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IFRS 9 Implementation and Earnings Management by Banks in a Covid-19 Pandemic Era

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Abstract: *The main purpose of this study is to examine effect of IFRS 9 implementation in Nigeria on earnings management in banks in a COVID-19 pandemic era. Ex-post facto design is employed. The period is 2016 to 2020, categorized into two. Category 1 has 2016-2017 as pre implementation period and 2018-2019 as post era while group 2 has 2016-2017 and 2019-2020. The effect of the implementation without COVID-19 pandemic is examined in group 1 while the effect in a COVID 19 era (2020) is determined in category 2. Outcomes in the two groups are compared to give an estimated effect of the COVID-19. Secondary data from annual reports of the selected banks are analyzed employing paired student t-test model. The selected banks are five out of eight listed banks with international authorization. SPSS(20) and EViews are used. Impairment allowance, impairment charges, ratio of loan loss to total loans and other variables considered to approximate accrual-based earnings management are selected. Findings show that impairment charges are significantly reduced in post implementation periods suggesting significant earnings management. Most of the effect is positive but insignificant. The study recommends among others that CBN and Financial Reporting Council of Nigeria should ensure effective implementation.*

Keywords: Accrual concept, the modern firm, Managers' discretion, Expected credit loss model, Financial reports
JEL Classification G21, G28, M41 & M48.

1. INTRODUCTION

The complex structures and varied objectives are distinguishing features of the modern firm. The complex structures make separation of ownership from the running of modern firms imperative and involves the professional management teams running the firms on behalf of the owners (Nwaubani and Orikara, 2019).

The need to protect the interests of the stakeholders prompted countries to regulate the firms. Consequently, firms obligatorily prepare and present accounts before the owners. Regrettably, financial and accounting scandals associated with manipulated accounts of firms have become a common occurrence (Corporate Finance Institute- CFI, 2020). Unimaginable financial losses by corporate and personal entities have been suffered (Blackburn, 2019). Financial reports are prepared according to guidelines provided by accounting principles and concepts. The fundamental basis of preparation of firms' accounts is the accrual concept. It requires that revenues and expenses should be recorded in the period in which they occur and not when they are received or paid. In applying the concepts, a manager is allowed a level of discretion by accounting standards to decidce how to apply them.

However, some managers with the intent to influence earnings adopt strategies involving such areas as credit impairment allowance, depreciation policy among others to manage earnings **(**Maigoshi, Latif, and Kamardin (2016). In this context, earnings management involves the exploitation of discretion of the manager with the aim of achieving a predetermined earnings in financial reports. The practice of earnings management affects quality of financial report negatively (Hasan and Rahman, 2017).

In recent years earnings management incidents in Nigeria have become a matter of grave concern (Farouk and Isa, 2018). The International Financial Reporting Standard (IFRS) were developed as intervention to narrow and further guide the judgment of the manager and promote global unified application of the accounting principles. When a complete version of IFRS 9 – a standard on Financial Instruments was issued by International Accounting Standards Board (IASB) on 24 July 2014 to replace IAS 39, banks were required to adopt it mandatorily effective January 01, 2018 (Deloitte/IASPLUS, 2020a). Adoption of IFRS by a country entails an attempt to replace the country's accounting standards with international financial reporting standards (Nwaubaniand Okoro 2018).

The IFRS 9 deals with how an entity should classify and measure financial assets and liabilities (Bank for Int'l Settlement-BIS, 2021). The IFRS 9 is preferred over IAS 39 because it considers "forward looking" information in recognition of credit impairment while IAS 39 delayed recognition until credit loss event had occurred**.** This contributed to the global financial meltdown of 2007 (Ernest and Young, 2014).

As the banks in Nigeria were settling down to the reality of the ECL model, having implemented IFRS 9 in January 2018, the novel Coronavirus (COVID-19) appeared on the global scene in December 2019 (Kandola,2020). The COVID-19 outbreak has ravaged the world including Nigeria and has caused the sharpest contraction in economic activity on record (WorldBank2020a). Many businesses have collapsed resulting in massive default in loan repayments. With massive increased in bad debts in the face of regulatory obligation of banks to apply IFRS 9 ECL model over loan impairment, the question is what could be the effect of these two landmark events on earnings management by banks in Nigeria?

1.2. Statement of the Problem

Though the complete version of the IFRS9 was issued in 2014 and the global effective implementation date set as January 02, 2018, IFRS were officially adopted in Nigeria in 2012. There are a lot of empirical studies on IFRS adoption and earnings management. With respect to IFRS 9 implementation, a number of write-ups, reports, comments have been documented on the likely effect of the transition on earnings management in banks. However, empirical studies providing evidence of the effect both in Nigeria and elsewhere have been very scanty. To the best of the researcher's knowledge, Ahmed (2020)-Egypt, Szücs and Márkus(2020), Groff and M€orec (2021)-Slovenia and Lie and Sumirat (2018)-Indonesia are about the only well documented empirical works on the implementation at the time of this study. Part of the motivation for this study is to enrich the extant literature by documenting an empirical evidence of effect of the implementation on earnings management in banks in Nigeria.

Another challenge which this study is poised to address is the absence of empirical studies within and outside Nigeria (to the best of our knowledge) on effect of IFRS 9 implementation on earnings management with COVID-19 pandemic as a concomitant factor. This work is as novel as the COVID -19 Pandemic. This is one of the motivating factors for undertaking this study- to provide an empirical study that is new and unique in the pandemic era and which isolates the evidential effect of the pandemic on earnings management in banks.

Furthermore, looking at the relationship between COVID-19 pandemic and earnings management in banks without regard to IFRS 9 implementation, only two empirical studies (to the best of my knowledge) have been clearly documented. Of the two works, only Ozili (2021) that focuses on banks (in UK) while Xiao and Xi (2021) covers all firms including banks listed in the Shanghai and Shenzhen Stock Exchanges in China. Again, the two works are outside Africa. This study is specifically centred on selected listed banks in Nigeria and therefore, an attempt at providing evidence from Africa on the COVID-19 impact on the earnings management in banks.

Finally, the model approach adopted in this study differs from those followed in the reviewed empirical works. Ozili (2021) adopted a regression approach with a data set of two years and based his findings on the regression results and co-movement of the two variables which were used as proxies for income earning management. Xiao and Xi (2021) made use of performance-adjusted Jones and the modified Jones model to calculate accrual-based earnings while employing absolute value of the abnormal to estimate the real-activity-based earnings.

