

**AUDIT COMMITTEE ATTRIBUTES AND EARNINGS MANAGEMENT
OF LISTED CEMENT COMPANIES IN NIGERIA**

ZAHARADDEEN ABDULLAHI

Department of Accounting, Bayero University, Kano, Nigeria.

zabdullahi.acc@buk.edu.ng

ABSTRACT

This study examines the impact of audit committee attributes on earnings management (EM) of listed cement companies in Nigeria for ten years. The data for the study were extracted from the annual reports and accounts of the sampled firms for the study period. Descriptive statistics, Pearson correlation and regression technique were used to analyse the data. The results reveals that Audit committee Independence (ACI) plays a significant role in monitoring the reporting process of Nigerian cement companies as it serves as an effective measure in constraining earnings management. The frequency of Audit committee meeting does not curtail the earnings management behavior of the sampled firms. Instead; it reduces ACI which in turns affect the integrity of the financial reporting process of the firms. Firm size is an important indicator of EM in the Nigerian cement companies. As size increases, EM may likely increase. However, leverage decreases EM. The study recommends that regulatory authorities like SEC should ensure that the members that formed the committee should be appointed on the bases of expertise, experience and reputation as these will strengthen audit committee independence and add to the quality of the financial reporting process of firms in the industry. Similarly, an optimum number of four meetings should be held during a fiscal year by Nigerian cement firms. Auditors in trying to detect earnings management, more attention should be focus on larger firms since they are more prone to earnings management.

Keywords: Earnings Management, Audit Committee Independent, Audit Committee Meeting, Firm Size & Leverage.

1. INTRODUCTION

Earnings Management (EM) is the use of judgments in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting information (Healy & Wahlen, 1999). EM erodes the quality of financial reports and has been claimed to be the genesis for corporate failure. This has been evidenced in high profile corporate failure such as the cases of Enron, Health south, Tyco, Adelphia and WorldCom in the US, HIH insurance in Australia, Benue cement, African Petroleum and quite a number of banks in Nigeria; Oceanic bank, Spring bank, Gulf bank and Savannah Bank, all of which have changed the perception of users on the quality of annual report and cast doubt on the credibility and integrity of those who are entrusted with the responsibilities of preparing and presenting such financial statement. The regulatory response to these scandals has been to use corporate governance (CG) measures to protect information transparency, curtail EM and ensure the independence of auditors in order to protect investors' interests and increase the confidence of capital market (Leuz *et al.* 2003) as cited in Abdullahi (2015). It is in this regards that, countries like Malaysia introduced and mandated compliance with Code of Corporate governance (CG) in 2001, Chinese and Pakistan in 2002, Nigeria follow suit in an attempt to meet with International Best Practices in the year 2003 and 2006 for other public companies and banks respectively. This code requires companies listed on the Nigeria Stock Exchange to establish an effective board and an audit committee to monitor and control management activities (Tijjani & Dabor, 2011).

The audit committee is a standard committee of the board of directors that is charge with the responsibility of overseeing financial reporting process, internal and external auditor activities. Audit committee is one of the mechanisms for ensuring quality financial reporting. To further enhance the credibility of financial reporting, the code requires the committee to be made up of independent members who should meet frequently to review the reporting process purposely to constrain earnings management. A significant number of researchers, practitioners and academics discussed the concept and its importance in knowledge-based economy. Notably; Xie, Davidson and DaDalt (2001), Carcello, Hollingsworth, Klein and Neal (2006), Garcia and Sanchez-Ballesta (2009) and Liu, Tiras and Zhuang (2013), study the impact of audit committees attributes: size, independence, number of audit committee meeting and financial literacy on earnings management. In Nigeria, there is a paucity of studies that have examined the roles of audit committee on earnings management; Tijjani *et al.* (2010), Oladipupo and Okafor (2011) and Uadiale (2012).

