THE EFFECT OF CORPORATE GOVERNANCE ON FINANCIAL REPORTING QUALITY OF LISTED DEPOSIT MONEY BANKS IN NIGERIA

BAYELSA STATE POLYTECHNIC, ALEIBIRI

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BY

AKPEKPE ARIMAWUDUM

ND/ACCTS/21/106

A PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENTS FOR THE AWARD OF NATIONAL DIPLOMA IN
ACCOUNTANCY IN THE DEPARTMENT OF ACCOUNTANCY
SCHOOL OF MANAGEMENT SCIENCES
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DECLARATION

I declare that this project is based on a study conducted by me, Akpekpe Arimawudum, in the Department of Accountancy, Bayelsa State Polytechnic, Aleibiri under the supervision of Dr. Sunday Zibaghafa. This project report has not been submitted elsewhere for the award of a degree. The ideas and views of the research project are products of research undertaken by me. Where the ideas and views of other authors/researchers have been expressed, they have been duly acknowledged.

Name: Akpekpe Arimawudum   Sign:……………   Date:……………

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CERTIFICATION

The project, the effect of corporate governance on financial reporting quality of listed deposit money banks in Nigeria, meets the regulations governing the award of National Diploma in Accounting, Department of Accountancy, School of Management Sciences, Bayelsa State Polytechnic, Aleibiri.

Dr. Sunday Zibaghafa	………………..	……………
Project Supervisor	Signature	Date
Dr. Odogu Laime Isaac	………………….	...…………..
Head of Department	Signature	Date
Dr. James B. Poyeri	…………………	……………
Dean School of Management Science	Signature	Date

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DEDICATION

This project is dedicated to God Almighty for His faithfulness and goodness to me all through my studies.

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ACKNOWLEDGEMENTS

I wish to express my sincere gratitude to God Almighty for keeping me alive to see the end of this programme.

My special thanks go to all my lecturers at Bayelsa State Polytechnic, especially my project supervisor, Dr. Sunday Zibaghafa, for all his effort in making me a better student, especially in respect of this work, Dean of our school, Dr. James Poyeri, our amiable HOD, Dr. Laime Isaac Odogu, Mr. Sulaiman Disu, Mr Anderson Obalakumo and Mr. Timinipre Okpobo and other lecturers, for the knowledge they have imparted in me throughout my programme.

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ABSTRACT

This study investigated the effect of corporate governance on financial reporting quality of listed deposit money banks (DMBs) in Nigeria, with its specific objectives examining the effect of size of board of directors, board independence and audit committee meetings on financial reporting quality of listed deposit money banks in Nigeria using cross sectional data of these banks from 2018 to 2022. Adopting ex-post facto research design and with a population and sample size of 19 deposit money banks with national and international authorization, the data for this study were obtained mainly from the annual reports of the banks under study. The main tool of analysis was the Ordinary Least Squares (OLS) using the multiple regression method, particularly E-Views11. The findings of this study indicated that corporate governance (board size, board independence and audit committee meetings) has a significant effect on financial reporting quality in deposit money banks in Nigeria, hence it was concluded that the quality of financial reports of companies relies on compliance with code of corporate governance, which emphasizes the need for adopting financial practices that would bring about credibility of the financial reports of deposit money banks. On this note, it was recommended that the Securities and Exchange Commission should strengthen the code of corporate governance by advocating an increase in the number of directors that are independent of the board and also advocating the need for audit committees to increase the frequency of meetings held so as to enhance the quality of financial reports in Nigeria.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

In recent years, owing to the financial scandals that engulfed the corporate world, there have been so much focus on the quality of financial reporting, and this will continue to be the primary focus even in the foreseeable future (Adegbie &Fofah, 2016). Every organisation, especially the publicly listed ones, is expected by law to prepare financial statements that reflect its financial condition (Kaawaase, Nairuba, Akankunda, & Bananuka, 2021). Ahmadu (2017) therefore argues that financial statements should always provide reliable information to assist users in making informed decisions. Thus, the quality of financial reporting, which is an important part of reliability, plays a significant role in potentially influencing stakeholders in their decision making and also in evaluating corporate performance (Davis &Garcia-Cestona, 2021). This basically means that inferior quality financial information is detrimental to its users, and can cause stakeholders to lose confidence and trust in the relevance, faithful representation, neutrality, comparability, timeliness and understandability of the financial information (Kaawaase et al., 2021). Consequently, companies are encouraged to provide higher quality financial information. Moreover, due to the growing nature of financial reporting quality in the world today, several

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standards and guidelines such as Account Ability, Global Reporting Initiative, United Nations Global Compact and so on have been promulgated in order to improve financial reporting quality among companies. These guidelines, as well as pressure from stakeholder groups (such as government, consumers and investors), have given rise to the need for publish financial reports that meet the demands of the day. (Tan & Taofik, 2022). Therefore, financial report, being a report published by a company or organisation about the economic, environmental and social impacts caused by its everyday activities, should be seen at all times to be a true reflection of the state of affairs of these reporting entities. Any issue that affects business stakeholders including employees, community, government, shareholders, finance providers, amongst others is what financial reporting disclosure is concerned with (Nwaorgu & Iormbagah, 2021). It is for this reason that the individuals saddled with the responsibility of running the day to day activities of companies must ensure that they do not compromise on the quality of financial reporting.

From the foregoing, it can be deduced that the financial reporting of companies can only be as good as the system of control prevalent in an organization. Thus, there is no denying that the group of individuals charged with the responsibility of preparing a high-quality financial reporting within any organisation (that is the board of directors) has to put in place mechanisms that would help to improve the quality of financial reporting in their organizations. On this note, corporate governance, which is a system by which the operations of an organization are managed and controlled should be structured in such a way that it should be able to have a proper understanding of, and capability to contend with, the matters of the company. In this sense, all the major players of corporate governance (especially board of directors, shareholders and audit committee) should play a vital role in determining the quality of financial reporting of

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companies. It therefore goes without saying that corporate governance can go a long way in shaping the quality of the reports presented by the board (Peters & Zukbee, 2023).

1.2 Statement of the Problem

Over the year, financial reporting of Nigerian companies is found weak and deficient thereby making the presented companies information far from economic reality for users of financial statements to make informed decisions (World Bank, 2004). Also, empirical evidence indicates weak reporting practice in Nigeria (Unuagbon & Oziegbe, 2016). Inadequate enforcement and monitoring result to financial reporting failure. The fall of companies once with good standing have affected the confidence of stakeholders' reliance on financial reporting negatively, and this has been attributed to poor accounting practices which result in unethical conduct and misuse of power and poor and weak corporate governance, thereby influencing the quality of financial report in firms (Adebiyi, 2017). Adegbie and Fofah (2016) also reveal ethical irregularities and poor corporate governance as factors affecting the quality of financial reporting.

A good number of studies have examined various aspects of corporate governance on financial reporting in developed countries. Some of the studies focused on a particular industry such as banks, insurance sectors, manufacturing sectors, food and beverages. In the developing countries, few empirical evidence exist, especially as it relates to Nigeria. Therefore, the objective of this study is to examine the effect of corporate governance on financial reporting quality ofdeposit money banks in Nigeria.

1.3 Objectives of the Study

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The major objective of this study is to investigate the effect of corporate governance on financial reporting quality of listed deposit money banks in Nigeria. Specifically, this study intends to:

i. Examine the effect of size of board of directors on financial reporting quality oflisted deposit money banks in Nigeria.

ii. Investigate the effect of board independence on financial reporting quality of listed deposit money banks in Nigeria.

iii. Determine the effect of audit committee meetings on financial reporting quality of listed deposit money banks in Nigeria.

1.4 Research Questions

i. What is the effect of size of board of directors on financial reporting quality of listed deposit money banks in Nigeria?

ii. What is the effect of board independence on financial reporting quality of listed deposit money banks in Nigeria?

iii. What is the effect of audit committee meetings on financial reporting quality of listed deposit money banks in Nigeria?

1.5 Statement of Hypotheses

<u>Hypothesis One</u>

Ho 1: Size of board of directors has no effect on financial reporting quality of listed deposit money banks in Nigeria.

