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MODERATING EFFECT OF GOVERNANCE FACTORS ON THE RELATIONSHIP BETWEEN IFRS ADOPTION AND EARNINGS MANAGEMENT

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ABSTRACT

This study examined the impact of International Financial Reporting Standards (IFRS) on earnings management (EM) within the Nigerian banking sector. Utilizing an ex post facto design, the study investigated the relationship between IFRS adoption and EM practices, while also analysing the moderating influences of management incentives and board characteristics of eight listed deposit money banks on the Nigerian Exchange Group (NGX) from 2001 to 2022. The study employed the Generalized Linear Model (GLM) technique and the Mann-Whitney U test for data analysis and test of robustness. The findings revealed a significant positive impact of IFRS adoption on discretionary accruals, indicating increased EM practices under the IFRS

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regime. However, management incentives exhibit an insignificant moderating effect, suggesting managerial remuneration may not effectively address agency problems within the Nigerian banking sector. Conversely, board characteristics, particularly the frequency of board meetings, demonstrate a significant negative impact on the relationship between IFRS adoption and EM, emphasizing the importance of active and engaged boards in corporate governance to mitigate such practices.

KEYWORDS: - IFRS, International Financial Reporting Standards, Earning Management, Board Characteristics.

1.0 INTRODUCTION

Accountability is acknowledging one's obligations and then communicating pertinent information about those responsibilities with individuals or groups eligible to such knowledge (Gray & Perks, 1982). Accounting has evolved over time in response to social-economic growth patterns, adapting to accommodate the complexities of global commerce. Notably, the industrial revolution improved production capacity, resulting in multinational corporations that facilitated movement of goods, services, and most significantly, capital across borders. This expanded the scope of accounting to include overseas stakeholders which necessitates the need for a standardized accounting to enhance transparency and comparability on the global scales.

The International Accounting Standards Board's pursuit of uniformity towards the global adoption of International Financial Reporting Standards (IFRS) represents momentous milestones in accounting standardization. However, the diverse cultural and institutional backgrounds of adopting nations may initially challenge the harmonization efforts. For instance, European Union countries, despite being early adopters of IFRS (Botzem, 2015), possessed distinct accounting traditions – from the investor-centric approach in Britain that emphasizes true and fair presentation to the tax-oriented practices in Italy, Spain, and France, and the focus on corporate protection in Germany that encourages underestimation of earnings (MDU, 2004).

The European Union's journey to the adoption of IFRS involved harmonization of practices through legal and institutional reforms. Agreeing with Nobes and Parker (2008, p. 75), harmonization is referred to as 'the process of increasing the compatibility of accounting practices through setting bounds to their level of variations.' Moreover, Nigeria aligned its Statement of Accounting Standards with IFRS even before its formal adoption in 2012 (Adedokun et al., 2022), recognizing the importance of international convergence in financial reporting.

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While IFRS are authoritative guideline which enhance global harmonization (Ibrahim, Atoyebi & Olusola, 2025), critics argue that the standards' principle-based nature may allow for excessive managerial discretion that will possibly lead to earnings management (Rahmaningtyas & Mita, 2018). Earnings management is “the process of taking deliberate steps within the constraints of the Generally Accepted Accounting Principles (GAAP) to bring about the desired level of reported income” (Schipper, 1989: 92). Views on EM vary, with some authors considering it acceptable, so far it is done within legal boundaries (McKee, 2005; Davis-Friday and Frecka, 2002), while others condemn it for misleading stakeholders (Healy & Wahlen, 1999).

In the context of agency theory, managers may involve in EM to meet performance targets, including tax efficiency goals. This phenomenon is particularly pertinent in the banking sector, where regulatory scrutiny and stakeholder – especially depositors’ interests intensify the pressures on financial reporting integrity.