However, none of the studies, considered cement companies, despite their strategic position toward the development of the Nigerian economy. The collapse of the Benue cement company in 2010 was due to tax evasion of about 190 million naira (Abdullahi, 2015). This signifies the presence of manipulative practices and casts further doubt on the roles of audit committee in curtailing earnings management. In addition, none of the studies employed discretionary accruals to measure earnings management. This paper, therefore, seeks to fill those gaps by considering the activities of cement companies for ten years (2004-2013). To accomplish this objective, the paper is divided into five sections, namely: introduction, literature review, methodology, results and discussions, and, finally, conclusion and recommendations.

2. LITERATURE REVIEW

This section reviews the concept of earnings management, audit committee and relevant empirical studies on the impact of audit committee attributes on earnings management as well as the theory relevant to the subject under consideration.

The Concept of Earnings Management

Scholars have explained earnings management, based on the prevailing economic conditions in the environment in which they find themselves. Akers, Giacomino and Bellovary, (2007) define earnings management as attempts by management to influence or manipulate reported earnings by using specific accounting methods (or by changing methods), recognising one-time non-recurring items, deferring or accelerating expense or revenue transactions, or by using other methods, designed to influence short-term earnings. Chen & Jean (2010) argue that earnings management misleads the users of financial statements by providing them with false information about a firm's true operating performance.

Also, Man (2012) defines earnings management as the choice, by managers, of accounting policies, or other actions, including voluntary earnings forecasting, voluntary disclosure, and estimation of accruals, to affect earnings intentionally. Earnings management on the financial statements may undermine the credibility of financial statements, which are expected to provide very useful information for stakeholders in well-functioning capital markets. Most studies on earnings management have focused on two types of general earnings management: accruals management and the manipulation of real economic activities. For accruals management, the firm can use provision for credit losses, warranty cost, inventory values, and timing and amount of unusual items to manipulate earnings. Another type is the use of real variables, which may be costly, to affect the firm's long-term interest.

From the above, it can be seen that earnings management involves the choice of accounting policies employed by managers to achieve their self-interest by misleading stakeholders via the presentation of distorted financial statements.

There are many approaches for detecting earnings management, but the Accrual-Based Models are the most popular ones. Basically, the balance sheet and the cash flow approaches are the two ways of computing total accruals. The balance sheet approach was used by Healey (1985), Jones (1991), Gulzar and Wang, (2011) and Gonzale and Garcia-meca, (2013) to compute total accruals. The second approach is the cash flows approach, as put forward by Liu and Lu, (2007) and Mohammed and Pourtazeem (2012). While there is a consensus in the literature on the computation of total accruals, a lot of models have been developed by scholars for the computation of the discretionary component of total accruals, which is the actual EM. The most popular of them are the Healy model (1985), the DeAngelo model (1986), the Jones model (1991), the Modified Jones model; (1995) and the performance match discretionary accrual, (2005), to mention but a few. For the purpose of this work, the modified jones model was adopted.

The Concept of Audit Committee

Black and Kim (2012) documented that CG reform of 1999, requires all firms to have audit committee. Prior to the reform, none has an AC. An audit committee is a sub-committee of the board that specializes in, and is responsible for ensuring the accuracy and reliability of the financial statements provided by management. Indeed, much of the blame and criticism for accounting irregularities is aimed at audit committees for not fulfilling their financial reporting oversight duties due to independence issues (Pergola, 2005). Audit committee ensure continuous communication between external auditors and the board, where the committee meets regularly with the auditors to review financial statements and audit processes as well as the internal accounting systems and control, the credibility of financial statement is likely to be restored (Gulzar *et al.*, 2011). The committee can actively monitor the quality of work done by internal auditors and can choose better quality of external auditors to improve quality of financial statement. Also the maintenance of good internal control effectiveness can reduce earnings management and improve financial information quality (Man, 2012).