The model adopted in this study is the Paired Student t-test which classifies the periods into pre and post and comparing the means of carefully selected variables known to approximate accrual-based earnings management. This approach tracks earnings and its relevant key components. The framework attempts to highlight the connectivities between earnings and the key relevant components and flashes likely presence of accrual-based earnings management inferred from accounting and financial principles, logic and prevailing circumstances. Through innovation on the part of the researcher, this approach is also adjusted to capture the concomitant effect of the COVID-19 pandemic within the period covered by this study. The Paired student t-test model framework is considered more suitable for the IFRS 9 implementation study since the date set is too short-globally. The adoption of this model in this study is part of the motivation for this work.

1.2 Objectives of the Study

The main objective of this study is to determine the effect of Implementation of IFRS 9 (International Financial Reporting Standards No.9) on earnings management in banks in Nigeria within the era of COVID-19 Pandemic.

Specific objectives are to examine the effect of IFRS 9 implementation on:

1 Net interest income before impairment charge of banks in Nigeria
2. Credit impairment charges of the banks
3. Net interest income of the banks after impairment charges
4. Impairment Allowance (amount) of the banks
5. Ratio of Impairment Allowance/ loan loss provision to total loans and advances
6. Loans and advances to customers of the banks
7. Non-interest income of the banks

8. Profit after tax of the banks
9. Earning per share of the banks
10. Determine the effect of COVID-19 pandemic on earnings management.

2.0 CONCEPTUAL FRAMEWORK

2.1. Earnings Management

In a generic term, earnings management is a strategy adopted by the management of a company to influence the earnings reported in its financial statements (CFI, und). Earnings management involves intentionally actions of managers carried out with the aim of achieving desired results which may not represent the real outcomes (Goel, 2016). The goal of earnings management is primarily to deliver on a predetermined earnings target which may be misleading.

Earnings management can specifically be seen as the use by management of the discretional judgment allowed by accounting standards in order to report manipulated earnings (Ceccobelli and Giosi, 2019). It can equally be referred to as the exploitation of the application of company's accounting practices by management to achieve some financial expectations by exploiting the subjectivity within accounting standards (Tuovila, 2019; Hamilton, Hirsch, Murthy and Jason, 2018).

2.1.1. Broad Categories of Earnings Management

Earnings management could broadly be categorized into accrual-based and real earnings management (Nwaubani, 2020, Maigoshi et al., 2016, Omar, Rahman, Danbatta and Sulaiman, 2014. Accrual-based earnings management involves the creative use of the allowed discretion in accounting to arrive at a desirable earnings level. Cash flows of the firm are not affected in this category as the focus is on non-cash expenses and reserves movements.

We have discretional accrual-based and non-discretional accrual-based earnings management (Nwaubani, 2020). Discretional accrual-based earnings management allows managers to apply their judgment in the accounting treatment of transactions in order to achieve a desirable earnings (Goel, 2016, Omar, Rahman, Danbatta and Sulaiman,2014). Non-discretionary accrual based earnings management entails some obligatory payments which must have been recognized by the reporting entity in its books at the end of accounting period, but it is yet to make the actual payments. Tax liabilities yet to be remitted is an example.

Real activity-based earnings management involves intentional departure from normal operational practices of a firm with the main goal of achieving a short term earnings expectations (Braam, Nandy, Weitzel, and Lodh, 2015; Omar, Rahman, Danbatta and Sulaiman, 2014; Roychowdhury , 2006). Timing or structure of real activities of a firm are altered so that short term earnings targets could be met without the stakeholders knowing of the departure. Some examples include altering timing of disposal of fixed assets. Real-activity-based earnings management affects cash flow of the firm.

2.1.2. "Good" and "Bad" Earnings Management Versus Financial Reporting Fraud

Good Earnings Management

Incorporation of guided discretion in accounting standards is desirable and ordinarily a good business decision in order to allow for the reflection of certain circumstantial peculiarities which may not be captured in the available accounting provision. When managers use the discretion to create value for shareholders such earnings management could be seen as "good" earnings management. This is because ordinarily achieving earnings objectives of a firm is an integral part of doing business and protecting the interests of shareholders (Hamilton, Hirsch, Murthy and Jason 2018).

Bad Earnings Management

However, when earnings management is justifiably seen as an accounting practice which may comply with requirements of accounting standards but deviate from the substance of the requirements then the intent of the mangers may be questionable. When the motive is to mislead financial statements users, the earnings management could be regarded as "bad" (Hamilton, Hirsch, Murthy and Jason 2018). Creative accounting as a practice that manipulates accounts within the legal framework to report favorable financial performance but deviates from the substance of the requirements connotes bad earnings management (Mongrut and Winkelried, 2019; Jones, 2011).

Financial Reporting Fraud

There is no consensus on distinction between earnings management and financial reporting fraud. The finding of Perols and Loungee's (2011) reveals that fraud and likelihood of a firm committing financial reporting fraud is higher in firms that have previously managed earnings. According to Association of Certified Fraud Examiners- ACFE (2003) financial reporting fraud is the deliberate misrepresentation of financial condition of an enterprise accomplished through the intentional misstatement or omission of amounts or disclosures in the financial statements to deceive financial statement users.

The Institute of Chartered Accountants in England and Wales- ICAEW(2019) describes fraudulent financial reporting as the intentional overstatement and – or – understatement of balances in the financial statements. Both ACFE and ICAEW regard financial reporting fraud difficult to identify. However, Rosner (2003) sees quantitative materiality as a key distinction between earnings management and financial reporting fraud. It may be noted that, the ultimate line of distinction may be a matter for the courts to decide.

