第 48 卷第 5 期
2021 年 5 月

湖南大学学报（自然科学版）
Journal of Hunan University（Natural Sciences）

Vol. 48. No. 5.
May 2021

Open Access Article

IMPACT OF CORPORATR GOVERNANCE ON THE FINANCIAL REPORTING QUALITY IN THE NIGERIAN BANKING INDUSTRY.

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Abstract: This study intends to find out the impact of corporate governance (with specific reference to audit committee characteristics) on the financial reporting quality in the Nigerian banking industry. The frequency of the meeting of the members within the audit committee does not affect the quality of financial reporting in the Nigerian banking industry. The study provides statistical evidence of significant positive relationship between audit committee financial expertise and financial reporting quality in the Nigerian banking industry.The composition of members within the audit committee affect the financial reporting quality in the Nigerian banking industry. The study found a negative insignificant relationship between audit committee independence and financial reporting quality in the Nigerian banking industry.

Keywords: CG,DD-Model ,Descriptive Statistics , ADF etc

抽象的：

本研究旨在找出公司治理（具体参考审计委员会特征）对尼日利亚银行业财务报告质量的影响。 审计委员会成员会议的频率不会影响尼日利亚银行业的财务报告质量。 该研究提供了尼日利亚银行业审计委员会财务专业知识与财务报告质量之间显着正相关关系的统计证据。审计委员会成员的组成影响了尼日利亚银行业的财务报告质量。 该研究发现，尼日利亚银行业的审计委员会独立性与财务报告质量之间存在不显着的负相关关系。

关键词：CG，DD-Model，描述性统计，ADF等

Introduction

1.1 Background to the Study

The issues of corporate governance(CG) continue to attract considerable national and international attention as a result of financial scandals around the world and the recent collapse of the major corporate institutions in the USA and Europe such as Lehman Brothers, Merrill Lynch, American International Group (AIG) Thisis in addition to Companies in Nigera such as African Petroleum Oil now Forte Oil Plc, which have brought to the fore, once again, the need for the practice of good corporate governance. CG is known as the process of

Received: February 5, 2021 / Revised: March 7, 2021 / Accepted: April 4, 2021 / Published: May 28, 2021
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acting in the best interest of the stakeholders by emphasizing on the observance of corporate governance code in relation to accountability, transparency and disclosure of vital information of corporate bodies operations,(Sadiq and Mas' ud 2013)

The corporate governance of banks in developing economies is important for several reasons. First, banks have an overwhelmingly dominant position in developing economy financial systems, and are extremely important engines of economic growth, (Ogbechnie 2011). Second, banks in developing economies are typically the most important source of finance for the majority of firms. Third, banks in developing countries are the main depository for the economy's savings and provide the means for payment. In the last two decades, developments in the Nigerian finacial sector have reinforced the need for greater concern for CG in the financial institutions in the country (Omankhanlen, Taiwo and Okorie,2013). It is apparent that the corporate governance of banks is highly significant than other industries because of the vital monetary intermediation-role that banking sector places in any economy, (Matama 2008).

This is considering its role in ensuring quality of financial Reporting. Finacial Reporting Quality (FRQ) is defined as the precision with which financial reporting conveys information about the firm's operations, in particular its expected cash flows that inform equity investors. Corporate scandals of the last decade and collapse of big firms in recent years raised concerns about financial reporting quality which led to the passage of Sarbanes – Oxley which had a focus on the financial aspects of corporate governance. Financial reporting should thus be prepared with integrity, because it is the major medium of communication between all stakeholders in corporate organization, and the backbone of sound financial reporting is corporate governance (Sullikan, 2000).

In view of the realationship between corporate governance and financial reporting quality, countries have been taking steps to ensure sound corporate governance practices. In Nigeria, the issue has been given the front burner status. For instance, the Securities and Exchange Commission (SEC) sets up a committee on corporate governance in public companies; the Banker's Committee also set up a sub-committee on corporate governance for banks and other financial institutions in Nigeria. This is in addition to the Sarbanes – Oxley which focus on financial aspects of corporate governance.

It is in view of the above corporate failures, financial scandals and lack of public confidence in financial reporting that this study aimed at evaluating the relationship between corporate governanceandfinancial reporting quality in the Nigerian Banking Industry. The Research study is designed in five chapters. Chapter one is the introduction. Chapter two covers conceptual framework and literature review. Chapter three is designed to cover research methodology of the study. Chapter four is centered on data presentation, analysis and interpretation. And finally chapter five concludes the research work and suggests recommendations.

1.2 Statement of the Research Problem

In the Nigeria, a survey, by the Securities and Exchnage Commission (SEC) reported in a publication in April 2003, showed that corporate governance was at a rudimentary stage, as only about 40% of quoted companies, including banks had, established codes of corporate governance in thier firm specically for the financial sector, poor corporate governace was identied as one of

the major factors in virtually all known instances of a financial institution's distress in the country(CBN 2006). The crises in the Nigerian banking industry has been linked with corporate governace malpratices which led to weak internal control system, excessive risk taking, insider abuses, lack of quality in the financial reporting etc. Finacial statement prepared by banks lack public confidence which as a result of weak and poor C G .

