

CORPORATE GOVERNANCE AND QUALITY OF FINANCIAL REPORTING BY BANKS IN NIGERIA

By

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Abstract

The level of owners investment required to finance deposit money banks in Nigeria is getting astronomical by the day as the regulatory authorities believe that only a robust capital base can assist to ward off undue competition occasioned by the recent liberalisation of the industry. The high stake by owners and the excessive work load on executives in the industry always make stakeholders to demand that operational effort at all levels be close to perfection, with appropriate control mechanism to ensure compliance. This therefore necessitates some codes that will guide the relationship between owner's representative and executives, to ensure a balanced corporate administration. This study examines the relationship between elements of good corporate governance and quality of financial reporting (measured as discretionary accruals) by deposit money banks in Nigeria. The major study objective is to determine whether or not the elements of good corporate governance actually reduce the vulnerability of financial institutions to the excesses of the managers. The study employs a Generalized Method of Moment (GMM) for a period of seven years (2012-2018). The study found that both board composition and audit committee size have negative impact on discretionary accruals, and positive impact on the quality of financial reporting. The study therefore, concluded that board composition can be used to achieve better financial reporting quality. It also recommends that the composition of board of directors be improved as well as the number of directors in the audit committee in order for them to perform their internal audit role more effectively.

Keywords: corporate governance, deposit money banks, and financial reporting system

INTRODUCTION

Scholars and practitioners alike are agreed on the positive impact of finance on economic growth (Levin, 1997; Adam, 2019). However, the channel through which this impact is transmitted remains a subject of on-going researches (Odedokun, 1996; Valderrama 2003; and Panizza, 2014). In Nigeria, since 1972 when government stepped into the affairs of firms owned by Foreigners, and from 1986 to date when the industry became liberalised for better performance, it has been a roller-coaster affair for both the industry, their Shareholders and Customers. As a regulatory body, the Central Bank of Nigeria (CBN), had evolved many policies to stabilise the financial sector and ensure that banks effectively deliver on their mandates,

with strong positive implications for the growth of the economy (CBN, 2018). Different forms of strategies have been tried out following the liberalisation of the industries since 1986. These include: revising the main banking act (1990); enactment of laws to prevent or punish failure, (Failed banks Act, 1999); shrinking the industry size (or consolidation), through enhancing the capital base; and a number of post consolidation measures, which include changing the entire structure of the industry into universal and microfinance banks (Bassey, 2018; Adam, 2019). This way, while the universal banks focus on both wholesale and retail banking, the MFBs focus on the vulnerable poor, or the bottom of the pyramid. Despite all these, the statistics are not showing progress. In 1986, the Naira-dollar exchange rate was pegged officially at N22 to a dollar while the parallel market stood at N86 to a dollar. In 2020, despite the merger of the two windows, the dollar exchanges for N380 to a dollar. Growth rate of GDP still averages below 3%, while population is growing at an average of 3% per annum (World Bank, 2019).

The story of stagnation is not different for manufacturing indices or per capita income, despite increase money supply to the economy (CBN 2018). The question that arises therefore is to query the components of finance vis a vis the real sector of the country's economy. To combat these challenges, scholars and practitioners are fairly agreed that: despite the strength of the supervisory institutions (CBN and others), the internal mechanism that requires keeping the individual firm effective is also of paramount importance as channels through which finance impacts on economic growth. Strong corporate governance has therefore evolved as an effective mechanism to ensure that these firms and especially banks are strong, and well-positioned to deliver on their mandates. This is based on the reasoning that: where other environmental factors (both internal and external) are supportive of firms' performance but results are not showing efficient performances, the elements of corporate governance may be the missing link that may hinder their growth (Bassey, 2018). And on the flip side, whenever firms face excruciating challenges or when coming out of recession, the elements of corporate governance often assist to pull together, all the interests (owners, management, regulators, customers, creditor and employees) required for survival and foster the much-needed confidence and trust for efficient performance (World bank, 2016).