2.1.3 Signs that May be Warning of Earnings Management

Many warning signs of likely presence of earnings management in an organization have been outlined by many researchers. As highlighted by Hamilton, Hirsch, Murthy and Jason (2018) some of them are:

i) Unusual percentage changes in account balances and financial ratios yearly
ii) Accounting practices or financial ratios that are inconsistent with those of industry peers
iii) Volatility in account balances over a two-year period
iv) Significant accounting policies are changed frequently or applied inconsistently year over year
v) A one-time adjustment, such as a change in accounting estimate, or an out-of-period adjustment
vi) Open regulatory cases, especially when brought by a regulatory entity, such as the SEC or the national Financial Reporting Authority, among others
vii) Receipt of a qualified or going concern audit opinion

2.1.4. Motive for Earnings Management

Many reasons have been adduced by many studies bordering on why mangers/management engage in earnings management. However, Healy and Wahlen (1999) cited in Jaing (2020) and many others narrow the motives to the following headings:

(a) Capital Market Expectations and Valuation

i) Capital Market Transactions
ii) Meet Capital Market Forecasts /Expectations

(b) Contracts

i) Contract Agreements
ii) Contract Bids
(iii)Management Compensation Contracts
iv) Restrictive loan Covenants.
iii) Borrowing intention.

(c) Regulatory Expectations

i) Industry Regulations
ii)Tax Planning Purpose
iii)The intention to cover up fraud and anti-trust regulations

(d) **Personal Interest**

2.2.1. Official Adoption of IFRS in Nigeria

International Financial Reporting Standards (IFRS) were and mandatorily adopted in Nigeria on January 1, 2012 (Nwaubani and Okoro, 2018). Banks and other significant public quoted entities were the entities involved in the January 01 adoption. Other public interest entities and Small and Medium Enterprises (SMEs') joined on December 31, 2013 and December 31, 2014 respectively. The effective International standard on Financial Instruments in force under the IFRS until January 2018 was IAS 39.

The Generally Accepted Accounting Principles (GAAP) in Nigeria before the January 01 adoption were as specified in the Statement of Accounting Standards (SAS) issued by Nigerian Accounting Standards Board (NASB). NASB was established in 1982 as a body in Nigeria responsible for the development and issuance of statement of Accounting Standards (Nwaubani and Okoro, 2018). It was replaced in January 2012 by Financial Reporting Council of Nigeria (FRC)- established by the Financial Reporting Council of Nigeria Act, No. 6, 2011.

2.2.2. The History of IFRS 9, Its Credit Impairment Recognition Model and IAS 39 Model

The International Accounting Standards (IAS) 39 was issued in 1998 and was subjected to amendments until April 2009 when it was amended for annual improvements to IFRS (Deloitte Global Services Limited-Deloitte, 2017). It was finally and global replaced by IFRS 9 on January 2018 (Deloitte/IASPLUS, 2020a).

The credit impairment recognition model under IAS 39 was an "incurred loss model" which required that recognition of credit losses should be delayed until credit loss event had occurred (Khalid, 2019; Limani and Meta, 2017; Ernest and Young, 2014). The IAS 39 specified different impairment models for different financial instruments subject to impairment testing. Interest income was recognized over the period of the loan on the basis of effective interest method. The delay in recognizing impairment under the "incurred loss" model meant that interest income in periods before the occurrence of the loss event would have been overstated (Khalid, 2019).

Following this lapse in the "incurred loss" model, the need for a review of IAS 39 became imperative. The G20 took a pioneering role asking world accounting standard setting bodies to develop a single set of high-quality global standards. The International Accounting Standards Board had to work faster to replace the IAS 39 in phases (PricewaterhouseCoopers -PWC, 2014). In November 2009, IFRS 9 was issued in part to replace IAS 39 in phases until when full replacement of the IAS 39 would be achieved. The final version of the IFRS 9 was issued in 2014 with mandatory effective implementation date of January 01, 2018. The January 01 2018 date signaled the end to IAS 39.

The credit impairment recognition approach under IFRS 9 is 'expected credit loss" (ECL) model. This considers "forward-looking" information in estimating amount of impaired credit. The ECL model hence considers past events, current conditions and supportable and affordable forward-looking information in impairment decisions. IFRS 9 applies a single impairment model to all financial instruments subject to impairment testing. The broader scope of impairment requirements under ECL is designed to achieve earlier recognition of credit loss and thus address the issue of delay in IAS39 (ifrscommunity, 2020).

2.2.3 Specific IFRS 9 Approaches To impairment

IFRS 9 sets out the following three approaches to impairment:

1) General Approach,

2) Simplified Approach

3) Specific Approach.

The General Approach: This is based on a three-stage process also known as three-bucket model. The approach is aimed at reflecting the deterioration in credit quality of a financial instrument. The stages are:-
Stage 1- involves instruments which have not witnessed significant deterioration in credit quality since initial recognition of the instruments. Stage 2 - covers financial instruments which have shown significant deterioration in credit quality since initial recognition but which do not have objective evidence of a credit loss event. Stage 3 involves financial assets which have objective evidence of impairment at the reporting date. Below is a tabular summary of the General Approach.

	Stage 1	Stage 2	Stage 3
Trigger	Initial recognition	Significant increase in credit risk	Credit-impaired
ECL	12-month ECL	Lifetime ECL	Lifetime ECL
Effective interest rate (EIR)	EIR on gross carrying amount (w/o ECL)	EIR on gross carrying amount (w/o ECL)	EIR on amortised cost (with ECL)

Note. "w/o" stands for without
tSource: ifrscommunity.com, 2021

The Simplified Approach: This is for trade receivables, contract assets and lease receivables which originate from transactions that have no significant financing component. The aim is this Approach to make it make things easy for entities which don't have a well formalized credit risk management systems (ifrscommunity, 2021).

The Specific Approach: This is for purchased or originated credit-impaired (POCI) financial assets. Such financial assets are credit-impaired on initial recognition of the assets. Bad loans taken over by national assets management entities such as AMCON in Nigeria fall into this category.

Opportunities exist for earnings management in IFRS 9 as managers' discretion is still allowed. This is more so with the devastating impact of COVID-19 pandemic on individual and corporate businesses across the globe and on the global economy. However, the detailed impairment approaches of the IFRS 9 are meant to provide restrictive guidelines and narrow discretional input in the impairment decisions.

2.2.4 The COVID-19 Pandemic: A Global Health Crisis with Unprecedented Economic Crisis

In December 2019 the world woke up to the news of an outbreak of new respiratory virus which health experts called Coronavirus and shortened as COVID-19. It was first discovered in Wuhan China (Kandola, 2020). By first quarter of 2020 it became a pandemic because of the very high rate of its infection, spread globally and difficulty in controlling it. Its outbreak totally changed the global economic narratives introducing a radical new way of life known as "new normal" (WHO, 2020; Nwaubani, 2020). The "new normal" has a lot of implications for business models, workplace, cashless policy, banks' non-interest income and digital economy. Globally countries have adopted strict containment measures such as national lockdowns, border closures, social distancing to minimize the spread (WHO, 2020).

