THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

Corporate Governance and Quality of Financial Reporting in Listed Deposit Money Banks in Nigeria

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Abstract:
This study examined the relationship between corporate governance and financial reporting quality of listed deposit money banks in Nigeria. The study adopted the panel methodology as well as other econometric analysis. It was discovered that there exists a significant effect of corporate governance on financial reporting quality; although both variables of corporate governance (board size and board meeting frequency) showed a negative and insignificant effect on financial reporting quality of listed deposit money banks. The study recommends that the amount of board members as well as frequency of board meeting should be considered and moderated so as to gain positive benefits from it.

Keywords: *Corporate governance, shareholders, financial reporting, stakeholders, performance*

1. Introduction

The most important component of the accounting information system is financial reporting. It aims at providing information for decision-makers to meet their specific needs. Financial reporting in banks is mainly the responsibility of directors, which the accountants prepare and the auditors verify. It aims to produce accurate and reliable information that helps users to make informed decisions (Majiyebo, Yahaya& Mohammed, Nyor, 2018). Financial reporting is no longer perceived or viewed as merely a record or a book keeping process; now it has been viewed as a key tool for the management of a company under the principles of good corporate governance. Current and potential investors and other major stake-holders have a significant interest therein (Okereke, 2008).

The quality of financial information continues to be a major cause for concern, according to Sloan (2001). Alexander and Britton (2000) expressed the view that financial reports should be made available in a timely fashion to users as they will improve their effectiveness. The timeliness of the financial reports is therefore considered an important feature to capture quality in financial reporting (Belkaoui, 2002). The financial information must therefore be made available in a timely manner to the users in order to provide effective support for their decision process (Lewis &Pendril, 1996; Mainoma, 2002).

The timeliness of financial reports has been recognized as an essential qualitative feature of financial reporting of quality. A remarkable mechanism remains in place to reduce risks, signaling and trading in emerging capital markets (Owosu-Ansah 2000). According to Nassar et al (2014), financial reports can be described as a structured and financial representation for any entity. In fact, they provide information on the entity for a large number of users with a view to taking quality economic and financial decisions.

Serious concerns about the corporate governance discuss have been raised, according to Aina, Owolabi and Adegbie (2019); Aliyu and Ishaq (2015), following high-profile accounting scandals involving companies like Lehman Brothers, WorldCom, Enron in the U.S., Parmalat in Italy, Marconi in the U.K., Nortel in Canada, One Tel in Australia, Xerox, Adelphia, Tyco, One-Tel, HIH and Cadbury Nigeria PLC., Serious concerns were raised regarding corporate governance practices in general and the quality of financial reporting issues were sharply discussed.

The results of management's stewardship of resources entrusted to it are indicated in financial reports according to IAS 1. Business activities also become increasingly complex; investors are growing and are demanding timely and relevant information. Accounting bodies, regulators, authorities and organizations around the world have dealt with the conceptual timeliness of financial reports. For example, all the provisions and recommendations on timing for the published financial reports have been established by the New York Stock Exchange (NYSE), the United States Security & Exchange Commission (SEC) (Abdelsalam&Straße, 2007). Corporate governance and financial reporting are interwoven with each other. Indeed, financial reporting is an essential part of the mechanism for corporate governance (Melis, 2004;

Melis&Carta, 2010). High quality information is the key objective of the financial reporting activity; while corporate governance provides a form for ensuring the quality of financial reports as part of its objective.

The corporate governance in Nigeria has become one of the most debated issues in the last eight years, according to Owolabi, Alayemi and Owolabi (2015); Okoi, Ocheni and Sani (2014). In 2001, a committee was created by Nigeria's Securities and Exchange Commission, which developed a code of best practices for Nigerian public companies (the 2003 'coded'). In 2005, the Nigeria Institute of Managers created a Corporate Governance Center to advocate among its members for the cause of good corporate governance. In 2006 the Central Bank of Nigeria issued Corporate Governance guidelines for all Nigerian banks; the main purpose of the Nigerian Corporate Governance Code is the exercise of the duties of the Nigerian managers and investors in accountability and transparency.

This should ensure that all stakeholders' interests are fully recognized and protected. The Code of Best practices for Nigerian public undertakings (the 'code') is voluntary, although it is recommended to comply with this Code and state grounds for non-compliance for all Nigerian public undertakings. In achieving and maintaining public trust and confidence in the financial system, effective boards and corporate governance practices are essential ingredients. They are crucial in order for the banking sector in any country of the world to function properly. Poor management could lead to ineffective boards, which could ultimately lead to bank failures. In turn, poor management boards could lead to bank unemployment, fraudulent activities, dubious transactions, which may have negative economic effects (Ogbechie&Koufopoulos, 2010).