The age-long history of capitalism and Private Corporation has justified this position across many countries of the world (Morck and Steier, 2005). For example, the codes of corporate Governance dates back to the 17th century (1609) when they were applied to resolve conflicts between shareholders/investors (most notably Isaac Le Maire) and the directors of the Dutch East India Company, (VOC). By the 18th century they have become so widely applied that Wright (2014), argued that: the governance of early U.S. corporations, of which over 20,000 existed by the civil war of 1861–1865, was superior to that of corporations in the late 19th and early 20th centuries because early corporations governed themselves like "republics", replete with numerous "checks and balances" against fraud and against usurpation of power by managers or by large shareholders. In Nigeria, attempt to sanitise and ensure soundness and long term stability of the finance industry came with the struggle for independence from the colonial masters with the enactment of the CBN Act in 1960 and the establishment of the Lagos Stock Exchange to complete the capital market arm of the finance sector. However, the codification of corporate governance did not take place until 2003 by the Nigeria Stock Exchange in conjunction with the Corporate Affairs Commission (CAC) following the report of the Atedo committee on the stability of the capital market (Bassey, 2018). Although the report was said to be heavily criticised as being too generic and failed to consider the peculiar case of the industry, it did serve as a wake-up call for the Regulators of the banking sector on one hand, and a reference guide for international best practices for the finance industry in general (Aina and Adejugbe, 2015).

Taking off from the capital market and following the regulatory and operational banking deregulation/consolidation of the 1980s the CBN in 2006, has since gone a step further to codify corporate governance rules for the guidance of the money banks and discount houses in the country to complement its various regulatory efforts (CNB, 2006). And given the successes recorded with these enactments, the Apex bank has since enacted appropriate codes for the Development Finance Institutions and MFBs with continuous review of each of them as at when necessary (CBN, 2012, 2014, 2018).

Towards improving the letters and spirit of the corporate governance codes in Nigeria, Scholars and practitioners alike have made meaningful contributions focusing on different areas and adopting wide-spread methodologies (Adegbite, 2015; Afolabi and Dare (2015); Bello, 2016 and Bassey, 2018). Majority of the works are quantitative in nature, involving the usage of designed questionnaires and focusing on findings on the major elements of corporate governance to reach conclusion on the extent of corporate governance in relation to their case study. These elements are mainly board composition, size, committees and structure of firm's ownership. In recent time Bassey (2018) worked on implementation of the code and adopted a qualitative method, thus raising interest in this area.

This study focuses on corporate governance in Nigerian deposit money banks, which as institutions are expected to be the vehicle through which the finance-growth impact is effectuated. Following the introductory section, the rest of the paper proceeds as conceptual issues and literature review in section two; methodology in three, results and discussion in section four, while concluding remarks is contained in the last section.

LITERATURE REVIEW

Conceptual Issues

There are many approaches to conceptualising issues relating to corporate governance. This is partly due to the vast implications it has for the society and the objectives it seeks to achieve. Basically, corporate governance can be conceived as the system by which businesses are directed and controlled (Pearse Trust, 2014). Good corporate governance is thus a key factor in underpinning the integrity and efficiency of a company. Poor corporate governance on the other hand can weaken a company's potential, lead to financial difficulties and cause long term damage to a company's reputation. In terms of implications, its impact stretches from the individual in his/her private life to private business enterprise (small and large corporate entities) and to government. Even as the term "corporate" refers to the business entity, the dictum of corporate governance spells out behavioural patterns and control mechanisms for the individual, business firms and even government, as they interrelate to create values for their host economy. It has four core principles namely fairness, accountability, responsibility and transparency.

In terms of objectives, it seeks to ensure that there is interaction between the individual owners of the firms and the managers, with the aim of maximising both the shareholders' fund and societal welfare. Many attempts have therefore been made to conceptualise this massive phenomenon. Although with some minor variations, the emphasis of most conceptualisation is control, which implies: setting goals and objectives; implementing plans to achieve set goals and objective; and instituting mechanisms to ensure that all eyes are focused on the ball (Claessens & Yurtoglu, 2013). Any variance or semblance of same is therefore viewed with serious rebuff (Claessens and Yurtoglu 2013; Dabor, Isiavwe, Ajagbe and Oke 2015; Aguilera and Jackson 2010; as well as Nagarajan 2014). According to Bassey (2018), these control

mechanisms of corporate governance may be internal or external and are all geared toward reducing agency cost (Dabor et al., 2015). This is because corporate governance encompasses all stakeholders, thereby incorporating operators and regulators who are directly involved in the implementation of corporate governance (Claessens & Yurtoglu, 2013).