The Blue Ribbon Committee report (1999) and Securities and Exchange Commission report of the Sarbanes Oxley Act of 2002, have emphasized the essential role of the audit committee in improving financial reporting process. The effectiveness of audit committee members can be increased through certain mechanisms, including their

independence, financial literacy and expertise, and allocating sufficient time to meet regularly and discuss with the related parties. Wasaenia (2008) identified four audit committee attributes, viz: AC size, AC independence, and AC financial expertise and AC activity. For this study, only audit committee independence and meetings are deemed essential.

Audit Committee Attributes and Earnings Management

It is generally believed that an independent audit committee provides effective monitoring of the financial discretion of management and ensures the credibility of financial statements. SOX (2002), considers that an audit committee member is independent, when he or she does not receive any compensation from the company or its affiliate except in the capacity of audit committee member. The National Commission of fraudulent financial reporting (1987) and the Public Oversight board (1993) state that the audit committee must be entirely composed of non-executive members to be effective.

The board of directors may choose non-executive audit committee members who have no affiliation or business tie with client firm as they are likely to be effective monitors. Researchers generally classify outside directors into one of the two categories: “independent directors” and “grey directors”. Grey directors include former officers or employees of the company or a related entity, relatives of management and professional advisors to the company (Beasley 1996; Carcello and Neal, 2000) while independent directors have no affiliation with the firm other than being on the board. Previous studies have shown that the personal or economic affiliation that grey directors have with the corporate management may impair their independence. For example, Carcello, *et al.* (2000) found that the percentage of inside and grey directors is positively related with the probability that the auditor will issue a going-concern report when the firm is experiencing financial distress. Therefore the presence of those grey members on audit committee may impair the monitoring effectiveness of audit committee. In the light of this, BRC (1999) recommends that audit committee should be comprised only of independent directors.

However, prior empirical studies have suggested mixed result on the association between ACI and EM. Abbott, Park and Parker, (2000) found that audit committee independence has a negative relationship with misstatement and EM. Similarly, Davidson *et al.* (2005) study the association between non-executive directors on audit committees and earnings management based on a cross-section of 434 Australian listed firms for the year 2000. Discretionary accrual estimated from the modified-Jones model was used to measure earnings management. The results of the study shows that audit committees with majority non-executive directors are

associated with a significant reduction in earnings management, and that audit committees comprising exclusively of non-executive directors is not related to earnings manipulation. In contrast Klein (2002) findings, indicate no meaningful association between 50-99 percent independent directors on the audit committee and aggressive earnings management. However, a significant negative effect on aggressive earnings management is found for audit committees comprising 100 percent independent directors. These results support the Sarbanes-Oxley Act (2002) mandating complete independence of the audit committee. Garcia, Osma and Pen˜alva (2009) documented that audit committee independence can improve investor confidence by constraining earnings management.

Audit committee meeting provides an avenue where members meet to discuss on issues raised by firms auditors and the response of management to letter of internal control weakness. Meeting frequency has been generally considered as an essential component of audit committee effectiveness (Lei, 2006). In Nigeria sec 359 sub sections 3 and 4 of CAMA, 2004 provide that an AC meet at least three times in a year. Similarly, Price Waterhouse (1993) suggests that AC should meet at least four times in a year and make provisions for special meetings when the need arises. Canadian institute of chartered accountant (1981) suggest that at least three meeting are required for audit committee to perform its duties effectively. Menon and Williams, (1994) noted that audit committees that do not meet, or meet only a small number of times are unlikely to be effective monitors. He suggested that AC should meet at least twice a year. In line with this argument, National Association of Corporate Directors (NACD, 1999) also recommends that “The audit committee should meet as frequently as necessary to perform its role”.

However, BRC and US SEC regulations do not specify how often the AC should meet, but the guideline for AC meetings in the UK specifically stipulate that the number of meetings required in a year dependent on the company’s terms of reference and the extent of the complexity of the company’s financial operations. The guidelines stipulate that the main meetings should often be planned between the end of one year’s audit and the beginning of the next, and before the issue of interim statement, after the interim statement and after year end, but before the account are finalized. Impliedly, the committee is to meet not less than four times in a year.

