UNIVERSITY OF CAPE COAST

EARNINGS MANAGEMENT, AUDIT QUALITY AND DIVIDEND POLICY OF LISTED FIRMS IN GHANA

GODFRED YEBOAH

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BY

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DECLARATION

Candidate's Declaration

I hereby declare that this thesis is the result of my original research and that no part of it has been presented for another degree in this university or elsewhere.

Candidate's Signature……………………………………Date………………..

Name: Godfred Yeboah

Supervisor's Declaration

I hereby declare that the preparation and presentation of the thesis were supervised in accordance with the guidelines on supervision of thesis laid down by the University of Cape Coast.

Principal Supervisor's Signature………………………….Date………………

Name: Rev. Dr. George Tackie

ABSTRACT

This study looked at the earnings management, audit quality, and dividend policy of Ghanaian listed companies. The agency theory, signalling theory, and lending credibility theory were adopted to explain the variables used in the study. The study drew on data from both financial and non-financial firms listed on the Ghana Stock Exchange. The study's data came from published financial statements from 2011 to 2020. Earnings management was measured using discretionary accrual (Modified Jones method). Audit quality was measured based on audit firm size and dividend policy was measured using dividend payout ratio. Using the GMM method of estimation, the study found that earnings management positively relates to dividend policy. However, audit quality has a negative relationship with dividend policy. It was also observed that audit quality moderates the relationship between earnings management and dividend policy. It is therefore recommended that regulatory bodies should formulate polices to guide the dividend policies of firms and help control earnings management. The study participant should look beyond dividend policy when assessing firms' performance and also be informed in choosing auditors for their firms.

KEY WORDS

Earnings management

Audit quality

Dividend policy

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DEDICATION

To my family: Maxwell, Joyce, Obed, Vashti, Nancy, Blessing and Millicent

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LIST OF ABBREVIATIONS

AEM	Accrual Earnings Management
AQ	Audit Quality
AR	Arellano and Bond
BI	Board Independence
DP	Dividend Policy
EM	Earnings Management
GMM	Generalized Methods of Moment
GSE	Ghana Stock Exchange
KSE	Karachi Stock Exchange
LEV	Leverage
OLS	Ordinary Least Square
PR	Profitability
REM	Real Earnings Management
SEC	Security and Exchange Commission

CHAPTER ONE

INTRODUCTION

Earnings management and dividend policy are among well-received topics discussed in current business trends (eg Wenfang& Ayisi, 2019). Earnings management has become a very important issue to be focused on following the closure and collapse of some Ghanaian firms especially the banking sector that arose in 2018. There is the possibility of similar conduct going on in other sectors. Earnings management(EM) is often linked with the dividend policy practices of firms (Haider, Ali & Sadiq, 2012). A key financial management decision is the dividend policy. It is necessary to determine how dividend policy and earnings management are related.

Auditing is a means by which shareholders control and check the activities of management (Dion, 2016). The motivation for this study was to determine whether high-quality testing leads to poor yield control. Enron, WorldCom, and Global Cross brought into light the extent of damage caused by the scandalous behaviour of management. Common to this behaviour was fraudulent financial reporting (Petra & Spieler, 2020). It is therefore imperative to investigate the nexus between earnings management, dividend policy, and audit quality (Simala & Jarboui, 2019). This section discusses the study's background, problem statement, objective, purpose, research questions, importance, delimitation, limitation, and scope of the research.

Background to the Study

Simply put, a company's dividend policy determines how much it will pay shareholders (Ofori-Sasu, Abor & Osei,2017). Shareholders' wealth is partly determined by dividend decisions because the dividend payout ratio affects the prices of shares (Koleosho, Akintoye & Ajibade,2022). The dividend policy practised by various firms is crucial for investment decisions. This connotes that, dividend policy or dividend payment trends communicate some level of information to investors and other stakeholders. Moreover, a good dividend policy boosts a firm's stock price and improves shareholder wealth (Ofori-Sasu *et al*., 2017). Therefore, any dividend policy pursued by an organization must be critically evaluated. According to Marfo-Yiadom and Agyei (2011), the dividend policies of banks registered on the Ghana Stock Exchange are influenced by corporate profitability and leverage.

Earning management is a strategy employed by corporate management to even out profits. Due to the accountants' violations of the accounting norms, it is particularly challenging to compute earning management. Wenfang and Ayisi (2019) contended that earnings management is a common practice in developing countries such as Ghana and has become a critical concern following the numerous scandals that arose in the financial sector of Ghana. After a critical audit of the banking sector practices and finances in 2018, several financial institutions were found to be misleading the general public with the published financial information (Torku & Laryea, 2021). This situation led to several customers losing billions of Ghana cedis. Not only did customers lose their investment but also employees lost their jobs. This has led to a loss of confidence in these institutions (Yomboi *et al*., 2021).

A major concern was why institutions like these would intentionally mislead the general public. Follow-up questions were: were their financial statements audited? How were they able to pay dividends? Were they engaging in earnings management? Agency theory posits that auditors are employed by shareholders to assess whether the financial statement prepared by management represents a fair statement of affairs of the organization.

The quality of the audit helps to confirm the appropriateness or otherwise of management's actions (Teck-Heang & Ali, 2008), reduces information risk to users (Fairchild, 2008), and increases the performance of users' accounting information. Audit quality also improves the reliability of accounting information and reduces earnings management (Agyei-Mensah & Yeboah,2019). Mamwutor et al. (2019) found that "audit firm size, audit fees and audit committee all influence the level of audit quality when considering audit quality parameters" (p.438). Studies in Ghana have shown that the big-four audit firms provide high-quality audit services (Baldavoo & Nomlala,2019).

Considering the position of the signalling hypothesis, Ghanaian businesses will choose to pay dividends because they serve as a way to signal their superior performance to the market, even though the dividends are high due to high taxes (Badu,2013). Dividend payment is a means through which investors receive returns on their investments and improve their wealth (Oniyama *et al*., 2021). Management may be motivated to falsify results to pay dividends regularly even if the company is losing money to convince the public that they are operating effectively (Koutoupis & Davidopoulos, 2022)

Martadinata, Yasa and Sujana (2021) claimed that managers frequently manage their earnings to enhance their bonuses; it is one of the first managerial incentives that must be critically considered when dealing with earnings management. Managers utilise their company's inside information about the firm business environment and then make a judgment regarding the dividend and earnings. Serita and Hanaeda (2007) conducted a study on developing markets and concluded that there is a positive trend for a corporation to maintain consistent dividends, while some businesses do change payouts based on the financial need for investment.

Earnings management and dividend payment are critical aspects of a firm. Some firms manipulate their income, repurpose it, and distribute dividends evenly across all shareholders (Moghri & Galogah, 2013). Shareholders receive dividends in proportion to the quantity of shares they own in an enterprise. Dividends are frequently distributed yearly. Facts from previous years indicate that dividends account for a large portion of market returns (Yilmaz & Gulay, 2006). Eryomin *et al.* (2021) found out that dividends are so important in the market, both economically and from an investor perspective, that companies that pay dividends to shareholders regularly attract more investors. As the company attract more investors automatically increases the market value of the company's shares.

In Ghana, the majority of big businesses desire to reward their stockholders with dividends (Badu,2013). In exchange for their financial investment, companies pay dividends to their shareholders. It shows the company's potential for development. Guidelines and regulations on how dividend payments to shareholders are to be made are known as dividend policies (Haider *et al*., 2012). Shareholders will recognize the effectiveness of the dividend policy after it is clearly explained to them and made available to them in writing.

In the absence of a written dividend policy, shareholders and investors will judge company performance based on the trend of dividend payment because firm performance and dividend policy move in the same direction (Dogan & Topal, 2014). The company's growth may be seen if the company's past performances over the years have been progressively better, which includes consistently making a profit and sharing dividends. The opposite is also true: Investors are hesitant to invest in a firm if its past performance has been poor. An effective dividend payment schedule is beneficial for both businesses that are doing well and those not doing well (Pindado *et al.,* 2012)

Statement of the Problem

Stakeholders especially investors, following this scenario of Enron, WorldCom, and other similar accounting scandals, have become very concerned about earnings management. After the aforementioned scandals, research into earnings management gained great attention from researchers. These scandals led to the loss of investor confidence and a drop in shareholder value and subsequently the proposition of financial regulation to help avoid similar cases in the near future. In 2018, a similar situation happened in Ghana's financial sector that led to the collapse of several institutions.

The debate of whether earning management is something management does in connection with shareholders or management for their personal interest still remains open. Understanding the association between earnings management and dividend policy of firms is essential. Haider *et al.* (2012) researched dividend policy and profit management. The goal of this research was to look at the influence of dividend policy on earnings management as well as the link between earnings management and dividend policy. According to the findings, "there is a considerable adverse association between earnings management and dividend policy".(p.88). This result is consistent with several findings (Ajide & Aderemi, 2014). On the contrary, Amar et al., (2018) found a significant positive association between earnings management and. Other studies have shown no link between profit management and dividend policy. (Abbadi et al., 2020; Saleem & Alifiah, 2017).

The financial institutions culpable of earning management had their financial statements audited annually. This raises a major concern about whether or not these fraudulent acts were discovered by their auditors. It is therefore important to know whether earning management can be curtailed or contained by quality auditing. Earning management has a considerably unfavourable association with audit quality (Agyei-Mensah & Yeboah,2019). This finding is supported by (Muttakin *et al.*, 2017; Alzoubi, 2016; Van Tendeloo &

Vanstraelen,2008). However, Firnanti & Pirzada, (2019) observed that there was no link seen between audit quality as determined by audit firm size and earnings management. These studies were carried out in developed nations, mostly in Europe and Asia. It is consequently critical to establish that link in Ghana's unique context.