For Nigeria's economic growth, financial health and bank performance are important. The banks play three critical roles in the growth of any economy, according to King and Levine (cited 1993 in Ogbechie and Koufopoulos (2010). Firstly, banks have an overwhelming dominance in developing economies' financial systems and are extremely important drivers of economic growth. Second, banks are typically one of the largest sources of finance for the majority of companies in these developing economies. The most important depositary in the economies of developing countries is the banks and the means of payment. The banking sector in Nigeria therefore has an important role to play in the country's economic development. Banks were the main sources of financing on the financial market in Nigeria, and bank lending was the main sources of debt financing for the economy (Central Bank of Nigeria Annual Report, 2006).

These large organizations' failures have led to a greater interest of stakeholders in financial reports and to the increased importance of financial reports. The corporate governance code in Nigeria, 2003, has been regarded as the benchmark in the sector, according to Arabsalehi and Ziaee (2010). With regard to recent problems affecting Nigerian banking in terms of the rapidity of financial reports and the decline of investor confidence, it would therefore be very important to study the timeliness of financial reports in support of investors' confidence and to reduce the tailbacks associated with financial reporting in Nigeria. Hence, this study aims to determine the extent to which corporate governance mechanisms affect the quality of financial reports of listed deposit money banks in Nigeria. It will also determine the extent which board size affect the quality of financial reports.

2. Literature Review

2.1. Conceptual Review

2.1.1. Corporate Governance

Asuagwu (2013) reports that corporate governance is a mechanism which serves to minimize agency costs as a result of the different stakeholder interests. However, Wilson (2006) added that corporate governance is about the way organizations are guided, regulated, and account for the services they use. In O'Donovan's 2003 report, corporate governance is an organizational mechanism that seeks to rule and regulate management by maintaining the security of shareholder and stakeholder investment through information, purpose and transparency.

Corporate administration may be characterized as the mechanism by which the corporate boards control and supervise the management of an organization by the managers (OECD) (1999). It defines the relation between owners, committees, officers and many others, including workers, customers, manufacturers, the society and the state. Corporate governance involves the relationships between the management of corporations, their boards and all their stakeholders, including shareholders and debenture holders

Well-structured corporate governance plays a significant role in promoting the stability and productivity of the financial markets and the quality of returns. In comparison, poor governance may reduce the profitability potential of the company and allow for financial problems, including fraudulent activities which undermine the quality of the company's value. The main consequence of weakened business governance is fraud (Owolabi&Owolabi, 2014; Owolabi, 2010).

2.2. Theoretical Review

2.2.1 Stakeholder's Theory

As stated in Branco and Rodrigues (2007), Freeman (1998) described stakeholders as groups and individuals whose interests are tied to a particular organization and corporate activities are infringed on. The key parties involved are those 'without the continued involvement of whom the company cannot succeed' (Shareholders and owners, workers, consumers, suppliers and even governments and communities who provide the infrastructures and markets for which taxes and other obligations may be due, the laws and regulations of which must be obeyed).

With the growing need for businesses to take all of their interest groups on board, stakeholder theory emerged that companies are primarily responsible for profit (Friedman 1970 in Borlea and Achim, 2013). The principle of this declaration is that management is only necessary if it increases the worth of shareholders. The philosophy of stakeholder's theory proposed that businesses should form their actions to please all parties involved, including their regulations on government. Corporate responsibility until now has been fully embraced and is the most successful in history, as it organizes governance to optimize all stakeholders and thus allow companies to gain a strong competitive advantage (Borlea&Achim, 2013).

In addition, stakeholder theory has become popular, provided that many scientists have shown that corporations' practices have an effect on the outside world. This influence on a bigger business demands a clear disclosure of businesses. This idea is that the business is no longer a shareholder's instrument. In order to satisfy the needs of both internal and external stakeholders, corporate governance should be coordinated. This will most certainly boost the earnings quality.

2.3. Empirical Review

In Nigerian Deposit Money Banks, Manukaji (2018) has researched Corporate Governance and Revenue Smoothing. The board size could not control income smoothing although, the study reveals that corporate governance in deposit money banks in Nigeria have a substantial link to income smoothing.

The audit committee, board independence, board size and financial reporting of listed deposit funds in Nigeria, has been analyzed by Majiyebo, Okpanachi, Nyor, Yahaya& Mohammed (2018). The analysis shows negative but significant effects of audit committee on the financial reporting standard of listed Deposit Money Banks in Nigeria. Furthermore, the size of the audit committee has no important influence on the quality financial reporting of the deposit money banks listed in Nigeria. The analysis suggests that the independence of the audit committee has a detrimental and substantial impact when their independence increases.