The COVID-19 delivered brutal hit on every economy across the globe (Horowitz, 2020). It massively destroyed businesses leaving huge bad debts for banks. The banks have serious challenges on their hands with COVID-19 impact and IFRS 9 requiring higher loan impairment provisioning. These two events may be an incentive for banks to engage in earnings management. The global economic devastation is unprecedented and presents huge threat to global financial stability. In response, some Regulatory and Monetary Authorities have had to issue guidelines over usual mandatory regulatory requirements that demand compliance by financial institutions in the COVID-19 era. The goal was to ensure that such compliance would not worsen the economic challenges and further threaten national and global financial stability. For instance, Central Bank of Nigeria, Bank of England, Da Afghanistan Bank (DAB), Int'l Federation of Accountancy Bodies - IFAC, IMF, Financial Stability Board and Central Bank of several other countries have issued guidelines on how to implement IFRS 9 smoothly, even Da Afghanistan Bank (DAB) has to postpone the implementation (CBN 2019, IFAC, 2020; Bank of England 2020, **https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19**). As at June 11th, 2021 over 174 million cases of the pandemic have been confirmed with over three million deaths globally (WHO, 2021).

2.3 Literature Review

Empirical literature on either IFRS 9 implementation or COVI-19 effect on earnings management in banks is almost non-existent though there have been reports, papers, commentaries among others on these two global events particularly the COVID-19 pandemic. There are many empirical studies on effect of IFRS adoption on earnings management in banks which are considered relevant in this review.

Xiao and Xi(2021) investigated the relationship between the COVID-19 outbreak and the Chinese listed firms' earnings management practices. It also examined how this relationship was moderated by the Chinese listed firms' corporate social responsibility (CSR) and the external corporate governance mechanism. Data were sourced from China Stock Market and other sources. The final sample contained 2,029 A-share firms listed in the Shanghai and Shenzhen Stock Exchanges, which released financial reports during the pandemic in 2020. The findings indicated an increase in accrual-based earnings management (AEM) and a significant decline in real activity-based earnings management (REM) in firms in the most severely affected regions. In these regions, both AEM and REM were less pronounced for the firms with a higher CSR performance than those with a lower CSR performance. Moreover, firms audited by the Big 10 auditors were less likely to manipulate earnings through AEM or REM.

Ozili(2020) examined the relationship between loan loss provisions and pre-provisions earnings of selected banks during the first-wave COVID-19 pandemic in United Kingdom using quarterly secondary data. The period covered is from Q1 2019 to Q4 2020. The data were analyzed employing univariate regression analysis. The pandemic period was compared with the pre-pandemic period. The findings show that positive relationship exists between loan loss provisions and pre-provisions earnings both in the pre-pandemic and pandemic quarters. The relationship is stronger in the pandemic period than in the pre-pandemic period which indicates greater income smoothing in the pandemic period.

Casta, Lejard and Paget-Blanc (2019) used a sample of 56 EU publicly listed to carry out post implementation review of the IFRS9 in European Union focusing on short term effect of the standard. The study centered on the expected negative effect of the standard on retained earnings and other equity related reserves as a result of its expected credit loss model. The data were based on audited half year financial reports of the banks. Regression approach was employed in analyzing the data. Findings show banks use their discretionary power to decrease the level of their loan loss provisions when unfavorable impact of the IFRS 9 on retained earnings is higher and vice versa.

Mongrut and Winkelried (2019) examined the effect of IFRS adoption on earnings management in the six largest Latin American economies - Argentina, Brazil, Chile, Colombia, Mexico, and Peru. Panel data on 871 listed firms (including banks) for the period 2000 to 2016 and extracted from Thomson Reuters Eikon database were used. The firms operated in 18 of the 20 North American Industry Classification System (NAICS) sectors. An approach proposed by Kothari, Leone, and Wasley (2005) which was a further modified Jones. (1991) model was adopted to analyze the data. The findings showed inter-alia that IFRS adoption unintendedly increases earnings management

Said (2019) evaluated the effect of adoption of IFRS on earnings management in Canadian publicly listed firms (inclusive of the banking sector). Panel data of 791 firms from 2000 to 2018 were utilized. The Modified Jones model was engaged in analyzing the data. The result indicated that IFRS adoption in Canada has no impact on earnings management in Canadian publicly listed firms. Ceccobelli and Giosi (2019) investigated the purposes of earnings management in the banking industry via loan loss provisions. Secondary data from a sample of 156 banks from 19 European countries under the Single Supervisory Mechanism (SSM) for the period 2006-2016 were used. The data were analyzed using regression approach. Findings revealed income smoothing and signaling purpose with no evidence for capital management purpose. The findings equally indicated that non-discretionary components of loan loss provisions played no key role during the global financial crisis.

Lie and Sumirat (2018) used gap analysis to estimate the effect of implementation of IFRS 9 on classification, measurement and impairment of financial assets of banks in Indonesia. The figures of a sample of one bank for the year 2016 were restated under IFRS 9 and compared with the IAS39 to assess future impact. The findings indicate that implementation of the IFRS 9 leads to high impairment allowance and loan stock and consequentially lower earnings. Malofeeva (2018) examined the effect of IFRS adoption on earnings management in Russia. A sample consisting 361 firm-year observations of Russian public firms from various industries (including banks) for the period 2010 to 2015 was used. Modified Jones Model focusing on discretionary accruals was employed to analyze the data. Results showed among others that IFRS adoption increases earnings management.

Omar (2014) examined earnings management practices in Malaysia with some evidences from firms that were alleged to have committed financial statement fraud. Part of the procedure involved gathering and analyzing secondary financial data on the companies involved, review of industry reports, previous empirical studies on the topic and carrying out descriptive analysis on the earnings. The data were sourced from the annual reports and from Thomson DataStream and others. The results indicate that earnings management practices based on manager's personal motives is the ugliest with the worst negative implications.

