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Impact of Corporate Governance Mechanism in Mitigating Creative Accounting Practice of Listed Conglomerate Companies in Nigeria

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Authors' contributions

This work was carried out in collaboration between both authors. Author ROO designed the study, performed the statistical analysis, wrote the protocol, wrote the first draft of the manuscript, managed the analyses of the study and managed the literature searches. Author ABS supervised the study. Both authors read and approved the final manuscript.

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ABSTRACT

This study examined the impact of corporate governance mechanism in mitigating creative accounting practice of listed conglomerate companies in Nigeria. The study used Secondary data obtained from the company's annual reports and accounts for the period 2013 to 2020. The population of the study includes six conglomerate companies listed on the Nigeria Stock Exchange and the entire population was used for the study. The dependent variable creative accounting was measured using discretionary accruals as estimated by modified Jones model. The independent variable corporate governance mechanism was proxied by audit committee, board size, board independence, managerial ownership. Multiple regression technique was employed for the panel data analysis using Stata version 13 statistical tools. Findings of the study revealed that audit committee has negative significant impact on creative accounting practice. Managerial ownership has significant positive impact on creative accounting practice. Board size and board independence has no significant impact on creative accounting practice of listed conglomerate companies in Nigeria. The study concludes that good corporate governance have impact on creative accounting

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practice. Based on these findings, the study recommends that companies are to effectively apply good corporate governance mechanism. They should have an independent audit committee, so as to minimize creative accounting practice

Keywords: Creative accounting; corporate governance; audit committee; board size; board independence; managerial ownership.

1. INTRODUCTION

Accounting convention allow for some degree of judgment in presentation of financial information. Management can take advantage of implied degree of judgment, and result to creative accounting practice. Creative accounting is taking advantage of the loopholes in accounting rules and standards to manipulate the figures reported in the account of an entity. Creative accounting debate has been ongoing in the past two decades because studies have found that it is the root cause of most of the financial scandals that lead to collapse of companies like Enron, World com and the likes. In Nigeria, corporate scandals such as the cases of Cadbury Nigeria Plc, Savannah Bank and African International Bank, Intercontinental Bank Plc; Bank PHB, AfriBank Plc and the recent Skye bank are known publicly reported cases.

There are several motives behind manipulations of accounting information. They include among others the need to present attractive report over a period of time; to influence stock market perception; to guarantee earnings executive bonus; to avoid punishment for not reaching any imposed threshold. Creative accounting does not provide a true and fair view of the financial statement. It is an unethical act that distorts economic reality. The practice breaks down the confidence in accounting profession and contradicts the ethical principle of professional accountants. Creative accounting adversely affects the credibility and integrity of financial information. Effort to reduce creative accounting activities and increase the quality of firm's financial reporting is to have a good corporate governance mechanism in place that can restrain managers from exhibiting this opportunistic behaviour [1,2]. Corporate governance is the system by which companies are directed and controlled. It is about monitoring and controlling management strategic decisions, as well as giving leadership and direction. Corporate governance is about seeing that the company is run properly so that the interest of various stakeholders is protected.

The prior financial scandals caused countries to develop corporate governance mechanisms to ensure credibility and transparency practices in the financial reporting process of an entity. In Nigeria, the code of corporate governance is issued by the Securities and Exchange Commission. It requires that all public companies whose securities are listed on a recognized securities exchange shall comply with the principles and provision of the code just as the code shall form the basis of the minimum standard of their corporate behaviour. The attempt by regulators to discourage the practice of creative accounting is mandating companies to adhere to the content of the code of corporate governance published so as to protect the various users of financial information. Despite that Nigeria has introduced the code of corporate governance for some time, very little is known on whether they were effective at reducing the practice of creative accounting thus enhancing the credibility of financial information. This study will provide new evidence on the exact mechanism through which creative accounting practice can be mitigate, since there were disparities in the findings of previous research as to the effect of corporate governance mechanism on creative accounting.

Enormous studies have been carried out on the issue of creative accounting and corporate governance [3-8], majority of which emphasized on the need to ensure a good corporate governance mechanism to reduce the practice of manipulation of accounting information. Having reviewed prior literature, it becomes important to investigate how the various mechanisms of corporate governance has helped to mitigate this opportunistic behaviour. Against this background, this study examined the impact of corporate governance mechanisms in mitigating creative accounting practice of listed conglomerate companies in Nigeria in order to compare the result with existing literature. Audit committee, board size, board independent and managerial ownership were used as corporate governance mechanism and tested for the study. Hence, the research question that emanates from the objective is, to what extent has corporate

governance mechanism mitigate creative accounting practice in Nigeria? The research hypotheses were drawn in line with the objective.