From the regulatory perspective however, the CBN goes beyond wealth maximisation to include fraud prevention and thus posits that corporate governance in Nigerian banks is “a system of controls, regulations, and incentives designed to prevent fraud from happening which also determines the direction and performance of corporation through both formal and informal mechanisms, and meets the expectations of stakeholders (CBN, 2006). Among many others, one of the regulatory means of checking fraud and holding managers accountable for their acts is to make them render periodic returns and reports of their activities to both the Regulatory Institutions and Stockholders who had staked their hard-earned wealth in the businesses. The qualities of these reports and returns therefore serve as good pointers to the level of adherence to corporate governance principles in business outfits and corporations. Consequently, scholars have had to investigate the various elements that could have impact on this seemingly routine but key objective of firm’s activities.

Theoretical Review

Thus, beyond the metrics, scholars have also developed frameworks for explaining behaviours of organisations in terms of structures and these help to explain reason for possible frictions and how they can be resolved. This study briefly examines some of these proposals as contained in Bassey (2018). These are the agency, stakeholder, steward, property rights and resource-based theories.

Theory of Agency

The agency theory is based on strictly principal-agent relationship in which case the latter works for, and derive his authority from the earlier. Crisis often arises because of goal incongruence between the owners and managers who run the firm on daily bases (Gitundu, Kiprop, Kibet and Kisaka, 2016). A well-coded framework of relationship and operation that provides win-win situation for all the stakeholders often assists to reduce friction and resolve conflicts.

Stewardship Theory

The stewardship theory defines a situation whereby the entire outfit is motivated by well-defined corporate goals beyond short term gains, but which leads to long run wealth maximisation (Nwonyuku, 2016). Managers objectives are therefore aligned with none executive members goals because trust are inherent in the set up. This is based on the assumption that directors and managers will act in the best interest of the firm. This system allows for the combination of the position of the chairman and CEO in one person in order to facilitate speed of delivery.

Stakeholders Theory

The stakeholder’s theory explains a structure that allows the organisation to be controlled by any individual or group of individuals that can be affected by the achievement or otherwise of the organisational goals (Abdullah and Valentine, 2009). The emphasis under this arrangement is to have the

interest of all those who want the organisation to succeed to be represented therein. According to Tricker (2005), the main challenge here is to identify those who genuinely have the interest of the organisation at heart. Another is that managers are often made accountable to an infinite number of interests without specific guideline on how to manage the conflicting interests (Nwonyuku, 2016).

Property Right Theory

The property right maxim depicts a situation where the control of the organisation is based on the percentage of the asset owned by some interest that gives them the right to monitor and control the organisations (Coase, 2013). It is however subject to abuse by none stockholding members who may be pursuing personal interests.

Resource-based Theory

The resource-based theory describes a structure where the top executives derive their powers and influences from the connections they have outside of the organisation that can be useful to the organisation (Tricker, 2015). Good as it is because of the synergetic impact of the external resources to help growth. Bassey (2016), insists that the theory often fail to recognise process of creating internal resources through strategic innovation.

Empirical review of related studies

Each of these theories has implications for board size, composition and control. Thus, empirical researches have been directed at investigating how each of these variables impacts on corporate goals and objectives. A few of these findings are reviewed in this study to drive home this point. Jensen (1993) is among other early quantitative studies. The study was motivated by the concern for failures of internal control mechanisms of modern firms despite the rapid growth in productivity occasioned by technology, political, regulatory and economic forces. The study adopts a multiple regression analysis to evaluate the impact of corporate governance on the quality of financial reports. It covers 432 firms available on COMPUSAT with sales figure above \$250 million as at 1989 for a period of 11 years from 1980 to 1990. It reveals that a small number of directors will foster a high degree of coordination and communication between them and managers, which is expected to increase the quality of financial reports.