3.0 RESEARCH METHODOLOGY

The research design adopted for this study is ex-post facto. Secondary data on five of the eight deposit money banks with International Authorization (Proshare, 2021) listed on the Nigerian Stock Exchange were collected. The selected banks are those that had all the required data contained in the parent bank's financial statements in all the selected years and not in the group accounts only. The data were analyzed using descriptive statistics and Paired Student t-test with the aid of EViews 9 and SPSS (20).

3.1. Selected Variables Approximating Earnings Management

The variables are carefully selected firm-level performance indicators which are usually affected in accrual-based earnings management (Kouki, 2018; Saidu, Ocheni, and Muktar, 2017; Hassan, 2015; Kothari et al., 2005). The variables are: i) net interest income, ii)credit impairment charge, iii)net interest income after impairment, iv) loan loss provision, v) ratio of loan loss provision to total loans, vi) loans & advances to customers, vii) non-interest income, viii) profit after tax and ix) earnings per share. The selected five banks are:1. Zenith Bank; 2.Guaranty Trust Bank; 3.Access Bank; 4.United Bank for Africa and 5.Fidelity Bank.

3.2. Analytical Procedure and Model Specification

The procedure followed entails computation of the annual means of the variables for the banks for each of the years 2016 to 2020. The years are categorized into pre and post implementation periods as follows:- 1st category: 2016-2017 & 2018-2019 and 2nd category : 2016-2017 & 2019-2020; Testing for significant difference was at 5% significance level.. Descriptive statistics are equally analyzed. The model adopted in this study is a modified version of the model followed by Nwaubani (2020). It is given as:

$$T = \frac{\overline{X} - \overline{Y}}{S_d / \sqrt{n}}$$

Where:
T = the t-test statistic.

$\bar{X}$ = the mean value of each variable for all the selected banks under the X group (pre era)
$\bar{Y}$ = the mean value of each variable for all the selected banks under Y group (post period)

n = the sample size/number of years
.S_d = the Standard deviation for the paired data.

4.0 DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation

Table 1 Average Annual Values of the Selected Variables

Year	NIIBI =N=Bn	CIMPC =N=Bn	NIIAI =N=Bn	IMPAW =N=Bn	RATLA %	TLADC =N=Bn	NONII =N=Bn	PROAT =N=Bn	EPERS =N=
2020	**181.99**	**27.30**	**137.14**	**86.87**	**4.13**	**2,001.58**	**58.69**	**107.93**	**3.44**
2019	**173.81**	**25.14**	**152.44**	**97.49**	**4.63**	**1,730.49**	**60.29**	**102.88**	**3.30**
2018	**153.23**	**7.20**	**146.08**	**92.00**	**6.43**	**1309.90**	**46.01**	**93.98**	**3.09**
2017	**153.82**	**35.40**	**114.43**	**61.67**	**3.97**	**1,391.91**	**43.69**	**84.45**	**2.78**
2016	**132.05**	**25.29**	**126.62**	**40.63**	**2.87**	**1,391.71**	**52.80**	**73.49**	**2.29**

Note:**NIIBI**►Net interet income before impairment charge, **CIMPC**►Credit impairment charge, **NIIAI** ►Net interest income after impairment charge, IMPAW►Impairment allowance, RATLA►Ratio of allowance tototal loan,, **TLADC**►Total loans & adv to customers, **NONII**►Non interest income, **,PROAT**► Profit after tax, **EPERS** ►Earnings per share.

Source Compilation by the Authors from the Banks' annual Reports, 2021

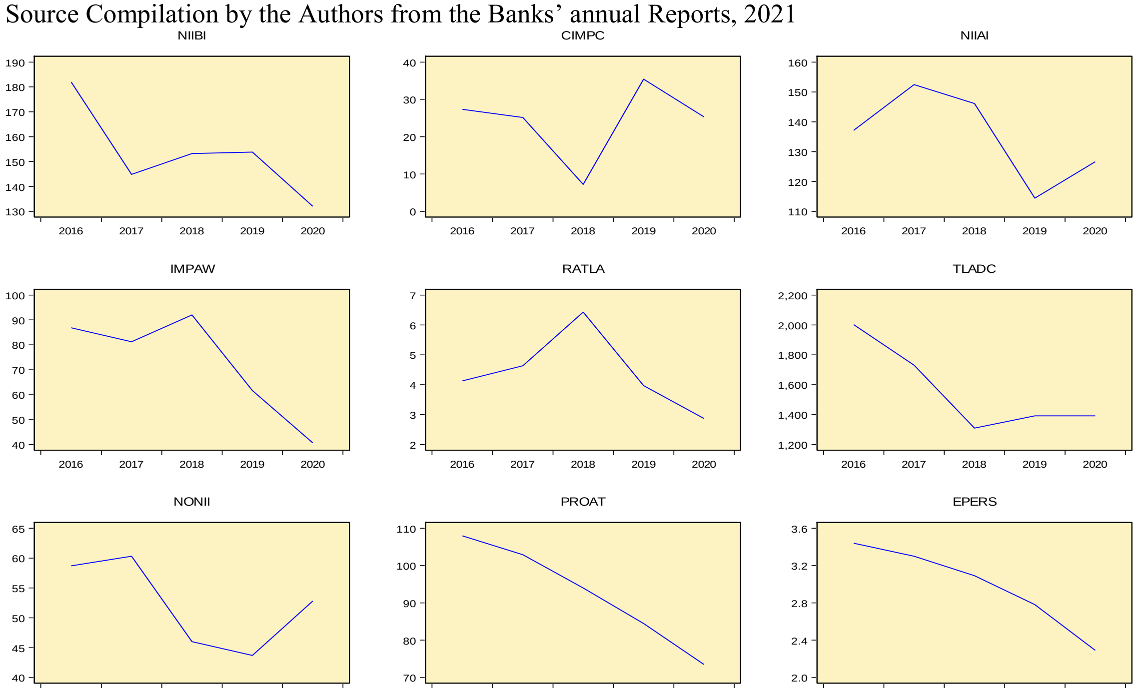

Figure 1 Movement of the Variables within the Period 2016-2020

Note:**NIIBI**►Net interet income before impairment charge, **CIMPC**►Credit impairment charge, **NIIAI** ►Net interest income after impairment charge, IMPAW►Impairment allowance, RATLA►Ratio of allowance tototal loan,, **TLADC**►Total loans & adv to customers, **NONII**►Non interest income, **,PROAT**► Profit after tax, **EPERS** ►Earnings per share.