The Nigerian banking sector is a vital component of the nation's economy with significant presence on the country’s stock exchange (NGX). The sector accounts for half of the NGX Premium Companies (NGX, 2024) and holds custodianship of the over 18 trillion-naira pension funds (Abimbola, 2024). The sector's prominence attracts heightened regulatory and market scrutiny, thereby increasing the pressure to present smoothened up results. This raises concerns about potential EM practices. Nevertheless, high-quality accounting standards, such as the IFRS, is adjudged play vital roles in preventing opportunistic EM practices (Iatridis, 2010; Wang & Cambel, 2012), by providing a framework for transparent and accurate financial reporting (Ibrahim, Atoyebi & Olusola, 2025).

Based on existing literature (Lee & Velis, 2023; Garg et al., 2020; Hasan & Rahman, 2019), several governance factors may influence the connexion between IFRS adoption and EM, including management incentives and board composition. However, recent studies specific to the Nigerian banking sector are limited, necessitating a focused examination into the intricacies of this relationship and its potential moderating factors.

1.1 Objective of the Study

This study assesses the relationship between IFRS adoption and earnings management in Nigerian banks. Precisely, the study tries to:

i. Assess the impact of IFRS adoption on earnings management among listed banks in Nigeria.
ii. Analyse the effect of management incentives on the relationship between IFRS adoption and earnings management.

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iii. Explore the influence of board characteristics on earnings management following IFRS adoption.

By addressing these objectives, this study proposed to make contribution to the understanding of how IFRS adoption influences EM practices in the banking sector.

2.0 LITERATURE REVIEW

2.1 Theoretical review

The development of Positive Accounting Theory (PAT) since its inception in 1968 has aimed to offer insights into accounting phenomena by investigating their underlying causes. Introduced by Ball and Brown (1968), the concept emphasizes describing and predicting accounting behaviour. This notion was further elaborated by Watts and Zimmerman (1986) who defined "prediction in positive theory" as forecasting accounting phenomena that await systematic substantiation. PAT collects empirical evidence about businesses employing consistent accounting practices over time and those altering their methods, with a particular focus on aspects such as earnings management, notably bonus plans. PAT does not prescribe actions but rather forecasts human behaviour based on empirical evidence, acknowledging the inherent uncertainty of the future. This realism has spurred the rapid development of PAT over time, establishing it as a robust theoretical foundation for accounting research over the past two decades (Santoso & Sebayang, 2017; Gaffikin, 2006; Kejriwal, 2022).

However, Agency Theory delves into fundamental questions about facts and risk distribution, positing that rationality and wealth-seeking behaviours underpin interactions between principals and agents. This theory sheds light on conflicts arising from divergent interests concerning principals and agents, highlighting the importance of governance structures in mitigating unethical practices such as earnings management (Goroke, 2023; Jensen& Meckling, 1976; Fama & Jessen, 1988, as cited in Bello et al., 2016).

Thus, this study adopts both Agency Theory and Positive Accounting Theory as theoretical underpinnings, recognizing their complementary insights into managerial behaviour, governance mechanisms, and their impact on financial reporting integrity.

2.2 Review of Empirical Literature

The debate regarding whether IFRS adoption serves as a stringent measure to curtail earnings management remains a topic of considerable interest. Research indicates that quality accounting standards are positively associated with transparency in financial reporting, as demonstrated by studies such as the Sarbanes-Oxley Act 2002 assessment by Arping and Santer (2013). However, specific examinations of the effects of IFRS and US GAAP have yielded mixed results. Some studies suggest that under IFRS, earnings management is reduced (Pelucio-Grecco et al., 2014;

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Cardona-Montoya, 2018), whereas Lin et al. (2012) found that US GAAP had a more pronounced effect in reducing earnings management than IFRS in a German context.

In a study of 871 Latin American firms across six countries, Mongrut & Winelried (2019) found that influence of IFRS adoption on EM as measured by opaqueness of financial report is though positive but insignificant. Jeanjean and Stolowy (2008) argued that while IFRS implementation may not directly reduce EM, management incentives and other institutional factors play crucial roles in mitigating such practices. This perspective is supported by Fuad et al. (2022) who explored the relationship between early implementation of IFRS 16, EM, and corruption, emphasizing the significance of institutional variables in influencing reporting behaviours of firms. Board characteristics, especially board independence, also tend to reduce EM in companies that adopted IFRS, as demonstrated by Albitar et al. (2019) in a study on China. However, the dynamics could be changing, as a later study by Hassan et al. (2022) revealed a mixed moderating role of board characteristics, with board size exhibiting varying effects.