Some studies found negative relationship between meeting frequency and the occurrence of fraudulent financial reporting (Erena and Tehulu, 2012). Some other studies, such as Abbott *et al.* (2000), link the meeting numbers with higher audit quality and hence lower EM. Empirical evidence shows that the meeting frequency of audit committee management practice impairs earnings management and going by

the requirement of CAMA, 2004 as amended, AC should meet at least four times in a year.

Theoretical Framework

For the purpose of the work, the stakeholder theory is considered relevant. Unlike agency theory that treat shareholders as the sole group whose interest the agent should protect, the stakeholder theory sees other groups such as employees of the firm, creditors, government etc. also as having equally vital stakes in the performance of the firm and hence their interest should equally be protected by the agent. This theory has widened the fiduciary duty of the agent as he protects the interest of multiple principal. Stakeholder theorists suggest that managers in organizations have a network of relationships to serve – this include the suppliers, employees and business partners Masdoor, (2011). Hamid, (2008), added that the responsibility of directors is therefore to a numerous groups and individuals. In a nut shell, the stakeholder theory is concerned with resolving problems that may occur in the relationship between two major groups, the stakeholders and managers (directors). The management are responsible for furnishing report that satisfy not only the interest of shareholder but also employees, suppliers, government and the general public (Samaila, 2014).

3. METHODOLOGY

For the purpose of this study, the descriptive research design was used. The study has its population as all the four (4) cement companies that were quoted on the first-tier market of the Nigerian Stock Exchange as at 31st December 2013. These are Larfarge Wapco Plc, Ashaka Cement Plc, Cement Company of Northern Nigeria Plc and Dangote Cement Plc. For any company to be included in the working population, it must have been listed on the NSE, on or before 31stDecember, 2003. Secondly, it must have been quoted, without being delisted between 2004 and 2013. This criterion is established with a view to ensuring that the cement companies have their published financial statements for the period covered by this study. As a result of this filter, the number of cement companies reduced to three. Dangote Cement Plc was listed on the floor of the Nigerian Stock Exchange only in the year 2010, it lacks the annual reports that are required to meet the criteria for inclusion in this study. The whole filtered working population was taken as the sample for the study.

The variables of the study consist of the dependent and explanatory variables. The dependent variable is the earnings management (EM) among firms in the Nigerian cement companies. To determine the EM, the study adopted the modified version of the Jones model (1991), proposed by Dechow, Sloan and Sweeney, (1995) which

had been used in other studies, like those of Teoh, Welch and Wong, (1998) and Xie *et al.* (2003), to determine the discretionary accruals. Following Dechow *et al.* (1995), the total accruals component of earnings is given by:

$$TACC_{it} = NI_{it} - CFFO_{it} \dots \dots \dots (1)$$

Where:

TACC_{it} = total accruals for firm i in year t, which is the difference between cash flows from operations and net income before extra-ordinary item, interest and tax

NI_{it} = net income for firm i in year t,

CFFO_{it} = operating cash flows for firm i in year t.

The parameters for the calculation of non-discretionary accruals (NDA) are estimated by using the following equation:

$$\frac{TACC_{it}}{A_{it-1}} = \alpha \left(\frac{1}{A_{it-1}} \right) + \beta_1 \left(\frac{\Delta REV_{it}}{A_{it-1}} \right) + \beta_2 \left(\frac{PPE_{it}}{A_{it-1}} \right) + \varepsilon_{it} \dots \dots \dots (2)$$

Where:

TACC_{it} = total accruals for firm i in year n,

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

ΔREV_{it} = change in net revenue for firm i in year t,

PPE_{it} = property, plant and equipment for firm i in year t,

α β₁β₂ = coefficient parameters,

ε_{it}= error term for firm i in year t.