Peasnell, Pope and Young (2000) examine issues relating to specification and power plays in relation to cross-sectional models used to estimate abnormal accruals. In addition to testing the standard-Jones (Jones, 1991) and modified-Jones (Dechow et al., 1995) models, the study also developed and test a new specification, labeled the “margin model”. The sample size comprised of 837 individual firms from 35 DataStream levegbitel-6 industry groups for a seven-year period (1990-1996), using the multiple regression time-series method to obtain the estimates. Empirical tests suggest that all three models are well specified when applied to a random sample of firm-years. However, the margin model appears to generate relatively better specified estimates of abnormal accruals when cash flow performance is extreme. Analysis of the models’ ability to detect artificially induced earnings management indicates that all three procedures are capable of generating relatively powerful tests for economically plausible levels of accruals management (e.g., less than ten percent of lagged total assets). Regarding their relative performance, the standard-Jones and modified-Jones models are found to be more powerful for revenue and bad debt manipulations. In contrast, the margin model appears to be more powerful at detecting non-

bad debt expense manipulations. These results suggest that different models may be required in different circumstances. In the same vein, Klein (2002), while investigating the relationship between audit committee, board of director characteristics, and earnings management, using a sample of 692 publicly traded U.S. firm-years, obtained cross-sectional estimates through a multiple regression analysis for the years 1992 and 1993, asserts that independent board size mitigates earnings management.

Bushman, Chen, Engel and Smith (2004) investigate how ownership concentration, directors' and executive's incentives, and board structure vary with earnings timeliness, and organizational complexity measured as geographic and/or product line diversification. The study explores cross-sectional relations between corporate governance systems and both earnings timeliness and organizational complexity of 784 firms in the Fortune 1000. It concludes that limited transparency of firms' operations to outside investors increases demands on governance systems to alleviate moral hazard problems. The findings show that ownership concentration, directors' and executives' equity-based incentives and outside directors' reputations vary inversely with earnings timeliness, and that ownership concentration, as well as increase in directors' equity-based incentives. Similarly, Karamanou and Vafeas (2005) studied the association between corporate boards, audit Committees, and management earnings forecast in relation to 275 Fortune 500 firms using regression analysis and pairwise correlation analysis to obtain its estimates. The study concludes that information quality increases with the increase in percentage of outside or independent directors.

Farber (2005) examines the association between the credibility of the financial reporting system and the quality of governance mechanisms using a sample of 87 firms identified by the Security and Exchange Commission as fraudulently manipulating their financial statements. Consistent with prior research, results indicate that fraud firms have poor governance relative to a control sample in the year prior to fraud detection. Specifically, fraud firms have fewer numbers and percentages of outside board members, fewer audit committee meetings, fewer financial experts on the audit committee, a smaller percentage of Big 4 auditing firms, and a higher percentage of CEOs who are also chairmen of the board of directors. The studies of Vafeas (2005) used data on 252 U.S. firms between 1994 and 2000 to study the relationship between audit committees and boards of directors with financial reporting quality. Results from logistic regressions suggest that measures of audit committee and board structure are related to earnings quality in a manner that is generally consistent with the predictions of agency theory.

Bradbury, Mark and Tan (2006) conducted a cross sectional study for year 2000 and examined the relation between governance (as measured by board and audit committee characteristics) and accounting quality (as measured by abnormal accruals) in a setting where there is no a priori reason to suspect systematic management of earnings. The study uses samples of 139 firms from Singapore and 113 firms from Malaysia. The study also used the Ordinary Least Square (OLS) method to obtain its estimates and concludes that board size and audit committee independence has positive impacts on the quality of firms reporting, especially when all the board members are independent directors.

Ahmed, Hossain Adams (2006) study extends earlier research on corporate governance by examining whether the information-usefulness of annual accounting earnings varies with the fraction of outside directors serving on the board and board size. Using panel data from New Zealand (NZ) firms for the financial years 1991–97, the study concludes that earnings informativeness is negatively related to board size but is not related to the fraction of outside directors serving on the board.