Source EViews9 Graphics, 2021

4.2 Data Analysis

4.2.1 Paired Student t-test Analysis

Table 2 Results of Paired Student t-test Analysis for Category 1(2016-2017 and 2018 -2019)

```
T-TEST PAIRS=NIIBIPOS CIMPCPOS NIIAIPOS IMPAWPOS RATLAPOS TLADCPOS NONIIPOS PROATPOS
EPERSPOS WITH NIIBIPRE CIMPCPRE NIIAIPRE IMPAWPRE RATLAPRE TLADCPRE NONIIPRE PROATPRE
EPERSPRE (PAIRED)
  /CRITERIA=CI(.9500)
  /MISSING=ANALYSIS.
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T-Test

Paired Samples Statistics						
		Mean	N	Std. Devia	Std. Error Mean	
Pair 1	NIIBIPOS	163.52	2	14.55226	10.29	
	NIIBIPRE	142.935	2	15.39371	10.885	
Pair 2	CIMPCPOS	16.17	2	12.6855	8.97	
	CIMPCPRE	30.345	2	7.14885	5.055	
Pair 3	NIIAIPOS	149.26	2	4.4972	3.18	
	NIIAIPRE	120.525	2	8.61963	6.095	
Pair 4	IMPAWPC	94.745	2	3.88202	2.745	
	IMPAWPR	51.15	2	14.87753	10.52	
Pair 5	RATLAPOS	5.53	2	1.27279	0.9	
	RATLAPRE	3.42	2	0.77782	0.55	
Pair 6	TLADCPOS	1520.195	2	297.402	210.295	
	TLADCPRE	1391.81	2	0.14142	0.1	
Pair 7	NONIIPOS	53.15	2	10.09748	7.14	
	NONIIPRE	48.245	2	6.44174	4.555	
Pair 8	PROATPO	98.43	2	6.29325	4.45	
	PROATPRI	78.97	2	7.74989	5.48	
Pair 9	EPERSPOS	3.195	2	0.14849	0.105	
	EPERPRE	2.535	2	0.34648	0.245	

Paired Samples Test										
		Paired Differences					t	df	Sig. (2-tailed)	
		Mean	Std. Devia	Std. Error	95% Confidence Interval of the Difference					
					Lower	Upper				
Pair 1	NIIBIPOS -	20.585	29.94597	21.175	-248.469	289.6389	0.972	1	0.509	
Pair 2	CIMPCPOS	-14.175	19.83435	14.025	-192.38	164.0295	-1.011	1	0.497	
Pair 3	NIIAIPOS -	28.735	4.12243	2.915	-8.30359	65.77359	9.858	1	0.064	
Pair 4	IMPAWPC	43.595	18.75954	13.265	-124.953	212.1428	3.286	1	0.188	
Pair 5	RATLAPOS	2.11	0.49497	0.35	-2.33717	6.55717	6.029	1	0.105	
Pair 6	TLADCPOS	128.385	297.5435	210.395	-2544.94	2801.707	0.61	1	0.651	
Pair 7	NONIIPOS	4.905	3.65574	2.585	-27.9405	37.75054	1.897	1	0.309	
Pair 8	PROATPO	19.46	14.04314	9.93	-106.713	145.6326	1.96	1	0.3	
Pair 9	EPERSPOS	0.66	0.49497	0.35	-3.78717	5.10717	1.886	1	0.31	

Source SPSS(20) Output,2021

The aim of this category of the pre and post implementation era is to examine the effect of the IFRS 9 implementation on earnings management with little or no influence of COVID-19 pandemic. The IFRS 9 was implemented effective January 01, 2018 and completed a full year post implementation as at December 31, 2018. While it is true that COVID-19 outbreak started in 2019, it was just in December of 2019 and reported in a few countries. It was in about first quarter of 2020 that it assumed a pandemic status. This informs the choice of 2018 and 2019 as a post implementation period in this first category.

From the results of the paired t-test on Table 8 above, it can be seen that the differences in the means of the earnings management proxies in the pre and post periods are mostly positive and insignificant. However, net interest income after impairment charge (NIIAI) exhibits fairly significant positive difference in mean with p-value of 0.064. A rise in NIIAI is mainly determined by size of net interest income before the impairment charge and credit impairment mount charged against it. From the Table 8, net interest

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income before credit impairment charge NIIBI) rose from by N39bn from N51bn in the period 2016-2017 to N94billion. With implementation of the IFRS 9 which favors high impairment charges, the increase in NIIBI is expected to lead to higher impairment charge. But on the contrary, the credit impairment charge (CIMPC) witnessed a drop from N30bn to N16bn. Taking it as it is, this cast doubt on the quality of the NIIAI and its fundamental driver.

From earnings management literature lowering of discretionary charge on income and increasing income items even though it may not have broken any rule, suggests earnings management. The implication of these outcomes is that without the influence of COVID-19 in 2019, the implementation of the IFRS 9 gave rise to fairly significant earnings management in deposit money banks in Nigeria. However, the outcomes in this category may have been equally influenced by the CBN proactive transitional arrangement for the IFRS9 implementation and the usual first year transition hitches. Further discussion is handled under Discussion of Findings.

Table 8 Results of Paired Student t-test Analysis for Category 2(2016-2017 and 2019 -2020)

	Paired Samples Statistics						
			Mean	N	Std. Devia	Std. Error Mean	
	Pair 1	NIIBIPOS	177.9	2	5.78413	4.09	
		NIIBIPRE	142.64	2	14.97652	10.59	
	Pair 2	CIMPCPOS	26.22	2	1.52735	1.08	
		CIMPCPRE	30.345	2	7.14885	5.055	
	Pair 3	NIIAIPOS	144.79	2	10.81873	7.65	
		NIIAIPRE	120.525	2	8.61963	6.095	
	Pair 4	IMPAWPC	92.18	2	7.50947	5.31	
		IMPAWPR	51.15	2	14.87753	10.52	
	Pair 5	RATLAPOS	4.38	2	0.35355	0.25	
		RATLAPRE	3.42	2	0.77782	0.55	
	Pair 6	TLADCPOS	1866.035	2	191.6896	135.545	
		TLADCPRE	1391.81	2	0.14142	0.1	
	Pair 7	NONIIPOS	59.49	2	1.13137	0.8	
		NONIIPRE	48.245	2	6.44174	4.555	
	Pair 8	PROATPOS	105.405	2	3.57089	2.525	
		PROATPRE	78.97	2	7.74989	5.48	
	Pair 9	EPERSPOS	3.37	2	0.09899	0.07	
		EPERPRE	2.535	2	0.34648	0.245	

Paired Samples Test										
