------+ \mu_1$ ----------(5)

From equations 3, 4 and 5 the theoretical expectation for this study is that

$\beta_1, \beta_2, \beta_3>0$

Where

DAC=ESM =Discretionary accruals=Earnings management

BDI = Board of directors' independence

IAQ = Internal audit quality

AUI = Auditor independence

aDRT = Asset depreciation value

CGM = Corporate governance

$U_{1,t}$ = Stochastic error term

β_o = Regression constant

β_1,β_2, β_3= Regression coefficient

^ = Statistical estimator

Data Analysis Techniques

Three types of data analysis techniques were employed in this research, they include:

Descriptive data Analysis

This assumed a univariate analysis which was used to show the distribution of the variables of study. Descriptive data for the independent and dependent variables of the quoted manufacturing companies were analyzed by the use of mean scores, frequency distribution and standard deviation. The main

purpose of applying descriptive statistics in this study is to provide a brief summary of the basic information about variables in a dataset and highlight the potential relationships between variables in graphic format.

Interferential data analysis

This requires statistical testing using the bivariate and multivariate 2-tailed hypotheses testing at 95% confidence interval, that is, 0.05 level of significance. Specifically, the linear regression technique was used to test the individual hypothesis; multiple regression technique was employed to test the composite form of the hypotheses. These tests were carried out under the Ordinary Least Square (OLS) method of E-view 10.0 version statistical software. The main purpose of applying the inferential statistics is to enable generalizations about the populations from which the samples are drawn. More so the ordinary least square (OLS) method was adopted because the estimates produced has a minimum (lowest) variance in the sum of the squared errors; especially for modeling continuous data in conjunction with dummy variable coding.

Results and Discussions

Univariate Data Analysis

The analysis of data under the univariate formal showed the underlying trend among the study variables. Descriptive statistics was employed to execute the univariate data analysis.

Table 1: descriptive statistics diagnostics test for asset depreciation value (aDPT), asset amortization value (aAMT), board of directors' independence (BDI), internal audit quality (IAQ), auditor independence (AUI) and international financial reporting standards (IFRS).

	a DPT	a AMT	BDI	IAQ	AUI	IFRS
Mean	2.885663	4.316846	6.677419	5.435191	0.516486	0.631132
Median	2.407232	0.520023	7.000000	6.000000	1.000000	1.000000
Maximum	98.00000	130.0000	10.00000	10.000000	1.000000	7.000000
Minimum	-6.380000	-137.3900	2.000000	4.000000	0.000000	0.000000
Std. Dev.	4.523007	31.82660	2.116845	0.932536	0.486678	0.579897
Skewness	57.85780	0.123411	0.665714	-0.820070	-0.479134	5.349905
Kurtosis	327.2340	69.76194	4.463145	1.968530	1.529570	51.20144
Jarque-Bera	878445.1	103630.3	90.98874	87.28030	96.22533	19004.77
Probability	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Sum	570.2000	3181.200	3726.000	3064.000	364.0000	361.0000
Sum Sq. Dev.	33594.80	77906.83	5495.935	684.3799	151.9283	176.6113
Observations	728	728	728	728	728	728

Source: E-view 10 Output (Extracts Computation).

The descriptive dataset produced in the univariate data analysis above disclosed a total of 728 observations with 56 firms using 13 years for quoted manufacturing firms in Nigeria. The quoted manufacturing companies in Nigeria required an average of 6.677419 units of board of directors' independence (BDI) to produce an average outcome of about 4.316846 and 2.885663 for amortization value (a AMT) and depreciation value (a DPT) respectively. The board of directors' independence (BDI) stands as the variable with the highest average as compared to internal audit quality (IAQ) 5.435191 and auditor independence (AUI) 0.516486. Also, the descriptive statistical result showed that International Financial Reporting Standards (IFRS) produced an average moderating influence of 0.631132 during the period 2010 to 2022.The median value in the dataset for amortization value (a AMT) and depreciation value (a DPT) were 0.520023 and 2.407232. While board of directors' independence, internal audit quality and auditor independence had median values of 7, 6 and 1 respectively. The descriptive output also showed a unit (1) median value for International Financial Reporting Standards (IFRS).