Byard, Li and Weintrop (2006) examine the association between corporate governance and the quality of information available to financial analysts. The study focuses on all firms covered by the Investor Responsibility Research Center (IRRC) database, which provides data on a broad set of board and director characteristics. The study shows that analysts forecast accuracy increases with the independence of the board, decreases with board size, and decreases when the CEO also serves as chairman of the board. Firth, Fung and Rui (2007) investigated the impact on CEO's compensation and corporate performance in China. The study used composition of board members as part of the control variables based on information extracted from annual reports of companies quoted on the China's stock exchange from 1998 to 2000. Using a multiple regression analysis to obtain its estimates, the study indicates that the presence of independent directors improves the earnings quality of Chinese firms.

Petra (2007), The effects of corporate governance on the informativeness of earnings My analysis uses a panel of firms drawn from the annual Forbes magazine rankings of the 500 largest US public corporations based on sales, total assets, market capitalization, and net income These criteria yield 436 corporations out of which 203 firms were selected on a random basis for this study. Using the OLS regression method to obtain its estimates, the results suggest a positive association between the proportion of outside independent directors serving on firm's boards and earnings informativeness.

Kent and Stewart (2008) studied the association between the level of disclosure and corporate governance quality using a sample of companies quoted on the Australia Stock Exchange with 30 June balance dates for 2004. The study finds that the quantity of disclosure was positively related to some aspects of superior corporate governance, such as the frequency of board, board independence and audit committee meetings and the choice of auditor.

Cornett, Mc Nutt and Tehranian (2009) examines whether corporate governance mechanisms affect earnings and earnings management at the largest publicly traded bank holding companies in the United States. Using the Ordinary Least Square (OLS) method of estimation, the study that CEO's pay-for-performance sensitivity (PPS), board independence, and capital are positively related to earnings and that earnings, board independence, and capital are negatively related to earnings management.

Dimitropoulos and Asteriou (2010) examine how the informational quality of annual accounting earnings varies according to the size and composition of the board of directors of publicly listed firms within the Greek capital market. Data analysis over a period of five years (2000–2004) revealed that the informativeness of annual accounting earnings is positively related to the fraction of outside directors serving on the board, but it is not related to board size. Additionally, firms with a higher proportion of outside board members proved to be more conservative when reporting bad news but on the contrary they do not display greater timeliness on the recognition of good news. Finally, firms with a higher proportion of outside directors report earnings of higher quality compared to firms with a low proportion of outside directors. The results are robust to several sensitivity tests controlling for endogeneity, firm's fixed effects and alternative models for the estimate on of discretionary accruals.

Nesrine and Abdelwahid (2011) examine the effect of the governance mechanisms on the financial reporting quality for a sample of Tunisian firms. Specifically, the study focuses on the characteristics of the board of directors and the ownership structure of firms listed on the Tunis Stock Exchange during the period 1997–2007. The results reveal that the governance mechanisms affect the financial information

quality of the Tunisian companies. Particularly, the power of the foreigners, the families and the blockholders reduces the reporting quality, while the control by the State and the financial institutions is associated with a good quality of financial disclosure. Corporate Governance and Financial Reporting Quality. The study also suggests that, although board independence improves earning quality, but there was no evidence for this among Tunisian firms, given the limited number of independent directors and the high frequency of Chief Executive Officers'(CEO's) duality.

Erena and Tehulu (2012) examined the impact of corporate governance mechanisms on earnings management through discretionary loan loss provision, using panel data of 10 banks for the period 2006 to 2010 in Ethiopia. Based on discretionary loan loss provision model and random effect Generalised Least Square (GLS) regression method, the study finds that education, experience and objectivity of internal auditor are negatively and significantly associated with earnings management. The study also finds a negative and significant relation between audit committee meeting frequency, active general board of directors and earnings management.