The presence of auditors in accordance with financial standards is critical to the objective of cooperate governance. According to research, the magnitude of dividend distributions is related to the quality of audits done. Trang (2012) identified a favourable association between audit quality and dividend policy in a Vietnam scenario. Other researches have corroborated this study (Bakri, 2021; Boonyanet & Promise, 2020).

In Pakistani manufacturing firms, "audit quality moderates the relationship between earnings management and dividend policy" (Zeb *et al*., 2019, p.50).

My study captured businesses registered on the Ghana Stock Exchange(GSE) regardless of industry. It would be inappropriate to conclude Pakistan's findings considering Ghana's peculiar situation. This is because the regulations governing listed companies in Pakistan may differ from those for companies listed on the Ghana Stock Exchange.

According to the agency theory, shareholders will employ the services of auditors to mitigate the magnitude to which management will capitalize on information asymmetry to engage in earnings management. Agyei-Mensah and Yeboah (2019) observed that audit quality reduces the earnings management practices among Ghanaian firms.

Audit quality doe only reduces earnings management, but also further enhances the dividend policy of firms. Boonyanet and Promsen (2020) indicated that audit quality measured by the audit firm size increased the dividend payment of companies. Trang's (2012) studies on the Vietnam market also showed that there is a positive relationship between audit quality and the dividend policy of listed firms. In can be inferred that audit quality moderates the relationship between earnings management and dividend policy.

In Ghana, it is critical to investigate the influence of audit quality on regulating the linkages between profits management and dividend policy in publicly traded corporations. Due to the unique nature of financial statements, many of the studies reviewed were not concerned with the financial sector, but this study captures both financial and non-financial financial statements. The majority of research in this field has been undertaken outside of Ghana, primarily in wealthy economies. Due to economic, political, and social differences, it is prudent to look at the situation with regard to the Ghanaian setting. In Ghana, very little study has been undertaken to investigate the link between earnings management, dividend policy, and audit quality.

These equivocal data indicate that the relationship between earnings management, dividend policy, and audit quality is an open empirical question that requires further investigation. That is why I am pursuing this research.

Purpose of the Study

The purpose of this study is to examine the role of audit quality moderates in the nexus between earnings management and dividend policy in Ghana.

Research Objectives

The study intends to achieve the following specific objectives:

1. Examine the relationship between earnings management and dividend policy.
2. Examine the relationship between audit quality and dividend policy.
3. Examine the moderating effect of audit quality on earnings management and dividend policy.

Research Questions

The study answers the following questions:

1. What is the relationship between earnings management and dividend policy?
2. What is the relationship between audit quality and dividend policy?
3. What is the moderating role of audit quality in the relationship between earnings management and dividend policy?

Significance of the Study

The function of audit quality in moderating the nexus between profit management and dividend policy is critical. In Ghana, very little research on audit quality moderating earnings management and dividend policy has been conducted. Studies in this area have yielded ambiguous results in terms of earnings management and dividend policy, as well as earnings management and audit quality. Several studies have yielded conflicting results about the nexus between earnings management, dividend policy, and audit quality. According to the literature, this field is still open for future research.

The findings of this study contribute to knowledge on dividends, audit quality, and earnings management. This disclosure will aid regulators such as the

Securities and Exchange Commission (SEC), commercial registries, and other government organisations to formulate policies such as dividend thresholds to control earnings management. This research will assist other stakeholders, such as stockholders in the choice of auditors for their firms.

Delimitation of the Study

The purpose of this research is to examine the relationship between earnings management, dividend policy, and audit quality. In this study, only firms listed on the Ghana Stock Exchange ware analysed. This research looks at the link between earnings management and dividend policy in this environment. The research also looked into the connection between dividend policy and audit quality. Finally, the influence of audit quality on the link between earnings management and dividend policy was investigated. Earnings management is assessed using the discretionary accrual criteria. To evaluate a company's dividend policy, the dividend payout ratio is utilised. The size of the audit company is utilised to determine audit quality.

The study separates financial firms from non-financial firms because of the difference in their financial statements. The study looks at the moderating role of audit quality on the relationship between earnings management and dividend policy in Ghana. The study makes use of data from firms listed on the Ghana stock exchange. This research makes use of only firms that had their data available for the entire period of observation (2011-2020). The study makes use of a balance panel.

Limitations of the Study

Secondary sources are used to gather data for the study. These data sets may not answer researchers' specific questions or contain specific information that the researcher would like to have. The study employs explanatory research which makes is difficult sometimes to reach appropriate conclusions.

Organization of the Study

The research framework consists of five chapters. The first Chapter is an introduction to research that provides background information on current scientific knowledge regarding earnings management, dividend policy, and audit quality. This includes the problem, purpose, scope, limitations and significance of the investigation.

A review of relevant literature is given in Chapter Two. This chapter also goes into great detail about the theoretical framework, which explains the ideas employed in the study and offers rationales for suggested associations between the variables employed for the studies. In this chapter, in addition to a discussion of the major study variables, related studies in the field of study are discussed and reviewed.

The study's methodology is covered in Chapter Three. The research paradigm under which the study's methodologies were chosen is explained and supported in this chapter. Along with it, it discusses instruments, sample methods, and data sources. Along with the method of data collection and data analysis, the study's population and its scope are described.

The fourth Chapter examines and discusses the data used in the research. The discussion is given in line with the study's aims to allow the reader to follow along and comprehend the results in connection to each objective.

Finally, Chapter Five summarises and presents the study's primary results. Based on the findings, it also gives some recommendations. This section contains research ideas for the future.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter gives an overview of the research-related literature. This chapter begins with an examination of the theoretical literature employed in the research. This chapter also describes the conceptual framework and concepts used in the research. Finally, this part examines empirically linked research on earnings management, audit quality, and dividend policy.

Theoretical Review

There are several explanations for the link between earnings management, audit quality, and dividend policy. The theories for describing the links between variables in research are “agency theory”, “signalling theory”, and “lending credibility theory”.

Agency theory

The propounders of agency theory are Ross (1973) and Jensen and Meckling (1976). Firm ownership being separated from management has created an agency dilemma. Because of the disparities in the priorities of owners and managers, this issue requires rigorous examination (Jensen & Meckling, 2019).

According to this theory, a contractual relationship exists that directs one entity (the agent) to perform actions on the account of the other party (the principal). Higher dividends should be given to lower agency costs as Jensen (1986) points out managers often opt to keep profits as retained earnings rather than disbursing them as dividends. However, there are times when management may not always implement a dividend strategy that maximizes the wealth of shareholders, instead choosing to establish a dividend payout plan that serves their interests (Jiraporn & Kim, 2011).

Managers may manipulate earnings to guarantee that dividends will be paid out soon in an effort to alleviate this conflict (Smith, Kindermans, Ying & Le, 2017). In other words, agency costs are those expenses that the principals are willing to pay to safeguard themselves from the agents' opportunistic behaviour (Dion, 2016). In light of the limited investor protection in emerging economies, Mitton (2004) noted that foreign shareholders may favour dividends over capital gains when they fear probable insider expropriation.

The principal-agency relationship creates a problem of information asymmetry. This problem creates a window of opportunity for managers to manipulate the accounting information for personal interest and to achieve private gains (Monsuru & Adetunji, 2014). Managers use their own discretion to lead shareholders about the economic performance of the organization. Bukit and Iskander (2009) found that management engages in earnings management by the use of bonus plans and implicit contracts to reduce earnings from which dividend is paid. Therefore, agency theory posits that earnings management affects the dividend policy therefore shareholders will incur agency costs to hire the services of auditors to safeguard the situation.

Signalling theory

Signalling theory believes that dividend payments are a means through which firms communicate how good their business is to the market. Consequently, firms favour dividend payments, even if payouts are expensive because of heavy taxes (Badu,2013). Cash dividend payment is a sign of a strong company. A cash dividend indicates good performance and portrays that a company has a good cash flow (Booth & Zhou, 2017). Some businesses give dividends not because they are profitable, but rather to maintain their reputation. The theory contends that the existence of information asymmetry may also be used as justification for reputable businesses using financial data to signal the market (Ross, 1977).

Earnings management is a strategy adopted by managers to produce a steady stream of increasing earnings over time. This approach will enable managers to influence the price of shares. The signalling perspective also suggests that shareholders may occasionally demand earning management. Managers can first lower the cost of capital by creating a steadier and more predictable income stream. According to the second, a steadier income stream affects how potential investors perceive the worth of a company. Chaney and Lewis (1995) disclosed that management would operate on behalf of the present shareholders and be compensated for doing so and that current shareholders would sell their shares to the next group of potential shareholders.

Investors and potential investors place high value on firms that pay high and regular dividends (Attah-Botchwey,2014). The dividend policy adopted positively impacts the value placed on firms (Anton, 2016). Management is motivated to massage earnings to enable a high and regular stream of dividend payments to send favourable signals to the market. Because of information asymmetries, management may choose to manage earnings to send a positive message to shareholders and potential investors. Shareholders demand consistently high dividends. Signalling theory posits that there is a favourable correlation between dividend policy and earnings management.

The lending credibility theory

"According to the lending credibility hypothesis, the main goal of an audit is to increase the reliability of financial reports and the integrity of the services auditors offer to their customers" (Hayes *et al*., 2021, p18). A high-quality financial report provides enormous benefits to its users, and these advantages inevitably improve the calibre of investment selections. This allows us to make decisions using reliable information (Chen *et al*., 2011; Ahmadzedeh *et al*., 2013). This study examined how audit quality affects the relationship between dividend policy and earnings management.