The NDA are calculated, using the estimated parameters obtained from equation (2):

$$\frac{NDA_{it}}{A_{it-1}} = \alpha \left(\frac{1}{A_{it-1}} \right) + \beta_1 \left(\frac{\Delta REV_{it} - \Delta AR_{it}}{A_{it-1}} \right) + \beta_2 \left(\frac{PPE_{it}}{A_{it-1}} \right) \dots \dots \dots (3)$$

Where:

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

$\beta_1 \beta_2 a$ = coefficient parameters estimates.

Change in accounts receivable is not included in estimating the parameters but is included in calculating non-discretionary accruals. Similarly, in order to control heteroscedasticity, all variables are lagged by total assets (Teoh et al., 1998; Ashbaugh, Lafound and Mayhew, 2013; Gulzar et al., 2011; Gonzalez et al. 2012). Finally, DAC, arc calculated as the difference between TA and NDA, as follows:

$$DCA_{it} = \frac{TACC_{it}}{TA_{it-1}} - NDCA_{it} \dots \dots \dots (4)$$

The explanatory variables include the independent variables and control variables. Audit Committee Attributes (ACA) is the independent variable. The measurement of these variables, which is consistent with that employed by Hamid (2008),Tijjani et al.(2010),Gulzar et al. (2011), Gonzalez et al. (2012), and Abdullahi (2015), is explained below.

Audit Committee independence (ACI) is measured through a dummy variable that considers the value of 1 if there are at least two non-executive directors on the audit committee, 0 otherwise. Audit committee Meeting (ACM) is the number of meeting held by member within the year

The control variables included in the model is Leverage (LEV), measured as the ratio of total debt to total assets. According to previous studies, managers of highly leveraged firms have strong incentives to use income-increasing accruals to loosen the contractual debt constraints (Ali, Chen and Radhakrishnan, 2008). Nevertheless, highly indebted firms may be less able to practice earnings management because they are under the close scrutiny of lenders. Park and Shin, (2004) and Yang and Krishnan (2008) find a negative relationship between leverage and earnings management. The second control variable used in the model is firm size (FS). It is measured by taking the natural Log of total asset. Such control was necessary because the bigger the company, the larger the expected level of earnings management (Samaila, 2014)

Data was analysed, using descriptive statistics, correlation and regression, which is in line with the works of Chtourou *et al.* (2001), Klein (2002),Kam (2006), Hamid (2008), Hutchinson (2008),Tijjani *et al.* (2010),Gulzar *et al.* (2011), Gonzalez *et al.* (2012).

Using the variables, the empirical results are thus based on the following regression model:

$$EM = a_0 + a_1ACI_{it} + a_2ACM_{it} + a_3FS_{it} + a_4LEV_{it} + e_{it}$$

Where:

EM = Earnings management;

ACI = Audit Committee Independence;

ACM = Audit Committee Meeting;

FS = Firm Size;

LEV = Leverage;

a_0 = Parameters to be estimated (is the average amount the dependent variable increases when the independent increases by one unit and other independents are held constant);

e = an error term; a_1 - a_5 = partial derivatives or the gradient of the independent variable.

4. RESULTS AND DISCUSSION

This section presents the analysis and interpretation of result from the data generated from the annual reports and accounts of the Nigerian cement companies. The OLS regression result is also explained in the section.

Source: Generated by the Author, using data extracted from the annual report and accounts of Nigeria cement companies (2004-2013)

Table 1 shows the descriptive statistics of the dependent and explanatory variables of the study. The means of earnings management of the sampled Nigerian cement

Table 1: Descriptive & Correlation Matrix of Dependent and Explanatory Variables

Variable	Mean	Std Dev	Min	Max	EM	ACI	ACM	FS	LEV	VIF
EM	-0.15	0.19	-0.62	0.17	1.0000					
ACI	0.80	0.41	0	01	-0.4020	1.0000				1.13
ACM	04	0.99	02	07	0.2665	-0.1544	1.0000			1.35
FS	7.40	0.46	6.71	8.20	0.4814	0.2343	0.3174	1.0000		1.28
LEV	0.67	0.74	0.27	4.44	-0.0393	0.0250	-0.4272	-0.3153	1.0000	1.24

companies is -0.15, which suggest a low degree of manipulative practice among the sampled firms during the study period. The standard deviation of 0.12 indicates that the magnitude of EM among the sampled firms varies, with the least and highest being -0.62 and 0.17 respectively.