Abeleje (2019) conducted a cross-country analysis across non-financial firms, demonstrating that IFRS implementation led to a reduction in EM, particularly in environments with effective enforcement mechanisms. However, Garfatta (2021) observed an increase in earnings management related to corporate social responsibility (CSR) among companies in Saudi Arabia under the IFRS regime, underscoring the composite interaction between social responsibility and financial reporting practices. This finding is in contrast with the strict law enforcement in the Kingdom of Saudi Arabia, suggesting that IFRS only might not be adequate to restrain earnings management.

Earnings management is not a new phenomenon as confirmed by Mensah’s (2021) assessment of EM behaviours among 11 manufacturing firms in Ghana. The study revealed the existence of EM both pre and post IFRS adoptions, with higher levels observed during the pre-IFRS era. Conversely, Rahmaningtyas and Mita (2018) found that EM improved after IFRS adoption across multiple emerging economies in Asia, indicating a potential shift in reporting practices post-adoption. The findings emphasize the role of investor protection laws in mitigating earnings management.

Contrasting results were reported in Oyeneye et al. (2023), who established insignificant variation in EM levels pre with post IFRS implementation among consumers’ goods companies in Nigeria. This highlights the variability in the impact of IFRS adoption across industries. Further insights were sought by Hasan et al. (2020, 2022) by looking into the moderating roles of corporate governance and audit quality on the association between EM and IFRS adoption.

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These studies highlight the importance of regulatory mechanisms in shaping reporting practices and mitigating EM.

In the Nigerian context, Odoemelam et al. (2019) carried out a multi-sectoral investigation and established that IFRS adoption led to higher earnings' value relevance, thus reducing EM. Examining the sectoral influence of IFRS, Oyeneye et al. (2023) discovered insignificant variation in EM levels pre- and post-IFRS implementation among consumer goods firms in Nigeria. In contrast, Jibril et al. (2017) previously reported a reduction in earnings management among listed consumers' goods firms in Nigeria post-IFRS adoption, revealing variability in the influence of IFRS adoption within industries over time. Hassan (2015) similarly revealed a significant impact of IFRS implementation on the earnings quality of banks in Nigeria. However, the methodological limitation of Hassan's study, which covers only a two-year period post-IFRS adoption, may restrict its ability to infer the relationship, given that firms were still adapting to the new regime.

Some extant literature suggested that IFRS adoption reduces earnings management (Paananea & Lin, 2009; Mensah, 2021); while others indicated that IFRS implementation induced EM (Barth et al., 2008; Jeanjean & Stolowy, 2008; Rahmaningtyas & Mita, 2018). Yet others (such as Oyenege et al., 2023) demonstrated that there are no variations in the level of EM with or without adoptions of IFRS Moreover, attempts in Nigeria to examine this connection (such as Odoemelam et al., 2019; Idowu & Bello, 2021) did not consider the possible sector-specific moderators of the relationship. This study therefore delves into the dynamics of the relationship between IFRS adoption and EM and the associated moderators in the Nigerian banking sector.

3.0 METHODOLOGY

This descriptive study employs an ex post facto design in investigating the impact of International Financial Reporting Standards (IFRS) on EM among Nigerian banks. The study utilizes existing quantitative data.

3.1 Samples

The study population comprises all 15 listed D.M.B sons the NGX as of February 1st, 2024. The purposive sampling technique was employed using two criteria: banks that stay on the exchange during the studied period (i.e. from 2001 to 2022) and banks that have published annual reports consistently during the studied period. Thus,7 banks were excluded for not meeting the criterion of being list on the stock exchange as at 2001, leaving a total of 8 listed banks as the sample size.