According to this hypothesis, shareholders will select qualified auditors who will not skimp on accurate financial accounts. Auditors are generally hired to ensure that the financial data management accurately and fairly represents the status of the business. Auditors are expected to identify and report any major misrepresentation (De Angelo, 1981). "When a firm chooses top-notch auditors, the accuracy of the company's profitability is boosted, which increases the credibility of the information provided in the annual reports" (De Angelo, p.84).

Earnings management will be minimal when the audit is of excellent quality (Van Tendeloo & Vanstaelen, 2008). A study of the connection between audit quality and dividend policy was conducted by (Zakaria *et al*., 1998). They discovered that companies that outsource their audits to smaller companies are more likely to manipulate their profits than those that outsource their audits to the Big Four. The motivation for this is that there is a negative association between corporate earnings management and dividend policy.

Conceptual Review

This section discusses the various concepts that underpin the study.

Earning management

There are several different ways to define earnings management. Earnings management as a "purposeful interference with the external financial reporting process to obtain private advantage"(Schipper, 1989, p.91). Healy and Wahlen (1999) stated that earnings management occurs when managers use discretion in financial reporting and transaction structuring to alter financial reports to either mislead some stakeholders about the company's underlying economic performance or to influence the contractual outcomes that depend on reported accounting numbers (p.366). It stands to reason that Ghanaian company managers would be equally incentivised to implement earnings management techniques.

Earnings management was described by Leuz *et al*. (2003) as insider changes to financial records of economic performance undertaken to alter contractual advantages or deceive some parties. The description of earnings management by Callao *et al*. (2014) contains numerous components discussed in earlier studies. According to this definition, “earnings management is a deliberate financial reporting intervention, aiming to achieve earnings targets through varied accounting procedures”.(p.148)

"Earnings quality" and "earnings management" are connected. According to Lo (2008), who hypothesizes that when earnings management is strong, earnings quality is poor. The degree to which earnings are fabricated and reported to deceive investors about the underlying company's financial success, which affects contractual results that are based on accurate accounting statistics, can be used to judge the quality of reported earnings.

Bachtijeva and Tamulevičienė (2022) analysis of creative accounting procedures and earnings management approaches revealed that the latter specifies an accounting decision strategy and system of activities to reach a specific accounting outcome. In the meanwhile, using creative accounting techniques appears to explain this tactic and provide steps for implementing it. The phenomena of creative accounting and earnings management are the same: accounting tricks are meant to affect the size of profits.

According to Dechow *et al*. (2010), higher earnings quality means that it is more possible that crucial information on a company's financial performance will be delivered and utilised by certain users to assist them in making decisions. The majority of chief financial officers associate sustainability with higher-quality earnings (Dichev *et al*., 2013). There are two techniques that financial statement preparers might employ to manage earnings. The two methods for controlling earnings are "real earnings management" and "accrual-based earnings management" (Gunny, 2010).

Accrual earnings management (AEM)

To adjust reported profits and mislead shareholders about the firm's financial status, a manager of a corporation participates in accrual earnings management when they make choices based on altered accruals (Dechow & Skinner, 2000). The accounting rules and decisions are dealt with by accrual earnings management, which has little to no impact on cash flow operations (Roychowdhury, 2006). "Accrual earnings management is subject to auditor approval and is likely to be identified under intense audit inspection" (Gunny, 2010, p.860). Practices for managing accrued profits are only applicable in a quarter or at year's end and thus have a limited lifespan. The adjustments that the auditor will accept are therefore unclear to management (Barton & Simko, 2002).

Real earnings management (REM)

The term "real earnings management" is interpreted in various ways. Schipper (1989) defined real yield control as a type of yield control applied by changing the period over which money is invested or funded. This method is used to influence reported results. Roychowdhury (2006) defined "real earnings management as differences from routine operational procedures, motivated by managers' aim to deceive at least some stakeholders into believing that specific financial reporting targets have been accomplished through routine company operations."(p. 338).

Real earning management entails controlling earnings by customary manipulation strategies to alter reported earnings, including discretionary spending, producing more than required, and gains from the sale of fixed assets

(Brown *et al*., 2015). The management of real earnings may have more significant long-term cash flow effects (Roychowdhury, 2006). When a manager controls real earnings management operations, auditors are very unlikely to detect it (Gunny 2010). Real earnings management must be set up in-between operations throughout the year or in the final quarter (Ising, 2013).

Dividend policy

One of the three crucial financial management judgments is dividend policy. Dividend policy deals with the decision of the firm on the level of income that may be distributed as a dividend and the degree that may be held by the firm. In its most basic form, a dividend is the return on an investor's investment. A defined amount of profit is awarded to shareholders of listed firms when the accounting records are closed on a particular day. “The dividend policy establishes what proportion of earnings should be delivered to shareholders as a return on their investment and what proportion should be reinvested into the company for future investment” (Ahmed *et al*.,2018, p.168).

The techniques utilised by various businesses to deliver dividends to shareholders have significantly changed during the past several decades. This would be a sign that profits were abnormally low that year if firms struggled to adhere to their dividend distribution plan. Companies' failure to disperse income during profitable periods has an impact on how investors see them. The attitudes of shareholders towards purchasing shares in the same company or sector will be negatively impacted by this inability of the company to pay dividends in bumper periods.

One of the most spoken topics in the field of finance management is the dividend policy of firms. However, although many financial experts are figured with enlarged free components like management strengths, future productivity, and proprietorship, it is difficult to explain the rationale behind the various dividend policies of various organisations (Ahmed & Javed, 2009). The percentage of dividends paid out may have an effect on the firms' net operating income range.

The method used by management to choose the frequency and quantity of resource distributions to shareholders over a period of time is referred to as a "dividend policy" (Lease *et al*.,2000). The dividend policy of firms has attracted the attention of management, especially commercial firms over the years. Surprisingly, dividend decisions remain debatable in today's business space despite numerous attempts to understand the basis for such decisions. Finance academics have been concentrating on the research of dividend policy since the middle of the previous century in an attempt to understand the concept of dividend policy. Marfo-Yiadom & Agyei (2011) found that there is a significant positive relationship between profitability and dividend policy. This demonstrates a company's dividend payout partly depends on the degree of its profitability.

There are three fundamental dividend hypotheses, each of which is mutually exclusive. Farrukh, Irshad, Shams Khakwani, Ishaque and Ansari (2017) found that a company's worth is increased by raising dividend payments. According to a different perspective, high dividend payouts have an unfavourable impact and diminish a company's market value (Adiputra *et al*., 2020). According to the third theoretical perspective, dividends should not matter and all efforts made to determine dividends should be useless. Saliya and Dogukanli (2022) state that there are three perspectives on dividend policy which are the “dividend irrelevance hypothesis”, “high dividends boost share value theory”, and “low dividends increase share value theory”, which are sometimes called the “bird-in-the-hand” and “tax-preference arguments”, respectively.

Audit quality

International Auditing and Assurance Standards Board (as cited in Brown *et al.*, 2019) revealed there have been several recorded attempts to define “audit quality”, but none of them have received universal recognition and acceptance. The standard for resolving the issue was established by De Angelo's (1981) two-dimension definition of audit quality. A major misrepresentation must first be found before auditors can report on it. Auditor objectivity (independence), which refers to the possibility that an auditor will fix (through accounting adjustments) or expose (via the auditor's report) a client's inaccuracy when it is identified, and auditor skill (competence or knowledge), which influences the chance that an auditor identifies problems in a client's financial accounts. These are the two different and useful components of De Angelo's definition.

Davidson *et al.* (as mentioned in Siswandari *et al.*, 2022, p.57) contended that “audit quality is a measure of the auditor's ability to avoid bias and comprehensively enhance accounting data”. Whereas (Wallace, 1987, p.12) contends that “audit quality is a measure of the auditor's ability to appropriately convey information”. The ability of the auditor to detect and correct substantial profit machinations and misstatements also plays a part in determining the quality of an audit (Davidson & Neu, 1993). These explanations provide a clear understanding of what audit quality comprises.

In a larger sense, variables influencing audit quality include strong corporate governance, adherence to norms and laws, regulatory scrutiny, and the effectiveness of the current financial reporting structure" (DeFond & Zhang, 2014, p. 278.). Audit quality may be described as the characteristics of the audit organisation, the audit team, corporate governance procedures, and auditing methodologies that promote a sense of satisfaction among various stakeholders.

To evaluate audit quality, several researches have been carried out. "The size of the audit company is one of the factors that is most frequently analysed. Audit quality is influenced by the audit firm's size" (Enofe *et al*., 2013, p.40). For instance, Krishnan and Schauer (2000) investigated the nexus between business size and nonprofit firms' adherence to reporting requirements. They discovered that as firms get bigger, compliance goes up. According to Sun and Liu (2011), Big Four firms were more successful than non-big four enterprises at reducing earnings management. The big four audit companies have been referred to as very big corporations by researchers. "People truly believe that the size of the audit business is a good indicator of the audit quality. When choosing an auditor for their company, clients choose the major four companies over the smaller ones"(Sawan & Alsaqqa, 2013,p.217).

Audit firm size

The amount of assets held by the audit firm, the auditor's market share, and the total number of employees of the auditor can all be used to calculate the size of the auditor. The scale of the audit firm can be assessed by its reputation both nationally and internationally. Auditor size is another aspect that is being researched. The large players, also referred to as the "big four firms", have dominated the industry and are well-known on a worldwide level. "The big four" professional accounting firms KPMG, Ernst & Young (EY), Deloitte Touche Tohmatsu (Deloitte), and PricewaterhouseCoopers (PwC)) are the principal centres of professionalization" (Cooper & Robson, 2006, p.419). Any audit firm outside of the aforementioned is termed as a non-big Four firm similar to this, research has shown a positive correlation between an auditor's size and the calibre of its services (Hassan & Naser, 2013; Akinyomi & Joshua, 2022).