Ha 1: Size of board of directors has effect on financial reporting quality of listed deposit money banks in Nigeria.

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Hypothesis Two

Ho 2: Board independence does not have any effect on financial reporting quality of listed deposit money banks in Nigeria.

Ha 2: Board independence does have effect on financial reporting quality of listed deposit money banks in Nigeria.

Hypothesis Three

Ho 3: There is no significant effect of audit committee meetings on financial reporting quality of listed deposit money banks in Nigeria.

Ha 3: There is significant effect of audit committee meetings on financial reporting quality of listed deposit money banks in Nigeria.

1.6 Significance of the Study

Despite the challenges of the Nigerian economy, it is still regarded by many as the largest economy in Africa. As such, every sector of the economy should be enhanced such that on the whole, Nigeria can once again take her rightful place as the Giant of Africa. On this note therefore, it is the belief of the researcher that this study shall be beneficial to the following groups in Nigeria and beyond:

To start with, it is the belief of the researcher that the study will serve as an inspiration to other potential researchers, institutions, stock market researchers in accounting and other users of the financial statements as well as contribute to the growth and development of the Nigerian stock market.

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Furthermore, the finding of the study will be useful to policy institutions such as the Securities and Exchange Commission (SEC) in identifying what investors perceive as being the determinants of financial information usefulness. This knowledge is crucial in enhancing efficient policies to be put in place as the growth of the capital market will depend largely on the confidence of the market participants on the system.

In addition, it is the utmost desire of the researcher that the study will assist in practice and standard setting, which in turn will increase the confidence of investors in the listed companies in the Nigerian stock market.

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1.7 Scope of the Study

This study is concerned with investigating the effect of corporate governance on quality of financial reporting of listed deposit money banks in Nigeria. In view of this, the scope of this study is considered from three different angles. First, **the content scope** of this study is corporate governance and financial reporting quality. Second, **the geographical scope** of the study islisted deposit money bankson the Nigerian Exchange Group. Lastly, **the time scope** of the study is the annual reports of the selected firms from 2018 to 2022.

1.8 Definition of Terms

Financial reporting quality: Financial reporting quality 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 governance: Corporate governance is the set of processes, customs, policies, laws and institutions affecting the way a corporation (or company) is directed, administered or controlled. Corporate governance comprises the long-term management and oversight of the company in accordance with the principles of responsibility and transparency.

Board independence: Board independence means majority of the Board of Directors are non-executive and independent in mind and character.

Audit committee meetings: Audit committee is a committee with members selected by the shareholders to verify directors' reports. Every public company is mandated to form an audit committee of at least six persons (with three each representing the directors and shareholders).

Board size: Size of board of directors can be defined as the number of directors (executive and non-executive) in a company.

Financial Statements: They comprise statement of the accounting policies; the statement of financial position; statement of comprehensive income; notes to the accounts; the auditors' reports; the directors' report; statement of cash flow; a five–year financial summary; and in the case of a holding company, the group financial statements as stipulated in CAMA, 2004 (as amended).

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CHAPTER TWO

LITERATURE REVIEW

2.1 Conceptual Review

2.1.1 Concept of Corporate Governance

Sound corporate governance practices have become critical in worldwide efforts to stabilize and strengthen global capital markets and protect investors. They help companies to improve their performance and attract investment.Current preoccupation with corporate governance can be pinpointed at two events: The East Asian Crisis of 1997 which saw the economies of Thailand, Indonesia, South Korea, Malaysia and The Philippines severely affected by the exit of foreign capital after property assets collapsed. The lack of corporate governance mechanisms in these

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countries highlighted the weaknesses of the institutions in their economies. The second event was the American corporate crises of 2001-2002 which saw the collapse of two big corporations: Enron and WorldCom, and the ensuing scandals and collapses in other corporations such as Arthur Andersen, Global Crossing and Tyco (Adebiyi, 2017).

Although, Corporate Governance is a topic not recently conceived, is ill-defined, and consequently blurred at the edges. It can be viewed as subject, objective or as a regime to be followed for the good of shareholders, employees, customers, and banker and indeed for the reputation and standing of our nation and economy.The term corporate governance has been identified to mean different things to different people.The concept of corporate governance has been defined as dealing with the ways in which suppliers of finance to corporations assures themselves of getting a return on their investment (Ogbaisi & Ezuem, 2021). Going further, they affirm that it deals precisely with problems of conflict of interest, design ways to prevent corporate misconduct and aligns the interests of stakeholders using incentive mechanism. Good corporate governance is a desired feature of a liberalized market to ensure the flow of both foreign and domestic capital for accelerated economic development. This is because it increases investor confidence and goodwill, ensures transparency, fairness, responsibility and accountability. Effective corporate governance reduces "control rights" shareholders and creditors confer on managers, increasing the probability that managers invest in positive net present value projects (Onuorah & Imene, 2016).Joseph and Ahmed (2017) maintained that good corporate governance increases valuations and boost the profitability of the firm.According to Herath and Albarqi (2017), better corporate frameworks benefit firms through greater access to financing, lower cost of capital, better performance and more favourable treatment of all stakeholders. Marshall (2015) posits that good corporate governance is important for increasing investor confidence and market liquidity. According to Miko and Kamardin (2015), improvements in corporate governance practices that contribute to better disclosures in business

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reporting in-turn can facilitate greater market liquidity and capital formation in emerging markets.

By way of definition, corporate governance is seen as the whole set of measures taken within an enterprise to favour the economic agents to take part in the productive process, in order to generate some organizational surplus, and to set up a fair distribution between the partners, taking into consideration what they have brought to the organization (Kantudu & Samaila, 2015).Corporate Governance is a system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and means of attaining those objectives and monitoring performance. (OECD, 2004). Cadbury (1992) states that corporate governance is the relationship between corporate managers, directors and providers of equity, people and institutions who save and invest their capital to earn a return.Surbakti, Shaari and Bamahoos (2017) stress that corporate governance is about ensuring that the business is run well and investors receive a fair return.Similarly, prior studies by OECD (1999) provide a more encompassing definition of corporate governance. It defines corporate governance as "the system by which business corporations are directed and controlled". The corporate governance structure specifies the distribution of rights and responsibilities among different stakeholders in the corporation such as: the board, managers, shareholders, customers, employees, among others, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the companies' objectives are set and the means of attaining these objectives and monitoring performance.Unlike the above scholars, Patrick, Paulinus and Nympha (2015) strengthen corporate governance beyond the distribution of rights and responsibilities of different stakeholders with vested interest in corporate organizations to

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consider the importance of protection of stakeholders, particularly in relation to how well corporate organizations are managed. The scholars define corporate governance as the set of mechanisms through which outside investors are protected from expropriation by insiders (including management, family interests and /or governments.In placing corporate governance on a pedestal which reveals the relationship between providers of finance and corporate organizations, Hassan and Omar (2016) are of the opinion that corporate governance deals with the ways suppliers of finance to corporations assure themselves of getting a return on their investments. Corporate organizations need to ensure that managers do not misappropriate the capital or invest in bad projects.Consequently, corporate governance is seen as “essentially about the prevention of theft”, which can be craftily executed by either the management or board or both of them (ICAN, 2009).In addition, Marshall (2015) states that corporate governance is an institutional arrangement which provide the discipline and checks over excesses of controlling managers. Corporate governance is the mechanism in which companies are governed in a transparent manner by rule of law in which participation of shareholders prevail in a responsive, efficient & effective way so as to ensure sustainability & accountability. The concept of corporate governance is getting prominence with each passing day why this so because each & every country in recent past has seen a disastrous trail of many big corporate failures that shook their entire economy. And with the advent of globalization, there is greater deterritorialization and less of governmental control, which results is a greater need for accountability (Aigboyo & Ashafoke, 2015). Hence, corporate governance has become a vital issue in managing organizations in the current global and complex environment. So it becomes very important to develop comprehensive policies in regard of corporate governance. Sir Adrian Cadbury (1992) who is also considered as *the father of modern corporate governance* also defines corporate governance as the system by which companies are directed and controlled. Corporate governance is the relationship between corporate managers, directors and the providers of equity, people and

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institutions who save and invest their capital to earn a return. It ensures that the board of directors is accountable for the pursuit of corporate objectives and that the corporation itself conforms to the law and regulators(International Chamber of Commerce). Corporate governance refers to the private and public institutions, including laws, regulations and accepted business practices, which together govern the relationship, in a market economy, between corporate managers and entrepreneurs (corporate insiders) on one hand, and those who invest resources in corporations, on the other (OECD, 2001). Eyenubo, Mohamed and Ali (2017) view corporate governance as a set of mechanisms through which outside investors protect themselves against expropriation by insiders, i.e. the managers and controlling shareholders. The insiders may simply steal the profits; sell the output, the assets or securities in the forum they control to another firm they own at below market prices; divert corporate opportunities for firms; put unqualified family members in managerial positions; or overpay managers. It has been contended that corporate governance practice is not a standard mode (not a “one size fits all”) and thus cannot operate in any standard form but rather vary across nations and firms (OECD, 2000). This variety reflects distinct societal values, different ownership structures, business circumstances, and competitive conditions strength and enforceability of contracts. The political standing of shareholders and debt holders, and the development, as well as the enforcement of the legal system is all crucial to effective corporate governance (Nkanbia-Davis, Gberegbe, Ofurum, & Egbe, 2016).