Few studies were conducted on banks corporate governance and its impact on the financial reporting, Feasible among these studies are those carried out one by Adams and Mehtan, (2000); Beasley,(1996); Vafaces,(2000); Fama and Jensen,(1983); Slon(2001) all Facuses on the Board characteristics, size and Composition on value, they didnot investigate whether Audit Committee characteristic (size, expertise, Independence, Composition meetings) has impact on financial reporting quality, the interest in the current research study stems from this of gaps left by previous researchers. Therefore, this study examines the effect of the CG on financial reporting quality in the nigerian banking industry.

1.3 Objectives of the Study

The main aim of this study is to evaluate the relatiionship beween Audit committee characteritics on finacial reporting quality in the Nigerian banking industry. The specific objectives of the study are as follows:

1) To determine if there is a significant relationship between audit committee expertise and financial reporting quality in the Nigerian banking industry.
2) To ascertain if there is significant relationship between audit committee independence and financial reporting quality in the Nigerian Banking Industry.
3) To examine if audit committee composition affect financial reporting quality in the Nigerian Banking Industry.
4) To evaluate the effect of audit committe meeting on the financial reporting quality in the Nigerian Banking Industry.

1.4 Research Hypothesis

In order to help achieve objectives, the following hypothesis was formulated by the researcher:

Ho1: There is no significant relationship between audit committee expertise and financial reporting quality in the Nigerian Banking Industry.

Ho2: There is no signnificant relatioship between audit committee independence and financial reporting quality in the Nigerian Banking Industry.

Ho3: There is no signifcant relationship between audit committee composition and financial reporting quality in the Nigerian Banking Industry.

Ho4: There is no significant relationship between audit committee meeting and financial reporting quality in the Nigerian Banking Industry.

1.5 Significance of the Study

While several studies examined the impact of corporate governance on the financial reporting quality, as in researches conducted by Adams and Mehtan, (2000); Beasley, (1996);Pincus and Wong, (1986);Slon,(2001); Fama and Jensen,(1983); and Ajala,Amuda and Arulogun,(2012) none of them explores the clear relationship betweenaudit committee characteristics (size, composition, financial expertise,independence and meeting) on the financial reporting quality in the Nigerian

Banking Industry. In filling this research gap, this study makes a number of key contributions to the literature audit committee characteristics and financial reporting quality.

The study benefits shareholders and employees in the industry in evaluating the content and quality of financial information they are using. The study will also guide investors in making investment decision in the industry. The findings of the study help policy-makers and regulatory bodies in the formulation and implementation of sound policies in order to improve the efficiency of the industry.

1.6 Scope of the Study

This study examines the impact of corporate governance on the financial reporting quality in the Nigerian Banking Industry with specific emphasis on audit committee characteristics. The study covers all the 21 banks quoted with the Nigeria Stock Exchange (NSE) as at December 2019.

The study covers a period of 6 years (2013-2019) with a view to assessing the level at which banks carry out their operation.

1.7 Limitation of the Study

The limitations of this study begin to show up as the research work continues. The effort and concern of this study concentrates on arriving at a meaningful research work. Despite all effort put into the study, there exist a number of limitations. It is not possible to cover the entire population of the study, the researcher conducts the study based on the sample drawn from the population. The time within which the study meant to be completed was not enough to gather the necessary data from all the quoted banks.

The study doesn't cover all the components of code of corporate governance; a specific emphasis is given to the board Characteristics and audit committee characteristics. The study therefore covers the key characteristics of board and audit committee which were size, leadership composition, independence and financial expertise.

Literature Review

2.1 Introduction

This chapter discusses the impact of corporate governance on the financial reporting quality in the Nigerian banking industry. The chapter reviews conceptual framework of corporate governance as well as financial reporting. Furthermore, it identifies and discusses the theoretical framework as well as empirical studies on the relationship between corporate governance and financial reporting quality.

2.2 The Concept of Corporate Governance

The term corporate Governance was first used by Rigard Ealls, in 1960 to denote the structure and functioning of corporate polity. The term was derived from an anaogy between cities, nations or state and the government of corporations. Early writers in finance literature used representative government as an important advantage over partnership. Recent attention and dominance of the term could be attributed to corporate scandals and effort made by international and national regulators to come up with structured way of managing corporate entities by a way of frafting and issuing "corporate governnace Codes" (Ahamd Bello 2012).

The need for corporate governace arises becouse of the separation of management and ownership in the moderm corporation. This seperation of ownership from control implies a loss of effective control by shareholders over managerials decisions partly as a result of this

aligning the incentives of managers with those of shareholders. With the significant increase in the equity holding of investors. There has been an opportunity for reversal of the seperation of ownership and control problems becouse ownership is not so diffused.