Empirical Review

Previous research on dividend policy, audit quality, and yield management is reviewed in this section. This section begins with an overview of earnings management and dividend policy research, then covers the literature on audit quality and dividend policy, and then discusses audit quality and earnings management research. Finally, research is given on the importance of audit quality in regulating the link between earnings management and dividend policy.

Earnings management and dividend policy

A study on profit management and dividend policy was conducted by (Haider et al., 2012). The purpose of the study was to identify the relationship between dividend policy and earnings management, and the impact of dividend policy on earnings management. The sole participant in this study was a non-financial company registered on the Karachi Stock Exchange (KSE). A total of 23 companies participated in the survey. The data set used in the study was cross-sectional. The data source for this study was the annual financial statements of listed companies from 2005 to 2019. The dividend payout ratio was used to evaluate dividend policy. Income control was assessed using arbitrary breaks. Results were evaluated using descriptive analysis, correlation matrix, and regression analysis. Research revealed a detrimental link between dividend policy and earnings management.

According to Ajide and Aderemi (2014), “there is a negative relationship between dividend policy and earnings management. This research was carried out in Nigeria. The research comprised the annual reports of 13 non-financial firms for fiscal year 2012” (p.17). The study used regression analysis with ordinary least squares to examine the association between dividend policy and earnings management. In the study, the dividend policy was calculated using the dividend payout percentage. Voluntary accrual was used to determine income restrictions.

Moghri and Galogah (2013) investigated the impact of profit management on the dividend policy of companies listed on the Tehran Stock Exchange. The statistical sample for this study included 140 companies from 2006 to 2011. The main research hypothesis used fixed-effects models to estimate regression models with both the F-Limer and Hausman tests. The results showed that “there is a positive significant relationship between dividend policy and earnings management" (Moghri & Galogah, p.62) Based on these results, companies' dividend payout ratios may rise and discretionary deferrals may also occur.

Once more, Koutoupis and Davidopoulo's (2022) study examined the impact of profit management on the dividend policy in the United States of America (USA). The USA aerospace and defence industries provided them with sample data. 17 publicly traded companies from the American stock exchange were included in the sample, which covered the years 2012 through 2019. The study utilised a discretionary accrual approach for measured earnings management. Signalling theory was used to support the investigation. "There is a positive relationship between earnings management and dividend policy, according to the regression results of the study" (Koutoupis & Davidopoulos, p.11),

To find out whether discretionary accruals have an impact on dividend policy, Amar *et al*. (2018) carried out the research. On the CAC All Tradable index between 2008 and 2015, 280 French non-financial firms were included in the analysis. There were 2108 firm-year observations used in the research. Because they use unique accounting forms, financial institutions were excluded from the research. The research assessed earnings management using a modified Jones model. For the study, panel data analysis was done. "The study found a significant relationship between corporate dividend policy and earnings management" (Amar *et al*., p. 335.)

Saleem and Alifiah (2017) examined the impact of profit management on dividend policy. The study used a sample of 104 companies to explore the link between dividend policy and profit management of listed firms on the Karachi Stock Exchange oil and gas companies whose stocks are listed. His 2008-2015 annual reports of these companies were used for analysis. The financial industry was excluded from the study. This study evaluated discretionary accrual earnings management using a cash flow methodology. In this study, outcomes were predicted using multiple regression analysis. "The least squares method was also used in this study. The study found that Karachi Stock Exchange oil and gas companies' dividend policies are not affected by earnings management" (Saleem & Alifiah, p.4)

The impact of dividend policy on managing earnings was studied by (Abbadi *et al.*, 2020). The study's focus was on the industrial sector in Kuwait. The analysis used shares from 46 businesses listed on the Kuwait Stock Exchange. A study was conducted using 184 firm-year data between 2011 and 2016. There was a multiple regression analysis. In the study, the modified Jones model was also employed. The study measured earnings management using discretionary accruals. The results of the study showed dividend policy and profitability management have no significant relationship (Abbadi et al, p.18)

Aladwan (2019) examined the link between Jordan's dividend policy and earnings management. The study sample consisted of Amman Stock Exchange-listed enterprises (ASE). The analysis relied on financial data from 2010 to 2016. The study used the Modified Jones Module as stated by (Kothari et al.,2005). The ordinary least squares approach was employed. This study discovered a substantial correlation between dividend policy and earnings management.

These articles reviewed presented inconclusive results. Studies (Haider *et al.,* 2012; Ajide deremi, 2014) discovered earnings management and dividend policy have a significant negative association. In contrast, the discovery of other studies (Moghri & Galogah, 201; Amare, 2018) found a substantive favourable relationship between earnings management and dividend policy. Abbadi *et al*. 2020; Saleem and Alifiah (2017) did not find any substantive association between earnings management and dividend policy. All these studies were conducted outside Ghana. This suggested that there are limited studies in this area in this country. A study into this area was imminent considering Ghana's unique features based on economic, social and political.

Earnings management and audit quality

Agyei-Mensah and Yeboah(2019) did research on earnings management and audit quality in Ghana. The study used data from listed firms on the Ghana Stock Exchange(GSE). The study made use of multivariate regression analysis indicated that audit quality has a negative influence on earnings management measured by discretionary accruals.

Researchers looked at the relationship between audit quality and earnings management (Kalbuana *et al*., 2022). According to the research, companies audited by non-Big four firms employ earning management more frequently than do enterprises audited by the big Four. The study used 18 firms as its sample size. This research made use of purposeful sampling. Businesses from the trade sector that were publicly traded on the Indonesian Stock Exchange were used in the study. To evaluate earnings management, the Jones1991 cross-sectional variation was utilised.

“Audit quality moderates the relationship between corporate group affiliation and earnings management has been investigated (Muttakin *et al.,* 2017,p. 430). A total of 917 companies were selected to be listed on the Dhaka Stock Exchange between 2005 and 2013. An absolute discretionary clause was used to assess earnings management. Audit quality was assessed based on audit size. The results of the survey showed that the quality of audits reduces the level of discretionary provisions. Better earnings management in environments with poor audit quality.

Piot and Janin (2005) explored the influence of audit quality on aberrant accruals in the French setting. The study's sample comprised 255 firm-year data from SBF 120 index businesses (1999-2001). Earnings management was examined in the study applying the Jones cross-sectional model. The study used audit firm size as one of the proxies for determining audit quality. The study revealed that the existence of the major five auditors had no influence on the degree or magnitude of earning management.

Firnanti *et al*. (2019) investigated how audit quality influences earnings management. Purposive sampling was employed in this investigation. 64 businesses that are listed on the Indonesian stock exchange made up the sample size. “To determine the relationship, multiple regression analyses were performed. The study revealed that the big-four auditors do not minimise the discretionary accounting procedures used by management of Indonesian small and medium-sized businesses” (Firnanti *et al*.p.43.)

Research on the relationship between audit quality and earnings manipulation has shown conflicting results. Some studies posited a significantly negative relationship as observed by several researchers (Agyei-Mensah& Yeboah,2019; Muttakin *et al*., 2017; Alzoubi, 2016) whereas (Piot & Janin, 2005; Firnanti & Pirzada, 2019) showed no relationship seen between audit quality and earnings management. There is no link between audit quality and earnings management. It remained unclear how audit quality and earnings management were linked. In Ghana, little research has been conducted on the link between earnings management and audit quality. It was proper to do research in Ghana.

Audit quality and dividend policy

Trang (2012) researched to investigate the factors of dividend policy. The studies focused on Vietnam. The study utilised a sample size of 116 firms. The financial statement produced in the year 2009 was used for the analysis. The data utilised for the investigation were analysed using SPSS. “The research found that corporations audited by the big-four audit firms were paying a greater dividend than those examined by non-big-four firms. The research, therefore, found that audit quality is positively related to dividend policy” (Trang,p.2)

Boonyanet and Promsen (2020) researched the mediating influence of audit quality on Cash dividends. The analysis utilised the top 100 listed corporations on the Stock Exchange of Thailand (SET) from 2013 to 2016. “The research conducted both descriptive statistics and multiple regression analysis.

The research rated audit quality based on audit fees. The coefficient of audit quality is highly connected to cash dividends in a positive manner. Their analysis found that audit quality significantly affects cash dividends" (Boonyanet & Promsen, p.31).

Research was done to investigate the effect of audit quality on the link between dividends and goodwill in Malaysian corporations (Bakri, 2021). The size of the audit company was used to evaluate audit quality. "This study included pooled ordinary least squares (OLS), panel random, and fixed effects regression models. Audit quality has been proven to affect the link between dividends and business value. According to the study, audit quality has a beneficial influence on a company's dividend policy (Bakri,p. 204).

A study was conducted by (Farooque *et al.,* 2021) to see if corporate governance practises had an impact on dividend payments. Data from listed Australian companies was used in the investigations. The study looked at a sample of 1438 firm-year records from 206 listed Australian companies, collected between 2005 and 2011. The relationship between dividend policy and audit quality is examined using ordinary least squares regression. The size of the audit firm was used in the study to assess audit quality, while the dividend payout ratio was used to assess dividend policy. The study found a positive relationship between audit quality and dividend policy (Farooque *et al*.,p.47)

Batool and Javid (2014) examined audit quality and dividend policy in Pakistan. "In this study, Linter's partially fitted model was used. Survey data was provided by the National Bank of Pakistan, the Securities and Exchange

Commission of Pakistan and the Karachi Stock Exchange (KSE) and covers the years 2003-2011. 100 listed companies have made their data available on the Karachi Stock Exchange" (Batool & Javid, p.18). A dynamic dividend model was implemented using GMM. The study's conclusions show a strong positive relationship between audit quality and dividend policy.