Prawit, Smith and Wood (2009) investigate the relation between internal audit function (IAF) quality and earnings management for a sample of 528 firms obtained from the Compustat and Risk Metrics data bases for year 2000 to 2005, using a composite measure comprising six individual components of IAF quality based on SAS No. 65, which guides external auditors in assessing the quality of an IAF with respect to its role in financial reporting. Earnings management is measured using two separate proxies, namely, abnormal accruals and propensity to meet or barely beat analysts' earnings forecasts. The study finds evidence that IAF quality is associated with a moderation in the level of earnings management as measured by both proxies.

Greco (2012) examined ownership structure, corporate governance and earning management in the European Oil Industry, with data samples of 820 firms quarterly observations obtained from the Compustat data base from 2006 to 2010. The panel data estimate was obtained using multiple regression method, while testing for autocorrelation using the Woolridge (2002) test for autocorrelation. The study concludes that relevant governance variables such as audit committee and independence of board will not encourage earnings manipulations.

Dechow. Loan and Sweeney (1995) evaluate alternative accrual-based models for detecting earnings management. The evaluation compares the specification and power of commonly used test statistics across the measures of discretionary accruals generated by the models and provides the following major insights. First, all of the models appear well specified when applied to a random sample of firm-years. Second, the models all generate tests of low power for earnings management of economically plausible magnitudes (e.g., one to five percent of total assets). Third, all models reject the null hypothesis of no earnings management at rates exceeding the specified test-levels when applied to samples of firms with extreme financial performance. This result highlights the importance of controlling for financial performance when investigating earnings management stimuli that are correlated with financial performance. Finally, a modified version of the model developed by Jones (1991) exhibits the most power in detecting earnings management.

This brief review of literature shows that mixed finding exists among scholars in terms of how corporate governance mechanisms affect financial reporting quality. There are also methodological issues as some of the approaches adopted are not sophisticated enough in line with modern development in research methodology. More so, most of the studies reviewed are focused non-financial firms, ignoring this possibility for financial firms. Given the salient differences in the operations of financial firms and those

of their non-financial counterparts, the findings from previous studies cannot be generalised for financial firms and, hence, a gap is created which needs to be filled. On these notes the present study was conducted to fill these gaps in literature and contribute to the ongoing discussions regarding the impact of corporate governance on financial reporting quality.

METHODOLOGY

This study employed the quantitative research design to guide the conduct of the study and the period covered in this study is seven (7) years, i.e. the period between 2012 and 2018. The population of this study is all financial firms listed on the Nigeria Stock Exchange within the study periods. A sample of 15 deposit money banks (DMBs) or commercial banks was chosen based on the research purposive sampling procedure for the study. Both the descriptive and inferential approaches to analysis were employed. The descriptive tools of summary statistics which include the mean, standard deviation, minimum and maximum values were used. As regard the inferential tools, multiple regression analysis was employed, specifically, the system generalised method of moment (GMM) method was used in the analysis. Most of the earlier studies have not considered this technique thus making it a unique methodology for this subject matter.

A sizeable number of previous studies have used the Jones (1991) model in their computing financial reporting quality. He proposed a hypothesis that attempts to control for the effects of changes in a firm's economic circumstances on non-discretionary accruals. This explains why it is popularly referred to as Jones Model for non-discretionary accruals in the event year. However, Dechow, Sloan and Sweeney (1995) proposed a modified Jones model in order to address the limitation of the Jones model, as it ignores the potential managerial manipulation of revenues through credit sales Dechow *et al.* (1995). Therefore, the computation of discretionary accruals in this study was based on the modified Jones model of Dechow *et al.* (1995).

Model Specification

The model of this study is as specified below:

$$FRQ_{it} = \beta_0 + \beta_1 BC_{it} + \beta_2 BS_{it} + \beta_3 ACS_{it} + \varepsilon_{it}$$

Where:

FRQ_{it} is financial reporting quality (measured by the discretionary accruals) of firm i in year t .

BC_{it} is the proportion of none-executive members in total board members of firm i in year t .

BS_{it} is the number of directors serving on the board of firm i in year t .

ACS_{it} is the size of the audit committee in firm i and in year t .

ε_{it} is the white noise disturbance term

β_0 is the constant term

$\beta_1 - \beta_3$ are the slope coefficients of board composition, board size and audit committee size respectively.