		Paired Differences					t	df	Sig. (2-tailed)	
		Mean	Std. Devia	Std. Error	95% Confidence Interval of the Difference					
					Lower	Upper				
Pair 1	NIIBIPOS -	35.26	9.19239	6.5	-47.3303	117.8503	5.425	1	0.116	
Pair 2	CIMPCPOS	-4.125	5.6215	3.975	-54.6322	46.38216	-1.038	1	0.488	
Pair 3	NIIAIPOS -	24.265	2.1991	1.555	4.50685	44.02315	15.605	1	0.041	
Pair 4	IMPAWPC	41.03	22.387	15.83	-160.109	242.1692	2.592	1	0.234	
Pair 5	RATLAPOS	0.96	1.13137	0.8	-9.20496	11.12496	1.2	1	0.442	
Pair 6	TLADCPOS	474.225	191.5482	135.445	-1246.77	2195.217	3.501	1	0.177	
Pair 7	NONIIPOS	11.245	5.31037	3.755	-36.4668	58.9568	2.995	1	0.205	
Pair 8	PROATPOS	26.435	4.179	2.955	-11.1118	63.98183	8.946	1	0.071	
Pair 9	EPERSPOS	0.835	0.24749	0.175	-1.38859	3.05859	4.771	1	0.132	

Source SPSS(20) Output, 2021

The paired t-test result on Table 9 above is for the Pre and Post periods of 2016-2017 and 2019 -2020. The intention of this category is to estimate the effect of the IFRS 9 on earnings management in banks in Nigeria without the likely impact of hitches that are usually associated with first year transitions in policy changes. This informs the exclusion of 2018 in this category. However, the outcomes in this category 2 are equally affected by the concomitant effect of the ravaging presence of COVID-19 pandemic. An insight into the extent of effect of COVIOD-19 and the expected normal effect of the IFRS 9 in the absence of first year hitches is obtained by comparing the outcomes in the categories 1 and 2.

From the Table 9, net interest income after impairment charge (NIIAI) shows a positive mean difference that is strong and significant with p-value of 0.041. This aided the profit after tax (PROAT) to record a fairly significant rise with p-value of 0.071. The concern is that the credit charge of N26bn for the post implementation era of 2019 and 2020 is still below the N30bn for the pre implementation period of 2016 and 2018 while incremental loan volume is N475bn (N1866-1391) for the period 2019-2020. An increase in loan volume in a COVID -19 hot era and with a IFRS 9 known for its high impairment charge implemented by banks, higher impairment allowance and charger are default expectations. However, the contrary seems to be the case, suggesting earnings management.

For the insight on the effect of COVID-19 on earnings management in banks in Nigeria, the two groups are hereby compared. Without COVID in category one, IFRS 9 implementation led to fairly significant rise in net interest income after impairment charge (NIIAI)and a rise in impairment allowance from N51bn to N94bn, With COVID, the IFRS implementation only resulted in a strong significant increase in the NIIAI and impairment allowance dropping from N94bn to N92bn. Again, without COVID, non-interest income (NONII) grew by N4.9billion (in category 1) and with COVID-19, the NONII rose by N11bn. It appears the COVID-19 provided some cover for earnings management to be practiced around impairment allowance and charges resulting in higher net interest income after charge. With respect to NONII, clearly COVID-19 compelled bank customers to embrace alternative online banking services for which they earn fees.

Since part of the intention of the category 2 is to also assess the influence of the challenges from first year implementation on the outcomes in category 1, some of the outcomes in this category 2 may be explained by reduction in such initial challenges. This is because the banks may have better understood the IFRS 9 requirements leading to adjustments in impairment allowances and charges. This may be the reason for the impairment allowance dropping in this category 2.

5 DISCUSSION OF FINDINGS

Growth in earnings and its component is a desirable management goal and achieving this goal is part of the contract governing managers' engagement by the shareholders. The concern of the larger users of financial reports is the integrity and quality of the earnings. Based on reliable earnings management literature, the analysis and examination of the selected variables of the study show signs of earnings management practices in the deposit money banks in Nigeria. The pressure to manage earnings appears strong with the IFRS 9 mandatory implementation and the heavy burden of COVID-19 pandemic on businesses of bank clients coupled with the general and specific threat of COVID on banks. The banks in Nigeria came out of the scratches of economic recession in 2016 and as depicted in Figure 1-reproduced below, their performance along the selected earnings items has been mostly on a down ward trend. Total loans and advances to customer (TLADC) dipped further in 2018 before picking up in 2019. Ironically as the loan volume is rising, impairment allowance(IMPAW), impairment charges (IMPC) and ratio of loan loss provision to total loan (RATLA) have all continued on down ward movement. Profitability have been under threat. With this pressure even before CPVID-19 and coupled with disruptive effect of the COVID and the compulsory implementation of the IFRS9, the tendency for the banks to engage in earnings management to dampen the worsening effect of COVID- 19 in particular can be perceived.