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Based on the above definitions and arguments, it is clear that corporate governance is concerned with the social political and legal environment in which the corporation operates systems practices and procedures-the formal and informal rules that governed the corporation. In not shell corporate governance is very vital in every organization, because good corporate governance contribute to better firm performance, it is expected for every other organization to enforce corporate governance policy, in order to achieve a stated goal.It is equally important to emphasize that much of the contemporary interest in corporate governance is concerned with mitigation of the conflicts of interest between stakeholders. Ways of mitigating or preventing these conflicts of interests include the processes, customs, policies, laws, and institutions which have impact on the way a company is controlled. Thus, the relationships of the board and management, according to Unuagbon and Oziegbe (2016), should be characterized by transparency to shareholders, and fairness to other stakeholders, which include employees, suppliers, customers, banks and other lenders, regulators, the environment and the community at large.

2.1.2 Characteristics of a Good Corporate Governance System

According to the African Governance Report (2005) cited in Shiyanbola, Adegbie and Salawu (2020), the characteristics of a good corporate governance system, which seem to have gained more popularity after their appearance in what is known as the King Report on Corporate Governance for South Africa 2002, are:

Discipline

Corporate discipline is a commitment by a company's senior management to adhere to behavior that is universally recognized and accepted to be correct and proper. This encompasses a company's awareness of, and commitment to, the underlying principles of good governance, particularly at senior management level.All involved parties will have a commitment to adhere to procedures, processes, and authority structures established by the organization.

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Transparency

Transparency is the ease with which an outsider is able to make meaningful analysis of a company's actions, its economic fundamentals and the non-financial aspects pertinent to that business. This is a measure of how good management is at making necessary information available in a candid, accurate and timely manner – not only the audit data but also general reports and press releases. It reflects whether or not investors obtain a true picture of what is happening inside the company.All actions implemented and their decision support will be available for inspection by authorized organization and provider parties.

Independence

Independence is the extent to which mechanisms have been put in place to minimize or avoid potential conflicts of interest that may exist, such as dominance by a strong chief executive or large share owner. These mechanisms range from the composition of the board, to appointments to committees of the board, and external parties such as the auditors. The decisions made, and internal processes established, should be objective and not allow for undue influences.All processes, decision-making, and mechanisms used will be established so as to minimize or avoid potential conflicts of interest.

Accountability

Individuals or groups in a company, who make decisions and take actions on specific issues, need to be accountable for their decisions and actions. Mechanisms must exist and be effective to allow for accountability. These provide investors with the means to query and assess the actions of the board and its committees. Identifiable groups within the organization – e.g., governance boards who take actions or make decisions – are authorized and accountable for their actions.

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Responsibility

With regard to management, responsibility pertains to behavior that allows for corrective action and for penalizing mismanagement. Responsible management would, when necessary, put in place what it would take to set the company on the right path. While the board is accountable to the company, it must act responsively to and with responsibility towards all stakeholders of the company.Each contracted party is required to act responsibly to the organization and its stakeholders.

Fairness

The systems that exist within the company must be balanced in taking into account all those that have an interest in the company and its future. The rights of various groups have to be acknowledged and respected. For example, minority share owner interests must receive equal consideration to those of the dominant share owner(s).All decisions taken, processes used, and their implementation will not be allowed to create unfair advantage to any one particular party.

Social responsibility

A well-managed company will be aware of, and respond to, social issues, placing a high priority on ethical standards. A good corporate citizen is increasingly seen as one that is non-discriminatory, non-exploitative, and responsible with regard to environmental and human rights issues. A company is likely to experience indirect economic benefits such as improved productivity and corporate reputation by taking those factors into consideration.

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2.1.3 Principles of Corporate Governance

The principles of corporate governance, as propounded by the Sarbanes-Oxley Act (2002) and Organization for Economic Co-operation and Development (OECD) Report (2015) are:

i. **Ensuring the Basis for an Effective Corporate Governance Framework:** Given the real problems that lead to corporate failure, what is to be done? The answer lies in creating a model of corporate governance in which the focus is not on monitoring managers but on improving decision making. The goal should decrease the possibility of mistakes and to increase the speed with which they are corrected. The most important step is to involve directors and shareholders in decision making. Just as democratic political system cannot work without involved citizens, corporate governance cannot work without the informed involvement of three critical groups: directors should help managers make the best possible decisions, and major shareholders should be able to speak directly to senior managers and board about what they think of corporate policies and decisions (Pound, 1995).The corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities.

ii. **Rights and equitable treatment of shareholders**: Organizations should respect the rights of shareholders and help shareholders to exercise those rights. They can help shareholders exercise their rights by openly and effectively communicating information and by encouraging shareholders to participate in general meetings.

iii. **Interests of other stakeholders**: Organizations should recognize that they have legal, contractual, social, and market driven obligations to non-shareholder stakeholders, including employees, investors, creditors, suppliers, local communities, customers, and policy makers.

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iv. **Role and responsibilities of the board**: The board needs sufficient relevant skills and understanding to review and challenge management performance. It also needs adequate size and appropriate levels of independence and commitment.

v. **Integrity and ethical behavior**: Integrity should be a fundamental requirement in choosing corporate officers and board members. Organizations should develop a code of conduct for their directors and executives that promotes ethical and responsible decision making.

vi. **Disclosure and transparency**: Organizations should clarify and make publicly known the roles and responsibilities of board and management to provide stakeholders with a level of accountability. They should also implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear, factual information

2.1.4 Corporate Governance in Nigeria

Be that as it may, corporate governance is really making giant strides in Nigeria, taking into consideration the considerable effort that is being made by the relevant authorities and corporate organizations, especially the listed ones. It is important to point out that without corporate governance, there can be no long term development (Onuorah & Imene, 2016). A survey published in the African Governance Report in 2005 (ECA 2005) cited in Shiyanbola et al. (2020) revealed that Nigeria scored generally lower than the average indices in Africa in areas of corruption control, institutional effectiveness, human rights and the rule of law and economic management.

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There are many illustrations to show that lack of corporate governance has had negative impact on the economy and they include but not limited to 'Failed Banks' in the 1980's and 1990's, Failed government projects e.g. Ajaokuta steel Project, Nigeria National Shipping Line, and more recently, Nigeria Airways. It is obvious that the privatization and commercialization programme of the Nigerian government was a reaction to the failure of corporate governance in State-owned enterprises. The Federal Government sought to divest its equity shareholding in the public enterprises through privatization on the one hand and commercialization on the other. It sought to enable some of these enterprises to be operated on a profit–oriented basis (Herath & Albarqi, 2017).

One important point that must be made before discussing governance issue in Nigeria is to reemphasize the need for good corporate governance. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and its shareholders and should facilitate effective monitoring. The presence of an effective corporate governance system, within an individual company and across an economy as a whole, helps to provide a degree of confidence that is necessary for the proper functioning of a market economy (Uwalonwa, Eluyela, Olubukola, Obarakpo, & Falola, 2018). As a result, the cost of capital is lower and firms are encouraged to use resources more efficiently, thereby underpinning growth (OECD, 2010).