All the results of the literature study revealed that there is a substantial association between audit quality and dividend policy. Some of the research went further to indicate the direction of the link. Most of the research analysed for this study indicated a favourable association between audit quality and dividend policy (Farooque *et al.*, 2021; Bakri, 2021; Boonyanet & Promsen, 2020) (Farooque *et al*., 2021; Bakri, 2021; Boonyanet & Promsen, 2020)

Earnings management, audit quality and dividend policy

Mixed findings from past studies have suggested that the research on earnings management and dividend policy is inconclusive and requires further studies, whereby their inconsistent relationship may be modulated by certain moderating factors. The study specifically suggests that audit quality is one of these moderating factors potentially influencing the relationship between the two elements. Audit quality enhances the quality of financial information by reducing earnings management (Muttakin *et al*., 2017).

In addition to reducing earnings management, audit quality further enhances the dividend policy of firms. Boonyanet and Promsen (2020) indicated that audit quality measured by the audit firm size increased the dividend payment of companies. Trang's (2012) studies on the Vietnam market also showed that there is a positive relationship between audit quality and the dividend policy of listed firms.

Zeb et al. (2019) argued that "audit quality moderates the relationship between dividend policy and earnings management. The data source for the study is based on annual financial reports of companies listed on the Pakistan Stock Exchange" (Zeb et al.p.45), In this study, we investigated yield management using the modified Jones cross-section model. This research focuses on all publicly traded cement companies. Sixteen companies made up the sample size of the study.

In a similar vein, (Siddiqui et al., 2022) emphasized that audit quality, as assessed by audit firm size, negatively moderates the relationship between earnings management and dividend policy. 145 non-financial firms registered on the Pakistan Stock Exchange were studied during ten years, from 2010 to 2019. Profit management was evaluated using discretionary accrual. The agency and signalling theories both supported the findings. The size of the audit firm was used as a proxy for determining audit quality.

Based on the argument from past empirical research and the interrelationship between earnings management, audit quality and dividend policy found in previous studies, audit quality moderates the relationship between earnings management and dividend policy.

Conceptual Framework

This section presents the visual representation of the expected relationship between the variables. The researcher developed a personal conceptual understanding of the relationship between the variables as shown in Figure 1.

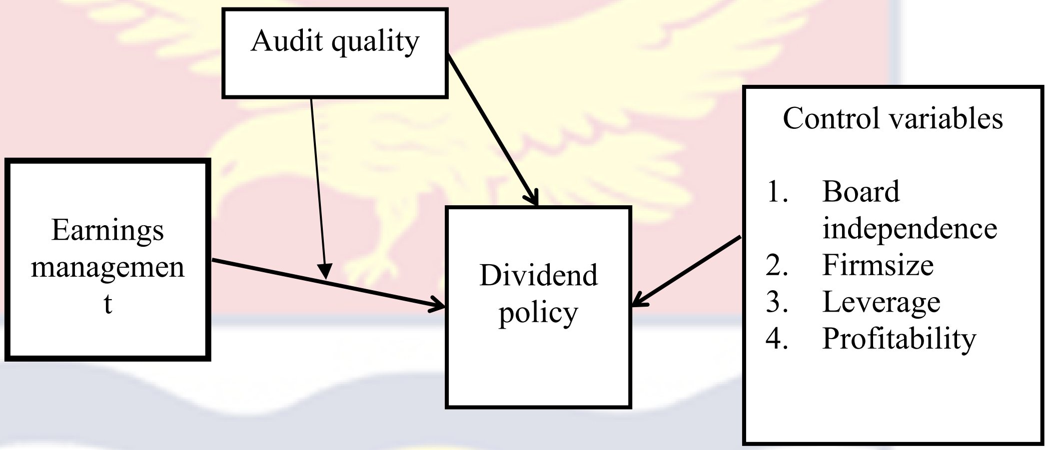

Figure 1: Conceptual Framework of the Study

Source: Author's construct (2022)

Chapter Summary

This chapter began by looking at the hypotheses that backed up the investigations. It examined the theories of agency, signalling, and lending credibility. This chapter detailed the numerous concepts used in the research once again. It spoke about earnings management, dividend policy, and audit quality. To highlight the current knowledge gap and contradictions in prior research, this chapter examined the associated literature on earnings management and dividend policy, earnings management and audit quality, and audit quality and dividend policy.

CHAPTER THREE

RESEARCH METHODS

Introduction

The preceding chapter illustrated the theoretical and empirical relationships between the variables used in this investigation (earnings management, dividend policy, and audit quality). This chapter establishes a framework for evaluating the moderating effect of audit quality on the relationship between earnings management and dividend policy. It begins by examining the study's research methodology. Additionally, it conveys the focus of the investigation. This part discusses the procedures used to choose the sample size and population, the instruments used to measure the variables and test them, and finally, a description of the research model utilised in the study's regression equation.

Research Design

The explanatory research approach was used in this study to examine the connections between earnings management and dividend policy, dividend policy and audit quality, and, ultimately, the effect of audit quality on the link between earnings management and dividend policy. The research design was essential for achieving the study's objectives. To review the study, a quantitative deductive approach was applied in research. Explanatory research is explicitly tied to quantitative research design in a direct line. Understanding the causal connection between the theoretical concepts was the study's main goal (Benitez *et al.*,2020).

Because the study's research variables were represented by financial ratios, a quantitative research design was advantageous.

The approach for this study was decided upon as being the positivist research strategy. According to the positivist perspective on research, since it is science, it must follow procedures and be methodical (Park, Kong & Artino, 2020). With this approach, outcomes can be discovered through exploration and observation. The positivist is a philosophical school of thought that does not rely on subjective judgments and findings. The positivist approach to knowledge deduction yields very objective knowledge. The use of the positivist methodology in this study ensures that the findings of the investigation may be precisely repeated with the same methodology, samples, and testing equipment.

Source of Data

The study's main variables were earnings management, dividend payout ratio, and audit quality. This information on these variables was obtained from public annual reports of corporations registered on the Ghana stock exchange. Annual reports for the 2011-2020 financial years were obtained from the Ghana Stock Exchange and corporate websites.

Population

All businesses listed on the Ghana Stock Exchange were considered in the research population. The Ghana stock exchange had 38 businesses listed as of August 2022. All listed firms were considered because this study was interested in a more representative finding (Mugenda and Mugenda 2003).

Sampling Procedure

The study employed only enterprises listed on the Ghana Stock Exchange that had easily available financial statements and spanned the whole study period. The study used a balanced panel because an unbalanced panel causes attrition in the panel and sometimes leads to misleading inferences (Baltagi & Song, 2006). Hence listed firms that had financial statements for only part of the period were dropped from the analysis (Hollingsworth & Wildman 2003). Table 1 below captures all firms used in used in the study. The firms were grouped into financial and non-financial firms because of the difference in the structure of their financial statements.

Table 1: Firms Used for the Study

	Financial	Non-Financial
1	GCB Bank	1. Alluworks Plc
2	Soceite General Bank	2. Benso Oil Palm Plantation Plc
3	Cal Bank	3. Camelot Ghana
4	Republic Bank	4. Clydestone Ghana Plc
5	Standard Charted Bank	5. Cocoa Processing Company
6	Ecobank Bank	6. Fanmilk Ghana Limited
7	State Insurance Company	7. Goil Company Limited
8	ADB Bank	8. Guinness Ghana Breweries
9	Access Bank	9. Unilever Ghana Limited
10	Enterprise Insurance	10. Tullow Ghana Limited
		11. Total Petroleum Ghana Limited
		12. Sam Woode Limited
		13. Produce Buying Company Limited
		14. Golden Star Wassa Limited
		15. AngloGold Ashanti Limited

Source: Field Survey (2022)

Data Collection Instrument

Secondary data was employed for this study. The data was acquired from the Ghana Stock Exchange's published annual statements of listed companies. To fulfil the purpose of the study, appropriate ratios were computed using Microsoft Excel. Data points were collected between 2011 and 2020. This period was chosen because most studies conducted in this area made use of data from the early 2000s.

The Model Used for the Study

The study employed the two-step General Methods of Moments (GMM) panel estimator to estimate the research model. Arellano and Bond (1991), hypothesized that “the difference GMM estimator as the first GMM estimator is estimated by using the first difference of variables and the level of lagged values of time-varying variables as instruments for the equation in differences” (p.279). Law and Azman-Saini (2012) observed that the GMM estimator was effective in eliminating country-fixed effects and unobservable simultaneity bias.

It is important to be aware that the GMM technique may have certain limitations because it ignores cross-sectional dependence, presupposes panel homogeneity, and risks ruining estimated results due to incorrect instrument specifications. Due to problems with equipment specifications, fewer observations may also limit the results of GMM estimations. However, the many benefits the approach has outweigh these difficulties. The GMM estimation technique deals with potential endogeneity problems which may bias the results (Roodman, 2009). Arellano and Bond (1991), argued that there is the possibility of consistent estimates using GMM provided that the time-series properties of the study (T) are less than its cross-section dimensions (N). The T and N for the study are 9 and 10 respectively for financial firms. The T and N for non-financial firms are 10 and 15 respectively.

Sargan's test of overidentifying restriction was used in the study to evaluate the validity of the research instrument. Sargan's test null hypothesis establishes the instrument's validity. As a result, the inability to reject the null hypothesis implies that the instruments utilised are reliable. The Arellano and Bond test of autocorrelation for second-order serial correlations in first-difference errors was also used in the study to look for serial correlation. The null hypothesis of the Arellano and Bond test AR (2) argues that there is no autocorrelation. If the null hypothesis that the disturbance component is uncorrelated cannot be rejected, the model estimator is consistent, and the moment's condition is correctly described.