Corporate Governance has been looked at and defined variedly by different scholars, practitioners and regulatory authourities. However, the all have pointed to the same end hence given more of a concensus in the definition Coleman and Nicolas-Biekpe (2006) defined coporate governance as the relation ship of enterprises to shareholders or the wider sense as the relationship of the enterprise to society as a whole. In another perspective cadbury, (2002) defined coporate governace as a system by which companys are directed and control. Similarly the code of best practice on corporate governance in nigeria defines corporate governance "as the way and manner in which the affairs of the companies are conducted by those charged with the responsibility" Corporate governance is therfore the way and manner by which the company is managed in the best interest of shareholders and other stakeholders. However the more all emcompassing definition of the term is that given by Alex and Niyan (2013) as the balance of power with which the organisation is directed, managed, supervised and hold accountable.Ogbeche (2011) sees Corporate Goveernance as effective, transperent and accountable governance of tha ffairs of an organisation by its management and board, it is about decision –making processes that holds individuals accountable, encourage stake holders participation and facilitates the flow of information

2.2.1 Historical overview of Corporate Governance

The word governance dates back to the work of Chaucer. In his days, it carries the connotation which means either the action or the method of governing and it is in the latter sense that it is used with reference to companies. Though corporate governance is viewed as a recent issue but nothing is new about the concept because, it has been in existence as long as the corporation itself (Imam, 2006: 32).

The history of corporate governance, as seen by academics as well as other researchers, can be traced back to the work of Berle and Means (1932). They observed that the modern corporations having acquired a very large size could create the possibility of separation of control over a firm from its direct ownership. Berle and Means' observation of the departure of the owners from the actual control of the corporations led to a renewed emphasis on the behavioural dimension of the theory of the firm.

Over centuries, corporate governance systems have evolved, often in response to corporate failures or financial crises. The first well-documented failure of governance was the South Sea Bubble in the 1700s, which revolutionized business laws and practices in England. Similarly, much of the security laws in the United States were put in place following the stock market crash of 1929. There has been no shortage of other crises, such as the secondary banking crisis of the 1970s in the United Kingdom, the U.S. savings and loan debacle of the 1980s, East- Asian economic and financial crisis in the second half of 1990s (Flannery, 1996).

In addition to these crises, the history of corporate governance has also been punctuated by a series of well-known company failures, the

Maxwell Group raid on the pension fund of the Mirror Group of newspapers, the collapse of the Bank of Credit and Commerce International, Baring Bank and in recent times global corporations like Enron, WorldCom, Parmalat, Global Crossing and the international accountants, Andersen (La Porta, Lopez & Shleifer, 1999), and some companies in Nigeria like Forte Oil Plc.

These were blamed on a lack of business ethics, doubtful accountancy practices and weak regulations. They were a wake-up call for developing countries on corporate governance. Most of these crisis or major corporate failure, which was a result of incompetence, fraud, and abuse, was met by new elements of an improved system of corporate governance (Iskander and Chamlou, 2000).

2.2.2 Corporate Governance Mechanisms

One of the consequences of separation of ownership from management is the day-to-day decision making power (Jensen & Meckling, 1996) That is to say, the power to use the capital supplied by the shareholders rest with persons other than shareholders themselves. This separation of ownership and control give rise to an agency problem whereby there is the tendency for management to operate the company in their own interest, rather than that of the shareholders' (Jensen & Meckling, 1996). This gives opportunities for managers to build illegitimate empires instead of providing sound financial statement. Various suggestions have been made in the literature as to how the problem can be ameliorated (Hermalin and Weiisbacla, 2001, Jensen and Meckling, 1996; Shleifer and Vishny, 1997). Corporate governance mechanisms include board of directors, shareholders as well as audit committee:

(a) Board of Directors

Section 224(1) of CAMA Cap. C20, LFN 2004 describe directors of a Comapny as " persons duly appointed by a company to direct and manage the business of the company" Therefore, the board of directors has the responsibility for the governance of their companies. They do this by setting the company's strategic plans, providing the leadership to implement the plans,supervising the management of the business and reporting to shareholders on thier stewardship.

The business of a company is managed under the direction and control of a board of directors who delegates such to the Chief Executive Officers (CEO) and other management staff who carry on the routine managerial affairs of the company. The board is responsible for the appointment of a qualified person as the CEO. The directors with their wealth of experience provide leadership and direct the affairs of the company with high sense of integrity, commitment to the company, it business plans and long-term shareholders value.

(b) Shareholders

Section 79 (1) (2) and (3) of the companies and Allied Matters Act(CAMA) 204 as amended stated that "shareholders are the owners of a company. On the basis of the number of shares held" shareholders can be classified as majority or minority shareholders. Majority shareholders hold significant number of shares in the company. Shareholder can be individuals, group or institutional investors.

The board of the company should have effective communication with shareholders to enable them understand the business, risk profile, financial condition and operating performance of the company. The shareholders should be involved in the appointment and removal of directors and

auditors. Furthermore, the shareholders have the right to ask questions about the direction of the company and especially on the remuneration policy of key executive members and board members, which should be like to how financial reporting of the company is in relation to policies made by the board of directors in promoting the company's good image in their host community. There should be at least one director each on the board representing the minority shareholders and members having at least 20% of the total share capital of the company.

(c) Audit Committee.

The function of the board of directors are performed through it various standing commoittees, among these committees we have Audit Committe, whose main fuction should include audit, financial reporting and internal control,should be up non executive directors. The Companies and Allied Matters Act,Cap. C20 LFN 2004 states that a public limited company should have an audit committee (maximum of six members) in place. The members are expected to be conversant with basic financial statement. An audit committee is expected to provide an oversight function on effective internal control reliable financial reporting, which must comply with regulatory requirement and corporate code of conduct.