Olaoye and Adewumi (2018) were experts on the study of Corporate Governance and Deposit Money Banks Management in Nigeria. They identified that reputable audit firms have a favorable but non-significant impact on sampled banks 'income management. However, the management and leverage of Deposit Money Banks in Nigeria by independent managers is negative and significant.

In Nigerian manufacturing firms,Igodo (2017) researched the processes of corporate governance and income management. It was seen that the Board meeting had unfavorable repercussions on the management of the earnings. The gender and financial ownership of the Board had a negative connection to the management of revenue. The results endorse the adoption of corporate governance standards, as they empower organizations to ensure that income control activities are properly regulated by Nigerian manufacturing firms.

Adebiyi (2017) studied board structure and financial reporting of deposit money banks in Nigeria. This research has found that the structure of the board is one of the main components of Nigeria's financial reporting consistency.

Furthermore,Nkanbia-Davies, Gberegbe, OfurumandEgbe (2016) researched the impact of corporate governance and earnings of listed banks. The result showed that corporate governance and performanceexhibit a strong association. The relationship between the size of staff, independent managers and accrual efficiency has been good.

The effect of corporate governance on the viability of Nigeria's banking sector has been researched by Okoye, Evbuomwan, Achugamonu and Araghan (2016). It has been observed that corporate governance has a huge effect on the viability of the Nigerian banking industry.

The Board's features and financial performance of deposit money banks were analyzed by Abu, Okpeh, Arumona and Uchenna (2016), in Nigeria. The findings indicate that the success of the Deposit Money Bank has been strongly and favorably correlated with or affected by International Management, whereas that of the Deposit Money Bank in Nigeria has an adverse effect. Other factors, such as executive director, non-executive director independent and women director, have little effect on Nigeria's success at banks.

The research on corporate governance and efficiency audit in Nigeria by Ejeagbasi, Nweze, Ezeh and Nze (2015) covers the banking sector. The outcome indicates that the Board's leadership, though having unfavorable and negative relationship with audit quality, has a substantive impact on audit quality. In addition, the results indicate that the concentration of ownership is positive, but not significant.

The Impact of Corporate Governance on Nigeria's commercial bank performance was analyzed by Okoi, Ocheni and Sani (2014). Corporate governance has been shown to impact the efficiency and value of Deposit Money Banks. Good governance requirements are critical for banks and better governance leads to higher investment levels and greater investment tolerance to growth opportunities.

3. Methodology

A panel data regression analysis was used to successfully examine the correlation between corporate governance and the quality of financial information in listed deposit money banks in Nigeria. Panel methodology based on Pesaran, Shin and Smith data (2000) are defined as repetitive observations of individual variables observed over many times, normally on the same cross section. Therefore, since the data obtained were time series and sectional data, this analysis adopts this approach. The study also documented the means and standard deviations of the different variables used in the study with descriptive statistics. In addition, for the period from 2008 to 2017 it adopts the use of sub-data for 15 sampled banks listed on the stock market of Nigeria (NSE). The listed banks sampled were used to calculate the impact of corporate governance on the quality of financial information as their financial information could be measured reasonably easily.

3.1. Accounting Quality (TIME)

Different authors have defined Accounting quality differently; nevertheless, in this research work, it has been defined as in terms of 'timeliness'. According to Uwuigbeet.al (2016), timeliness of financial information has been described as a qualitative characteristic of financial reports; this is because it has the capacity to materially influence the decisions of the users. According to McGee (1998), timeliness of financial reporting is the time it takes to disclose the accounting information to the members of the public. In the same vein, it is measured using the natural logarithm of a number of days between year-end and the signature of the auditors' report after year end. In the context of this research, this study used quality of financial reporting, Timeliness and Accounting Quality interchangeably. Hence, the longer the time, the less the accounting quality and vice versa.

3.2. Model Specification

In previous experiments, multiple corporate governance factors were used (Klein, 2002; Kajola, 2008; Love, 2011). These factors are the BSIZE box size and the CEO and Audit Committee (Owolabi& Dada, 2011). Board Member and Chief Executive Status (CEOSTATUS). This research has therefore adopted a comparatively modern corporate governance assessment authority that was not commonly used in previous studies. That is the frequency of the Board of Directors (BMF). A linear regression model equation was used as an assessment of the important impact of corporate governance on the consistency of the financial report in listed banks. The business governance and consistency of the financial statements are the two elements included in this analysis. The equation of regression is calculated as:

TML= *f* (BS, BMF) ……………………………………………………………………. (1)

Equation (1) above is specified as an econometric model in equation (2) below:

$TML_{it}= \beta_{0it} + \beta_1 BS_{it}+ \beta_2 BMF_{it} + \mu_{it}$……………………………………………… (2)

Where:

TML= Timeliness

BS= Board Size

BMF= Board Meeting Frequency

μ= Error term

β_0 is the constant, and β_1 and β_2 are the coefficients of the respective independent variables of the above model capturing the impact of changes in each independent variable on the dependent variable. The Subscript, $_t$, refer to the time period of observations and in the case of the present study, $_{t=}$ 2008-2017.