The rest of this paper is organized as follows: Section two provides the literature review that comprises of conceptual review of corporate governance mechanisms and creative accounting, theoretical framework and empirical review. Section three, the research methodology. Section four, data presentation and analysis and the conclusion and recommendation in the final section.

2. LITERATURE REVIEW

This section is made up of conceptual review, theoretical framework and empirical review.

2.1 Conceptual Review

There is no formal definition of creative accounting. Several scholars have defined creative accounting from different perspectives. Creative accounting is accounting manipulation within the limit of laws and standards. When accounting practice is outside the limit of laws and standard, it becomes fraud which is an illegal practice and a criminal act. It is however difficult at time to differentiate between the two. This practice is commonly called earnings management. Although it is also described differently in literature as cosmetic accounting, window dressing, big bath accounting, income smoothing, cooking the books, accounting magic among others.

CIMA Official Terminology [9] defined creative accounting as "a form of accounting which, while complying with all regulations and practices, nevertheless gives a biased impression (generally favorable) of an entity’s financial performance and position". According to Balaciu, Bogdan & Vladu [10], creative accounting is defined as the transformation of the accounting figures from what they are in accordance to the economic reality into what the managers want using the advantages of the existing regulations and/or ignoring some of them. Creative accounting involves the manipulation of company’s records toward a predetermined target [11]. Creative accounting and earnings management are euphemisms referring to accounting practices that should follow the letter of the rules of standard accounting practices, but certainly deviate from the spirit of these rules [12]. Ezeani, Ogbonna & Ezemoyih [13] argued that when creative accounting is done with extreme negative intentions, it affects the credibility of financial statements and decisions of its users. This is because the accounting principles and standards are manipulated to hinder the reliability, objectivity and comparability of such statements. Hence decisions based on such financial reports may be misleading and faulty.

Corporate Governance is a mechanism to direct and control a company so that the company's operations run according to the expectations of stakeholders. Corporate governance is a mechanism that is employed to reduce the agency cost that arises as a result of the conflict of interests that existed between shareholders and managers. The conflict emanates almost naturally because of the separation of ownership from control of modern-day business, places the managers at a privileged position that gives them the latitude to take decisions that could either converge with or entrench the value maximization objective of the firm [2].

2.2 Audit Committee

An audit committee of independent non-executive directors can monitor financial reporting and auditing, to satisfy themselves that these are carried out to satisfactory standard. And that executive management are not hiding information or presenting misleading picture of the company’s financial affairs. Most of the prior empirical studies found that the existence of audit committee will reduce creative accounting practices [14,15,16]. In Nigeria, research carried out by [3] revealed that the strength of the audit committee has significant influence on creative accounting practice. Igodo [4] stated that company that has an audit committee can prevent management from manipulating financial statement. The code of corporate governance for public companies in Nigeria requires the duties of audit committee to be to oversee management‘s process for identification of fraud and significant risks across the company and ensure that adequate prevention, detention and reporting mechanisms are in place. According to Uadiale [17] audit committee is capable of increasing the public’s confidence in the credibility and objectivity of published financial statements. Also, audit committee whose members possess certain level of financial competencies would reduce the likelihood of creative accounting practice. The audit committee has a very important role to play regarding fraud and

overseeing fraud risk management. The higher the proportion of accounting and finance experts in the audit committee membership, the higher the supervision of management's financial reporting. This can be indicated by a lower level of earnings management [15].

2.3 Board Size

Board size may also play a significant function in raising the efficacy of controlling decisions on creative accounting practices. The role of the board is to make decisions and monitor the performance of management. It is important to have the right composition of the board. Nangih [18] also argued that the board of directors becomes less effective as it grows in size. This is because a large board is often slow to react to events and will often be incapable of taking action quickly when it is needed. The directors on a large board are also less likely to be critical of each other than directors on small boards. Big board should use their time and resources to conduct supervisory functions to reduce conflicts between managers and shareholders. Small board size may fail to discover creative accounting practice. Putri & Prasetyo [15] stated that small number of board of director will be associated with manipulation of financial statement. On the hand, kustono [19] argued that having large board can cause control over management to be less effective. When control is less effective, management can engage in creative accounting practice.