This function is being exercised on behalf of shareholders. They review not only external auditor's report but also that of internal auditor. This is to help increase public confidence in the credibility and objectivity of published finance statements and assisting the non-executive directors in meeting their responsibilities of financial reporting. The audit committee maintains a constitution dialogue with external auditors and the board in order to enhance the credibility of financial disclosures.

2.2.3 Corporate Governance in Nigeria

The ongoing global financial crisis that started in late 2007 and the recent corporate scandals that led to the demise of corporate giants like Arthur Andersen, Enron, WorldCom, etc, has brought out the importance of effective corporate governance the world over. The concept of corporate governance as previously noted, is relatively new in Nigeria and the rest of the underdeveloped and developing economies. As earlier pointed out, the failure of companies in the developed countries such as Arthur Andersen, Enron, WorldCom, the problems with Fannie Mae, Citi Group, etc, in the United States, Royal Bank of Scotland and Baring bank in the United Kingdom, Parmalat in Italy and Satyam in Indian, are clear indications for reform in international best practices in corporate governance (Moran, 2010).

The 1999 change in government in Nigeria ushered in a new democratic administration with a policy to attract new and sustainable foreign investments which necessitated the need for reform in all ramifications. This resulted in an established commission to review the existence, adequacy and relevance of corporate governance in Nigeria relative to the international best practices in response to the New International Economic Order (NIEO). Thus, the Nigerian Code of Corporate Governance Practices was developed in 2003 based on unitary board structure (as in UK and USA) with emphasis on the identified triple constraints: the role of board of directors and management, shareholders rights and privileges, and the audit committee (Oyebode, 2009).

In Nigeria, the recent insider's trading, massive and prevalent frauds, mandatory retirement of CEOs of banks, due to corrupt practices and inefficient rubber-stamped board, have combined to signal the absence of or failure of existing corporate governance structure. The Company and Allied Matters Act (CAMA) enacted to regulate and balance the relationship among the board, shareholders and the management including other stakeholders, failed woefully due to inadequate enforcement capacity (Oyebode, 2009).

The corporate governance regulatory institutions in Nigeria such as the Security and Exchange Commission (SEC), Central Bank of Nigeria (CBN), Corporate Affairs Commission (CAC) and the Nigerian Deposit Insurance Corporation (NDIC), are staffed with self-interested executives who easily and readily collaborate with companies' senior executives to compromise the shareholders' interests. Board members are picked from the pool of high-profiled retired senior military officers and civil servants without expertise in basic finance and business operations (Okpara, 2000).

2.3 Concept of Financial Reporting

If accounting is the language of finance, then financial reporting is the "communication of financial information useful for making investment, credit, and other business decisions" (Wild, Shaw, and Chiappetta, 2009). Such communications include general purpose financial statements such as income statements, balance sheets, equity reports, cash flow reports, and notes to these statements. In a broad sense, everyone uses financial reports. We all receive receipts when we make purchases from stores as well as receive bills for payments. In a sense, these are both financial reports that communicate to us the status of our accounts or individual transactions. When we focus on business, however, we can more easily focus on managers, investors, creditors, and even the government. Managers use financial reports to make business decisions. Investors and potential investors alike use this information to help make a decision about whether they will buy, sell, or hold onto a particular company's stock. Another large group of people who use financial reports are creditors. A creditor would use financial reports to determine their risk in loaning money to a particular company. Financial reporting is an important element of the system of corporate governance and some failures of corporate governance may therefore be due to inadequate financial reports (Whittington, 1993). This is because the financial reporting serves as the main means of communication between companies and stakeholders (Whittington, 1993). Published corporate annual reports are one of the many forms of accounting reports made available to third parties and probably the most common and well-known form (Stone, 1967).

According to International Financial Reporting Standard, (IFRS 2007), the major objective of financial reports is to provide financial information about the financial position of an entity that is useful to a guide range of users in making economic decisions. IFRS, (2010), states that the general purpose financial reporting is to provide financial information about the reporting entity that is useful and potential to users in making decision to provide resources to the entity. Rappaport, (1962), states that for reporting to be channeled properly, there has to be determination of whom the report should be addressed to determination of what type of information should be communicated and also determination of what type of such information

should be examine by independent public accountants.

Financial reporting has so many characteristics among them which are reliability, relevancy, materiality, verifiability, and neutrality. Relevance is defined as the capacity of information to make a difference in a decision by helping the users to form predictions about the outcomes of past, present and future events or to confirm or correct prior expectations (FASB, 1990). Four qualities build up reliability on information as given by Glautier (2001), and FASB (1990). These are: freedom from material error; faithful representation; neutrality and prudence. Information is material if it is capable of influencing user's decision taken on the basis of financial statements (Glautier, 2001; and Dandago, 2000). However, FASB, (1990), defined materiality as "the magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of reasonable person relying on the information would have been changed or influenced by the omission or misstatement. Verifiability is the ability through consensus among measurers to ensure that information represents what it purports to represent or that the chosen method of measurement has been used without error or bias. Neutralityis defined by FASB, (1990), as the absence in reported information of bias intended to attain a predetermined result or to induce a particular mode of behavior.