Model Specification

The relationship between earnings management, dividend policy, and audit quality was determined using the General Method of Moments (GMM) estimation method. Dividend policy was the dependent variable, earnings management and audit quality were independent variables, and leverage, firm size, profitability, and board independence served as control variables for GMM model estimation. The relationship between earnings management and dividend policy was also investigated, and the mitigating effect of audit quality was investigated.

Equations 1 and 2 provide a two-level GMM used in the overall format of this investigation.

$$DP_{it} = \gamma_0 + \gamma_1 DP_{it-\tau} + \sum_{h=1}^{n} \gamma_h W_{h,it-\tau} + \theta_i + \mu_i + \varepsilon_{it}$$

(1)

$$DP_{it} - DP_{it-\tau} = \gamma_1(DP_{it-\tau} - DP_{it-2\tau}) + \sum_{h=1}^{n} \gamma_h (W_{h,it-\tau} - W_{h,it-2\tau}) + (\mu_t - \mu_{t-\tau}) + \varepsilon_{it-\tau.} + (\mu_t - \mu_{t-\tau}) + \varepsilon_{it-\tau.}$$

(2)

DP_{it} Dividend Policy for the firm i during time t; γ_0 denotes a constant, W denotes a vector of the variables that are controlled in the study(firm size, board independence, board size, profitability, and leverage); τ represents the coefficient of autoregression, which is one for the specification, μ_t denotes the time-specific constant, while θ_i represents the firm-specific effect and ε_{it} denotes the error term. "A priori, the explanatory indicators are expected to be endogenous, but we consider the time-invariant variables as strictly exogenous" (Roodman, 2009, p.88). Recent investigations have supported the validity of this parallel. (Agyei *et al.* 2021; Boateng *et al.*, 2018). The empirical model for finding the relationship between the study variables is set in equations (3) and (4)

$$DP_{it} = \beta_0 + \beta_1 DP_{it-1} + \beta_2 EM_{it} + \beta_3 AQ_{it} + \beta_4 SIZE_{it} + \beta_5 BI_{it} + \beta_6 PR_{it} + \beta_7 LEV_{it} + \mu_{it} + \varepsilon_{it}$$

(3)

$$DP_{it} = \beta_0 + \beta_1 DP_{it-1} + \beta_2 EM_{it} + \beta_3 AQ_{it} + \beta_4 EMAQ_{it} + \beta_5 SIZE_{it} + \beta_6 BI_{it} + \beta_7 PR_{it} + \beta_8 LEV_{it} + \mu_{it} + \varepsilon_{it}$$

(4)

DP_{it-1}Represents lag of dividend policy

DP represents dividend policy

EM represents earnings management

AQ represents audit quality

EMAQ represents the interaction of earnings quality and audit quality

SIZE represents firm size;

BI represents board independence;

PR represents profitability;

μ_i represents the firm invariant factors

ε_{it} represents the error term. The subscript

it refers to the firm and period respectively.

Measurement of Variables

This study examined how audit quality affected the link between dividend policy and earnings management in Ghanaian listed businesses. Table 1 provides an overview of the proxies used to measure the variables.

Dividend policy (DP)

The dividend payout ratio is used to evaluate dividend policy. Several studies (Haider *et al*., 2012; Ajide & Aderemi, 2014; Marfo-Yiadom & Agyei 2011) used the dividend payout ratio to evaluate dividend policy. The dividend payout ratio is expressed as a percentage of cash dividends to the corporation's net income.

$$DP = \left(\frac{CASH\ DIVIDEND}{NET\ PROFIT\ AFTER\ INTEREST\ AND\ TAX}\right)$$

Earning Management (EM)

Earnings management was assessed using the modified Jones model. This model is regarded as the most prevalent model used by academics in assessing earnings management. Numerous researchers (Alzoubi, 2016; Haider *et al*., 2012; Ajide & Aderemi, 2014) applied this approach in examining earnings management.

$$\left(\frac{TA_{it}}{AT_{it-1}}\right) = \beta_0\left(\frac{1}{AT_{it-1}}\right) + \beta_1\left(\frac{\Delta SALES_{it} - \Delta RECEIVABLE_{it}}{AT_{it-1}}\right) + \beta_2\left(\frac{PPE_{it}}{AT_{it-1}}\right) + \varepsilon_{it}$$

TA represents total accruals.

AT_{it-1} is total assets at the start of the year.

ΔSALES denotes the change in sales.

ΔRECEIVABLE represents the change in net receivables

PPE denotes the amount of property, plant, and equipment.

The residual ε_{it} from the regression is the measure of discretionary accruals" (Alzoubi, p.180).

Total Accruals (TA)=$\Delta CA_t - \Delta Cash - \Delta CL_t + \Delta DCL_t - \Delta DEP_t$

ΔCA represents the change in current assets;

ΔCash represents the change in cash;

ΔCL represents the change in current liabilities:

ΔDCL represents Debt in current liability which is calculated as current liabilities less receivables,

ΔDEP represents a change in depreciation.

Audit quality (AQ))

Audit quality was determined by audit firm size. Audit firm size as a measure for determining audit quality is widely utilised in literature (Muttakin et *al*., (2017); Alzoubi (2016); Piot and Janin (2005). In this research, audit quality was examined as a dummy variable. Firms that were audited by the big four businesses (Pricewaterhouse Coopers, KPMG, Ernst & Young, Deloitte, and Touche) were, allocated 1, while firms audited by the other audit firms were assigned 0.

Control variables

The firm size (SIZE)

Pattiruhu and Paais (2020) discovered the size of enterprises positively influences the dividend policies followed by firms. In this research, the logarithm base 10 of total assets is utilised to determine the size of the business. The selection of the logarithm is supported by its inclination to avoid the scale difficulties that might come from tiny measurements of other model variables. Other research (Bozec & Laurin, 2008; Zeghal *et al*.,2011) used this measure.

Board Independence (BI)

The proportion of non-executive directors on a company's board is known as board independence. Hamdan (2018) discovered that when board independence increased dividend payments increased. “The number of non-executive directors is divided by the total number of directors to measure board independence. This statistic was used to evaluate the independence of the board” (Abor & Fiador, 2013, p.216)

Leverage (LEV)

"A corporation with a highly leveraged financial structure and hence higher interest payments may choose to pay a modest dividend to raise its net worth and ensure that it can continue to fulfil its commitments even if business revenues decline. The link between leverage and dividend policy is negative" (Aasia et al., 2011, p. 1320). This research assesses leverage by dividing total indebtedness by total assets at the end of the fiscal year (Tamimi & Takhtaei, 2014)

Profitability (PR)

According to Pattiruhu and Paais (2020), dividend policy has a favourable and substantive influence on profitability. Profitability was assessed in this study using the net profit to sales ratio. The ratio of net profit to total sales is known as net profit margin. Additionally, action was taken to measure profitability (Hermawan & Mulyawa, 2014; Heikal *et al*., 2014).

Table 2: Variables and Proxies for Measure

Abbreviation	Variable	Measurement
DP	Dividend policy	Cash dividend to net profit after tax
EM	Earning management	Discretionary accruals(Modifies Jones method)
AQ	Audit Quality	A dummy equal is to one if the firm is audited by big four firms and zero otherwise
$SIZE$	Firm size	The natural logarithm of total assets
BI	Board independence	Measure as the ratio of non-executive directors on the Board
PR	Profitability	Net profit margin
LEV	Leverage	Total debts to total assets

Source: Authors compilation (2022)

Data Processing and Analysis

"Data analysis is the rigorous process of choosing, categorizing, comparing, merging, and inferring data to shed light on a certain topic of interest. To emphasize the value of the information, data analysis must encompass the editing, cleaning, and modification of the data" (Ader, 2008, p.340). The study made use of Microsoft excel to process the data to arrive at the various ratios used in the study. Microsoft excel was also used to compute the coefficient of the earnings management. Data entry was done by double-checking figures before entering. Data for this study were analyzed using the Stata software.

To achieve the study's objective, the system GMM regression method was used to determine the dividend policy and earnings management nexus, dividend policy and audit quality, and the moderating effect of audit quality in the association between dividend policy and earnings management. The GMM estimate approach deals with possible endogeneity difficulties which may influence the findings (Roodman, 2009).

Chapter Summary

In the investigation of the nexus between earnings management, dividend policy, and audit quality, the positivist method was applied. The study focuses on companies listed on the Ghana Stock Exchange. Purposive sampling was utilised in the study to determine sample size. The connection between the variables included in the inquiry was examined using the GMM regression technique. The data utilised in the research were analysed using Stata and Excel software. Data from businesses whose financial statements were easily available and accessible during the study period were analysed.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

This chapter summarises the results of the experimental investigation presented in Chapter 3. This chapter examines data from 10 financial organisations over 9 years and 15 non-financial enterprises over 10 years. The major goal of the experiment was to establish how earnings management and audit quality influence dividend policy, and how the moderating influence of audit quality on the link between dividend policy and earning management would each affect dividend policy.

The research's analysis is provided in accordance with its objectives. Descriptive statistics were initially undertaken. The goals were investigated in this study by adopting the by utilising GMM technique of regression to determine the link between the factors.

Descriptive Statistics

In two distinct groups, the descriptive statistics of the research's dependent and independent variables were examined (financial enterprises and non-financial firms). For both financial and non-financial analyses, the analysis is presented. Table 2 and Table 3 present the research's findings.