Also Audit Committee (AC) on the average comprises of 80% non-executive directors which is an indication of a high degree of independent for the sampled firms during the study period. The standard deviation of 0.41 indicates that most of the sampled firms have equal or more non-executive directors in the audit committee. The least value is 0 while the highest value is 1, this is because of dichotomous nature of the measurement scale. On average, four (4) meetings were held by the audit committee of the Nigeria cement companies during each of the fiscal year. Most of AC of the sampled firms held two (2) with the max of four (4) meetings during the study period except Ashaka cement that held six (6) and seven (7) meetings in the year 2011 and 2013 respectively.

Finally, firm size (FS) has a mean of 7.4, the standard deviation of 0.46 suggest a considerable level of dispersion in the size of the sampled firms during the study period. Lafarge Wapco is the largest in size as indicated by highest value of 8.2 while Ashaka and CCNN are virtually on the same scale as indicated by the least value of 6.71. The mean degree of gearing is 0.67 with a standard deviation of 0.74. The Min is 0.27 and the Max is 4.44 among the sampled firms during the study period.

The correlation coefficient of audit committee independence (ACI) and EM is -0.40. This result suggests a negative relationship between ACI and EM. Audit committee meeting (ACM) and EM are positively and weakly related as indicated by the correlation coefficient of 0.27 on Table 1. In the same vein, the correlation coefficient of firm size (FS) and EM is 0.48. This result implied that FS and EM are positively related throughout the study period. Similarly, the correlation coefficient of leverage (LEV) and EM is -0.04 which indicate a weak and negative relationship.

ACI and ACM are negatively and weakly related as indicated by the correlation coefficient of -0.15 while ACI is positively and weakly related with FS and LEV as shown by the correlation coefficient of 0.23 and 0.03 respectively. ACM is positively and weakly related with FS and negatively related with LEV as shown by the correlation coefficient of 0.32 and -0.43 respectively. FS and LEV have a negative relationship as indicated by the correlation coefficient of -0.32. This mean that all the explanatory variable are weakly related with each other.

The variance inflation factor (VIF) for all the explanatory variables ranges from 1.13 to 1.28 as shown on Table 1. This indicates the absence of collinearity or multicollinearity among the explanatory variables as 3.00 and 5.00 are still accepted as proof of absence of multicollinearity (Muhammad, 2009 and Samaila, 2014)

Table 2: Regression Result

Variables	Coefficient	Std error	T	P>/t/
CONSTANT	-1.9779	0.4352	-4.55	0.000
ACI	-0.2528	0.0656	-3.85	0.001***
ACM	0.0117	0.2955	0.39	0.697
FS	0.2636	0.6114	4.31	0.000***
LEV	-0.0527	0.0386	1.36	0.185
R-square	0.5461			
Adj R-squared	0.4735			
F-statistics	7.52			

Prob>F 0.0004

Source: Generated from the annual reports and accounts of Nigerian cement companies.

***, * indicate 1% , 10% Significant level.

Table 2 presents the OLS result for the dependent and explanatory variables. The probability of F-statistics is 7.52 with a P-value of 0.0004. This suggests that the model is suitable for the study, as the value is less than 1%. R^2 of 0.55 indicates that 55% of the variation in the dependent variable (EM) is jointly explained by the changes in the explanatory variables: ACI, ACM, FS, and LEV. This position is confirmed by Adj R^2 of 0.47, which signifies that, after adjusting for error term, 47% of the changes in EM of the sampled firms are jointly explained by the changes in ACI, ACM, FS, and LEV and the remaining by other factors not captured in the model.