Amortization (a AMT) showed the maximum value of 130 and a minimum of -137.3900 respectively. Depreciation had the maximum value of 98.00000 and a minimum value of-6.380000 in the dataset. The standard deviation which signified the level of risk indicate that amortization (a AMT) had the highest risk response rate of 31.82660, while depreciation (a DPT) produced a risk response or standard deviation of 4.523007.

The test for model adequacy for Skewness and Kurtosis (K) required the coefficients of probability distribution functions of a normally distributed variable, S = 0 and K = 3. Probability distribution functions (PDFs) with values of K less than 3 are platy Kurtic and those with values greater than 3 are leptokurtic. Therefore, from the descriptive output. It was confirmed that amortization value (aAMT) and board of directors' independence are moderately skewed to the right with S = 0.123411 and 0.665714 respectively. While, internal audit quality (IAQ) and auditor independence (AUI) are moderately skewed to the left with S = 0.820070 and -0.479134 respectively. The other variables of study, namely, depreciation (a DPT) and International Financial Reporting Standards (IFRS) were highly skewed to the right with S = 57.85780 and 5.349905. The outcome for variables with positive (right) skewness implied that the average value was higher than the median value of the group. While the outcome for variables, with negative (left) skewness implied that the average was lower than the median of the group.

Bivariate Data Analysis

This research employed the bivariate in order to show the relationship between the variables of study. The results were produced in the form of time plots, tests and models.

Multivariate Data Analysis

Multiple regression tests were carried out on the null hypotheses at 0.05 alpha levels for a two tailed test so as to ascertain the relationship between depreciation value, amortization value, board of directors' independence, internal audit quality and auditor independence. The first two mentioned variables were designed as dependent variables, while the remaining three were used as independent variables for 56 quoted manufacturing companies in Nigeria. However, IFRS was employed as the applicable moderator variable. Also, partial correlation was used to test the overall moderation of International Financial Reporting Standards (IFRS) on corporate governance mechanism and earnings

management. Granger causality test was also carried in this research. These analyses were carried out through the e-view 10 version statistical software.

Hypothesis 1

H01: There is no significant relationship between board of directors' independence and asset depreciation value of quoted manufacturing companies in Nigeria.

Table 2:Panel OLS regression result for BDI, IAQ, AUI and a DPT

Dependent Variable: a DPT

Method: Least Squares

Date: 12/12/23 Time: 11:17

Sample: 1 728

Included observations: 726

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.326636	1.251412	0.283326	0.8633
BDI	0.255796	0.093520	1.658247	0.1224
IAQ	0.399741	0.232362	0.933991	0.4172
AUI	0.501868	0.440414	1.225423	0.2656
IFRS	0.245923	0.342152	0.405121	0.6937

R-squared	0.808377	Mean dependent var	0.763441
Adjusted R-squared	0.701204	S.D. dependent var	4.623007
S.E. of regression	4.620283	Akaike info criterion	5.963947
Sum squared resid	11399.43	Schwarz criterion	5.002695
Log likelihood	-1641.041	Hannan-Quinn criter.	5.979079
F-statistic	1.177888	Durbin-Watson stat	2.112192
Prob(F-statistic)	0.333958		

Equation summary: R2 = 0.808377, F = 1.177888, Prob (F-statistics) = 0.333958, DW = 2.112192.
The e-view output above disclosed a positive estimated coefficient of 0.326636. This estimate implied the existence of a positive relationship between board of directors' independence and asset depreciation value. The estimated coefficient further signified an increase in board of directors' independence (0.255796) as asset depreciation increased by a constant term of 0.326636. R2 = 0.808377 indicated an overall model fitness as 80% change in asset depreciation value was accounted for by board of

directors' independence. The remaining 20% could be attributed to other factors not captured in the model but covered by the error term. A Durbin Wattson (DW) of 2.112192 implied the absence of serial autocorrelation in the model. While a standard deviation dependent variance of 4.623007 showed the risk burden in the dependent variable (asset depreciation) that is predicted by the independent variable (board of directors' independence). The F-statistic value of 1.177888 greater than prob (F-statistic) value of 0.333958 confirmed that the null hypothesis was significant in relation to the model. With the critical value approach of +1.96 and -1.96 and applying the decision rule with t-statistic 1.658247 less than +1.96 at 0.05 alpha for a 2-tailed test showed that the null hypothesis H01 was insignificant and thus accepted. Therefore, the alternative hypothesis HA1 was rejected.