Financial firms

As observed from Table 1, the average dividend policy is 0.222 between 0 and 1.26. This means that throughout the research period, financial businesses listed on the Ghana stock market had a dividend payout ratio of 22.2%. Dividend payout percentages range from 0% and 126%. The study's data is clustered around the mean (sd=0.26). On average, audit quality for financial enterprises listed on the Ghana Stock Exchange is 0.944 (mean =0.944, standard deviation =0.23). The findings also indicate that the average earnings management practised by financial businesses listed on the Ghana stock exchange, as assessed by the Modified Jones Discretionary module, is 0. 097. This ranges from -3.645 to 4.073(mean= 0.097 and sd= 0.961).

Table 3: Descriptive for Financial Firms

Variable	obs	Mean	Std. Dev.	Min	Max
DPO	90	.222	.26	0	1.206
AQ	90	.944	.23	0	1
EM	90	.097	.961	-3.645	4.073
BIND	90	.747	.107	.5	.909
FSIZE	90	9.298	.577	7.749	10.201
LEVERAGE	90	3.343	7.57	.642	44.991
PROFITABILITY	90	.303	.337	-.289	2.349

Source: Author’s compilation (2022)

Note: DPO refers to Dividend Policy.AQ represents Audit Quality. EM represents Earnings Management. BIND is Board independence. FSIZE represents Firm Size. LEVERAGE represents Leverage PROFITABILITY refers to Profitability.

On average listed financial firms had 74.7% of their board members as independent. The level of board independent of these firms during the period of analysis ranges from 5% to 90.9%. The average firm size of the financial firms during the period of study was 9.298 and that data clustered around the mean (sd=0.577). The firm size ranges from 7.749 to 10.707. The average leverage which was of the firms is 3.343 implying that the total assets owned by the listed firms can service its total debts over three times. The leverage of these firms during the period of studies ranges from 0.642 to 44. 991. Finally the average profit earned by firms is 39.37%. Firms profit ranges from -28.95% to 234,9%.

Non-financial

The average dividend policy of non-financial firms listed on the Ghana stock exchange is 16.3% and ranges from 0 to 217.3%. The data on dividend policy used for the study is clustered around the mean(sd=0.277). The average Audit quality practice of this firm is 0.613. The average earnings management practice by listed non-financial firms is -5.888. The average board independence of listed firms is 0.26 and ranges from 0 to 0.9. The average firm size of listed non-financial firms is 8.403. The leverage ranges from as low as 0.646 to 44.991. and the leverage is 2.045. On average non-financial firms are making a loss of 8.7%. The profit ranges from -2.785 to 0.397

Table 4: Descriptive for Non-Financial Firms

Variable	Obs	Mean	Std. Dev.	Min	Max
DPO	150	.163	.277	0	2.173
AQ	150	.613	.489	0	1
EM	150	-5.888	71.205	-401.369	330.588
BIND	150	.685	.26	0	.9
FSIZE	150	8.403	1.195	6.049	10.707
LEVERAGE	150	2.045	2.91	.646	20.064
PROFITABILITY	150	-.087	.361	-2.785	.397

Source: Author's compilation (2022)

Note: DPO refers to Dividend Policy.AQ represents Audit Quality. EM represents Earnings Management. BIND is Board independence. FSIZE represents Firm Size. LEVERAGE represents Leverage. PROFITABILITY refers to Profitability.

Correlation Analysis

The correlation analysis sought to investigate the link between the study's dependent and independent variables. To check for multicollinearity, this method also helps in analysing the connections between the independent variables.

For each of the variables included in this empirical investigation, the pairwise correlation matrix is provided in Tables 3 and 4. Given that the independent variables do not demonstrate a correlation of as high as 0.9, as recommended by Kennedy (2008), it may be inferred that there are no multicollinearity difficulties. Table 3 demonstrates that for non-financial firms, the correlation between Board independence (BIND) and firm size (FSIZE) is 0.55.

According to Table 4, the strongest correlation was between leverage and business size for financial enterprises listed on the Ghana stock exchange, with a value of 0.599. There is no difficulty with multicollinearity between the independent variables utilised in the study, according to Table 4, which demonstrates that the coefficients do not surpass 0.9. This table also displays the correlation strength as well as the direction of the association between the variables. The results reveal that our models do not significantly exhibit multicollinearity.

Table 5: Pairwise Correlation for Financial firms

Variables	(DPO)	(AQ)	(EM)	(BIND)	(FSIZE)	(LEVERAGE)	(PROFITABILITY)
DPO	1.000						
AQ	-0.036	1.000					
EM	0.010	0.146*	1.000				
BIND	0.125	0.303***	-0.080	1.000			
FSIZE	-0.079	0.484***	-0.024	0.509***	1.000		
LEVERAGE	0.117	0.199**	0.031	0.123	-0.108	1.000	
PROFITABILITY	0.227***	0.029	-0.022	0.213***	0.066	0.232***	1.000

Source: Author's own compilation (2022)

Note: DPO refers to Dividend Policy.AQ represents Audit Quality. EM represents Earnings Management. BIND is Board independence. FSIZE represents Firm Size. LEVERAGE represents Leverage. PROFITABILITY refers to Profitability. *** *p<0.01*, ** *p<0.05*, * *p<0.1*

Table 6: Pairwise Correlation for Non-Financial firms

Variables	(DPO)	(AQ)	(EM)	(BIND)	(FSIZE)	(LEVERAGE)	(PROFITABILITY)
DPO	1.000						
AQ	0.208**	1.000					
EM	-0.056	-0.213**	1.000				
BIND	0.265**	0.295***	0.141	1.000			
FSIZE	0.232**	0.451***	0.238**	0.314***	1.00		
LEVERAGE	0.070	0.050	0.256**	0.145	0.599***	1.000	
PROFITABILITY	0.186*	0.224**	-0.036	-0.175*	-0.022	0.307***	1.000

Source: Author's own compilation (2022)

Note: DPO refers to Dividend Policy.AQ represents Audit Quality. EM represents Earnings Management. BIND is Board independence. FSIZE represents Firm Size. LEVERAGE represents Leverage. PROFITABILITY refers to Profitability. *** p<0.01, ** p<0.05, * p<0.1

Regression Results

The questions of this research are tested in this subsection. The regression findings are provided in Tables 6 and 7 for financial and non-financial enterprises accordingly. Tables 6 and 7 provide the findings of the separate influence of earning management on the dividend policy of listed businesses in Ghana, and the effect of audit quality on the dividend policy of listed enterprises in Ghana. The moderating influence of audit quality on the connection between earning management and dividend policy of listed corporations in Ghana. The findings are reported for financial businesses classified separately from non-financial enterprises.

At a considerable level of 5% and 1% for financial and non-financial correspondingly, the previous year's dividend has a positive influence on the current year’s dividend. This indicates that the current year’s payout is impacted by the dividend that was paid previously. This discovery is backed by research undertaken by (Marfo-Yiadom & Agyei, 2011) who also found a favourable association between the current year's dividend policy and the previous year's dividend policy of banks in Ghana.

Earnings management and dividend policy

At a significant level of 1%, the model indicated that earning management assessed by discretionary accrual has a favourable influence on dividend policy in both financial and non-financial enterprises. Thus earning management is a significant issue that impacts the dividend policy followed by financial organisations listed on the Ghana stock market. This finding supports empirical investigations (Moghri & Galogah, 2013).

Table 7: Regression analysis for financial firms

VARIABLES	(1) DPO	(2) DPO
L.DPO	0.217**	1.333***
	(0.108)	(0.274)
AQ	-0.153*	-11.62*
	(0.0844)	(6.066)
EM	0.0968***	0.580**
	(0.0363)	(0.233)
AQEM		-0.887**
		(0.372)
BIND	1.614*	5.482
	(0.885)	(4.255)
FSIZE	0.121	-0.428
	(0.314)	(1.083)
LEVERAGE	-0.0604	0.329
	(0.0970)	(0.226)
PROFITABILITY	1.045**	0.795
	(0.404)	(0.934)
Diagnostics		
AR (1)	-1.52	-1.59
P-value	0.127	0.112
AR (2)	-1.48	-1.58
Pvalue	0.16	0.114
Sargan Chi2	1.89	2.04
Prb(Sargan)	0.596	0.63
Hansen OIR	13.61	13.7
Prob(Hansen)	0.137	0.09
Observations	70	70
Number of i	10	10

Source: Authors own compilation (2022)

Note: L.DPO refers to the previous year. DPO refers to the Dividend Policy.AQ represents Audit Quality. EM represents Earnings Management. BIND is Board independence. FSIZE represents Firm Size. LEVERAGE represents Leverage. PROFITABILITY refers to Profitability. *** p<0.01, ** p<0.05, * p<0.1

Table 8: Regression Analysis Non-financial firms

VARIABLES	(1) DPO	(2) DPO
L.DPO	0.110***	0.155***
	(0.0273)	(0.0370)
AQ	-0.438***	-0.267***
	(0.00257)	(0.0109)
EM	9.5031***	9.8831***
	(7.54306)	(1.77305)
AQEM		-0.104***
		(0.00732)
BIND	0.559	0.657
	(0.391)	(0.409)
FSIZE	0.332***	0.394***
	(0.0731)	(0.0903)
LEVERAGE	-.0168***	-.0207***
	(0.00648)	(0.00655)
PROFITABILITY	0.0541*	0.220***
	(0.0326)	(0.0497)
Diagnostics		
AR (1)	-1.38	-1.62
P-value	0.168	0.11
AR (2)	-1.98	-1.87
P-value	0.11	0.061
Sargan Chi2	38.71	13.65
Prb(Sargan)	0.011	0.058
Hansen OIR	4.26	9.17
Prb(Hansen)	0.18	0.241
Observations	120	120
Number of i	15	15

Source: Authors Compilation (2022)

Note: L.DPO refers to the Dividend policy for the previous year. DPO refers to the Dividend Policy. AQ represents Audit Quality measured by the audit firm size. EM represents Earnings Management. BIND is Board independence. FSIZE represents Firm Size. LEVERAGE represents Leverage. PROFITABILITY refers to Profitability measure*** p<0.01, ** p<0.05, * p<0.1

Between earnings management and dividend policy, Amar *et al*. (2018) research discovered a substantive favourable correlation. The results of this study, however, are in direct contrast to those of (Haider *et al*., 2012; Ajide & Aderemi, 2014), who have found an unfavourable correlation between earnings management and dividend policy. The findings reveal that earnings management is done to enhance dividend payments, which are meant to offer investors a favourable picture of the firms and to attract future investors. Managers are more compelled to utilise earnings management to let the market know that their firm can maintain its obligations and pay dividends to shareholders. The findings of this research further corroborate the signalling theory's premise that managers are strongly driven to control profits to indicate to the market that firms can pay dividends to shareholders.