2.1.5 Standards that Guide Corporate Governance in Nigeria

According to the Cadbury report – Committee on the financial aspects of Corporate Governance and Sarbanes and Oxley Act 2002, the following are the guiding standards in Nigeria:These are statutory standards enacted in legislation: Companies and Allied Matters Act (CAMA); The Central Bank of Nigeria Act (CBN Act); the Investment and Securities Act (ISA); the Banks and

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Other Financial Institutions Act (BOFIA); the Insurance Act (IA) and the National Insurance Commission Act (NICA).

Codes and Standards on Corporate Governance that are relevant to the Nigerian economy include:

a. **Sir Adrian Cadbury Committee(UK), 1992**

The committee addressed the financial aspects of corporate governance and produces a Code of Best Practice, the provision of which, in their belief, that all listed companies should incorporate a statement of compliance, or non-compliance, with the provisions, in their annual report and accounts. In respect of areas of non-compliance an explanation of the reason was sought. This code of Best Practices designed by the committee had 19 recommendations.

b. **OECD Principles of Corporate Governance (focus on disclosures),1999 and then revised in 2004**

c. **Sarbanes-Oxley (SOX) Act, 2002(USA)**

Public Accounting Reform and Investor Protection Act of 2002 known as SOX Act was enacted in 2002. The main objective of this Act is to response investors‟ confidence by preventing corporate frauds and ensuring transparency and disclosures. The SOX Act is arranged into 11 titles. The following are the eleven Sarbanes-Oxley Titles:

i. Public Company Accounting Oversight Board (PCAOB)

ii. Auditor Independence

iii. Corporate Responsibility

iv. Enhanced Financial Disclosures

v. Analyst Conflicts of Interest

vi. Commission Resources and Authority

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vii. Studies and Reports

viii. Corporate and Criminal Fraud Accountability

ix. White Collar Crime Penalty Enhancement

x. Corporate Tax Returns

xi. Corporate Fraud Accountability

d. **'UNCTAD Guidance on Good Practices in Corporate Governance Disclosure, UK(2008)**

The high profile cases of corporate governance failure around the world led to vigorous reforms. The corporate governance and reporting requirements applicable to all companies significantly changed with the enactment of the ***SOX Act 2002*** after major corporate collapses. SOX Act is obviously a great achievement in response to the scandals for restoring investors' faith in corporation. It represents a shift toward government regulation of corporate standards relating to auditing, accounting, quality control, ethics, and independence, through the Public Company Accounting Oversight Board (PCAOB).The recent move, by SEC, to mandate full disclosure for managerial compensation and perks, is also a great step to curb creative accounting practices through these stringent rules and regulations.

The Code of Best Practices on Corporate Governance in Nigeria

According to Ogbaisi, Izedonmi and Dabor (2016), the Code of Corporate Governance is the result of the work of the Committee on Corporate Governance of Public Companies in Nigeria, which finalized its report in April 2003. The Committee, which was made up of 17 members, was inaugurated at the instance of the Nigerian Securities and Exchange Commission (SEC) and the Corporate Affairs Commission on 15 June 2000, "realizing the need to align with the

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International Best Practices”. The Committee was composed of members who were selected across all sectors of the Nigerian economy: professional organizations, organized private sector, and regulatory agencies. Accordingly, the terms of reference of the Committee were:

i. To identify weaknesses in the current corporate governance practices in Nigeria with respect to public companies.
ii. To examine practices in other jurisdictions with a view to the adoption of international practices in corporate governance in Nigeria.
iii. To make recommendations on necessary changes to current practices.
iv. To examine any other issue relating to corporate governance in Nigeria.

In the course of its work, the Committee found that the system of corporate governance in Nigeria is still in its development stage, noting that principles of corporate governance are not well appreciated in the country. The Committee’s survey revealed that “only 40% of the public quoted companies had codes of corporate governance. It pointed out, however, that those without codes were willing to embrace one – emphasizing the urgent need for the development of a code for Nigeria. The Code addresses three broad areas of corporate governance: the board of directors, the shareholders and the audit committee (Shiyanbola et al., 2020).

2.1.6 Corporate Governance Code 2016

The Financial Reporting Council of Nigeria (FRCN) recently issued the National Code of Corporate Governance 2016 (the “Code”). The Code is made pursuant to the powers of the FRCN under Sections 50 and 51 of the Financial Reporting Council of Nigeria Act 2011 (the “Act”) and has a commencement date of 17 October 2016.

The Code is essentially a consolidation and refinement of different sectoral codes on corporate governance and has been issued in three parts: The Code of Corporate Governance for the

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Private Sector; The Code of Governance for Not-for-Profit entities; and The Code of Governance for the Public Sector. The Code of Corporate Governance for the Private Sector (the "Private Sector Code") is mandatory while that for the Not-for-Profit entities will be operated on a "Comply or Justify non-compliance" basis in a manner similar to the United Kingdom's Corporate Governance Code. On the other hand, the Code of Governance for the Public Sector will not become immediately operative until an executive directive is secured from the Federal Government of Nigeria for that code to take effect.

As compliance with provisions of the Private Sector Code is mandatory, our focus in this paper will be on the Private Sector Code (excerpts)

Innovations under the Code

The Private Sector Code introduces requirements which will foster an improved corporate governance regime if adhered to by the entities that fall within the purview of the code. These requirements apply to directors, auditing, amongst others.

Directorship

The Private Sector Code requires prospective directors of a company to disclose membership of other boards and serving directors to disclose prospective appointments to other boards. Also, more than two members of a nuclear or extended family are precluded from sitting on the board of a company at the same time. In addition, the Code provides that the positions of the chairman of the board and chief executive officer shall be separate and held by different individuals. The chairman of the board is also required to be a non-executive director.

These requirements will allow the company to gauge a prospective/serving director's level of commitment to the board as well as determine existence of conflict (if any) and forestall abuse of power by the directors.

Independent Non-Executive Director

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The Private Sector Code requires the board of every company to include independent non-executive directors, and provides a non-exhaustive list of factors for measuring independence including; not being a substantial shareholder, not being an employee of the company within the past five (5) years and not serving on the board for more than nine (9) years.

This requirement is aimed at inclusion of unbiased and objective directors on the board for the purpose of checks and balances in the decision making process to sustain investors' trust and confidence in the board.

Conflict of Interest

The Private Sector Code precludes any member of executive management of a relevant regulatory institution who leaves the services of such institution from being appointed as a director or top management staff of a company that has been directly supervised or regulated by the said institution until after three years of disengaging from that institution.

This provision is aimed at preventing conflict/bias on the part of the member of the executive management in dispensing his duties as a director.

Tenure of Office of Directors

The Private Sector Code provides that the tenure of office of the Managing Director/Chief Executive Officer and executive directors shall be not more than two terms of five years each. The tenure of non-executive directors should not be more than three terms of four years.

Minority Shareholder Protection

In addition to several provisions protecting shareholders' rights which are similar to the statutory rights available to minority shareholders under the Companies and Allied Matters Act (CAMA), the Private Sector Code gives a shareholder or group of shareholders who have a cumulative shareholding interest of not less than one per cent of the share capital of a company the right to contribute to the agenda of the Annual General Meeting by submitting items for inclusion in the agenda.

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This provision enables participation of minority shareholders in the decision making process of the company, and inhibits domination by majority shareholders, as matters which are of interest to the minority shareholders can be transacted at Annual General Meetings.

External Auditors

The Private Sector Code provides that the tenure of office of auditors of a company shall not exceed ten (10) years continuously and such auditors shall only be considered for reappointment seven (7) years after disengagement. Furthermore, where an auditor's aggregate tenure has already exceeded ten years at the date of commencement of the Private Sector Code, such auditor shall cease to hold office as an auditor at the end of the financial year that the Code comes into effect. In addition, companies are required to request that the audit partners are rotated every five (5) years.

The Private Sector Code also prescribes a list of services which auditors are precluded from offering to companies including actuarial, investment advisory and taxation services.