2.3.1 Statutory Framework of Financial Reporting in Nigeria

This refers to all standards, laws and related interpretations issued by International Accounting Standard Board, Corrupt Practices and other Offences Act of 2001, Economics and Financial Crimes Commission Act of 2002, Nigerian Stock Exchange Act of 1961, Institute of Chartered Accountants of Nigeria Act (1988), Companies and Allied Matters Act (1990), Banks and Other Financial Institutions Act (1991), Nigerian Insurance Act (2003) and Nigerian Accounting Standard Board Act (2003) to mention among others.

Corporate Governance and Financial Reporting Quality in other parts of the world.

Nesrine and Abdelwahed, (2011), using a sample of 22 non-financial firms listed on the Tunisia Stock Exchange during the period 1997-2007 studied corporate governance and financial reporting quality. The study used McNichols, (2002) model which considers the standard deviation of the residuals or the error terms as a measure of reporting quality. The results reveal that the governance mechanisms positively affect the financial information quality of the companies. The study observed that the debt ratio improves the information quality of companies. This can be due to the fact that the creditors require a good quality of financial reporting in order to grant credits to the firms and guarantee the repayment of the debts. Finally, the study suggests investigating the link between corporate governance and accounting quality in other emerging markets.

Younes, (2011), conducts empirical studies on the relationship between corporate governance and the timeliness of corporate financial reporting. The facts deduced in the study revealed that there is a significant relationship between the timeliness of corporate financial reporting and corporate governance for companies listed on Egyptian stock exchange during the period from 1998 to 2007.

The study investigates the role of corporate governance level on the timeliness of corporate financial reporting. The study investigates the relationship between industry type, company size, gearing, leverage, earnings quality, earnings management, disclosure, audit opinion and the timeliness of corporate financial reporting. The results show that Egyptian publicly listed firms have taken less timeliness to publish their annual financial reporting since application corporate governance principals, the average of days lag between the end of the financial year and the publication of annual reporting has decreased from 134 days in 1998 to 72 days in 2007.

Cristina, (2010), using a sample of 39 firms listed on the Portuguese Stock Exchange, for the period between 1996 and 2001 analysed the relationship between the composition and characteristics of corporate governance on the financial reporting quality of Portuguese companies. The data was obtained from annual reports. The results revealed a significant relationship between composition and characteristics of corporate governance on the financial reporting quality.

The results show that the board composition changes and its degree of independence do not produce any influence on the quality of the accounting information. The board size was the variable that presents a relationship with the level of accounting discretion, being moderately associated with an increase in the quality of financial reporting. The study concluded that these results provide the evidence that, although in formal terms the Portuguese institutions (Portuguese Stock Exchange Commission) have accompanied the main international guidelines related to corporate governance recommendations, the actual implementation of these rules did not occur.

Research Methodology

3.1 Introduction

This chapter explains the methodology used by the researcher in conducting the research work. It presents the list of elements constituting the population of the study. It consists the following subsections: population of the study, research design, sample size and sampling technique. The chapter also explains the appropriate method used in sourcing data and how such data would be summarized in tables. Finally, the statistical methods of data analysis adopted and the variables of the study are also part of this chapter.

3.2 Research Design

This study employed ex-post-facto research design (since the variables of the study were not controlled because the phenomenon of the study has already occured) as the study entails the use of annual reports and accounts of commercial banks that are quoted with the Nigeria Stock Exchange (NSE) as at 31st December, 2019.

3.3 Population of the Study

The population for this study consists of all the 21 commercial banks that are quoted with the Nigerian Stock Exchange (NSE) as at 31st December, 2019 with a view to examine the impact of corporate governance on financial reporting quality in the Nigerian banking industry. The time frame considered for this study is from 2008 to 2019. Table 3.1 below presents population of the study as quoted in the Nigerian Stock Exchange (NSE) as at 31st December, 2019.

Table 3.1: Population of the Study.

S/N	NAME OF THE BANK
1	Access Bank
2	Citibank Plc

3	Diamond Bank Plc
4	Ecobank Nigeria Plc
5	Enterprise Bank Limited
6	Fidelity Bank Nigeria
7	First Bank of Nigeria
8	First City Monument Bank
9	Keystone Bank Limited
10	Guaranty Trust Bank
11	Mainstreet Bank Limited
12	Skye Bank
13	Stanbic IBTC Bank Nigeria Limited
14	Standard Chartered Bank
15	Sterling Bank
16	Union Bank of Nigeria
17	United Bank for Africa
18	Unity Bank Plc.
19	Wema Bank
20	Zenith Bank
21	Heritage Bank Plc

Source: NSE Fact book, 2019

3.4 Sample Size and Sampling Technique

The sample size for this study consists of 11 banks out of 21 selected from the quoted commercial banks with the Nigerian stock exchange as at 31st December, 2019. The sample size is calculated based on Yaro Yamani's formula (cited in Kee 2008) as follows:

$$n = \frac{N}{1 + Ne^2}$$

$where;$

$N = The\ population\ size$

$n = The\ sample\ size$

$e = Marginal\ error\ at\ 20\%$

$$\frac{21}{1 + 21(0.20)^2}$$

$$\frac{21}{1 + 21(0.04)}$$

$$\frac{21}{1 + 0.84}$$

$$\frac{21}{1.84}$$

11.41

For the purpose of this study, simple random sampling technique is employed in selecting the sample size for the study. The technique is employed because it is unbiased and gives each member of the population an equal chance of been selected.Table 3.2 below presents the sample size of the study.