2.4 Board Independence

This is the number of independent director present among the board of directors. A principle of good corporate governance is that a substantial number of the directors of a company should be independent, which means that they are able to make judgments and give opinions that are in the best interests of the company, without bias or pre-conceived ideas. They are able to act in the best interests of the shareholders. Board of directors is to carry out their monitoring role effectively in order to ensure that financial reporting provides quality information to users. Uadiale [17] opined that of the set of corporate governance mechanisms, the board of director’s independent is often considered the primary internal control mechanism to monitor top management and protect the shareholders’ interest. Monitoring managers will prevent them from engaging in any act of manipulating financial information. Similarly, Egbunike et.al [3] found that board independence has significant impact on earnings management practices among companies in Nigeria. However, Putri & Prasetyo [15] found that board independence is not related to the existence of earnings management practice. Board independence has a very important role in minimizing agency conflicts that occurs between managers and shareholders. Dakhlallh et.al [14] explained that the board structure affects the decision of companies to manipulate reported earnings. How independent the board of director is? That is, directors that are free from business relationships or other relationships can affect their ability to act independently for company interest. This can determine if managers engages in creative accounting practice as independent board of director can be more effective in supervision activities.

2.5 Managerial Ownership

Managerial ownership is referred to the percentage of director’s equity ownership which includes their deemed interest. This ownership system is the process by which members of the management of a company hold a large part of the shares of a company. Managerial ownership may reduce the agency costs when there is separation of control and ownership. Obigbemi, Omoleyinwa & Mukorol [5] argued that ownership in the hands of few can be bad for the governance of the firm since it gives the largest shareholders discretionary powers of using the firm resources to serve their own interest at the expense of other stakeholders, hence engaging in creative accounting practice. Ownership of large proportion of share of a company will help to effectively monitor company activities. Effective monitoring of company activities can help mitigate creative accounting practice.

3 THEORETICAL FRAMEWORK

3.1 Agency Theory

Agency theory is based on the fact that a form of agency relationship exists between the owners (principal) and the Managers (Agent). The theory was developed by Jensen and Meckling [20] that suggested how the governance of a company is based on the conflicts of interest between the company’s owners (shareholders), its managers and major providers of debt finance. The conflict arises as a result of differences in interests between the principal and the agent. Jensen and Meckling defined the agency relationship as a

form of contract between a company's owners and its managers, where the owners (principal) appoint an agent (the managers) to manage the company on their behalf. As part of this arrangement, the owners must delegate decision making authority to the management. The owners expect the agents to act in the best interests of owners. One of the agent's unethical behaviour is manipulation of data in the financial statement to match the expectation of the principal even though the actual result does not describe the condition of the company. The manipulation of data in the financial statement is a form of creative accounting practice.

3.2 The Stakeholder Theory

this theory was developed to address the shortcomings of the agency theory. The agency theory was criticized for prioritizing the interest of shareholders above the general interest of other stakeholders, such as investors, employees, the government and the society in general [21]. The stakeholder theory emphasizes the need for managers to be accountable to various stakeholders and not just maximizing shareholders wealth. According to stakeholder's theory, managers are expected to consider the interests and influences of other stakeholders that are users of financial information by ensuring credibility in financial information disclosed. Good corporate governance will reduce creative accounting practice, thus protecting the interest of the numerous user of financial information.

In line with these two theories, agency theory practically explains corporate governance and creative accounting where the basic tenet of corporate governance is to protect the interest of the owners (shareholders) who are also the principal of the management (agents). However, the stakeholder's theory compliments the agency theory by stating that even if the management are the owners of the firm, other stakeholders are important, hence their interest should equally be protected.