These provisions would mitigate laxity by auditors in the performance of their functions as a result of over-familiarity with the company, its processes and officers and preserve independence of the auditors.

Internal Audit

The Private Sector Code requires every company to establish an Internal Audit Unit (IAU). Amongst other responsibilities, the IAU will report to the Statutory Audit Committee (SAC), SAC and Board Audit Committee (BAC) on the adequacy and effectiveness of management, governance, risk and control policies, deficiencies observed in these policies and management mitigation plans.

This requirement would enable companies identify any governance deficiencies and any potential risk factors prior to an external audit and establish mechanisms to mitigate these factors.

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Enforcement & Sanctions

The FRCN is responsible for enforcing the provisions of the Private Sector Code. The Code provides that violations of the provisions will result in personal sanctions against the persons directly involved, and sanctions against the companies or firms involved. However, the nature of these sanctions is not provided for by the Code.

Status of the Private Sector Code Vis-À-Vis Other Existing Codes of Corporate Governance

Prior to the commencement of the Private Sector Code, different industries or sectors in the Nigeria had bespoke codes of corporate governance (including the overarching Code of Corporate Governance for Public Companies issued by the Securities and Exchange Commission (SEC). In issuing the Private Sector Code, the steering committee did consider such existing codes and similar directives with a view to harmonizing the codes and avoiding conflicts and overlaps with the Private Sector Code. In particular, the committee considered the Code of Corporate Governance for Banks in Nigeria Post-Consolidation 2006; the Code of Corporate Governance for Licensed Pensions Operators 2008; the Code of Corporate Governance for Insurance Industry in Nigeria 2009; the SEC Code of Corporate Governance in Nigeria 2011 and the Central Bank of Nigeria Code of Corporate Governance for Banks and Discount Houses 2014. The outcome was a harmonization and unification of the various codes with a directive that the Private Sector Code will, with effect from 17 October, 2016, supersede any other corporate governance code in force in Nigeria before that date, and that in the case of a conflict between the provisions of the Private Sector Code and any sectoral code or supplement thereto, the provisions of the Private Sector Code shall to the extent of those inconsistencies prevail.

For the avoidance of doubt, the issuance of the Private Sector Code does not prevent or otherwise circumscribe the powers of the various sector regulators to issue new codes of

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corporate governance or to supplement their existing codes. The Private Sector Code recognizes that such regulators remain empowered to issue corporate governance guidelines on specific matters except that such guidelines must be consistent with the Private Sector Code or be void.

In sum, stakeholders in the private sector are now required to look to and observe the requirements of the Private Sector Code only subject to any supplementary (and non-conflicting) corporate governance guidelines that may be issued from time to time by various regulators.

Overlap and Conflict with Existing Legislation

Some provisions of the Private Sector Code conflict with provisions of Companies and Allied Matters Act (CAMA) which is the primary legislation regulating the administration of companies in Nigeria. Two areas in which these conflicts occur are with respect to:

Directors Remuneration

The Private Sector Code requires the board of every company to establish a remuneration committee which shall be responsible for recommending the remuneration of both executive and non-executive directors to the board, amongst other function. This is contrary to the provision of the CAMA which gives the company in general meeting the power to determine the remuneration of the directors.

This provision also appears inimical to the principles of corporate governance, given that the members of the board would be in a position to recommend their remuneration, and further contradicts another provision of the Private Sector Code to the effect that "*a director shall not be present during the time any matter in which he has an interest is being discussed or decided"*.

Voting by the Board

In addition, the Private Sector Code provides that *"Where a majority of independent non-executive directors' dissent on an issue decided by the board, such decision can only be valid*

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where at least 75% of the full board (without reference to quorum) vote in favour of such decision"

This provision conflicts with the CAMA which expressly provides that questions arising at any meeting shall be decided by a majority of votes, and where there is an equality of votes, the chairman shall have a second or casting vote.

2.1.7 The issue, problems and challenges with Corporate Governance in Nigeria

According to Ogbaisi and Ezuem (2021), the governance issues, problems and challenges can be broken down into seven distinct topics and evaluated:

Board of Directors and committees

The commonest challenges with the board include poor information depth amongst the board members and the very powerful Chairman / CEOs. Board meetings have typically consisted of routine rituals through which members are led by a chair/CEO that is equipped with information, inside knowledge, and staff support so that they can and generally do control the agenda absolutely. So while boards have the legal authority, it is the CEOs who have the effective power. Combining the offices of board chair and CEO in one person virtually guarantees that the board will be ineffectual. A board can only be as independent and effective as its chair wants it to be and is capable of making it. It is therefore important that the head of a board is independent of the CEO/ Chairman of the organization in order to enhance corporate governance.

Legal and regulatory

The commonest issues include ambiguous laws with poorly defined boundaries. The regulators are inconsistent with application of policies to all businesses and high level of corruption amongst the regulators thus lead to generation of poor strategic value. Also the non-sanctions of those that violate stipulations in CAMA are a very problematic challenge. Corporate Affairs Commissions (CAC) must be structured such that the provisions of CAMA are enforced.

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Business practices and ethics

The minimum expectation is that the company's code of conduct, in combination with policies and procedures, sets clear expectations and guidelines for acceptable and unacceptable behavior; everyone from the CEO down to the least employee must be held accountable. However, this is far from the case in both Government and Privately owned organizations in Nigeria. Many CEOs in the banks have been involved with money laundering and other financial and economic crimes that were not disclosed to their banks. Between 2005 and 2006, banks including Fountain and Bond banks were involved with financial crimes / fraud that involved the bank employees and Mr. Tafa Balogun, a former Inspector General of Police.

Disclosure and Transparency

This area of corporate governance covers the nature and timing of information that a company provides to its stakeholders. In Nigeria, non – disclosure and non-transparency led to the collapse of failed banks such as Savannah bank and peak merchant bank in Feb 15 2002 and Feb 28 2003 respectively. The issue of disclosure is not limited to the privately owned companies. A classic example of non-disclosure and non-transparency also exists in the management of Urban Housing Cooperative (UHC) registered in Lagos State (Reg No: LSCS 1360 dated 16 March 1994). For over 12 years, the Cooperative had only one president that used to direct / chair the management of UHC without regular elections for new management teams. Financial reports were either 'created' or not supplied at all and what is most worrisome was the tax avoidance and evasions being benefited by some few persons thereby exploiting and defrauding the Lagos state government of its statutory revenue. Also the bye-laws for UHC were not consistent with cooperative laws of Lagos State. Then, UHC was probably the only cooperative in the world where 'one man one vote' did not exist in the Governance. This led members to institute three

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suits bordering on the governance of UHC (Suit Nos: M/86/2006 Lagos High court, LD/807/06 Lagos High Court and Suit no ID /642/2006 Lagos high court).

Enterprise – wide risk management

Risk management is an area of governance in which both the board and management see opportunities for significant improvement. The main challenge is that many directors in Nigeria still sit on boards that they have no effective processes for monitoring risks.

Monitoring

At the basic level, all monitoring and auditing activities compare 'what is' and 'what should be'. Monitoring identifies the gap between actual and expected and leads to efforts to close the gap. The endemic nature of corruption amongst government officials in Nigeria has had negative impact on effective monitoring. One of the most corrupt agencies is Customs Service and the Nigeria police. Noteworthy however is the National Agency for Food and Drug Administration and control (NAFDAC), an agency that has over the years, distinguished itself as a force to reckon with.

Communication

This is an essential element for any corporate governance system to work effectively and consistently. Some attributes of good communication include prescribed policies and style guidelines ensuring proper use of company trademarks and brands. Proper communication is common in the multinational and other privately owned company compared to the government organization.

