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International Financial Reporting Standards, Board Governance, and Accounting Quality: Preliminary Evidence from Ghana

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Abstract

This paper examines the effect of International Financial Reporting Standards (IFRS) and board governance on accounting quality from a Ghanaian perspective using the ordinary least squares (OLS) technique over a seven-year period (2013–2019). From the results, IFRS adoption is shown to negatively impact accounting quality in an insignificant manner. The insignificant nexus is due to the lax implementation of regulations by institutions regarding IFRS and performance-linked schemes presented to managers. Additionally, all but profitability and institutional ownership have a positive significant impact on accounting quality, while board governance negatively affects accounting quality, though this is not statistically significant. Finally, it was found that board governance does not moderate the relationship between IFRS adoption and accounting quality using discretionary accruals. Our study captured effective corporate governance practices using a composite board governance index to moderate the effect of IFRS on the nexus between board governance and accounting quality, serving as the main motivation and contribution to the existing literature.

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1. Introduction

One vital instrument used by firms in the course of attaining globalization is the understandability and comparability of financial reporting standards (Appiah, Awunyo-Vitor, Mireku, & Ahiagbah, 2016; Mnif & Znazen, 2020; Samaha & Khlif, 2016). Agyei-Mensah (2016) argued that accounting standards provide enough motivation for the regulation and presentation of a company's information (either financial or non-financial information). To complement this, Kachouri and Jarboui (2017) reported that financial information transparency is at the core of quality governance systems. Consequently, many countries have expressed and are championing financial information transparency and accountability following the 2007 financial crisis as counter measures (Mbir, Agyemang, Tackie, & Abeka, 2020).

While some scholars hold the view that the relevance of financial information is felt through the reduction of asymmetric information, and the reduction of management's opportunistic behavior through high quality corporate governance practices (Mnif & Znazen, 2020), *another strand of literature also suggest that the usefulness of financial information is based on how useful it is for decision making* (Krismiaji, Aryani, & Suhardjanto, 2016).

Ball, Robin, and Wu (2003) and Jeanjean and Stolowy (2008) hold the view that accounting quality is not a just the result of accounting standards requirements but a combination of macroeconomic and institutional factors, corporate governance, and politically driven factors that serve as a major incentive for management. In the light of this, prior studies, such as Ahmed and Karim (2005); Samaha and Stapleton (2008); and Al-Akra, Eddie, and Ali (2010), empirically examined the adoption of International Financial Reporting Standards (IFRS) in isolation or with another stream of finance literature within developed markets, while Liu, Yao, Hu, and Liu (2011); and Gordon, Loeb, and Zhu (2012) focused their studies on developing markets. This research chooses three streams of literature, namely IFRS adoption, board governance, and accounting quality, by examining the consequence of IFRS adoption and board governance on accounting quality as an extension and replication of the study by Krismiaji and Surifah (2020) and in response to the call for future research by Mbir et al. (2020).

Prior research on these three streams of literature exist primarily within developed economies, either by examining the IFRS and board governance nexus (Chen & Zhang, 2014; Gavious & Lowengart, 2012) and/or the IFRS and accounting quality nexus (Christensen, Lee, Walker, & Zeng, 2015; Purwanti & Utama, 2018). Literature within Sub-Sahara Africa, more particularly Ghana, is limited and only examines two streams in isolation, i.e., corporate governance against accounting quality, or IFRS against accounting quality (Appiah et al., 2016). However, although Mbir et al. (2020) attempted to analyze these three streams, the study was limited to using board governance parameters and failed to capture effective corporate governance practices using a composite board governance index and whether or not there is a moderating effect of IFRS on the nexus between board governance and accounting quality. This serves as the central motivation to contribute to the existing literature and fill the gap by examining the effects of IFRS adoption and board governance on accounting quality.

Ghana presents a unique setting for empirical investigation due to the fact that the Report on the Observance of Standards and Codes suggests that, following the adoption of IFRS, the level of compliance is inadequate and calls for improvement and strict compliance with the standards (Appiah et al., 2016).

For this research to be significant, it has to inform policies that are relevant to stakeholders, such as regulatory and supervisory institutions (practitioners) and the research community. Regulatory and supervisory institutions (the Ghana Stock Exchange and the Securities and Exchange Commission), which represent an arm of government devoted to ensuring effective corporate governance practices, will find this study useful as it will inform them on the level of corporate governance practices adopted by firms and contribute to the development of policies aimed at improving corporate governance practices.

For the research community, this research contributes to the literature on the IFRS adoption, corporate governance and accounting quality nexus. It will also encourage future research and serve as a guide that can be capitalized on.

Policy makers will find this study useful as it will provide substantive answers regarding whether or not IFRS adoption and board governance constrain the discretionary accruals of management and drive them to insist on tighter compliance and proper governance systems.

The rest of the paper is organized as follows: Section 2 reviews related literature, Section 3 explains the method, Section 4 reports and discusses the empirical results, and Section 5 contains the conclusion and offers recommendations.