4. EMPIRICAL REVIEW

Numerous studies on the effect of corporate governance and creative accounting have been conducted by many researchers, but few in the context of Nigeria. Creative accounting has significant impact on firm performance [12]. Researchers like Uwah & Akpan [22] and Siyanbola [11] revealed that creative accounting has significant relationship with investment decision of the investors. According to Fizza & Qaiser [23] corporate governance is expected to be able to control the practices of creative accounting because transparency in the financial reporting is of utmost importance, stakeholders have to make investment decisions based on published financial reports. Studies have identified corporate governance mechanisms for reducing agency issues resulting from creative accounting. Dakhlallh [14] studied the moderate effect of independence of the audit committee on the connection between board structure (i.e., size, independence and CEO duality) and real earnings management (REM) in listed companies in Jordan. The study found that there was significant positive correlation between board independence and real earnings management which showed that the board structure affects the decisions of companies to manipulate reported earnings. Similarly in Jordan, Gerged, Albitar & Al-Haddad [24] found that some corporate governance structures, such as board size, managerial, and institutional ownership structures have moderating effects on the corporate environmental disclosure and earnings management nexus.

In Warsaw, Putri & Prasetyo [15] determined the effect of good corporate governance mechanisms consisting of board size. the board of directors, the independence of the board of commissioners, the size of the audit committee, the expertise of the audit committee and the type of auditor on earnings management in companies indexed by LQ-45 for the 2016-2018 period. The study used multiple linear regression analysis techniques and found that only one of the mechanisms (audit committee expertise), has a significant negative effect on earnings management for non-financial companies listed as LQ-45 companies. While other corporate governance mechanisms such as board size, independent board proportion, audit committee size and auditor type are not related to the existence of earnings management in LQ 45 companies. Urooj, Khan & Sindhu [16] investigated the effect of corporate governance in improving the earnings multiple and reducing the discretionary accruals he found that that board of director size, board of director meetings and audit committee size has a significant positive impact on earnings multiples, while earnings multiples have a negative impact on dictionary accrual. Moreover, board size and audit committee size have significant negative impact on discretionary accrual, whereas board meetings and employee ownership have a

significant positive impact on discretionary accrual.

In Nigeria, Egbunike, Ezelibe & Aroh [3] examined the influence of corporate governance and earnings management practices among Nigeria quoted companies. Primary and secondary data were used on a sampled of quoted Nigerian companies selected through purposive sampling technique between a period of 2011-2014. The research findings showed that corporate governance practices such as the board size, firm size, board independence, and strength of the audit committee have significant influence on earnings management practices among Nigerian quoted companies. Obigbemi, Omoleyinwa, Mukoro & Obamiro [1] study employed the use of primary data gathered from the research questionnaire administered to 354 sampled preparers of financial reports in Nigeria. Using Pearson Correlation Coefficient and the Ordinary Least Square (OLS) regression evaluated the relationship between earnings management and corporate governance attributes as identified by the study. The study concluded that earnings management practices can be deterred with effective corporate governance practices in place. Again, reviewing the financial reports of 137 sampled companies, Obigbemi, Omoleyinwa & Mukoro [5] examined the role of ownership structure on earnings management practices of Nigerian companies. Earnings management was measured using the discretionary accruals. OLS regression technique was used to measure the research model as well as the Pearson Moment Correlation Coefficient. The study shows that ownership structure has a significant relationship with earnings management practices in Nigeria.

Igodo [4] examined corporate governance mechanisms and earnings management in Nigerian food product companies and found that board meeting has negative impact on earnings management; board gender and institutional ownership have negative relationship with earnings management while audit committee meeting has positive impact on earnings management. Size of the firm which is the control variable has positive effect on earnings management. In the same vein, Emeka-Nwokeji, Ojimba & Edeh [2] examined reducing earnings management through corporate governance mechanism: evidence from listed manufacturing firms in Nigeria. Result indicated that board size can reduce the extent of earnings management, hence triggering the reported earnings quality. However, ownership concentration, audit committee and CEO duality might not reduce the extent of earnings manipulation by managers.

Sani, Latif & Al-Dhamari [25] provided evidence that CEO Discretion reduces the tendency of real earnings management and improve the reporting quality. However, the CEO's discretion to provide reliable financial reports and to reduce the likely earnings manipulation is overturn by the presence of politically connected directors. Abubakar, Lawal & Mohamed [26] examined the effects of ownership structures (managerial, institutional, and foreign) on real earnings management in Nigeria and found that managerial ownership increases management's desire to manipulate the reported earnings, while institutional ownership have insignificant relationship with real earnings management. Akinwumi, Adetula & Odianonsen [7] investigated the effect of CFOs' personality traits on earnings management in non-listed companies facing a debt crisis in Nigeria. The study explores a survey research method with the use of structured questionnaires and found a high level of upward corporate earnings management and a strong exhibition of narcissistic trait among the CFOs. It further observed that CFOs' narcissistic trait is implicated in upward earnings management during the financial crisis. Olojede,Iyoha & Egbide [8] studied the impact of corporate governance mechanisms on creative accounting practices in the listed companies in Nigeria over a 13-year period (2005 -2017). The study used descriptive statistics, correlation, OLS regression, panel fixed effects model and panel random effects model for the analysis and hypothesis testing. The outcome of the study revealed that corporate governance mechanisms jointly have a great significant impact on creative accounting practices in Nigeria, but the level of impact differs among individual corporate governance mechanisms.