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2.1.8 Financial Reporting Quality

Financial reporting quality is a major concern for all current and potential investors. According to International Accounting Standard Board (IASB, 2015), financial reporting quality determines fundamental qualitative characteristics and enhances qualitative characteristics (which include relevance, faithful representation, comparability, verifiability, timeliness, and understandability of financial statements).Financial reporting quality is therefore defined as the faithfulness of the information conveyed by the financial reporting process (Davis &Garcia-Cestona, 2021). It is a report presented based on the condition of an organisation, which tends to decrease/ increase in relation to the ability of the funder to understand financial information.According to Bhuiyan, Rahman and Sultana (2020), financial reporting quality 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. Their definition is consistent with the Financial Accounting Standards Board Statement of Financial Accounting Concepts No. 1 (1978) as cited in Ogbaisi, Izedonmi and Dabor (2016) which states that one objective of financial reporting is to inform present and potential investors in making rational investment decisions and in assessing the expected firm cash flows. 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 is no longer perceived or seen as a mere recording of transactions or an ordinary bookkeeping activity. It is now seen as a crucial tool in managing a company under good corporate governance principles (Uwuigbe, Agba, Jimoh, Olubukunola & Rehimetu,2017).

It is imperative to point out that excellent financial reporting quality reduces information asymmetry between the principal and agent in accordance with the company's legal obligations. Therefore, quality financial statements prevent the company from encountering a condition in which the investment is lower and serves as a tool for determining future fiscal policies.Financial reporting should also be capable of providing information to help stakeholders to make decisions

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especially relating to projecting the amounts and timing of future cash flows to the enterprise (Tan & Taofik, 2022). This is because the quality of financial reporting in any organisation is a reflection of the quality of the board of directors, occasioned by board diversity amongst others.

According to Idowu and Adegbie (2020), the concept of quality financial reporting has commanded considerable research interest around the world. Financial reporting quality address matters of increasing concern to investors in order to enhance public trust in business. Organization are expected to improve quality report for forward-looking information, the potential impact of emerging risks on future business strategy (i.e. the risks to which companies are exposed and the actions they take to mitigate the impact of uncertainties, the carrying value of assets and the recognition of liabilities as failure to report on these crucial areas undermines trust in business and can lead to the conclusion that management can either be unaware of their potential impact, being opaque, or is not managing them effectively). Financial reporting quality owns the following features: faithful representation, relevance, comparability, and timeliness in preparation (Idowu & Adegbie, 2020).

Faithful Representation

For financial information to be useful, it must not only represent relevant phenomena, but also faithfully represent the phenomena that it purports to represent. Faithful representation is achieved by presenting the transactions and events in the way they are reasonably expected to be reported in the financial statements and is usually measured in terms of neutrality, completeness, freedom from material error. Faithful and representation does not mean accurate in all respects. It means the process used to produce. The study established that the size of a board negatively affects the faithful representation of the firms. In addition, the study established a positive relationship between board composition and faithful representation. The study further provided

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evidence that the segregation of the CEO and Chairman's roles positively influenced the faithful representation of the listed insurance companies (Idowu & Adegbie, 2020).

Relevance

Relevant financial information is capable of making a difference in the decisions made by users. Information may be capable of making a difference in a decision even if some users choose not to take advantage of it or are already aware of it from other sources. Financial information can make a difference in decisions if it has predictive value, confirmatory value or both. Financial information has predictive value if it can be used as an input to processes employed by users to predict future outcomes. Financial information has confirmatory value if it provides feedback about previous evaluations (Idowu & Adegbie, 2020).

Comparability

Comparability is a desirable property of financial reporting and is defined as the quality of accounting information that enables users to identify and understand similarities in, and differences across, firms (FASB, 2018). Investors choose among alternatives in making investment decisions. Therefore, "information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date" (FASB, 2018).

Timeliness

Timeliness means having information available to decisionmakers in time to be capable of influencing their decisions. Generally, the older the information, the less useful it is. However, some information may continue to be timely long after the end of a reporting period because, for

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example, some users may need to identify and assess trends. Timeliness illustrates that information must be available to decision makers before losing its powerful and good influences (Idowu & Adegbie, 2020).

2.1.9 Financial Reporting Quality and Corporate Governance

Financial reporting quality is emphasised by the Financial Accounting Standard Board (FASB) and the International Accounting Standard Board (IASB). However, no measurement method for quality has been universally provided and arbitrary techniques have been used by researchers in the evaluation of quality of financial reporting (Hassan & Omar, 2016). Accrual method, conservatism, value relevance and qualitative characteristics of financial statement have been generally applied by researchers. Financial reporting quality aims at transparency promotion, thereby presenting high-quality financial report (Hassan & Omar, 2016). Several empirical evidence use influences on financial reporting as a measure of financial reporting quality, also indicating quality of financial report associating with various influences (Herath & Albarqi, 2017). One of the significant models used in measuring the quality of financial reporting is the accrual quality. This is the accrual basis in accounting where revenues are recognized from the collection of cash and expenses are separately recognized from cash payments. The cash flows in an organisation should match both its accrued revenue and expense. However, the actual match varies in the practices carried out by entities and over a period of time. Subsequently, the actual revenue received as cash and payment for costs might be less than accrued estimation of revenues generated or cost that is derived (Herath & Albarqi, 2017). Revenues are independently recognized as cash collection while expenses is recognized as cash payments. It is expected that the operating cash flow in an organisation should relate to the accrued revenues and expenses within the operating cycle; but in practice, this varies. The revenue accrued might exceed the

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actual cash that is collected or less. Equally, outflows of cash from servicing warranty claims might be different from warranty expenses using the accrual basis. It has been proved that the variability during the operating cycle of an organisation of the accrual and cash flows brings about a lower accrual quality in an organisation (Patrick et al., 2013).

Changes of board composition and the degree of independence have no influence on the quality of the accounting information. Incremental audit committee independence has no influence on quality as audit committee already consists of independent directors.Strong corporate governance brings about a broad vision of accounting process, and this is associated with reported earnings.Corporate governance brings improvement of financial reporting quality indicating that higher level of board characteristics, audit committee, board size and growth bring about financial reporting of high quality (Akeju & Babatunde, 2017). Miko and Kamardin (2015) argue that there is better reporting quality in countries with a strong capital market than in the countries with an emerging market or those with a weak capital market. Monitoring characteristics influences the financial reporting quality. Good governance practices have impact on the financial reporting quality of firms with a key determinant factor of independence on the success of financial reporting quality. Independent board brings about the enhancement of financial reporting quality. Also, the composition of audit committee given by code of corporate governance yields improvement in the financial reporting quality (Majiyebo *et al.*, 2018).

Over the year, financial reporting of Nigerian companies is found weak and deficient thereby making the presented companies information far from economic reality for users of financial statements to make informed decisions (World Bank, 2004). Also, empirical evidence indicates weak reporting practice in Nigeria (Unuagbon & Oziegbe, 2016). Inadequate enforcement and monitoring result to financial reporting failure (Ullah et al., 2023). The fall of companies once with good standing have affected the confidence of stakeholders' reliance on financial reporting

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negatively, and this has been attributed to poor accounting practices which result in unethical conduct and misuse of power and poor and weak corporate governance, thereby influencing the quality of financial report in firms. Adegbie and Fofah (2016) also reveal ethical irregularities and poor corporate governance as factors affecting the quality of financial reporting.

2.2 Theoretical Framework

2.2.1 Stakeholders Theory

Agency theory holds a contractual view of the relationship between managers and shareholders where the managers have the sole objective of maximizing the wealth of shareholders. Stakeholder theory considers this view to be too narrow since manager's actions have effect on other interested parties than just shareholders. The theory was developed by Freeman (1984) with emphasis on the need for managers to have corporate accountability to stakeholders instead of shareholders. Stakeholders are "any group or individual that can affect or is affected by the achievement of a corporation's purpose" (Freeman 1984). Donaldson and Preston (1995) defined stakeholders as identifiable groups or persons who have legitimate interest in an organization and these interests have intrinsic value. The theory is interested in how managerial decision making affect all the stakeholders and no one interest should be able to dominate the others (Donaldson & Preston, 1995). Stakeholder theory also proposed for the representation of the various interest groups on the organization's board in order to ensure consensus building and to avoid conflicts. The board therefore serves as arbitration over the conflicting interests of the stakeholders and brings about cohesion needed for the achievement of the organizational objectives (Donaldson & Preston, 1995). Besides, the stakeholder theory is better in explaining the role of corporate governance than the agency theory by highlighting different constituents of a firm (Coleman, 2008).