The t- value of -3.85 of the multiple regression analysis presented on Table indicate that Audit committee independent (ACI) has a negative but significant impact on the EM of the Nigeria cement companies at 1% level of significant. This also indicate that an increase in the number of independent directors in the AC curtail EM in the Nigeria cement companies. The result is further enhanced by the correlation coefficient of -0.40 and affirmed by the finding of Chtourous, Bernard & Courteau (2001), Davidson Goodwin-Stewart & Kent (2005), Carcello, Hollingsworth, Klein & Neals (2006), Kuang (2007), Garcia & Pen-alva (2009) and Oladipupo & Okafor (2011) who document that ACI has a negative and significant impact on financial reporting misstatement and EM.

Similarly, the t-value of 0.39 of the regression analysis indicates that ACM has a positive but insignificant effect on the EM of Nigerian cement companies. This implies that with an increase in the frequency of audit committee meetings, more avenues are likely to be provided for EM in the Nigeria cement firms. This is so because an increase in the number of contact between directors and auditors may gradually erode the auditor's independence and hence opportunistic behavior prevails. This position is further enhanced by the correlation coefficient of 0.27 for ACM and EM as well as -0.15 for ACI and ACM. The negative relationship between ACI and ACM implies that, an increase in the frequency of meeting lead to a decrease in ACI and hence, opportunity for manipulative practices due to familiarity threat which may eventually erode auditor independence. This finding contradicts the argument of Menon & Williams. (1994), Abbott (2000), Xie, Davidson & Dadalt.

(2001), Chtourous (2001) and Tehulu (2011) who noted that audit committee that do not meet or meet only a small number of times, are unlikely to be effective monitors.

In addition, Firm size (FS) being a control variable measured as the natural logarithm of total asset has a positive and significant impact on EM at 1% level of significant in the Nigerian cement companies as signified by the regression coefficient of 4.31. The result signifies that larger Nigerian cement companies are more prone to EM. This position is supported by the correlation coefficient of 0.48 for FS and EM. The descriptive statistic also shows that higher EM was evidence in Lafarge Wapco been the largest in size while the lowest EM was evidence in Ashaka cement smaller in comparison to Lafarge Wapco. The finding is in line with the position of Shen & Lin-Chih, (2007) who note that firms with high growth potential and leverage are more prone to EM. Samaila (2014) also document a positive relationship between EM and FS. However, the result contradict the position of Chen (2010) who assert that large growing firms with are associated with low level of EM.

Finally, Leverage (LEV) has a negative and insignificant impact on EM. The result signifies that, with an increase in LEV, EM decreases. This is in line with the findings of Chung et al. (2002) and Yang et al. (2008) who report that highly indebted firms may be less able to practice earnings management because they are under the close scrutiny of lenders; it is, however, contrary to result of Ali et al. (2008) who report that managers of highly leveraged firms have strong incentives to use income increasing accruals to loosen the contractual debt constraints.

5. CONCLUSION AND RECOMMENDATIONS

The findings of the study show that change in earnings management of Nigerian cement companies is influences by ACI, ACM, FS and LEV. The study concludes that Audit committee Independence plays a greater role in monitoring the reporting process and ensuring that the internal control mechanism of Nigerian cement companies is effective in constraining earnings manipulation in these firms. The frequency of Audit committee meeting does not curtail the earnings management behavior of the sampled firms instead; it reduces ACI which in turns affect the integrity of the financial reporting process of the Nigerian cement firms. Firm size is an important indicator of EM in the Nigerian cement companies. As size increases, EM may likely increase. However, leverage decreases EM.

The study recommends that regulatory authorities like SEC should ensure that the members that formed the committee should be appointed on the bases of expertise, experience and reputation as these will strengthen audit committee independence and add to the quality of the financial reporting process of firms in the industry. Similarly,

the frequency of the audit committee meetings is not all that matters, but the substance of the meeting. It is therefore recommended that an optimum number of four meetings should be held during a fiscal year by Nigerian cement firms. Auditors in trying to detect earnings management, more attention should be focus more on larger firms since they are more prone to earnings management.

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