Despite these studies, there is still a wide gap to be filled in mitigating creative accounting practice in Nigeria. Previous researches that examined the relation between corporate governance mechanism and creative accounting mostly led to inconsistent and inconclusive outcomes. Many of the previous studies have examined creative accounting practice without examining how corporate governance has helped to mitigate creative accounting practice. This research will serve as an update of the existing literature. Also, there has not been a study in this sector (conglomerate) in Nigeria. Prior researchers

[5,8,26]; employed the used of ordinary least square regression analysis, this study adopted multiple regression technique for the panel data analysis using Stata statistical tool to examine if there will be variation in the result.

5. METHODOLOGY

5.1 Research Design

The study examined the impact of corporate governance mechanism in mitigating creative accounting practice of listed conglomerate companies in Nigeria. The population of the study consists of six (6) conglomerate companies listed in the Nigeria Stock Exchange (NSE) as at March 1st, 2021. Sample was not drawn as the entire population was studied. The study used Secondary data obtained from the company's annual reports and accounts for the period 2013 to 2020. Multiple regression technique was adopted for the panel data analysis using Stata version 13 statistical tools. The dependent variable is creative accounting which was proxied by discretionary accruals while the independent variable was corporate governance mechanism. Corporate governance indicators include audit committee, board size, board independence, managerial ownership. Control variables firm size and firm age were used in this study to increase the fitness of the model and to avoid omitted variables biasness.

5.2 Variable Measurement

5.2.1 Dependent variable

The dependent variable is creative accounting was measured using the magnitude of the discretionary accruals as estimated by modified Jones model.

$$TA/A(t-1) = \beta1\{1/At-1\} + \beta2\ \{(\Delta \text{ in } REV- \Delta \text{ in } REC)/At-1) + \beta3\{PPE/At-1\} + €it \quad (i)$$

where:

TAit = Total accruals in year t for firm i
ΔREVit = Revenue in year t less revenues in t-1 for firm I (change in revenue)
ΔRECit = Receivables in year 1 less receivables in year t-1 for firm 1 (change in receivables)
PPEit = Gross property, plant and equipment in year t for firm 1.
Ait-1 = Total assets in year t-1 for firm in year t-1 for firm I (total assets for previous year)
β1, β2, β3 = represents firms' specific parameters
€ = residual here represents the firm specific discretionary portion of accruals

However, while the right side of the equation represents the non-discretionary accruals, the net result for the left side of the equation amounts to the total accruals (TA). Nevertheless, taking the difference between the total accruals and the non-discretionary accruals; it amounts to the discretionary accruals (DA) which is basically used in this study to represent creative accounting practice. Hence, the higher the value of discretionary accruals, the more likely the practice of creative accounting and vice versa as depicted in equation (ii) [11].

$$DAi\text{-}t = TACit/Ait-1 - \alpha t\ [1/Ait-1] + \alpha 1i\ [(\Delta REV-\Delta REC)/Ait-1] + \alpha 2i\ [PPEit/Ait-1] + \epsilon it \quad (ii)$$

5.2.2 Independent variables

Audit Committee (AUC): total number of audit committee members.
Managerial Ownership (MO): the percentage of executive directors' interest in the equity shareholding of the firm.