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3.2 Variables

Dependent variable

The dependent variable is EM, assessed as discretionary accruals (DA). It reflects the discretionary elements in accounting reports, which may lead to opportunistic earnings management. DA is measured using the Dechow et al. (1995) modified Jones model, given as:

$$\frac{TA_{it}}{TA_{it-1}} = \beta_1 \frac{1}{TA_{it-1}} + \beta_2 \frac{(\Delta REV_{it} - \Delta REC_{it})}{TA_{it-1}} + \beta_3 \frac{PPE_{it}}{TA_{it-1}} + \varepsilon_{it}$$

Where TA symbolises total asset, ΔREV denotes changes in revenue, ΔREC indicates changes in receivable; and PPE means property plant and equipment. Firm and time properties are denoted by i and t respectively, while εbeing the residual represents discretionary accrual (DA).

Independent variable

The independent variable is IFRS adoption, treated as a dichotomous variable. This assumes the values of 1 for observation from 2012 onward, corresponding to Nigeria's adoption of IFRS, and 0 for periods before.

Moderating variables

The two moderators used in this study are management incentives and board characteristics. Management Incentive (MI) moderates the propensity of managers to manipulate earnings, especially those incentives not tied to performance. This study uses directors' fees as a measure of management incentive.

Board Characteristics (BC) involve the composition of the board of directors, governed by the Securities and Exchange Commission code of corporate governance. Hence, the existence and number of audit committee members meet the statutory requirements across all public companies. However, the level of oversight cannot be enforced by rules alone. This study assesses the effectiveness of board oversight mechanisms using the attendance of board meetings in a year. Table 1 summarizes the variables and measurements.

Table 1. Variables and Measurements

Variable	**Symbol**	**Measurement**	Reference
Dependent Variable: Earnings Management	DA	Measured as discretionary accruals by applying the revised Jones model (Dechow et al., 1995)	Dechow et al., 1995

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Independent Variable: IFRS adoption	IFRS	Measured as binary variable, coded as 1 for observations after the IFRS adoption, but 0 for pre-IFRS	Ibrahim, Atoyebi & Olusola, (2025). Lee & Velis, (2023)
Moderating Variables: Management Incentive	MI	Measured by log of directors' fees	Jeanjean & Stolowy(2008)
Board Characteristics	BC	Total of board meetings held ina year.	Hasan et al. (2022)

Source: Researchers Compilation

3.3 Model Specification

In imperative to attain the objectives of this study, the following regression model was specified.

$$DA_{it} = \beta_0 + \beta_1 IFRS_{it} + \beta_3 MI_{it} + \beta_4 BC_{it} + \beta_6 IFRS{*}MI_{it} + \beta_7 IFRS{*}BC_{it} + \mu$$

Where $\beta_o, \beta_1 \ldots \beta_7$ represent beta coefficients; $IFRS{*}MI_{it}$, and $IFRS{*}BC_{it}$ represent the interaction terms for moderation impacts of Management Incentive and Board Characteristic respectively; and μ is the error term.

3.4 Sources of Data Collection

The data for this study were extracted from the annual reports of selected banks listed on the NGX. The annual reports provide comprehensive financial information, including income statements, balance sheets, cash flows statements and notes to the accounts where the research data are extracted. The study utilized a panel data approach covering the scope of 2001 to 2022 to capture longitudinal trends and variations in earnings management behaviour over time.

3.5 Method of Data Analysis

The data gathered for this study were analysed by means of the Generalized Linear Model (GLM) technique, a nonparametric tool that offers a framework for exploring relationships between independent and dependent variables while accommodating non-normal distributions. Unlike OLS regression methods, which assume normally distributed errors, GLMs provide reliable estimates even in the face of non-normal data distributions (Handoyo et al., 2023). GLMs allow for the specification of different error distributions and link functions, enabling the modelling of a wide range of data types and distributions (Faraway, 2010), such as binary, count, and continuous data that does not exhibit normality

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For testing of the robustness of the findings, the Mann-Whitney U test was applied to examine if earnings management significantly differ pre and post adoptions of IFRS. The Mann-Whitney U test, also referred to as the Wilcox on rank-sum test, is also a non-parametric test utilized in comparing the distributions of two autonomous samples. This is particularly useful if the conventions of parametric tests like the t-test are disrupted, such as when the data are not normally distributed or if the sample size is small. This additional analysis serves as a validation step, corroborating the observed effects of IFRS adoption on EM practices.