Audit quality and dividend policy

The data reported in Tables 6 and 7 further indicate that audit quality evaluated by audit firm size adversely affects the dividend policy of listed financial businesses at a significant level of 10% and non-financial enterprises at a significant level of 1%. The findings imply that when businesses are audited by quality firms are unlikely to pay dividends. This conclusion is in direct contrast with those (Tran, 2012; Boonyanet &Promsen, 2020) that identified a favourable link between dividend policy and audit quality. The conclusion of this research says that when a firm’s financial information is audited by quality auditors the financial information's credibility will grow and also boost the correctness of the company’s profits.

Quality audit leads to a decrease in information asymmetry. A poor audit quality promotes asymmetry of information. The results of this investigation are backed by the lending credibility hypothesis. Dividend-paying corporations tend to tend to manipulate results to pay dividends due to information asymmetry (Amar et al., 2018) to provide good signals to the market. Quality audit can decrease information asymmetry as advocated by the lending credibility theory and guarantee that dividend distributions are done only when the company's performance deserves it.

The moderating effect of audit quality on the relationship between earnings management and dividend policy

The interaction item in model two indicates the moderating influence of audit quality on earnings management and dividend policy. The influence of earnings management on dividend policy is negatively moderated by audit quality at substantial levels of 5% for financial businesses and 1% for non-financial enterprises. The favourable impact of earnings management on dividend policy was lessened by audit quality. The fact is that quality audit reduces knowledge asymmetry between management and shareholders may help to explain the results of the study. Muttakin et al. (2017) found that audit quality decreases earnings management using enterprises listed on the Dhaka market, which is more evidence that quality audit results in a drop in earnings management. The lending credibility theory, which contends that audit quality will eventually reduce earnings management, also appreciates the findings of this research.

The findings of this study are comparable with the results of Zeb *et al.* (2021) who found that in Pakistan, audit quality moderates the relationship between earnings management and dividend policy. This conclusion is also in accord with Siddiqui et al. (2022) who also found that audit quality adversely moderates the connection between dividend policy and earnings management. The conclusion is also backed by the agency theory which indicates that management would make choices to fit their selfish interest therefore shareholders will pay agency costs which includes the services of audits to monitor and preserve the interest of the shareholders. Therefore, quality audits will cut profits and lead to a fall in the dividend payment ratio.

Control Variables

At a significant level of 10% Board independence has a favourable impact on the dividend policy of financial enterprises listed on the Ghana stock market. This means that corporations with great board independence have high dividend payments. This conclusion is congruent with the finding of Hamdan (2018) who also found that board independence favourably increases dividend payments. Also financial firm’s profitability has a good influence on the divided policy as substantial level of 5% for financial businesses and 10% for non-financial enterprises. This conclusion validates the findings of Pattiruhu and Paais (2020) which indicated that there is a substantive favourable association between profitability and dividend policy.

A substantial level of 1% of the non-financial business size has a negative link with dividend policy for non-financial firms but that of finance companies revealed substantive association size of a firm and its dividend policy. At a large level of 1% leverage has a detrimental association with the dividend policy of non-financial business. This contends that institutions with high leverage are more likely not to pay dividends as opposed to enterprises with a low degree of leverage. For financial firms, the relationship between leverage and dividend policy is tenuous.

Chapter Summary

This chapter provided the findings after doing different analyses and statistics. Descriptive analysis was undertaken to characterize the data for financial firms and non-financial companies separately. A correlation test was done using the Pairwise correlation matrix to assess if there was an issue of multicollinearity among the independent variables. The test revealed that there was no issue of multicollinearity since the maximum correlation among the variables was 0.599 which is below 0.9(Kennedy,2008). A regression analysis was done utilising the GMM to fulfil the goals of the research.

The findings revealed that previous years' dividend policy greatly influences the present year's dividend policy of listed corporations in Ghana in a favourable way. The findings also revealed that earnings management favourably affects dividend policy. Again it was discovered that audit quality had a detrimental influence on the dividend policy practices of listed corporations. Lastly, it was demonstrated that dividend policy adversely moderates the link between earnings management and dividend policy.

CHAPTER FIVE

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

Introduction

In this chapter, the study's findings, recommendations, and an overview are presented. The study's findings are highlighted in the summary. Based on the data, conclusions are developed and presented in accordance with the study's goals. In addition to taking into account the study's finding this section made some recommendations. The section concludes by making recommendations for future studies.

Summary of the Study

The study's goal was to evaluate how audit quality affected the linkage between dividend policy and profit management in Ghana. The study concentrated on the impact of earnings management on dividends. The study also looked at the effect of audit quality on dividend policy. The study also looked at the impact of audit quality on the relationship between dividend policy and earnings management. The study focused on enterprises that were listed on the Ghana Stock Exchange. The study divided the sample population into two groups: financial enterprises and non-financial organisations. Ten financial firms were utilised during nine years in the study, while fifteen non-financial businesses were used over ten years. The study used a quantitative research methodology, and it gathered its data from publicly accessible financial.

Summary of Key Findings

The major goal of the study was to look at the link between dividend policy and earnings management. According to the findings, earnings management, as evaluated by the Modified Jones Accrual method, had a favourable and substantial influence on the dividend policy implemented by enterprises listed on the Ghana Stock Exchange (GSE). According to the study's findings, management manipulates statistics to enhance dividend policy (dividend payout ratio) to reassure current and potential investors about the firm's viability. Both financial and non-financial businesses participated in this activity. The outcomes of the study also corroborate the signalling theory's point of view.

The study's second goal was to look at the connection between dividend policy and audit quality. The study found a substantial inverse link between respect for dividend policies at publicly traded companies and audit quality as determined by audit firm size. The study's findings indicate that organisations that are audited by top-tier Big Four audit firms see a decrease in dishonesty and an increase in general quality A good audit will guarantee that the information in the financial statements is correct and accurately portrays the company's activities. As a consequence, dividends are given only when the company's performance justifies it.

The final purpose of the study was to determine if audit quality had a moderating effect on the nexus between dividend policy and profit management. The study's findings indicate that audit quality has a serious adverse moderating impact on the relationship between dividend policy and profit management. According to the study, audit quality serves to counterbalance the favourable influence of profit management on dividend policy. As a result, organisations that conduct quality audits reduce information asymmetry and, as a result, reduce firm-level profit management practices. This finding is supported by the lending credibility idea.

The study's control variables discovered a substantial favourable association between board independence and financial firms' dividend policy. Furthermore, a substantial favourable association between profitability and dividend policy was discovered. Furthermore, it was shown that non-financial firms' dividend policies had a substantial unfavourable link with company size. Furthermore, this study found a substantial unfavourable association between leverage and dividends for non-financial enterprises.

Conclusions

The data analysis shows that the association between dividend policy and earnings management is advantageous. Surprisingly, this study showed an unfavourable link between dividend policy and audit quality. This would suggest that earnings management has a key impact in setting Ghana's dividend policy. This is because high audit quality affects earnings management, resulting in lower dividend payout. The study also concludes that good audit quality helps to minimize the favourable effect of earnings management on the dividend policy of Ghanaian corporations. According to the study, a company's dividend policy is partly determined by its profit levels.

Recommendations

Based on the study's results, the following policy recommendations have been made to reduce the influence of profit management on corporate dividend policy.

The study recommends that investors should not make decisions based on the sole reason of dividend payout. The study showed firms can use earnings management practices to streamline dividend payments. Firms may use dividend payment policy to capitalize on the information asymmetry situation. This recommendation is timely and important because it establishes that listed firms' dividends are positively impacted by earnings management.

Whenever shareholders have the opportunity to choose auditors for their company, the quality of services that the auditor offers must be highly considered. This recommendation is of the essence because quality audits help reduce information asymmetry which is a motivation for management earnings management.

Security and Exchange Commission SEC and other Regulatory bodies with the help of the government should establish policies such as dividend distribution thresholds to impose a specific range of dividend payout for firms. The dividend distribution threshold reduces information and consequentially earnings management (Bennett & Bradbury,2007). Firms will have to comply with this policy which will lessen the signaling use of dividends. This is because firms will be required by law to comply and operate within the dividend limits established.

Suggestions for Further Research

Given the Ghanaian context, further study on earnings management and dividend policy is essential. Different earnings management metrics should be used in future research. For example, in this study, earnings management was examined using discretionary accrual. It is also suggested that different proxies be used in assessing profit management. Again, this study only looked at companies listed on the Ghana Stock Exchange, but future studies could include non-listed companies as well as industry-specific proxies to improve earnings management review.

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