2. Related Literature Review and Hypothesis Development

2.1. Theoretical Framework

Researchers have developed a considerable number of dominating theories used to support the context of IFRS, board governance and accounting quality. Among these theories are agency theory, signaling theory and the resourced-based view theory. Among others, Hay and Cordery (2018) highlight the contribution of agency, management control, signaling, insurance, governance, and confirmation frameworks. They argue that agency theory, developed by Ross (1973) and Mitnick (1973), is one of the most widely used theoretical frameworks, and empirical evidence and history are essentially consistent with the theory. Thus, agency theory is the theoretical framework upon which this paper is based. The theory is well-suited for the public sector and has already been used in previous studies on financial reporting and related reports in the finance sector (Bakalikwira, Bananuka, Kaawaase Kigongo, Musimenta, & Mukyala, 2017; Oppong, Fofack, & Boakye-Yiadom, 2021).

Agency theory reduces the financial reporting system to only two participants: the managers or reporters, also known as agents, and the principal shareholders, also known as users of financial information. The theory suggests that agents have selfish interests that go against the interests of users and will use all possible means to achieve those self-serving goals, such as falsifying the information in financial statements or tampering with accounting records (Kaawaase & Ernest, 2016). Problems arise because it is costly for the principal users of accounting information to monitor the behavior of the agents. Principal users therefore rely on internationally recognized standards and boards to reduce agency costs and realign the interests of agents with theirs through an improvement in the quality of accounting information provided by the agents and proper board governance.

2.2. IFRS Adoption and Accounting Information Quality

The concept of IFRS provides transparency and consistency in the financial statements of public companies worldwide. Additionally, it provides for comparability and maintains the integrity of the accounting profession.

Mensah (2021) asserts that the concept has gained ground in the African continent as a result of globalization activities. Until now, the Ghana National Accounting Standards was the only accounting standard employed in the country. Several empirical studies have examined the influence of IFRS adoption on the quality of accounting information in Ghana. Employing earnings smoothness, accrual quality, discretional accruals and price earnings, Yeboah and Pais (2021) examined the influence of IFRS on the accounting quality of firms listed on the Ghana Stock Exchange (GSE). They reported that there has been a significant impact on accounting quality following the adoption of the IFRS concept in Ghana. They further stressed that the implementation of the concept permeates accounting comparability. Firmansyah and Irawan (2019) used the financial statements and annual reports of Indonesian manufacturing companies to ascertain the impact of corporate governance and IFRS adoption on quality accounting information. They deduced that IFRS adoption and audit committees are not related to accounting information quality. Akolor (2019) used data from 19 non-financial firms listed on the GSE between 2004 and 2014 to examine the effect of IFRS adoption on earnings management. Using the generalized method of moments, the analysis indicates that a negative relationship exists between IFRS adoption and earnings management. Amankwa, Mawutor, and Yiadom (2020) studied the influence of IFRS adoption on the quality of financial statements of selected firms in Ghana. They use a panel regression model coupled with the extent of management practices to analyze audited annual reports and the quality of financial statements. The findings indicate that earnings management practices are negatively affected by the adoption of IFRS. The post-adoption period has witnessed a decrease in earnings management compared to the increasing levels of the practice during the pre-adoption period. Mbir et al. (2020) used a random effects estimation technique to investigate the relationship between IFRS compliance, corporate governance, and the quality of financial reporting. The paper suggests that mechanisms such as corporate governance play an influencing role in the relationship between IFRS compliance and financial reporting quality. Hence, sound corporate governance institutions will significantly influence IFRS compliance and result in a positive effect on financial reporting. Coffie, Bedi, Amidu, and Duah (2020) studied the linkage between IFRS compliance and the quality of earnings reporting of financial firms in Ghana, and they concluded that the adoption of IFRS does not automatically improve financial reporting quality. Abedana, Omane-Antwi, and Oppong (2016) reported on the impact of corporate financial reporting quality following the adoption of IFRS in Ghana. The paper analyzed the financial reports of 22 companies listed on the GSE using a disclosure index approach and Pearson's correlation. They observed a positive relationship between disclosure quality and the adoption of IFRS. Amissah (2016) employed panel regression analysis to test the impact of the adoption of IFRS on the financial reporting quality of 28 insurance companies and 23 universal banks in Ghana between 2003 and 2014. The study found that financial reporting quality has improved as a result of the adoption and implementation of IFRS. Hence, financial institutions do not practice earnings management after the adoption of the concept of IFRS. Yeboah (2018) investigated the impact of IFRS adoption on the quality of accounting information of firms on the GSE. The study found an improvement in earnings quality following the adoption of IFRS in Ghana. Uwuigbe, Emeni, Uwuigbe, and Ataiwrehe (2016) used secondary data from financial statements to study the effects of IFRS adoption on the quality of accounting information from Nigerian banks. The study concluded that the adoption of IFRS increases income smoothing and reduces earnings management. Eng, Lin, and Neiva (2019) examined the relationship between IFRS adoption and the value relevance of accounting information in Brazil. They reported a positive relationship between the post-IFRS adoption period and the quality of accounting information. In contrast, Yasas and Perera (2019) used a multiple regression analysis on 29 listed manufacturing companies and observed an insignificant relationship between IFRS adoption and accounting information quality. Gu (2021) conducted a study in Japan to ascertain the voluntary adoption of IFRS and its impact on accounting quality. The findings indicate that IFRS adoption decreases income smoothing and increases accounting conservatism. Sun, Sari, and Havidz (2021) employed panel data of 22 banks to examine the impact of IFRS adoption on the value relevance of accounting information in Indonesia, and they established that IFRS adoption increases the value relevance of earnings. These arguments allow us to formulate the first hypothesis of this paper as follows:

H_1: IFRS adoption significantly affects the accounting information quality of non-financial firms.

2.3. Board Governance on Quality of Accounting Information

The impact of board governance mechanisms on the quality of firms' accounting information has garnered much attention from various researchers. Almujamed and Alfraih (2020) used board size, non-executive directors' presence and duality of roles to explore the influence of board of directors' characteristics on the value of information for 178 firms in Kuwait. They found that board size and role duality are positively related to the value relevance of earnings. With data from Econometrics and annual reports from companies in Brazil, Holtz and Sarlo (2014) examined board of directors' characteristics and their impact on accounting information quality. They found that greater board independence and a split CEO structure are positively related to quality accounting information. Kukah, Amidu, and Abor (2016) studied the effects of internal corporate governance mechanisms on accounting information quality of non-financial firms listed on the Ghana Stock Exchange. Using data from 20 non-financial listed firms, they concluded that board independence and an ownership structure dominated by foreigners impede earnings management, which results in quality accounting information. Agyekum, Aboagye–Otchere, and Bedi (2014) found that board size and board independence significantly impact earnings management. Their study assessed the relationship between corporate governance and earnings management of 14 listed Ghanaian companies using a panel regression analysis. Badu and Assabil (2021) used data from 144 listed firms in Ghana to assess the relationship between board composition and financial information relevance. The study reported that boards characterized by a higher percentage of independent directors result in lower firm value, whilst a positive relationship exists between board size and firm value. Ellili (2013) studied the relationship between ownership structure, board of directors and quality accounting information in Abu Dhabi. Relying on data from 29 companies listed on the stock exchange, they revealed that CEO duality positively affects earnings management, while an ownership structure dominated by managers and blockholders leads to high quality accounting information. Adaa and Hanefah (2018) conducted a study to assess the relationship between corporate governance dynamics (board size, number of directors, board diversity and ownership structure) and the relevance of accounting information. They found a positive relationship between board size and the value relevance of accounting information. They further established an inconsequential relationship between board diversity (female representation) and the value relevance of accounting information. Lin, Lin, and Lei (2020) examined data from the Shenzhen Stock Exchange and found that separation between board chair and CEO positively impacts quality disclosure of accounting information. Obigbemi, Omolehinwa, Mukoro, Ben-Caleb, and Olusanmi (2016) investigated the linkage between board structure and earnings management in Nigeria by employing data from 137 quoted companies and using the OLS technique and Pearson's moment correlation. They revealed that board size, composition and gender are inversely related to earnings management, while board meetings have a positive relationship with earnings management. Krismiaji (2019) used data from 119 manufacturing firms in Indonesia to examine the effects of board characteristics and voluntary disclosure on the value relevance of accounting information. Focusing on board independence and board size, the analysis indicates that both independence and size of the board significantly impact the value relevance of earnings. Darko, Aribi, and Uzonwanne (2015) used cross-sectional and longitudinal data from 20 listed companies in Ghana to investigate the relationship between corporate governance structures and the performances of listed companies. They concluded that independent directors and a higher female representation on the board positively impact firm performance. Fiador (2013) investigated the effect of internal corporate governance mechanisms on the relevance of financial information. Employing a pooled regression and the Ohlson valuation model, the paper suggests that a smaller board size and CEO duality favorably impact the net asset value of a firm's share. Quality accounting information translates to good firm performance with increased profitability, efficiency and liquidity levels. Onuorah and Imene (2016) used an econometric analysis to examine the impact of corporate governance on financial reporting quality in Nigeria over a period of 10 years. Their findings indicate that board experience, board structure and quality external audits positively affect financial reporting quality, while independent directors negatively affect financial reporting quality. Based on the above, the second hypothesis is formulated:

H_2: There is a significant effect of board governance on the quality of accounting information.