Board size (BS): total number of directors
Board independence (BI): number of independent director present among the board of directors

5.2.3 Control variables

Firm size (FS): measured using natural logarithm of total assets.
Age (AGE): measured by the number of year the firm has been in existence

5.3 Model Specification

The model used to achieve the objective was adapted from the study of Putri & Prasetyo [15]. This study however modified the model by dropping some variables and adding new variables to suite our local environment. The modified model is stated thus:

$$CA = \beta_0 + \beta_1 AUC_{it} + \beta_2 BS_{it} + \beta_3 BI_{it} + \beta_4 MO_{it} + \beta_5 FS_{it} + \beta_6 AGE_{it} + e_{it}$$

Where:

CA = Creative accounting; AUC = audit committee; BS = board size; BI = board independence; MO = managerial ownership; FS = firm size; AGE = Age of firm; e= error term; α_0 = Estimated value of Y when all the other

variables are zero; β = Correlated volatility of estimated value.

6. RESULTS

6.1 Correlation Matrix

The correlation matrix seeks to establish relationships that exist between variables used in the research. This helps to understand the inter relationship that exists among the independent variables. The result of the correlation matrix is presented in Table 1.

The results in Table 1 above indicate the relationship between the variables used in this research. The result from the table shows that there is no high correlation between any of the variables as the results indicates that the variables are not significantly correlated since the variables identified are less than (0.4) in line with the threshold cited by Fox [27]. Generally, the correlation matrix table revealed the likely absence of multi-collinearity among variable as none of the variables is highly correlated to the other. Thus, all the variables can be used for further analysis.

6.2 Hausman Test

Hausman test is the most common tests for selecting between fixed or random effects method to determine a more effective method in a panel data. This test is considered necessary because panel data is involved in this analyse and the OLS regression may not produce efficient estimate for this research in the case of presence of serial correlation or heteroskedasticity; hence, there is need to perform Hausman specification test. The test evaluates the significance of an estimator versus an alternative estimator. The Hausman test conducted is shown in Table 2.

The result obtained from the Hausman test show for the model was 0.36 having a probability value above 5% which signifies the need to use a random effect regression method. However, it is important to conduct heteroskedasticity using Breusch–Pagen and serial correlation test to know the behaviour of the explanatory variable.

6.3 Heteroskedasticity Test

The study conducted heteroskedasticity test on the explanatory variables to know the appropriate estimation regression to employ for the study. The result of the heteroskedasticity is shown in Table 4.

Table 3 above shows the result of the Heteroskedasticity. The probability of the Breusch-Pagan Test which was insignificant at 5% which reject the hypothesis of heteroskedasticity and accept the hypothesis of the presence of homoskedasticity. However, due to the absence of heteroskedasticity among the variables the study can proceed with the Hausman description as specified in Table 2.

Table 1. Correlation matrix

	AUC	BS	BI	AGE	MO	FS
AUC	1.0000					
BS	0.3100	1.0000				
BI	0.0746	0.1775	1.0000			
AGE	0.0279	0.1275	0.0245	1.0000		
MO	0.0552	0.0097	0.3432	0.0048	1.0000	
FS	0.2459	0.0984	0.2046	0.1638	0.1137	1.0000

Source: Author's computation from Stata 13

Table 2. Hausman test result

Hausman Test		
Test Summary	**Chi-Sq. Statistic**	**Prob**
Cross-section random	0.36	0.8243
Decision	Random effect regression	
Ho = Prob. <0.05 = Fixed Effect H_1 = Prob. > 0.05 = Random Effect		

Source: Author's Computation using Stata

Table 3. Heteroskedasticity

Breusch-Pagan Test for Heteroskedasticity	
Chi2	21.28
Chi 2 probability	0.1743
Decision: Absence of Heteroskedasticity	

Source: Author's Computation using Stata

6.4 Presentation of the Regression Result

The study adopted random effect regression for the model as indicated by the Hausman Test result in Table 2. Table 4 shows the result of the random effect regression analysis.

From Table 4, Audit Committee shows a significance effect (at 1%) on creative accounting which implies that holding other variables constant, 1% increase in number of AUC will lead to approximately 8% decrease in creative accounting practice. Also, managerial ownership shows a positive significant effect on creative accounting practice (at 5%) implying that for every 1% increase in managerial ownership, creative accounting practice will increase by 21%. However, firm size, age of firm, board independence and board size show no significant impact on creative accounting practice. The R2 shows that approximately 67% of the dependent variable (creative accounting practice) was been explained by the independent variable while the remaining 33% was been explained by other variables outside the model. The Wald Chi value of 30.16 with probability value of 0.000 implies the model is of good it and result can be used for predictions.

6.4.1 Robustness test

The robustness test was conducted to ascertain the validity and reliability, fairness, significance and appropriateness of the model, the result is shown in Table 5.