The a priori expectation is that $(\beta_1 - \beta_3) < 0$, implying that these elements positively affect quality of banks financial reports and therefore enhance corporate governance.

In estimating the parameters of this model, the panel system generalized method of moment (GMM) was employed. This method enables us to account for the individual effect and avoid the potential bias associated with the regular heterogeneous panel models, such as the fixed and random effects models, which occurs when the individual effect is correlated with the included explanatory variables. The method also allows for the inclusion of lagged dependent variable to account for the dynamism in the relationships, which if done in the fixed and random effects approach might introduce a bias in the estimation due to the few number of time periods and larger number of panel units.

RESULTS AND DISCUSSIONS

This section presents the empirical results of this study for examining the impact of corporate governance on financial reporting quality of deposit money banks in Nigeria. The results are presented in both the descriptive and inferential approaches.

Table 1: Panel Summary Statistics

Variable		Mean	Std. Dev.	Min	Max
Discretionary	Overall	0.068	0.059	0.002	0.325
	Between		0.018	0.045	0.114
	Within		0.056	-0.023	0.278
Board Composition	Overall	0.597	0.138	0.286	0.9
	Between		0.112	0.500	0.854
	Within		0.085	0.340	0.862
Board Size	Overall	14.7	3.061	8	25
	Between		2.707	10.8	19
	Within		1.571	10.7	20.7
Audit Committee	Overall	5.942	0.234	5	6
	Between		0.165	5.4	6
	Within		0.170	5.143	6.543

Source: Author's Computations, 2019.

Table 1 shows the summary statistics of the variables employed in this study. These statistics include the mean, standard deviation, minimum and maximum values. The standard deviation, minimum and maximum values are given in overall, between and within terms to express these values for the overall sample across firms and over years respectively.

Results show that discretionary accruals averaged 0.068 points. This average value has an overall standard deviation of 0.059 points, between standard deviation of 0.018 points and within standard deviation of 0.056 points. For the overall sample, minimum and maximum discretionary accruals are 0.002 and 0.325 points respectively while for the between sample, they are 0.045 and 0.114 points respectively. The minimum and maximum discretionary accruals for the within sample are -0.023 and 0.287 points respectively. As to the information about board composition, which is the ratio of outside directors to internal directors, the results show that average board composition is 0.597. This means that about 59.7 percent of directors are outside directors. This average value has an overall standard deviation of 0.138, between standard deviation of 0.112 and within standard deviation of 0.085. Overall minimum and maximum ratio of outside directors to internal directors obtainable in these banks are 0.286 and 0.9 respectively. Minimum and maximum for the between sample are 0.5 and 0.814 while those of the within sample are 0.340 and 0.862 respectively.

Board size measured by the number of directors serving on the board averaged 14.7. This means that on the average, a bank has about 15 directors serving on the board. This average has an overall spread of 3.061 directors, between spread of 2.707 directors and within spread of 1.571 directors. For overall sample, there are at least 8 directors and at most 25 directors on a board. For between sample, there are at least 10.8 directors and at most 19 directors on a board. For the within sample, there are at least 10.7 directors and at most 20.7 directors on a board.

Audit committee size measured by the number of directors who are members of the audit committee averaged 5.942. This means that on the average, a bank has about 6 directors serving on the audit committee. This average has an overall spread of 0.234 directors, between spread of 0.165 directors and within spread of 0.170 directors. For overall sample, there are at least 5 directors and at most 6 directors in the audit committee. For between sample, there are at least 5.4 directors and at most 6 directors in the committee. For the within sample, there are at least 5.143 directors and at most 6.53 directors in the committee.

Table 2: Correlation Matrix

	Discretionary	Board composition	Board size	Audit comm. size
Discretionary	1			
Board composition	0.1511	1		
Board size	-0.0489	-0.5347*	1	
Audit comm. Size	0.1016	-0.111	0.0364	1

Source: Author's Computations, 2019.