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In spite of the good intentions of the theory, it has been criticized for putting too much burden on managers by making them accountable to many stakeholders without specific guidelines for solving problems resulting from conflicting interests. This situation has given managers the discretionary powers to decide on whose interest to serve. Jensen (2001) suggested that managers should pursue objectives that would lead to increasing the long-term value of the firm since this would not be attained by ignoring the interest of some of the stakeholders. He also criticized the theory for adopting a single-valued objective of maximizing wealth of its stakeholders. According to him, the performance of an organization is not only measured by returns to the stakeholders but equally important is the management of information in the organization with particular reference to vertical communication, inter-personal relationships in the organization and the working environment. He refined the theory to "enlighten stakeholder theory" to take care of the shortcomings. With this, the company should take into consideration the interests and influences of people who are either affected or may be affected by company's policies and operations (Frederick et al., 1992). With an original view of the firm, the shareholder is the only one recognized by business law in most countries because they are the owners of the companies. In view of this, the firm has a fiduciary duty to maximize their returns and put their needs first. In more recent business models, the institution converts the inputs of investors, employees, and suppliers into forms that are saleable to customers, hence returns back to its shareholders. This model addresses the needs of investors, employers, suppliers and customers. Pertaining to the scenario above, stakeholder theory argues that the parties involved should include governmental bodies, political groups, trade associations, trade unions, communities, associated corporations, prospective employees and the general public. In some scenarios, competitors and prospective clients can be regarded as stakeholders to help improve business efficiency in the market place.

Stakeholder theory has become more prominent because many researchers have recognized that the activities of a corporate entity impact on the external environment requiring accountability of

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the organization to a wider audience than simply its shareholders. For instance, McDonald and Puxty (1979) proposed that companies are no longer the instrument of shareholders alone but exist within society and, therefore, have responsibilities to that society. One must however point out that large recognition of this fact has rather been a recent phenomenon. Indeed, it has been realized that economic value is created by people who voluntarily come together and cooperate to improve everyone's position (Freeman et. Al., 2004).

In order to differentiate among stakeholder types, Rodriguez et al., (2002): classification was adopted; consubstantial, contractual and contextual stakeholders. Consubstantial stakeholders are the stakeholders that are essential for the business's existence (shareholders and investors, strategic partners, employees). Contractual stakeholders, as their name indicates, have some kind of a formal contract with the business (financial institutions, suppliers and sub-contractors, customers). Contextual stakeholders are representatives of the social and natural systems in which the business operates and play a fundamental role in obtaining business credibility and, ultimately, the acceptance of their activities (public administration, local communities, countries and societies, knowledge and opinion makers). As a result of the complex nature of the stakeholder relationship and the need for the better management of the various stakeholders, Donaldson and Preston (1995) conceded that stakeholder theory cannot be a single theory but categorized them into three different approaches of descriptive, instrumental and normative.

2.2.2 Stewardship Theory

The stewardship theory emerged as a result of the seminar work by Donaldson and Davis (1991). In contrast to agency theory, stewardship theory presents a different model of management, where managers are considered good stewards who will act in the best interest of the owners. The fundamentals of stewardship theory are based on social psychology, which focuses on the behaviour of executives. The steward's behaviour is pro-organizational and collectivists, and has

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higher utility than individualistic self-serving behavior and the steward's behavior will not depart from the interest of the organization because the steward seeks to attain the objectives of the organization (Davis, Schoorman & Donaldson 1997). According to Smallman (2004) where shareholder wealth is maximized, the steward's utilities are maximized too, because organizational success will serve most requirements and the stewards will have a clear mission. He also states that stewards balance tensions between different beneficiaries and other interest groups. Therefore, stewardship theory is an argument put forward in firm performance that satisfies the requirements of the interested parties resulting in dynamic performance equilibrium for balanced governance.

Stewardship theory sees a strong relationship between managers and the success of the firm, and therefore the stewards protect and maximize shareholder wealth through firm performance. A steward is the one who improves performance successfully, satisfies most stakeholder groups in an organization, when these groups have interests that are well served by increasing organizational wealth (Davis et al, 1997). When the position of the CEO and Chairman is held by a single person, the fate of the organization and the power to determine strategy is the responsibility of a single person. Thus the focus of stewardship theory is on structures that facilitate and empower rather than monitor and control. Therefore, stewardship theory takes a more relaxed view of the separation of the role of chairman and CEO, and supports appointment of a single person for the position of chairman and CEO and a majority of specialist executive directors rather than non-executive directors (Clarke 2004).

Davis et al., (1997) identified five components of the management philosophy of stewardship as trust, open communication, empowerment, long-term orientation and performance enhancement.

2.2.3 Resource Dependency Theory

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The basic proposition of resource dependence theory is the need for environmental linkages between the firm and outside resources. The resource dependency theory was developed by Pfeffer (1973) and Pfeffer and Salancik (1978) with the objective of emphasizing the important role played by board of directors in providing access to resources that would enhance the company's performance and protect it against externalities. Companies require resources in areas of finance, human, technical, information, communication and technology to function properly and to achieve their objectives. Daily et al. (2003) posit that the accessibility to resources enhances organizational functioning, performance and survival. Hillman et al. (2000) argue that resource dependency theory focuses on the crucial role that the directors play in providing or securing essential resources to the company through their linkages to the external environment. They contend that directors bring resources to the company in the form of information, skills, access to key constituents such as suppliers, buyers, public policy makers, social groups as well as legitimacy. Organizations depend on each other for business because they form the largest proportion of the organization's customer base, meaning the actions of one organization can greatly influence the financial performance of the other either positively or negatively, hence the need for organizations to establish relationships at board levels. Johnson (1996) agreed that the theory provides focus on the appointment of representatives of independent organizations as a means of gaining accessibility to resources critical to the organizations success.

According to Pfeffer and Salancik (1978), boards provide advice, counsel and know-how, legitimacy and reputation, channel for communicating information with external organizations, and preferential access to commitments or support from important actors outside the firm. The boards perform these functions through social and professional networking (Johannisson & Huse, 2000) and interlocking directorates (Lang & Lockhart, 1990). Abdullah and Valentine (2009) classified directors into four categories of insiders, business experts, support specialists and community influencers. Zahra and Pearce (1989) posit that the diverse background of the

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directors enhance the quality of their advice. The theory favours larger boards (Dalton et al., 1999; Booth and Deli, 1996; Pfeffer, 1973; Provan 1980). This theory supports the appointment of directors to multiple boards because of their opportunities to gather information and network in various ways. Resource-dependence theories argue that a board exists as a provider of resources to executives in order to help them achieve organizational goals (Hillman, Cannella & Paetzold, 2019; Hill & Jones, 2019). For example, board members who are professionals can use their expertise to train and mentor executives in a way that improves organizational performance. The basic proposition of resource dependence theory is the need for environmental linkages between the firm and outside resources. In this perspective, directors serve to connect the firm with external factors by co-opting the resources needed to survive. Thus, boards of directors are an important mechanism for absorbing critical elements of environmental uncertainty into the firm.

2.2.4 Agency Theory

The theoretical framework on which this study is based is the agency theory. Agency theory was initially propounded by Berle and Means (1932) and developed and utilized by Jensen and Meckling (1976) in analyzing the relationship between the owners of the business and the managers in a contractual relationship. The theory gives insight into the agent-principal relationship. Management (agent) in playing their role of disclosing financial information to the shareholders (owners) and other stakeholders may give misleading information mainly due to their selfish gains. The issue of corporate governance arose from the activities of managers or agents in sharp practices, which usually are not in the principals (owners of the business)

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interest. Over time, situations have risen where the Directors do not take action in shareholders' best interest. This problem forms the core issue which agency theory addresses. This problem arises because of the disassociation of the control of a firm from ownership of such firm; hence, the directors control the firm while the shareholders are the owners. This arrangement invariably gives birth to a conflict of interest amongst ownership (shareholders) and control (directors). The agency theory has also revealed that "When the principal has enough information to assess the activities and performance of the agent, such agent will tend to act in the best interest of the principal." As a result of this and with the prior cases of financial scandal, both local and international communities have raised many criticisms about the quality of financial reports (Orlando, 2010).