2.4. The Moderating Effect of IFRS Adoption on the Nexus Between Board Governance and Accounting Information Quality

El-Halaby and Al Hakim (2021) investigated the moderating role of IFRS adoption on board gender diversity and earnings quality in Islamic banks. Using a pooled OLS regression across 21 countries, they reported that the adoption of IFRS positively impacts the relationship between board gender diversity and earnings quality. In Malaysia, Jatiningrum, Fauzi, Irviani, Mujiyati, and Hasan (2018) examined the impact of IFRS adoption on the relationship between earnings management and audit committees. Using multiple regressions on 81 listed companies, they reported that the adoption of IFRS leads to improved functions of audit committees, which results in quality accounting information. Marra, Mazzola, and Prencipe (2011) studied the effect of board monitoring on earnings management following the adoption of IFRS. Their analysis revealed that, following the adoption of IFRS, board independence and audit committees play a significant role in reducing earnings management. Kouaib, Jarboui, and Mouakhar (2018) used data from 302 European firms to investigate the moderating role of mandatory IFRS adoption on the linkage between CEO experience and earnings management. They reported that IFRS adoption significantly impacts CEO experience and earnings management. Bryce, Ali, and Mather (2015) examined the effectiveness of audit committees in promoting accounting quality following the adoption of IFRS in Australia. They revealed that, under IFRS, audit committee effectiveness ensures quality accounting. Inspired by the above arguments, the following hypothesis is proposed:

H_3: There is a moderating effect of IFRS adoption on the nexus between board governance and accounting information quality.

3. Method

3.1. Research Design and Data Analysis

To address the concerns detailed in the study's objectives, the OLS estimation technique was adopted to examine the impact of IFRS adoption on the nexus between board governance and accounting quality. Baltagi (1998) defined panel data as "longitudinal or cross-sectional data in which economic entities are observed across time". The first econometric model was adapted from the Modified Jones model (Jones, 1991) to measure earnings management, since it is the most powerful earnings management proxy. The econometric models of Krismiaji et al. (2016) and Mbir et al. (2020) were used to achieve the objectives of this study:

$$AccQly_{it} = TA_{it}/A_{it-1} - [\beta_0 (1/A_{it-1}) + \beta_1 \left(\frac{\Delta Rv_{it} - \Delta TR_{it}}{A_{it-1}}\right) + \beta_2 \left(\frac{PPE_{it}}{A_{it-1}}\right) + \beta_3 ROA_{it-1} \quad (1)$$

$$AccQly_{i.t} = k_0 + \beta_1 BrdGI_{it} + \beta_2 IFRSInx_{it} + \beta_3 CS_{it} + \beta_4 FSz_{it} + \beta_5 InO_{it} + \beta_6 TbnQ_{it} + \beta_7 Infn_{it} + \mu_{i.t} \quad (2)$$

$$AccQly_{i.t} = k_0 + \beta_1 BrdGI_{it} + \beta_2 IFRSInx_{it} + \beta_3 BrdGI * IFRSInx_{it} + \beta_4 CS_{it} + \beta_5 FSz_{it} + \beta_6 InO_{it} + \beta_7 TbnQ_{it} + \beta_8 Infn_{it} + \mu_{i.t} \quad (3)$$

Where TA_{it} denotes the total net income less cash flow from operations; A_{it-1} denotes the total assets at the start; ΔRv_{it} denotes change in revenue; ΔTR_{it} represents the change in receivables; PPE is gross tangible assets; and ROA is net income over lagged total assets. AccQly denotes accounting quality; k is a constant term; $i.t$ is firm I; t represents time; BrdGi represents the board governance index; IFRSInx denotes the IFRS adoption index; FSz denotes firm size; CP denotes leverage; InO denotes institutional ownership; TbnQ denotes Tobin's Q; Infn represents inflation; and μ is the error term. The descriptions of the variables are detailed in Table 1, Table 2 and Table 3.

Table 1. Variable description, abbreviation and operationalization.

Variables	Acronym	Proxy
Dependent variable		
Accounting quality	AccQly	Earnings management by the Modified Jones.
Independent variable		
Board governance index	BrdGI	Board governance index score: Activity 1: score of 1 if it meets the scoring rule, and 0 otherwise. Activity 2: divide the total governance score by the total applicable score for board governance of 34.
Moderating variable		
IFRS adoption	IFRSInx	IFRS index score: Activity 1: score of 1 if disclosed under the notes of the financials, and 0 otherwise. Activity 2: divide the total IFRS adoption score by the total applicable score for adoption.
Control variable		
Firm size	FS	Natural logarithm of total assets.
Tobin's Q	TbnQ	Sum of total liabilities plus market value of equity divided by total assets.
Leverage	CP	Proportion of total liabilities divided by total assets.
Institutional ownership	InO	Proportion of shares owned by institutional investors.
Inflation	Infn	Consumer price index.

Source: Krismiaji et al. (2016); Mbir et al. (2020).

Table 2. IFRS standards applicable for adoption.