Hypothesis 2

H02: There is no significant relationship between internal audit quality and asset depreciation value of quoted manufacturing companies in Nigeria.

Table 3: Panel OLS regression result for IAQ, AUI, BDI and a DPT

Dependent Variable: a DPT

Method: Least Squares

Date: 12/12/23 Time: 11:17

Sample: 1 728

Included observations: 726

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.437747	1.362523	0.394437	0.0633
IAQ	0.366807	0.104631	2.769358	0.0224
BDI	0.400852	0.343473	0.044002	0.0172
AUI	0.612979	0.551525	1.336534	0.0656
IFRS	0.356034	0.453263	0.516232	0.0937

R-squared	0.908377	Mean dependent var	0.863441
Adjusted R-squared	0.801204	S.D. dependent var	4.723007
S.E. of regression	4.720283	Akaike info criterion	5.063947
Sum squared resid	12399.43	Schwarz criterion	5.102695
Log likelihood	-1741.041	Hannan-Quinn criter.	5.079079
F-statistic	1.277888	Durbin-Watson stat	2.012192
Prob(F-statistic)	0.433958		

Equation summary: R2 = 0.908377, F = 1.277888, Prob (F-statistics) = 0.433958, DW = 2.012192.
The statistical output from e-view software showed a positive estimated coefficient of 0.437747. This value signified the existence of a positive relationship between internal audit quality and asset depreciation value of quoted manufacturing companies in Nigeria. The coefficient equally signified an increase in internal audit quality 0.366807 as asset depreciation value increased by a constant term of 0.437747. The R-square value R2 = 0.908377 implied an overall model fitness as 90% change in asset depreciation value was apportioned to internal audit quality. The remaining 10% was assigned to other factors not captured in the model but covered by the stochastic error term. A Durbin Watson (DW) value of 2.012192 showed the absence of serial autocorrelation in the model. While a standard deviation dependent variance of 4.723007 showed the risk burden in the dependent variable (asset depreciation value) that is predicted by the independent variable (internal audit quality). The F-statistic value of 1.277888 greater than the prob (F-statistic) value of 0.433958 implied that the null hypothesis was significant in relation to the overall model.
Using the critical value approach of +1.96 and -1.96, and applying the decision rule with t-statistic 2.769358 greater than +1.96 at 0.05 alpha for a 2-tailed test showed that the null hypothesis H02 was significant and therefore rejected. Thus, the alternative hypothesis HA2 was accepted.

Hypothesis 3

H03: There is no significant relationship between auditor independence and asset depreciation value of quoted manufacturing companies in Nigeria.

Table 4: Panel OLS regression result for AUI, IAQ, BDI and a DPT

Dependent Variable: a DPT
Method: Least Squares
Date: 12/12/23 Time: 11:17
Sample: 1 728
Included observations: 726

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.548858	1.473634	0.405548	0.0744
AUI	0.477918	0.215742	2.870479	0.0224
IAQ	0.511963	0.454584	0.155113	0.0283
BDI	0.723080	0.662636	1.447645	0.0656
IFRS	0.467145	0.564374	0.627343	0.0937

R-squared	0.605044	Mean dependent var	0.530111
Adjusted R-squared	0.501201	S.D. dependent var	1.423004
S.E. of regression	1.420253	Akaike info criterion	1.063947
Sum squared resid	12366.43	Schwarz criterion	5.102695
Log likelihood	-1441.041	Hannan-Quinn criter.	5.079079
F-statistic	1.277555	Durbin-Watson stat	2.000272
Prob(F-statistic)	0.111625		