4.0 RESULTS AND DISCUSSION

4.1 Descriptive Statistics

These statistics offer insights into the analysed data by summarizing the central tendency, dispersion, and range of the variables, as illustrated in Table 2.

Table 2: Descriptive statistics

Variables	No. of observation	Mean	Std. dev.	Min. value	Max. value
DA	176	0.894	1.068	0.000	7.500
IFRS	176	0.500	0.502	0.000	1.000
MI	176	8792.290	34033.740	3.000	279504.000
BC	176	6.659	2.312	1.000	17.000

Source: STATA 13.0 output, 2024

The dataset for discretionary accruals (DA) comprised 168 observations, with values averaging 0.894 and exhibiting a standard deviation of 1.068 indicating notable variability in discretionary accruals among the sampled firms over the years. The range of values extended from 0 to 7.5.This further elaborates the discrepancies in the earning management practice.

The implementation of the IFRS was represented as a binary variable in the dataset with 176 observations. Half of the financial reporting done during the studied period have followed the IFRS, as indicated by the mean of 0.5

Management incentives (MI), quantified by directors' remuneration, was examined across 176 observations. The average remuneration was 8.792billion naira with a standard deviation of 34.033billion, ranging from 3 million to 279.5 billion.

Board characteristics (BC), measured as the numbers of board meetings held per annum were recorded on average, approximately 7 board meetings per year, with a standard deviation of 3. The number of board meetings a firm held in a year ranged from 1 to 17.

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4.2 Inferential Statistics

4.2.1 Normality test

The purpose of conducting normality test in this study data is to assess the non-normality of the data, specifically in the context of utilizing the Generalized Linear Model (GLM). Unlike traditional parametric tests, GLM does not rely on the assumption of normally distributed data. However, confirming the non-normality of the data is crucial for ensuring the robustness of the analysis within the GLM framework. This assumption was tested using the Shapiro-Wilk W test for normal data; the result is presented in Table 4.

Table 4. Shapiro-Wilk Normality test

Variable	Statistic (W)	Df	P-value
DA	0.757	95	0.0000
MI	0.274	95	0.0000
BC	0.944	95	0.0000

Source: STATA 13.0 output, 2024

The Shapiro-Wilk test result suggests that all the tested variable – discretional accrual (DA), management incentives (MI) and board characteristics (BC) do not follow the normal distribution because their p-values are less than 0.05 at 95% degree of freedom. IFRS was excluded from the normality test because being a binary variable; it met the test statistic requirement.

Given the non-normal distribution of the variables, parametric tools of analysis do not fit the data, thus the application of non-parametric methods become necessary to ensure the validity of the analysis.

4.2.2 Multicollinearity test

Multicollinearity is a statistical phenomenon in a linear relationship where two or more explanatory variables in a model do greatly correlate among each other. When that happens, it implies that explanatory variables can predict each other. This can lead to inconsistencies in the estimation of coefficients and inflates standard errors. Multicollinearity can be assessed through application of variance inflation factor (VIF) and correlation matrix. Table 5 shows the V.I.F. and the correlation coefficients of the variables.

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Table 5: VIF Values and Correlation Matrix

Variable	VIF	Correlation matrix			
		IFRS	AQ	MI	BC
IFRS	1.781	1.000			
AQ	1.675	-0.074	1.000		
MI	1.606	0.042	-0.271	1.000	
BC	1.752	0.042	-0.189	0.580	1.000

Source: STATA 13.0 output, 2024.

VIF value above 5 is an indication of multicollinearity while correlation coefficient is said to be high when it exceeds 0.7 (absolute value). The VIF of the explanatory variables ranged from 1.606 to 1.781 which are lower than 5, whereas the correlation highest correlation coefficient among the variables as shown in Table 5 is 0.58 (between board characteristics, measured by board meetings and management incentive), possibly because sitting allowance is part of board remuneration package. However, the correction is considered moderate as fall below the threshold of 0.7.