Standard	Title
IAS 1	Presentation of financial statements
IAS 7	Cash flow statements
IAS 34	Interim financial reporting
IAS 27	Consolidated and separate financial statements
IFRS 8	Operating segments
IAS 24	Related party disclosures
IAS 31	Interest in joint ventures
IAS 40	Investment property
IAS 2	Inventories
IAS 28	Investments in associate and joint ventures
IAS 8	Accounting policies, changes in accounting estimates and errors
IAS 16	Property, plant and equipment
IAS 17	Accounting for leases
IAS 18	Revenue
IAS 27	Impairment of assets
IAS 37	Provisions, contingent liabilities and contingent assets

Standard	Title
IAS 38	Intangible assets
IAS 36	Impairment of assets
IAS 23	Borrowing costs
IFRS 3	Business combinations
IFRS 5	Non-current assets held for sale and discontinued operations
IFRS 6	Exploration for, and evaluation of, mineral resources
IFRS 7	Financial instruments: Disclosures

Source: Krismiaji et al. (2016).

Table 3. IFRS standards applicable for adoption.

Code	Question
BrdGI1	Is the size of the board greater than or equal to three?
BrdGI2	Is the number of independent directors greater than one-third of the board?
BrdGI3	Are there any reports that disclose the board of directors' performance?
BrdGI4	Is the chairman of the board independent?
BrdGI5	Is the chairman of the board concurrently serving as a board member in different companies?
BrdGI6	Are the roles and responsibilities of the audit committee clearly stated?
BrdGI7	Is the performance of the audit committee disclosed?
BrdGI8	Does the firm have an audit committee charter?
BrdGI9	Is the chairman of the audit committee independent?
BrdGI10	Has the audit committee reviewed the financial statements and issued a report to the board before the statements have been approved?
BrdGI11	Does the audit committee monitor management and staff compliance with policies, laws, regulations and guidelines?
BrdGI12	Does the audit committee supervise the audits to ensure that internal auditors are acting independently of management?
BrdGI13	Does the audit committee supervise audits to ensure that external auditors are acting independently of management?
BrdGI14	Is the number of audit committee meetings greater than or equal to four?
BrdGI15	Is the average audit committee attendance greater than 15% of the number of audit meetings?
BrdGI16	Is there at least one accounting expert on the audit committee?
BrdGI17	Does the firm have a nominating and remuneration committee?
BrdGI18	Are the nominating and remuneration committee members independent?
BrdGI19	Are the roles and responsibilities of the nominating and remuneration committee clearly stated?
BrdGI20	Does the firm have a nominating and remuneration committee charter?
BrdGI21	Is the number of nominating and remuneration committee meetings per year greater than one?
BrdGI22	Is the average nominating and remuneration committee's meeting attendance greater than one?
BrdGI23	Is the performance of the nominating and remuneration committee disclosed?
BrdGI24	Does the firm have a corporate governance committee?
BrdGI25	Are the roles and responsibilities of the corporate governance committee clearly stated?
BrdGI26	Does a corporate governance charter exist?
BrdGI27	Does the firm have a risk management committee?
BrdGI28	Are the roles and responsibilities of the risk management committee clearly stated?
BrdGI29	Is the performance of the risk management committee disclosed?
BrdGI30	Does the firm discuss internal control issues related to the organizational and control environment in the disclosure report?
BrdGI31	Does the firm discuss internal control issues related to monitoring and evaluation in the disclosure report?
BrdGI32	Does the firm discuss internal control issues related to risk management in the disclosure report?
BrdGI33	Does the firm discuss internal control issues related to managerial and control activities in the disclosure report?
BrdGI34	Does the firm discuss internal control issues related to information and communication in the disclosure report?

Source: Krismiaji et al. (2016).

3.2. Diagnostic Tests

This research performed multicollinearity, heteroscedasticity and normality tests to enhance the validity and reliability of the results. The variance inflation factor was performed to check the collinearity of the explanatory variables, the Breusch–Pagan test was performed to improve the validity of the results and make it more robust, and the Wooldridge test was performed to check for autocorrelation in panel data (Gujarati, 2011).

3.3. Data

All firms listed on the GSE were considered for the population of the study, and the sample size comprised of 20 non-financial firms listed on the GSE across five sectors (manufacturing, distribution, agricultural, mining, and food and beverages) according to the Ghana Stock Exchange market report over a seven-year period (2013–2019).

The selection was purposively done using the following eligibility criteria: the firm must be listed on the stock exchange for the full seven-year period; the firm must be solvent; and the firm must have annual reports readily available at *www.annualreportsghana.com*, or its respective website, for the full seven-year period.

4. Results

4.1. Descriptive Analysis

With reference to Table 4, the mean for accounting quality is 0.021 at a standard deviation of 4.093. Since accounting quality is measured inversely, the smaller mean indicates that non-financial listed firms in Ghana are involved in less earnings manipulation, which is synonymous with a high accounting quality. Comparatively, the average of accounting quality within non-financial Ghanaian listed firms is better than that of the non-financial firms in Indonesia, as documented by Krismiaji et al. (2016). For the explanatory variables, board the governance index presents a mean of 0.621 at a standard deviation of 0.166. By extension, this implies that corporate governance effectiveness and/or ensuring the adoption of the "Best Corporate Governance Practices" is slightly above the average for non-financial Ghanaian firms during the sampled period. On average, the IFRS adoption by non-financial Ghanaian listed firms is 0.954 at a standard deviation of 0.055. This suggests that most non-financial Ghanaian listed firms adopted the IFRS, which conforms to the study by Appiah et al. (2016) regarding compliance to the IFRS.