Table 3.2: Sample of the Study

S/N	NAME OF THE BANK
1	Access Bank Plc
2	Ecobank Nigeria Plc
3	Fidelity Bank Plc
4	First Bank Nigeria Plc
5	Guarantee Trust Bank Plc
6	Sterling Bank Plc
7	Union Bank Plc
8	Zenith Bank Plc
9	Diamond Bank plc
10	Stambic IBTC Bank plc
11	United Bank for Africa Plc

Source: Table 3.1

3.5 Source and Method of Data Collection

The researcher used secondary source of data for the purpose of this study. The data was obtained from annual reports and accounts of the sample banks for five years (2013 – 2019) as well as from Nigerian Stock Exchange (NSE) fact book.

3.6 Variables of the Study

There are two sets of variables covered by this study. These are the dependent and independent variables.

3.6.1 Dependent Variables

The dependent variable is the financial reporting quality which is proxied using measures of earnings quality from a modified version of Dechew and Dichev (2002)'s accruals estimation error. Dechew and Dichev 2002 model relies in the association between accruals and accounting fundamentals to separate accruals measure into normal and abnormal components. It is otherwise referred to as DD-Model which is given as:

$$\Delta Accruals_{jt} = Profit_{jt} - CFO_{jt}$$

Where:

$\Delta Accruals_{jt}$ = *Change of firm's j's accruals in year t*

$Profit_{jt}$ = *Firm s j s net profit (earning) in year t*

CFO_{jt} = *Change in firm j s cash flow from operation in year t*

This study intends to use the modified version of Dechew & Dechev (2002) s accruals estimation error. The modified version of the model is given as follows:

$$\Delta WC_t = \beta_0 + \beta_1 CFO_{t-1} + \beta_2 CFO_t + \beta_3 CFO_{t+1} + \beta_4 \Delta Sales_t + \beta_5 PPE_t + \varepsilon_t$$

Where:

WC_t = *Working capital in year t*

CFO_{t-1} = *Cash flows from operations in year t – 1*

CFO_t = *Cash flow from operations in year t*

CFO_{t+1} = *Cash flows from operations in year t + 1*

$Sales_t$ = *Sales in year t less sales in year t – 1*

PPE_t = *Gross property, plants, and equipment in year t*

3.6.2 Independent Variables

The independent variable is the corporate governance represented by its proxies, audit committee financial expertise (ACF), audit committee independence (ACI), audit committee composition (ACC), audit committee meeting (ACM), as well as audit committee size (ACS) which is constant. Additional variable was introduced to further enhance the analysis. This variable is the size of organization (which is measured by the turnover) which will help in making further analysis. The independent variables are measured as:

Audit Committee Composition: Pursuant to section 359 of CAMA 1990. Audit committee is composed of six members (three nominated by shareholders, and three are non-executive directors) whose tenure must be renewed annually.

Audit Committee Financial Expertise: Sarbanes-Oxley Act (2002) in the U.S mandates audit committee to include at least one financial expert and require the rest of the members to be financially literate. Financial expertise is coded 1 if the audit committee include a member who is a qualified chartered accountant and 0 if otherwise.

Audit Committee Meeting: As a best practice, audit committee meeting should be conducted at least once a year without the presence of executive board members. However, the total number of meetings depends on the company's terms of reference and the complexity of the company's operations. In Nigeria, audit committees hold meeting at least 4 times in a year.

Audit Committee Independence: Audit committee independence is coded 1 if the audit committee has 51% or more independent directors, or at least one audit committee chair is independent and 0 if otherwise. This is in line with the recommendations of NYSE and NASD (1999).

Audit Committee Size: The Blue Ribbon Committee (1999) in the U.S, Asx corporate

governance council (2003) in Australia and combined code (2008) in the U.K put great emphasis on the size of the audit committee, and all recommend at least 3 members within the audit committee.

3.7 Techniques of Data Analysis

The techniques for analysis that are used in research include correlation coefficient, multiple regression, compliance index, chi-square, t-test and simple percentage. However, for the purpose of this study, the researcher decides to make use of multiple regression to test hypotheses in their null form to arrive at a logical conclusion.

Multiple regression analysis is an extension of simple regression analysis, because in multiple regression analysis, more than one independent variable is use to determine the dependent variable. Multiple regression formula is given by:

$Y=a+b_1x_1+b_2x_{2+}\ b_3x_{3+}\ b_4x_{4+}\ b_5x_5$

The regression equation of this study is expressed as

FRQ=f(ACF, ACI, ACC, ACM, ACS, TO.)……1

$Y=a+b_1x_1+b_2x_2+b_3x_{3+}\ b_4x_{4+}\ b_5x_{5+}\ b_6x_6$ ……2

$Y=a+b_1ACF+b_2ACI+b_3ACC+\ b_4ACM_{+}\ b_5ACS_{+}\ b_6TO\ldots\mu$……3

Where Y= Financial Reporting Quality

X_1 = Audit committee financial expertise

X_2 = Audit committee independence

X_3 = Audit committee composition

X_4 = Audit committee meeting

X_5 = Audit committee size

X_6 = Turnover

U_1 = Error term

b_1,b_2, b_3, b_4, b_5 andb_6 = partial derivatives or gradient of the independent variables.

a = overall financial reporting quality intercept (i.e. value of FRQ when the values of all other independent variables are zero). Note that equation 1 shows the study variables hypothesized functional relationship (i.e. FRQ is a positive function of ACF, ACI, ACC, ACM ACS and TO), equation 2, is a multiple regression equation developed to further take care of the variable of the study while equation 3 is a customized version of the usual regression equation.