4.2.3 Generalised Linear Model Results

The analysis was conducted using the Generalized Linear Model (GLM), chosen as a nonparametric alternative to panel data regression analysis due to the data's non-adherence to the normality assumption required for parametric tests. Table 6 shows the findings of this analysis.

Table 6: Result of Generalised Linear Model

	Coefficient	P-value
Constant	-5.931175	0.000
IFRS	3.146405	0.001
IFRS*MI	-0.000079	0.163
IFRS*BC	-0.192954	0.026
MI	0.354878	0.017
BC	1.953000	0.002
Model summary:		
Log likelihood		-220.380
Akaike Information Criterion (AIC)		2.572
Bayesian Information Criterion		-752.900

Source: STATA 13.0 output, 2024.

In this analysis, the coefficient for IFRS adoption is 3.146 with a significant p-value of 0.001, suggesting that the effect of IFRS adoption on EM is statistically significant. The positive

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coefficient likewise recommends that the nexus between IFRS adoption and EM is positive, implying that EM practice increases under IFRS regime.

The connexion term between IFRS adoption and management incentives (IFRS*MI) has a coefficient of -0.000079 with a non-significant p-value of 0.163, suggesting that the moderating effect of management incentives on the connection between IFRS adoption and EM is not statistically significant.

The collaboration term between IFRS adoption and board meetings (IFRS*BC) has a coefficient of -0.193 with a significant p-value of 0.026, indicating that the moderating effect of board meetings on the connexion between IFRS adoption and EM is statistically significant. Specifically, it suggests that the relationship between IFRS adoption and EM varies depending on the frequency or effectiveness of board meetings.

The Akaike Information Criterion (A.I.C.) and Bayesian Information Criterion (B.I.C.) are measures of model fit and parsimony. Lower A.I.C. or B.I.C. values designate better model fit. In this analysis, the AIC value is 2.573 and the BIC value is -752.900, providing information on the relative fit of the model compared to possible alternative models.

4.2.4 Robustness Test

The Mann-Whitney (Wilcoxon rank-sum) test, a non-parametric statistical test suitable when there arises a necessity to compare two independent groups was used as a robustness test in this study with the aim of assessing the consistency of the model findings. The test was utilised to compare earnings management before and after IFRS adoption. The results indicate that in earnings there is a significant variance in discretional accruals afore and post the adoption of IFRS

Table 7. Mann-Whitney test results for EM pre and post IFRS adoption

Period	Obs.	Rank sum	Mean	Median	Z-statistics	P-value
Pre-IFRS	88	6198	0.395	0.105		
Post-IFRS	88	9378	1.393	1.845	-4.710	0.000
Combined	176	15576	0.894	0.275		

Source: STATA 13.0 output, 2024.

The Mann-Whitney U test yielded a Z-statistic of -4.710 and a corresponding p-value of 0.000. This indicates a highly significant difference in EM practices between the Pre-IFRS and Post-IFRS periods. The negative Z-statistic suggests that earnings management was higher in the second group (post-IFRS) than in the first group (pre-IFRS). From the results presented on Table

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7, both the Pre-IFRS and Post-IFRS periods comprised 88 observations each, and the rank sums for these periods were 6198 and 9378, respectively. This indicates a substantial increase in the rank sum from the Pre-IFRS to the Post-IFRS period, suggesting a significant change in EM practices. Similarly, the mean and median ranks of earnings management in the Pre-IFRS period were lower compared to the values for the Post-IFRS period.

The robustness of these research findings is affirmed by the alignment between the outcomes of the Mann-Whitney test and those yielded by the Generalized Linear Model (GLM). Specifically, the Mann-Whitney test reveals a significant upturn in EM under the IFRS regime, aligning with the outcomes derived from the GLM analysis which indicates that change to IFRS leads to more discretionary arrears.