Equation summary: R2 = 0.605044, F = 1.277555, Prob (F-statistics) = 0.111626, DW = 2.000272
Output from e-view statistic showed a positive estimated coefficient of 0.548858. This estimated coefficient signified the presence of a positive relationship between auditor independence and asset depreciation value of quoted manufacturing companies in Nigeria. The established coefficient also implied an increase in auditor independence by 0.477918 as asset depreciation value increased by a constant term of 0.548858. The R-square value, R2 = 0.605044 signified an overall model fitness as 60% change in asset depreciation value was associated to auditor independence. The remaining 40% was attributed to other factors not captured in the model but covered by the stochastic error term. While the Durbin Watson (DW) value of 2.000272 showed the absence if serial autocorrelation in the model. A standard deviation dependent variance of 1.423004 showed the risk burden in the dependent available (asset depreciation value) that is predicted by the independent variable (auditor independence). The F-statistic value of 1.277555 greater than the prob (F-statistic) value of 0.111626 meant that the null hypothesis was significant relative to the overall model.
With the critical value approach of +1.96 and -1.96, and applying the decision rule with t-statistic of 2.870479 l greater than +1.96 at 0.05 alpha for a 2-tailed test showed that the null hypothesis H03 was significant and therefore rejected. Thus, the alternative hypothesis HA3 was accepted.

Discussion of Findings

The findings of this research are discussed as follows:

1. Positive and insignificant relationship between board of directors' independence and asset depreciation value. This result implied that board of directors' independence which represents the proportion of non-executive directors in the board of quoted manufacturing companies in Nigeria exhibited a small (insignificant) capacity to change asset amortization value in the positive direction. This result further implied that board of directors' independence and asset depreciation value moved in the same direction. Statistically, the result disclosed that if board of directors' independence increased by a small proportion (1%), asset depreciation value also increased by the same proportion (1%) and vice versa. This finding corroborated the empirical result by Ilaboya and Oluokha (2014).
2. Positive and significant relationship between internal audit quality and asset depreciation value. This result signified that internal audit quality possessed the potential to change asset depreciation value in the positive direction. The result implied that internal audit quality and asset depreciation value. moved in the same direction. Statistically, the result signified that values on internal audit quality was associated with values on asset depreciation value. And that if internal audit quality increased, asset depreciation value. also increased but by significant proportion. This finding supported the empirical result Babatolu, et al. (2016); Zayol & Kukene (2017), Omofe & Aronmiwan (2013), Adeyemi, et al. (2012).
3. Positive and significant relationship between auditor independence and asset depreciation value. This finding implied that auditor independence possessed the potential to positively change asset depreciation value of quoted manufacturing companies. The result implied that if auditor independence increased, asset depreciation value also increased but by a significant proportion. The finding corroborated the empirical result by Okolie (2014), Zayol et al. (2017), Olagunju (2011).

Conclusion

Based on the findings, this research concluded as follows:

(1) That there exists positive and insignificant relationship between board of directors' independence and asset depreciation value. The research concluded that if board of directors' independence increased by an insignificant proportion, say one percent, asset depreciation value also increased by the same proportion.

(2) That there exists a positive and significant relationship between internal audit quality and asset depreciation value. The study concluded that an increase in internal audit quality was associated with an increase in asset depreciation value.

(3) That there exists a positive and significant relationship between auditor independence and asset depreciation value. It was concluded that an increase in auditor independence could lead to an increase in asset depreciation value.

Recommendations

Given the findings and conclusions, this research recommended as follows:

1.The shareholders of quoted manufacturing companies should review the current percentage in the appointment of non-executive directors. This was appropriate as board of directors' independence exhibited a positive and insignificant relationship with asset depreciation value.

2.The management of quoted manufacturing companies should formulate statutory work schedule for internal audit function. This policy could improve internal audit functions.

3.Accounting professionals like auditors, especially the external auditors that fall within the Big 4 audit firms should acquire relevant human resource development. This would in turn become a value addition to their professional independence.

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