Among the control variables, the average return on assets stood at 83%, which implies that non-financial Ghanaian firms are very efficient at turning entrusted resources into profits. Additionally, the average leverage stood at 24.78 at a standard deviation of 105.37, while the average institutional ownership stood at 62%, suggesting that non-financial Ghanaian firms are mostly owned by institutional firms. Regarding normality and skewness, accounting quality and IFRS adoption are normally distributed, while board governance mirrors a normal distribution. Further to this, all variables are leptokurtic. That is, accounting quality, board governance, IFRS adoption and all control variables show a peaked curve with values above their mean values (see Table 4).

4.2. Correlation Matrix

The reliability and validity of the results are marred by issues and assumptions in the regression models. One such issue is the presence of multicollinearity, which exists when the correlation coefficients between the explanatory variables are high, leading to spurious regressions. Kennedy (2008) asserted that multicollinearity exists when the correlation coefficient is greater than eight (> 8). Table 5 portrays that the correlations for all the variables are far from 0.8; therefore, it can be concluded that the explanatory variables do not suffer from multicollinearity problems.

Table 4. Descriptive statistics.

Statistic	AccQly	IFRSInx	BrGI	ROA	FSz	CS	InO
Mean	0.021	0.955	0.610	0.835	5.329	24.781	0.623
SD	4.093	0.055	0.166	9.739	1.097	105.366	0.361
p25	-0.195	0.545	0.515	-0.045	4.824	0.500	0.254
p50	-0.071	0.591	0.576	0.023	5.378	0.686	0.813
p75	0.048	0.727	0.697	0.073	5.845	0.883	0.901
Pr(Skewness)	0.000	0.000	0.057	0.000	0.870	0.000	0.000
Pr(Kurtosis)	0.000	0.918	0.431	0.000	0.147	0.000	0.000
Obs.	137	137	137	137	137	137	137

Note: AccQly denotes accounting quality, IFRSInx denotes IFRS adoption, BrgI denotes board governance index, ROA is return on assets, FSz denotes firm size, CS is leverage, and InO is institutional shareholding.

Also, from Table 5, the strongest level of correlation (0.442) is between return on assets and accounting quality. Again, the correlation coefficients between IFRS adoption and accounting quality, and board governance and accounting quality, are negatively correlated but insignificant, with correlation coefficients of -0.028 and -0.055, respectively. This implies that IFRS adoption and board governance entering the regression model have unpredictable effects on accounting quality. Further to this, return on assets and institutional ownership have positively significant correlations with accounting quality at the one-tailed and two-tailed levels of significance. This suggests that these control variables entering the regression model have a significant positive impact on accounting quality.

Table 5. Correlation analysis.

Variable	AccQly	IFRSInx	BrGI	ROA	FSz	CS	InO
AccQLy	1.000						
IFRSInx	-0.028	1.000					
BrGI	-0.055	0.628*	1.000				
ROA	0.442*	-0.036	-0.038	1.000			
FSz	0.027	0.084	0.316*	-0.144*	1.000		
CS	-0.002	-0.021	-0.090	-0.020	-0.095	1.000	
InO	0.144**	-0.465*	-0.175*	-0.031	0.305*	-0.309*	1.000

Note: AccQly denotes accounting quality, IFRSInx denotes IFRS adoption, BrgI denotes board governance index, ROA is return on assets, FSz denotes firm size, CS is leverage, and InO is institutional shareholding. * denotes a one-tailed level of significance, and ** denotes a two-tailed level of significance.

4.3. OLS Regression Results

4.3.1. The Impact of IFRS Adoption on the Accounting Quality of Non-Financial Listed Ghanaian Firms

One assumption of the OLS estimation is that the independent variables are exogenous when applied, leading to biased and inconsistent results (Roberts & Whited, 2013). Another assumption of the OLS estimation is the presence of variance across entities. Against this, the Breusch–Pagan Lagrange multiplier test for heteroscedasticity was performed. Therefore, by refusing to accept the alternate hypothesis, we can infer that there is zero variance across the entities in the study. From the regression results, the null hypothesis is accepted and a robust command to control for the presence of heteroscedasticity in invoked.