4.3 Discussions

IFRS Adoption and EM

This study primarily examines the relationship between IFRS adoption and EM among listed banks in Nigeria. The outcomes of the data analyses indicate a significant positive impact of IFRS adoption on discretionary accruals, which serves as a measure of EM. This suggests that EM increased under the IFRS regime, as supported by the rank sum of mean and median results of the Mann-Whitney U test. These findings align with those of earlier studies (Egiyi, 2022; Garfatta, 2021; Albitar et al., 2019; Rahmaningtyas & Mita, 2018; Jeanjean & Stolowy, 2008). Garfatta (2021) for instance, found that CSR-related earnings management increased under IFRS. Similarly, Jeanjean & Stolowy (2008) observed that IFRS adoption does not bring about a decline in EM practices and that manipulation of earnings increased in some countries after IFRS implementation.

Contrary to the findings of this study, some existing studies (Mensah, 2021; Abeleje, 2019; Ho et al., 2015) suggest that IFRS adoption reduces EM. Ho et al. (2015), for instance, reported a decline in discretionary accruals subsequent upon the implementation of IFRS in China. It's worth noting, however, that China underwent a convergence of standards with IFRS, aligning its local Chinese Accounting Standards with IFRS, rather than full adoption. This distinction in the degree of adoption may contribute to varying conclusions concerning the influence of IFRS on EM practices.

The agency crisis inherently drives management towards earnings management, particularly in industries like banking, which face pressures from diverse stakeholders. IFRS, being principle-based standards, allow for subjective judgments through which management can manipulate earnings. This is evidenced by the experience of the European Union (EU), which, despite being

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the first bloc to adopt IFRS in 2007, witnessed increased earnings management among companies (Capkun et al., 2016; Callao & Jarne, 2010).

In practice, the flexibility provided by IFRS often results in a lack of comparability between entities and opacity within them. Capkun et al. (2016) highlight several areas of the standards where earnings management can be perpetrated, including taxes, leases, retirement benefits, impairments of assets, provisions and contingencies, intangible assets, and financial instruments. With regards to the fundamental roles of the banking industry in the economy, it is particularly susceptible to such opportunities. Banks, as collectors of taxes on behalf of the government, encounter grey areas especially deferred taxes and VAT technicalities.

Moreover, financial instruments constitute the primary stock-in-trade for banks, and the IFRS standards offer multiple accounting options for them (Bratton & Cunningham, 2009). This creates significant disparities between entities choosing different accounting methods. For instance, a decrease in fair value presents two potential accounting treatments: either it is deemed as impairment and recorded in the profits and loss statements, or it results in a decrease in value and recorded in equity. Managerial discretion is also permitted in the classification of assets, segments, and, to some extent, loan facilities of banks.

Moderating effect of Management incentives

The study investigated the moderating effect of management incentives and found it to be insignificant, suggesting that managerial remuneration does not adequately address the agency problem within the Nigerian banking sector. Consequently, management incentives do not appear to influence the connexion between IFRS adoption and EM among banks. This finding contradicts the conclusion of Jeanjean & Stolowy (2008), who assert that management incentives play a role in the association between IFRS adoption and EM, based on their findings that a mere change of rules does not curb earnings smoothing.

The inconsequential moderation effect observed in this study could imply that management incentives have not reached a threshold sufficient to influence the relationship, or they may simply not matter. The Nigerian banking sector operates within a highly competitive environment, subject to regulatory oversight that compels banks to retain market share at all costs, including offering compensation packages to retain top talent. Regardless of the regulatory regime, whether IFRS or otherwise, earnings management practices could circumvent management compensation policies. This can be understood through the opportunistic perspective of Positive Accounting Theory that, posits that managers may select accounting techniques that they have confidence in that could upturn their personal wealth (Deegan, 2007). This tendency often arises when management compensation is tied to reported performance.

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Even in the absence of explicit bonus or performance-based remuneration contracts, presenting a favourable bottom line serves as leverage for management during salary negotiations.

Moderating effect of Board Characteristics

The moderating effect of board characteristics is a crucial aspect of a firm's governance structure. Therefore, in assessing the influence of IFRS adoption, this study targeted to elucidate the moderating role of the board in this relationship. The results reveal that board characteristics have a significant negative influence on the relationship concerning IFRS adoption and EM within the Nigerian banking sector. This indicates that under IFRS, the frequency of board meetings, a measure of board characteristics, tends to reduce earnings management. A greater frequency of board meetings signifies greater oversight over management practices.