4. Data Analysis, Presentation and Interpretation

Dependent Variable: QAI **Method: Panel** **Sample: 2008 2017** **Periods Included: 10** **Cross-sections Included: 10** **Total Panel (Balanced) Observations: 100**				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
BSIZE	-0.897546	0.843912	-1.063554	0.2904
BMF	-0.161780	0.442033	-0.365991	0.7153
C	100.7499	11.75903	8.567876	0.0000
R-squared	0.848321	Mean dependent var		266.0918
Adjusted R-squared	0.829362	S.D. dependent var		195.8508
S.E. of regression	69.06174	Sum squared resid		419718.1
F-statistic	44.74313	Durbin-Watson stat		1.972728
Prob(F-statistic)	0.000000			

Table 1

Source: Authors Computation (2020)

The study applied a fixed effect model for the panel regression analysis based on the Hausman test result showing estimates of p < 0.05. Hence, the null hypothesis is accepted. While the fixed-effects model is rejected.More so, since the p-value of (0.03) in appendix is lesser than 0.05recommending a fixed effect model. Based on the results from the analysis, it is observed that the independent variables jointly explained 83% percent of the variations in the dependent variable (quality of financial reports). This invariably suggests that about 17% percent of the variations in the dependent variables is accounted for by other factors not captured by the model. Similarly, findings from the Fishers ratio (i.e., the F-Statistics which is a proof of the validity of the estimated model) presents a p-value that is less than 0.05 (i.e., 0.000< 0.05); this result suggest that there is a significant relationship between the independent variables and the dependent variable.

Furthermore, results show that there is a negative and insignificant relationship between board size and the timeliness of financial reports produced by the sampled banks. This is evident in the t-statistics values of (t = -0.1618; p = 0.7153<0.05) level of significance. This result suggests that a unit increase in the frequency of board meetings will invariably bring about a 72% unit of reduction in the timeliness of financial reports of the sampled banks. This outcome corroborates the findings of Abdul-Raman and Muhammed-Ali (2006), Eisenberg, Sundgren and Wells (1998); Yermack (1996); Lipton and Lorche (1992); Vafeas (2000); Ahmed, Hosain and Adams (2006); Bradbury, Mak and Tan (2006) where a similar result was observed.

5. Conclusion and Recommendations

This paper examined corporate governance and the quality of financial reports in listed deposit money banks in Nigeria. The governance structures used in this analysis include board size and committee meetings frequency. It is noted from the aforementioned review that the timeliness of financial reporting appears to have a major effect on corporate governance. It was concluded that larger boards are getting inepter as they appear to intensify bad decision-making and slow down the decision-making phase. The analysis further concludes that a rise in board meeting frequencies would affect financial results in a timely manner in listed deposit money banks in Nigeria

However, the study advises to include a fair number of directors on the board. Furthermore, broad and overcrowded boards in Nigerian listed banks should be prevented in order to guarantee timely financial reporting. This will facilitate quicker correspondence, collaboration and the release of financial results in due course. This research is confined to only two factors in corporate governance which are board size and meeting time. However, in future study other factors such as the board expertise, the international expatriate on board may be considered. Further analysis can also be rendered in other industries.

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Appendix

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	2.235761	2	0.0270

Table 2

	QAI	BSIZE	BMF
Mean	87.68000	13.52000	5.780000
Median	76.50000	14.00000	5.000000
Maximum	660.0000	20.00000	13.00000
Minimum	2.000000	6.000000	3.000000
Std. Dev.	74.71804	2.900644	1.915276
Skewness	5.137069	-0.325073	1.096357
Kurtosis	37.10493	3.413953	4.526668
Jarque-Bera	5286.269	2.475194	29.74462
Probability	0.000000	0.290080	0.000000
Sum	8768.000	1352.000	578.0000
Sum Sq. Dev.	552695.8	832.9600	363.1600
Observations	100	100	100

Table 3

	QAI	BSIZE	BMF
QAI	1.000000	-0.165889	-0.071999
BSIZE	-0.165889	1.000000	0.020800
BMF	-0.071999	0.020800	1.000000

Table 4