Note: * indicates significant relationship at 5% significance level

Table 2 presents the results of correlation analysis conducted to examine the relationship that exist between the quality of financial reporting, measured by discretionary accruals, and each of board composition, board size and audit committee size. The result show that discretionary accruals has positive correlation coefficient with board composition and audit committee size (0.1511 and 0.1016) but has a negative correlation coefficient with board size (-0.0489). However, none of these correlation coefficients is significant. Board composition has a significant negative relationship with board size, with correlation coefficient of -0.5347 but has an insignificant relationship with audit committee size (-0.111). The result also shows that board size has a positive correlation coefficient with audit committee size (0.0364), which is not significant.

Table 3: Estimates of the System GMM

VARIABLES	(1) Coefficient	p-value
Discretionary Accruals(-1)	0.033 (0.055)	0.552
Board Composition	-0.064** (0.031)	0.041
Board Size	0.001 (0.003)	0.767
Audit Committee Size	-0.040*** (0.011)	0.000
Constant	-0.218** (0.104)	0.036
Number of Groups	14	
Number of Instruments	13	
Wald Chi-squared	17.18***	
AR(1)	-2.376**	
AR(2)	-0.909	
Sargan Test	6.405	

Source: Authors' Computations, 2020.

Note: Standard errors in parentheses*** significant at 1%, ** significant at 5%, * significant at 10%

The results of Table 3 are the estimates of the system generalized method of moment, which was conducted to examine the effects of board composition, board size and audit committee size on discretionary accruals (measure for quality of financial reporting). A period lag of discretionary accruals was also added to the equation to control for the biases that can arise when working with many panel units and relatively short time periods.

The model diagnostics presented at the bottom of the table were to ensure that the result is appropriate and can be relied upon to draw necessary inference from. The result shows that the number of instruments is less than the number of groups in the sample. This is necessary to guarantee the stability of the result. Wald Chi-squared statistic has a value of 17.18, which has a p-value less than 0.01, signifying that it is significant. Its significance ensures that the model is in good fit. Arellano-Bond autocorrelation test shows that autocorrelation is present in the first lag but absent in the second lag, with significant AR(1) statistic and insignificant AR(2) statistic. The insignificant AR(2) statistic is a condition to guarantee that the model is free from serial correlation problems. Sargan test of over-identifying restriction was used to verify the validity of restriction placed on the instruments in order not to be over-identified. The insignificant argan test statistic indicates that there is no sufficient evidence to reject the test hypothesis that the over-identifying restrictions are valid. Therefore, the result is valid for necessary inferences.

The result shows that board composition and audit committee size have negative coefficients that are statistically significant while board size has a positive coefficient that is not statistically significant. This is shown by the p-values of the former variables being less than 0.05 and that of the latter variable being

greater than 0.1. This suggests that board size does not have significant impact on the quality of financial reporting. On the other hand, the result suggests that board composition and audit committee size have significant impact on the quality of financial reporting of deposit money banks. The negative coefficient of board composition is 0.064, indicating that a point increase in the ratio of outside directors to internal directors will lead to a fall in discretionary accruals and, hence, a rise in the quality of financial reporting of deposit money banks in Nigeria by 0.064 points. Similarly, the negative coefficient of audit committee size is 0.040, which indicates that an increase in the number of directors in the audit committee by one individual will lead to a fall in discretionary accruals and a rise in the quality of financial reporting of deposit money banks in Nigeria by 0.040 points. This result generally suggests that increase in both board composition and audit committee size can be used to achieve better quality of financial reporting in deposit money banks in Nigeria.

CONCLUSION

The study examined the impact of corporate governance on the quality of financial reporting of deposit money banks, with special attention to board composition, board size and audit committee size. With financial reporting quality measured by discretionary accruals, the study found that both board composition and audit committee size have negative impact on discretionary accruals, and in turn, positive impact on the quality of financial reporting. The study therefore concludes that board composition can be used to achieve better financial reporting quality. Similarly, the number of individuals in the audit committee can be of great influence on the improvement of financial reporting quality. This study therefore, recommends that the composition of board of directors be improved, i.e. the ratio of non executive to total board members be increased in order to achieve better financial reporting quality. It also recommends that the number of directors in the audit committee be increased in order for them to perform their internal audit role more effectively so as to reduce discretionary accruals and improve financial reporting quality.

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