Data Presentation And Analysis

4.1 Introduction

This chapter discusses presentation and analysis of data collected from the secondary sources. The study uses descriptive statistics to describe the mean, standard deviation, maximum and minimum values of the variables. Pearson's correlation co-efficient is used to explain the direction of the relationship between the dependent and independent variables. Multiple regression analysis is used to determine the strength of the relationship between the dependent and independent variables. Statistical package for social science (SPSS) version 17.0 is used in order to arrive at reasonable interpretation of the analyzed data and testing of hypothesis.

4.2 Descriptive Statistics Result

Source: Generated by the researcher using SPSS 17.0

Table 4.1 provides a summary of the descriptive statistics of both the dependent and the independent variables of the sampled commercial banks. The descriptive statistics shows the mean scores, standard deviation, minimum and maximum values of the variables used in the study. In analyzing the data obtained through the descriptive statistics for the

dependent and independent variables, it was found out that financial reporting quality was 6.98%, 38% of the sampled banks have an independent audit committee chair. On average, 47% of the audit committee members were financial experts. The average audit committee has 5 members and meets at least 3 times a year. Audit committee composition has the highest standard deviation of 0.50 at a min point of 5.00 and max point of 6.00 signifying its low contribution to the Financial Reporting Quality, while control variable size has the lowest standard deviation of 0.25 at a min point of 7.48 and max of point of 8.49 which indicates higher contribution to the financial reporting quality.

4.3 Correlation Coefficient Result

The correlation result depicts the direction of the relationship between the dependent and the independent variables considered in the model. A negative sign in front of the values indicates a negative relationship while a positive sign indicates a positive relationship between the variables.

Table 4.2: Pearson Correlation Coefficient Result

	FRQ	ACC	ACI	ACF	ACM	SIZE
FRQ	1.000					
ACC	-.071	1.000				
ACI	.102	-.175	1.000			
ACF	-.107	.195	..242	1.000		
ACM	-.131	-.061	.027	-.131	1.000	
SIZE	.143	-.078	-.040	.010	-.341	1.000

Source: Generated by the researcher using SPSS 17.0

Table 4.2 above presents the correlation results between the dependent variable and independent variables. In examining the values of correlation coefficients among different variables, it was found that there was a negative relationship between financial reporting quality and audit committee composition (-.071), financial reporting quality and audit committee financial expertise (-.107), and financial reporting quality and audit committee meeting (-.131). It was also found that there is a positive relationship between financial reporting quality and audit committee independence (.102), and financial reporting quality and control variable, size (.143).

4.4 Regression Result

The above provides a summary of the model of the study. The R value of approximately 25% indicates an insignificant linear relationship between financial reporting quality and independent variables. This prediction by the regression model implies that any positive or negative change that affects the independent variables of the banks in the Nigerian banking industry could not necessarily affect the financial reporting quality.

The R-square (0.64) shows that 64% of the changes in financial reporting quality are jointly explained by the influence of all the independent variables included in the model. The remaining 36% of variability in financial reporting quality is caused by other factors not captured in this study.

Table 4.3 above presents regression result of dependent and independent variables. The estimated relationship for the model is presented as:

FRQ = 3.611 – 0.036 ACC + 0.508 ACI – 0.442 ACF – 0.322 ACM – 0.574 SIZE

Hypothesis Testing

Ho1: Audit committee financial expertise and financial reporting quality in the Nigerian Banking Industry.

To determine if we reject or accept the null hypothesis above at 5% level of significance, we use the rejection point if t-critical is greater than t-statistics we reject or accept if otherwise. Since t-critical (-0.073) > t-statistics (-0.442), we therefore fail to accept the null hypothesis. This shows that there is significant relationship between audit committee financial expertise and financial reporting quality in the Nigerian banking industry. This finding is similar to those of Madawaki and Arman (2013) and Gabriel (2012), and contradicts with the findings of the studies conducted by Lawrence (2013) and Dabor and Adeyemi (2009), who failed to find any significant relationship between audit committee financial expertise and financial reporting quality.

Ho2: Audit committee independence and financial reporting quality in the Nigerian Banking Industry.

To determine if we reject or accept the null hypothesis above at 5% level of significance, we use the rejection point if t-critical is greater than t-statistics we reject or accept if otherwise. Since t-critical (0.033) < t-statistics (.508), we therefore accept the null hypothesis. This shows that there is no significant relationship between audit committee independence and financial reporting quality in the Nigerian banking industry. This is consistent with the findings of Ibrahim (2011) and Beasley et al (2000) who found no significant relationship between audit committee independence and financial reporting quality.

Ho3: Audit committee compositionand financial reporting quality in the Nigerian Banking Industry.