The results in Table 6 indicate that IFRS adoption has a negative impact on accounting quality but this impact is statistically insignificant in the first model without the addition of control variables in the regression model. Additionally, IFRS adoption only explains 1% of the variance in accounting quality as shown by the R-squared. In model two, the control variables are introduced into the model in addition to IFRS adoption and regressed on accounting quality. As a result, the independent variable and the control variable collectively explain 23% of the variance in accounting quality. Also, the relationship between IFRS adoption and accounting quality is negative but insignificant. This means that a unit change in IFRS adoption will not induce a 39% reduction in accounting quality. This is at odds with the studies by Key and Kim (2020); and Hao, Sun, and Yin (2019), and confirms the study by Jeanjean and Stolowy (2008). The insignificant relation is due to the contention that IFRS adoption in isolation does not significantly improve accounting quality but rather compliance to the standards leads to increased accounting quality, as established by Mbir et al. (2020). Buttressing this point, Kao (2014) reiterates that management is likely to engage in earnings manipulations when faced with negative earnings, while Jeanjean and Stolowy (2008) ascribed the insignificant relation to the prevailing lax implementation of regulations by institutions and poor managerial incentives.

On the effects of the control variables on earnings management as a construct of accounting quality, the results revealed that all but return on assets and institutional ownership positively influence accounting quality significantly at a 5% significance level. In other words, firm size and leverage influence accounting quality insignificantly.

Table 6. Accounting quality and IFRS adoption with pooled OLS regression.

	Model 1			Model 2		
Variable	**Coeff.**	**Robust std. err.**	**T-statistics**	**Coeff.**	**Robust std. err.**	**T-statistics**
IFRSInx	-2.031	1.761	-1.150	-0.390	1.588	-0.25
ROA				0.191***	0.008	23.20
FSz				0.179	0.258	0.690
CS				0.002	0.002	1.250
InO				1.849*	1.219	1.520
_cons	1.961	1.920	1.02	-1.932	3.351	-0.580
R-squared	0.014				0.2259	
F-statistics	1.33			4705.69***		
No. of obs.	137			137		

Note: IFRSInx denotes IFRS adoption, ROA is return on assets, FSz denotes firm size, CS is leverage, and InO is institutional shareholding. * denotes a 10% level of significance; *** denotes a 1% level of significance.

4.3.2. The Influence of Board Governance on Accounting Quality of Non-Financial Listed Ghanaian Firms

In model 3, the p-value (coefficient) of board governance on accounting quality is 0.651 (-1.36), which implies that board governance impacts accounting quality negatively but is statistically insignificant (see Table 7). After controlling for firm-specific variables and some corporate governance variables, the insignificant relation between board governance effectiveness and the accounting quality proxy using discretionary accruals remained insignificant. This is at odds with the studies by Kachouri and Jarboui (2017) and Krismiaji et al. (2016) but supports the study by Crockett and Ali (2015). This finding suggests that a unit change in board governance effectiveness will not lead to 59% decrease in earnings manipulations, which will lead to an improved accounting quality.

Further to this, from Table 6, the results indicate that the profitability proxy using return on assets positively influences accounting quality significantly at the 1% significance level, while institutional ownership positively influences accounting quality significantly at the 10% significance level. Moreover, debt ratio and firm size are insignificant in the determination of earnings management in non-financial Ghanaian firms.

Table 7. Accounting quality and board governance with pooled OLS regression.

	Model 3			Model 4		
Variable	**Coeff.**	**Robust std. err.**	**T-statistics**	**Coeff.**	**Robust std. err.**	**T-statistics**
BrGI	-1.358	2.995	-0.450	-0.594	3.406	-0.170
ROA				0.191***	0.008	23.320
FSz				0.218	0.387	0.560
CS				0.002	0.002	1.450
InO				1.752*	0.987	1.770
_cons	0.849	1.657	0.510	-2.086	1.880	-1.110
R-squared	0.003			0.226		
F-statistics	0.210			5025.53***		
No. of obs.	137			137		

Note- BrGI denotes board governance, ROA is return on assets, FSz denotes firm size, CS is leverage and InO is institutional shareholding. * denotes a 10% level of significance, *** denotes a 1% level of significance.

4.3.3. The Moderating Role of Board Governance on the Nexus Between IFRS Adoption and Accounting Quality

In order to achieve the third objective, which is to determine the moderating role of board governance on the nexus between IFRS adoption and accounting quality using Equation 3, the creation of an interaction term by multiplying IFRS adoption with the board governance index becomes necessary. The creation of an interaction term raises issues of multicollinearity, so following the study by Chen, Zhang, Li, and Shahabi (2018), the interaction term was centered. In model 5 in Table 8, the relationships between the two explanatory variables and accounting quality are sought. The results indicate that IFRS adoption impacts accounting quality both positively and negatively but not in a significant manner.

Table 8. Moderating role of board governance on IFRS adoption and accounting quality (pooled OLS regression).