This outcome is in harmony with that of Hasan et al. (2022), who observed a similar moderating effect of board characteristics on the connexion concerning IFRS adoption and EM in Bangladesh. The measures of board characteristics utilized in this study comprise board independence, size, gender composition, and the roles of CEOs, all of which become relevant during board meetings. Therefore, the choice to focus on board meetings aligns other characteristics of the board with its effective functioning in governance.

The implication of these findings suggests that while earnings management tends to rise under IFRS, rigorous oversight by the board diminishes this influence. Conversely, limited supervision by the board amplifies the effect, providing greater opportunities for managers to manipulate earnings. This aligns with the observations of Fuad et al. (2022) and Jeanjean and Stolowy (2008), who note that institutional factors positively influence reporting behaviour when strong enforcement mechanisms are in place.

Board meetings serve as platforms for deliberating on issues, particularly those that offer alternative courses of action. The resolutions made during these meetings often streamline accounting choices (Augustia et al., 2022), albeit within the framework of standards provided for managers to adhere to. However, when proper deliberations are lacking, decisions may be made to serve opportunistic self-interests.

5.0 CONCLUSION AND RECOMMENDATION

This study has shed light on the relationships between IFRS adoption and earnings management among listed banks in Nigeria. The findings indicate a significant positive influence of IFRS adoption on discretionary accruals, suggesting an increase in EM practices under the IFRS regime. However, the moderating effects of management incentives and board characteristics offer valuable insights into potential mechanisms to mitigate such practices.

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Management incentives were found to have an insignificant moderating effect, indicating that managerial remuneration may not effectively address the agency problem within the Nigerian banking sector. This underscores the need for further exploration of alternative governance mechanisms to bring into line management interests with those of shareholders.

Board characteristics on the other hand, particularly the frequency of board meetings, were found to have a significant negative effect on the connexion between IFRS adoption and earnings management. This highlights the importance of board oversight in reducing EM practices, underscoring the necessity for active and engaged boards in corporate governance.
Relying on the discoveries of this investigation, some recommendations are made:

1. Enhanced Board Oversight: Banking institutions should prioritize strengthening board oversight mechanisms, including increasing the frequency of board engagements and ensuring active participation of directors. This can help mitigate earnings management practices and promote transparency and accountability.
2. Review of Management Incentive Structures: Organizations should review and reassess their management incentive structures to ensure they are aligned with long-term shareholders' value creation apart from short-term financial performance metrics. This may involve incorporating non-financial performance indicators and aligning incentives with long-term strategic objectives.
3. Continuous Monitoring and Evaluation: Regulatory bodies and industry stakeholders should establish robust monitoring and evaluation mechanisms to evaluate the effectiveness of IFRS adoption and governance practices in curbing EM. Regular auditing and reviewing can aidin identifying areas of improvements in ensuring compliance with regulatory standards.

There are several avenues for future research that could enhance our understanding of financial reporting frameworks, governance dynamics and earnings management practices. Subsequent investigations may explore the applicability of these findings across diverse industries and sectors, analyse the influence of macro-level factors such as the legal and regulatory environment, and delve into qualitative research to uncover the underlying drivers of governance decisions and their impact on earnings management. Through addressing these areas, prospective investigation shall contribute to a reasonable comprehension of governance mechanisms and their roles in financial reporting integrity.

Suggestions for Future Research

Future research could build on this study by examining the effects of IFRS adoption on earnings management across other sectors beyond the banking industry—such as manufacturing or agriculture—which may have more sector-specific incentives and regulatory dynamics. This would help determine whether the observed patterns in earnings management hold across

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different contexts. Additionally, adopting mixed-method or qualitative research approaches could uncover deeper governance challenges and provide richer contextual insights that complement quantitative findings. Lastly, cross-country comparative studies within Sub-Saharan Africa could be valuable in highlighting how differences in legal, regulatory, and enforcement frameworks influence IFRS implementation and the integrity of financial reporting.

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