To determine if we reject or accept the null hypothesis above at 5% level of significance, we use the rejection point if t-critical is greater than t-statistics we reject or accept if otherwise. Since t-critical (0.075) > t-statistics (-0.36), we therefore fail to accept the null hypothesis. This shows that audit committee composition affect the financial reporting quality in the Nigerian banking industry. This is similar with the findings of Fatimoh (2009), Cristina (2010), and Andrew (2003) who found that audit committee composition negatively affect financial reporting quality. This contradicts the study carried out by Vafes (2005).

Ho4: Audit committee meeting and financial reporting quality in the Nigerian Banking Industry.

To determine if we reject or accept the null hypothesis above at 5% level of significance, we use the rejection point if t-critical is greater than t-statistics we reject or accept if otherwise. Since t-critical (-0.199) < t-statistics (-.322), we therefore accept the null hypothesis. This shows that audit committee meeting does not affect the financial reporting quality in the Nigerian banking industry. However, this finding is the same with those of Nurwati and Nordin (2009), Elizabeth and Steven (2009), and Liang et al (2008).

Summary, Conclusion And Recommendation

5.1 Introduction

This chapter gives a summary of the works done from all previous chapters, it also gives a conclusion based on the findings in chapter four and finally makes recommendations in line with the findings.

5.2 Summary

This study intends to find out the impact of corporate governance (with specific reference to audit committee characteristics) on the financial reporting quality in the Nigerian banking industry. The study consists of five (5) chapters. The study provides general background to the study giving an insight of corporate governance and financial reporting quality. The study further states the problems which necessitated the conduct of this study and the objectives to be achieved by the study were also stated.

The study reviews conceptual framework of corporate governance as well as financial reporting. Furthermore, it identifies and discusses the theoretical framework as well as empirical studies on the relationship between corporate governance and financial reporting quality. The study adopts an ex-post-factor research design. The population of the study is made up of 21 commercial banks listed on the Nigerian stock exchange as at 31st December 2019 from which a sample of 11 banks were selected.Non-survey method of data collection is employed in generating the data from secondary sources using annual reports and accounts of the sample banks.

Descriptive statistics, Pearson's correlation co-efficient and regression analysis are chosen as techniques of data analysis because they are consistent with nature of the study. The dependent variable is financial reporting quality proxied using earnings management from a modified version Dechew &Dechev (2002)'s estimation error. The independent variable is corporate governance represented by its proxies audit committee characteristics. The study gives a summary of work done which highlight detail of all the chapters of this study, conclusion was drawn based on the findings obtained on the impact of corporate governance on the financial reporting quality in the Nigerian banking industry. The following are the major findings of the study:

a) The study found evidence of significant relationship between audit committee financial expertise and financial reporting quality in the Nigerian banking industry. This shows that financial expertise of audit committee members is of significance in ensuring financial reporting quality. In comparism, this finding is similar as those of Madawaki and Arman (2013) and Gabriel (2012).

b) The study found no evidence of significant relationship between audit committee independence and financial reporting quality. This reveals that independence of audit committee members does not improve financial reporting quality in the Nigerian banking industry. This finding is not the same with those of Lawrence (2013) and Dabor and Adeyemi (2009) who found positive relationship between the two variables.

c) The study found that audit committee composition affect the quality of financial reporting. This means that, composition of members within the audit committee affect the financial reporting quality. This is similar with the study conducted by Fatimoh (2009) and that of Cristina (2010), who found that audit committee composition does not affect financial reporting quality.

d) The activity of audit committee is measured by the frequency of its meetings. This study found evidence which shows that audit committee meeting does not affect the financial reporting quality. This contradicts the study conducted by Yang and Krishnan (2005).

5.3 Conclusion

Based on the findings of the study, the research work therefore concludes as:

The frequency of the meeting of the members within the audit committee does not affect the quality of financial reporting in the Nigerian banking industry.

The study provides statistical evidence of significant positive relationship between audit committee financial expertise and financial reporting quality in the Nigerian banking industry.

The composition of members within the audit committee affect the financial reporting quality in the Nigerian banking industry.

The study found a negative insignificant relationship between audit committee independence and financial reporting quality in the Nigerian banking industry.

5.4 Recommendation

In line with the findings of the study, the following recommendations are drawn:

a) An effective audit committee should be established by banks to enhance financial reporting quality and external auditors should be invited on regular bases to supplement the efforts of the internal auditors as well as help achieve improved financial reporting.

b) The regulatory authorities like NSE, CBN and SEC should consider encouraging banks to have in addition to the three non-executive directors in their audit committee at least one independent director. This will further improve the financial reporting quality of banks in Nigeria as revealed by this study.

c) The regulatory authorities should also give attention to the issue of financial literacy of audit committee members. Efforts should be made to ensure that elected shareholders into the audit committee are financially literate.

d) Researchers in the academia should intensify research and document more on the dynamics of audit committee attributes in banking and other sectors of the economy. This will go a long way to assist regulatory authorities and other stakeholders to have improved financial reports.

Another better way of ensuring that audit committee members have clear understanding of their roles and responsibilities is for regulatory authorities to organize trainings and seminars for audit committee members as its being practiced in other civilized nations

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