	Model 5			Model 6			Model 7		
Variable	**Coeff.**	**Robust std. err.**	**T-statistics**	**Coeff.**	**Robust std. err.**	**T-statistics**	**Coeff.**	**Robust std. err.**	**T-statistics**
IFRSInx	0.126	3.688	0.030	-3.027	2.007	-1.510	-0.991	1.026	-0.970
BrGI	-0.608	3.790	-0.160	6.034	4.381	1.380	0.497	5.650	0.090
IFRSInx_DBrGI				-2.771	2.150	-1.290	-0.306	2.570	-0.120
ROA	0.191***	0.009	20.640				0.190***	0.009	21.840
FSz	0.220	0.434	0.510				0.221	0.391	0.570
CS	0.002*	0.001	1.650				0.002	0.002	0.950
InO	1.749*	0.966	1.810				1.500	1.287	1.170
_cons	-2.205	4.376	-0.500	-1.013	2.469	-0.410	-1.884	2.366	-0.800
R-squared	0.226			0.026			0.227		
F-statistics	4501.27***			1.21			7650.84***		
No. of obs.	137.000			137			137		

Note: BrGI denotes board governance index, IFRSInx denotes IFRS adoption, ROA is return on assets, FSz denotes firm size, CS is leverage, and InO is institutional shareholding. * denotes a 10% level of significance, *** denotes a 1% level of significance.

In this model, return on assets, debt ratio and institutional ownership significantly and positively impact accounting quality at the 1% and 10% levels of significance. On the other hand, model 6 sought to examine the impact of the interaction term on accounting quality without the controlling of firm-specific variables and institutional ownership. The results in Table 8 suggest that the interaction term negatively influences accounting quality, but this impact is not statistically significant and has an R-squared of 3%. Model 7, which is a result of employing the third econometric model and incorporates the control variables, produced similar results, as evidenced in model 6. This supports the study by Krismiaji et al. (2016), who documented a similar result. The implication of this result is that the presence of board governance does not weaken the impact of IFRS adoption on accounting quality. Regarding the effect of the control variables on accounting quality, all but profitability documents have a statistically positive and significant impact on accounting quality. Put differently, debt ratio, institutional ownership and firm size are insignificantly related to accounting quality.

5. Conclusion and Recommendations

The aim of this study was to examine the individual and collective influences of IFRS adoption and board governance on accounting quality from the Ghanaian perspective. With a focus on the impact of IFRS adoption on accounting quality when the OLS technique was applied, the results suggest that IFRS adoption negatively impacts accounting quality but in an insignificant manner. The insignificant nexus is as a result of lax implementation of regulations by institutions in the adoption of IFRS and poor performance-linked incentive schemes presented to managers. Additionally, from this model, all but profitability and institutional ownership have a positively significant impact on accounting quality. Regarding the impact of board governance on accounting quality, the findings from the OLS estimation revealed that board governance and accounting quality have a negative relation; however, this relation is not statistically significant. Finally, the moderating role of board governance on the relation between IFRS and accounting quality, the evidence established from the regression is that board governance does not moderate the relationship between IFRS adoption and the accounting quality proxy using discretionary accruals. These findings are in line with previous studies related to the influence of IFRS adoption and board governance on accounting quality elsewhere, and a unit change in IFRS adoption will not induce a percent reduction in accounting quality, rather compliance with the standards leads to increased accounting quality, as established by Mbir et al. (2020). Findings by Ali and Bin Nasir (2015) and Shan and Xu (2012) suggest that a unit change in board governance effectiveness will not lead to a percent decrease in earnings manipulations, which will lead to improved accounting quality. Krismiaji et al. (2016) also documented similar results. The implication of this is that board governance does not weaken the impact of IFRS adoption on accounting quality.

Based on the findings of the study, with respect to policy implications, IFRS adoption without the proper enforcement of regulations and effective institutionalization will not constrain earnings manipulations, especially in instances of earnings losses. Therefore, stock market regulators should ensure that firms are not merely adopting IFRS standards but are fully complying with the rules in these standards, advocating and ensuring effective institutionalization and correcting lax corporate governance practices. Also, the Securities and Exchange Commission is advised to develop a charter that compels listed firms and those wishing to be listed to have a substantial percentage of its shareholding in the hands of institutional investors, as their presence is vital in reducing earnings manipulation, which will ultimately improve accounting quality. Finally, the Ghana Stock Exchange should insist on improved levels of disclosure of governance characteristics, especially with reference to the characteristics of the sub-committees of non-financial firms, as the analysis indicates that these attributes are largely missing, which may account for the insignificant impact on accounting quality.

Regarding the limitations of this study, one of the difficulties encountered was that the study limits the research scope to three areas, namely IFRS adoption, board governance and accounting quality. For firm selection, this study restricts the scope to quoted non-financial firms using a sample period of seven years. Board governance as an explanatory variable was proxied using a board governance index, while IFRS adoption was proxied using an IFRS adoption index. Moreover, accounting quality is limited to the use of discretionary accruals.

Further research can be undertaken to include other measures of accounting quality, such as earnings smoothing, relevance, and earnings timeliness. Unlisted non-financial firms that are members of the Association of Ghana Industries could also be sampled to complement this research and enable generalization for all non-financial firms in Ghana. Future scholars can extend this study to include Sub-Saharan African countries and/or carry out a comparative analysis with other African countries.

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