The trends below have further confirmed that the banks engaged in earnings management. This finding is consistent with the outcome in Casta, Lejard and Paget-Blanc (2019) where 56 European Union banks engage in earnings smoothing/management by employing their discretional power to reduce their loan loss provisions when unfavorable impact of the IFRS 9 on retained earnings is higher and vice versa. It is also in line with finding in Xiao and Xi(2021)- where the IFRS 9 implementation leads to increased earnings management. The lowering of impairment allowance, impairment charges and ratio of loan loss to total loan provision in the post implementation periods in this study radically contradict what is known of the IFRS9 as documented by Lie and Sumirat(2018) that the implementation leads to higher impairment allowance, charges and ratio of loan loss to total loan provision. This furthers confirms presence of earnings management by banks in Nigeria.

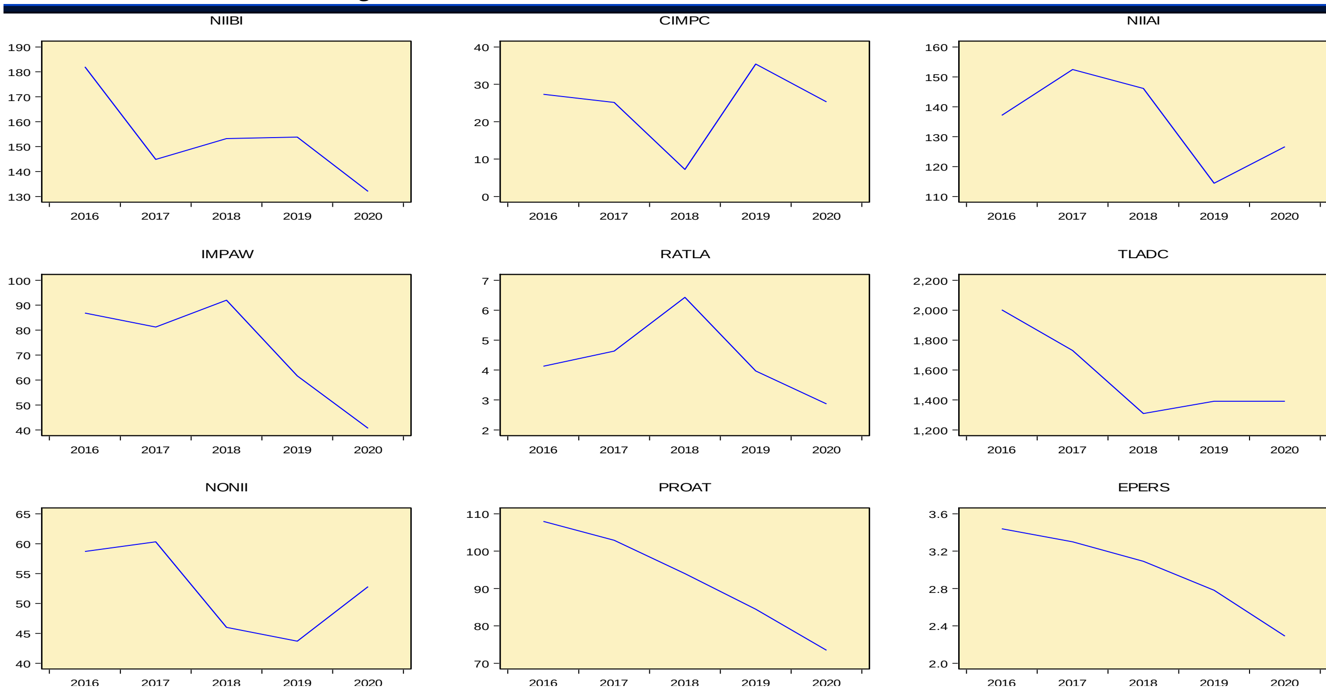

Figure 1-reproduced: Movements of the Variables of the Study(2016-2020)
Source EViews 9 Graphics, 2021

The judgment of managers in discretionary income and expenses items seem to have been exploited to arrive at targeted earnings levels following the implementation of the IFRS 9. For instance the amount of credit impairment (CIMPC) charged to net interest income of the selected banks for the periods 2016-217 against 2018-2019 and 2016-2017 against 2019 -2020 has been on declining movement. Also credit impairment allowance (IMPAW) also followed the declining path as depicted in Figure 1-reproduced below. Accepted that Nigeria experienced economic recession in 2016 resulting in a spike in credit impairment, the COVID-19 pandemic and the mandatory implementation of IFRS 9 could be regarded as headwings much more than economic recession. Therefore, an upward trend is logically and prudently expected in impairment measures rather than the witnessed declining trends.

Within the first category of the pre and post implementation period(2016-2017versus 2018-2019), findings suggest that IFRS 9 implementation has fairly significant effect on earnings management in banks in Nigeria. This is with specific reference to net interest income after impairment charges. This period is regarded as having little or no COVID-19 effect since COVID outbreak was report in December 2019. The second category covering 2016-2017 versus 2019-2020 is a COVIOD-19 era. Findings indicate that both the implementation of the IFRS 9 and the presence of the COVID-19 pandemic have strong significant effect on earnings management. The effect is positive as it results in strong presence of earnings management.

Generally in the two categorized periods, the effect on earnings management is mostly positive and insignificant. However, it may be noted that CBN took some policy intervention measures as done by other Central Banks to ensure that implementation of the IFRS9 expected credit loss model in the era of COVID-19 does not threaten stability of the financial system. Such measures and the usual hitches that are associated with initial implementation of new Policies such as IFRS9 may have influenced the outcomes recorded in this study. Also the banks adjusted their risk assets upward retrogressively in 2017 following a new definition of "Total Assets" for the purpose of AMCON levy. This information is contained in all the banks 2018 annual reports as "prior year adjustment" note. This may have equally affected the findings.

6. CONCLUSION AND RECOMMENDATIONS

6.1. Conclusion

Based on the findings, IFRS 9 implementation and COVID -19 pandemic led to significant rise in earnings management in specific terms in Nigerian deposit money banks but overall the increase is insignificant.

6.2. Recommendations

(i) Intensive training on the IFRS 9 specific requirements and proper implementation to be provided by both the CBN and banks

(ii) Implementation of the IFRS9 should be properly monitored and followed up and the necessary assistance given to the banks towards achieving proper implementation.

(iii) IFRS transitional arrangements by CBN to be regularly reviewed to ensure that they are being followed accordingly.

(iv) CBN to be reviewing and updating its forbearance measures and policies over the IFRS 9 implementation and COVID -19 pandemic to ensure that they are not abused by some banks to manage earnings.

(v) CBN to conduct stress test on the capital adequacy and risk assets quality of the Banks

(vi) CBN and Financial Reporting Council of Nigeria to seriously consider setting up a Unit staffed with persons with the appropriate knowledge and skills and charged with scrutinizing financial reports submitted by banks against earnings management. The setting up of such a Unit and making it functional will boost confident of both domestic and foreign investors in the Nigerian investment space

(vii) CBN and FRC should embark on public enlightenment on the dangers of earnings management and need to discourage its overly practice.

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