From the normality test result of the model results, the obs shows the number of observations which is 48 and the probability of the skewness was 0.5478 implying that Skewness is asymptotically normally distributed (P-Value of Skewness > 0.05). Similarly, Pr(Kurtosis) indicates that kurtosis is also asymptotically distributed (p-value of kurtosis > 0.05). Finally, Chi (2) is 0.3376 which is greater than 0.05 implying its significance at 5% level. Consequently, the null hypothesis cannot be rejected. Therefore, according to Skewness test of normality, residuals show normal distribution.

Table 4. Regression result

Independent variable	Dependent variables	
	Coefficient	**P-Value**
AUC	-0.079918	0.042
BS	0.637635	0.129
BI	-0.328965	0.239
AGE	0.864512	0.4521
MO	0.214509	0.032
FS	-0.645298	0.594
Constant	14.26814	0.379
R^2	0.6745	
Wald Chi	30.16	
P (chi)	0.0000	

Source: Author's computation using Stata

Table 5. Robustness test result

Skewness/Kurtosis tests for Normality					
				------- joint ------	
Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	adj chi2(2)	Prob>chi2
Resid	56	0.5478	0.1438	4.68	0.3376

Source: Author's computation from Stata Output

7. DISCUSSION

The regression outcome of the study revealed that audit committee (Coefficient -0.079918, P-Value 0.042) has a significant negative impact on creative accounting practices, showing that increase in audit committee independent will reduces this unethical practices and manipulation of accounting information. This result of the study is consistent with the findings of [26,8,16] which stated that audit committee has significant impact in reducing creative accounting practice. Managerial ownership (coefficient 0.214509, P-Value 0.032) has positive significant impact on creative accounting practice, the implication of this finding is that managerial ownership will increases management's desire to manipulate financial accounting information. The finding is consistence with research finding that managerial ownership will have positive impact on creative accounting practice [26], while is in contrasts to the study of [4] that found a negative relationship between managerial ownership and creative accounting practice. Board size (coefficient 0.637635, P-Value 0.129) has no significant impact on creative accounting practices, this implies that the number of the board size does not influence the managers to involve in creative accounting practices. This finding is in contrast to the study of [3,14] that stated that board size can reduce the extent of creative accounting. This study result shows that board independence (coefficient -0.328965, P-Value 0.2390) also has no significant impact on creative accounting practice. That is, the number of independent director present among the board of directors does not determine if managers engage in creative accounting practice. This finding is in contrast with [14] that found that board structure affects the decision of companies to manipulate reported earnings. The magnitude of the coefficient of control variables (firm Size and firm age) clearly has no significant impact on creative accounting practice of conglomerate companies in Nigeria as indicated by coefficient (-0.645298, 0.864512) with Prob. (0.594, 0.4521) at 5% significance level respectively. This result is inconsistent with the research finding that firm size and firm age influences creative accounting practices [2-3]. The finding of the study shows that of all the corporate governance mechanisms examined; only audit committee independent will help mitigate the practice of creative accounting in conglomerate sector of listed companies in Nigeria.

8. CONCLUSION AND RECOMMENDATION

The study examines the impact of corporate governance mechanism in mitigating creative accounting practice of listed conglomerate companies in Nigeria. The study concludes that, having effective good corporate governance mechanism in place will help mitigate creative accounting practice. However, finding of this study indicates that audit committee is an essential mechanism that can help mitigate this opportunism behaviour. Other indicators (board independence, managerial ownership, firm size, and board size) have no significant effect on mitigating creative accounting practice in Nigeria listed companies. The study therefore suggests recommendations for mitigating creative accounting practice. Firstly, Companies are to effectively apply good corporate governance mechanism. In Nigeria, CAMA 1990 (section 359) requires every public company to establish an audit committee. The act stipulates the committee should be able to ascertain whether the accounting and reporting policies of the company are in accordance with legal requirements and agreed ethical practices. Companies should have an independent audit committee, so as to minimize creative accounting practice. Secondly, Nigeria Securities and Exchange Commission issued code of corporate governance for listed firms, regulators should ensure that companies strictly adherence to the contents of this code of corporate governance. Lastly, this study recommend that punitive measure should be enforce on anyone that engage in creative accounting practice, so as to discourage accountings practitioners from the act and ensuring credibility of financial accounting information.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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