2.2.5 Positive Accounting Theory

The positive accounting theory was developed by Watts and Zimmermann 1978. Positive accounting theory helps us to understand what is happening in the world and reasons why organisations act the way they do. Positive accounting theory gives understanding to what is happening in the world and reasons organisations act a certain manner. This theory gives understanding to decision users make with respect to accounting information, making organisations to take more informed economic decisions about how and why they present information the way they do (Kabir, 2011). Positive accounting theory indicates implications to choices of accounting methods. The management ensures accounting choices that will yield maximum benefit to the entire organisation despite agency problem. This theory focuses on explaining and predicting accounting practices based on observed behaviour. PAT assumes that individuals and organizations act rationally in their own self-interest and seeks to understand how accounting choices align with these interests. It explores the reasons behind the selection of

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accounting methods, disclosure choices, and the impact of contracts and regulations on accounting decisions.

2.3 Empirical Review

Onuorah and Imene (2016) investigated corporate governance and financial reporting quality from Nigeria in some selected companies including manufacturing, service and banking from the period of 2006 to 2015 and findings suggested correlation between corporate governance such as board structure size and independence, audit committee size, the quality of external audit, board experience and financial reporting. Board size, experience and the quality of external audit have positive impact on the financial reporting quality which is measured by the discretionary accruals. However, independent directors on the boards of firms and audit committee size negatively affect financial reporting quality. This reveals that there is short run relationship among audit committee size and the quality of external audit as measured by the presence of an auditor among the big 4. Financial reporting quality was measured by discretionary accrual of firm. It further recommended bringing about global standard financial reporting in Nigeria emerging market for investment.

Ibrahim, Ahmad, John, and Rahma (2016)examined corporate regulations and the quality of financial reporting. A proposed study. The issue of concern was to find out how the new code regarding the independence of the board in relation to the quality of financial information reporting. To find the distinct impact of the code, the paper divided the study into two years pre (2010-2011) and two years' post (2013-2014) context of the code. The study made use of 300 non-financial listed companies' financial sectors except banks in Malaysia. The study used Pearson's and spearman's correlation and multiple regressions. The study concluded that corporate regulations have effects on quality.

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Mubarak(2016)examined the impact of Corporate Governance on the quality of financial reporting in the Nigerian Chemical and Paint industry. The period of the study was between 2009-2103 with a sample of four (4) companies used, and data were analyzed using correction regression and the variable used were Board size, Board independence, and Audit committee. The study concluded that Board size as well as Board impendence has an insignificant effect on the quality of financial reporting in the Nigerian chemical and Paint Industry; it went further to say that non-executive directors in the audit committee have an insignificant effect.

Ahmed, Cheng, Shamsher, and Tanfia (2016) investigated corporate governance reforms and financial reporting quality of Middle East stock markets. The objective was to find out the effect of corporate governance reform and financial reporting quality on non-financial firms listed at the Saudi stock market before and after the reform was applied to the listed firms. The study adopted working capital accruals quality as a measurement of the financial reporting quality. An independent sample t-test was performed to investigate the trend of the FRQ in the selected countries. The result shows that the applied corporate governance reform was efficient, and the FRQ improve for the era after corporate governance reform in the Middle East stock market. The study period was 1996-2011.

Kusnadi *et al.* (2016) investigated corporate governance and financial reporting quality of listed non-financial companies in Singapore for year 2010 using cross-sectional regression analysis. The proxies for corporate governance include independence, expertise and overlapping membership. Accrual quality was used as a proxy of financial reporting quality. Findings suggested higher financial reporting quality with a mixed presence of expertise, finance and supervisory. Presence of audit accounting expertise has significant influence on financial reporting quality. However, audit committee comprised more independent audit committee and its increment was not found to enhance financial reporting quality. There was no significance

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influence between incremental audit independence and financial reporting quality. Also, there is no influence between overlapping membership, remuneration committee and financial reporting quality. They recommended the presence of diversity audit committee expertise including those with accounting expertise and finance or supervisory expertise to enhance the monitoring role in order to have a higher financial reporting quality. The firms should improve corporate governance so as to enhance the effectiveness of financial reporting quality.

Adebiyi (2017) examined board composition and financial reporting quality using 15 deposit money banks in Nigeria from the period of 2005 to 2016 using Ordinary Least Square (OLS) regression. The proxies for corporate governance include board size, board meeting and board independence. The discretionary accrual was used as the proxy for financial reporting quality and found a positive relationship between board size and board independence and discretionary accruals and a negative relationship with board meetings. They recommended that the board size of banks should not be too large and meetings should be carried out on a regular basis so as to carry out their monitoring oversight functions.

Akeju and Babatunde (2017) in their study in Nigeria on corporate governance and financial reporting quality of 40 listed companies on the Nigerian Stock Exchange (NSE) from 2006 to 2015 using multiple regression found that corporate governance brings improvement of financial reporting quality indicating that higher level of board characteristics, audit committee, board size and growth bring about financial reporting of high quality in Nigeria. Corporate governance code has a significant relationship with financial reporting quality. High board characteristics, audit committee, board independence, board size and growth yields high financial reporting quality.

Uwalomwa *et al* (2018) investigated the influence of corporate governance on the quality of financial reports of listed banks in Nigeria. The study used data generated from the annual

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report of the listed banks on the Nigerian Stock Exchange considering the period 2008–2015. The researchers used board independence as proxy for corporate governance. The data were analysed using descriptive statistics, correlation matrix and panel data regression analysis. It was observed that board independence had a non-significant negative relationship with the quality of financial reports.

Hopen and Kemebradikemor (2019) investigated the impact of board characteristics on the financial reporting quality of listed Manufacturing firms. The study made use of a deductive research approach using a Multi-method qualitative research approach and multi-method qualitative research design, while generalized linear model regression was used in testing the hypotheses. Findings revealed that Board expertise was statistically significant and positively related to financial reporting quality at5% level of significance, while board independence and board diversity were found to be insignificantly related to financial reporting quality at5% level of significance. The study concluded that board characteristics partially affect financial reporting quality.

The study conducted by Idowu and Adegbie (2020) examined the effect of corporate governance on financial reporting quality in quoted deposit money banks in Lagos State, Nigeria. The study adopted survey and *ex post facto* research design. The target population for this study was staff from 10 deposit money banks in Lagos State, Nigeria and 450 participants were purposively sampled for the study. The instrument for the study was validated by the supervisor and its reliability test shows 0.752. The data for the study was analysed using multiple regression analysis. The study showed that corporate governance has significant effect on financial reporting quality in selected deposit money banks in Lagos State, Nigeria. The finding also revealed that shareholders' assembly, board of directors, supervision and control; and transparency and publicity have significant effect on faithful representation and on timely

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preparationof the selected banks in this study. The study concluded that corporate governance is essential towards the growth of deposit money banks in Nigeria. It was recommended that the government should ensure the provision of standards and guidelines to regulate forensic activities and above all Nigerians should embrace integrity, objectivity, fairness and accountability in their day-to-day activities.

Shiyanbola, Adegbie and Salawu (2020) investigated a combined effect of corporate governance components on financial reporting quality of quoted financial and non-financial firms in Nigeria. The study adopted ex-post facto research design. Purposive sampling technique was used to select 30 quoted financial and 30 quoted non-financial firms in Nigeria of 161 listed companies on the Nigerian Stock Exchange for the period 2003-2017. The multiple regression was employed to test the inferential statistics. Findings revealed that corporate governance (CG) has joint significant effect on financial reporting quality (FRQ) of quoted financial and non-financial firms in Nigeria. The study concluded that corporate governance has significance effect on financial reporting quality of quoted financial and non-financial firms in Nigeria. The study recommended that management should ensure they comply with code of corporate governance to give credibility to the financial report.

Ogbaisi and Ezuem (2021) examined corporate governance and financial reporting quality in Nigeria. The objective of the study was to specifically examine the impact of board size, board independence and frequency of audit committee meetings on financial reporting quality. The researchers used a random sample size of 42 firms from the 169 firms quoted on the Nigerian Stock Exchange as at 31st December, 2020. Data filtering technique was employed to arrive at the sample size after meeting certain criteria. The study covered a 5-year period, ranging from 2016-2020. The data were analysed using Multiple Ordinary Least Square. The findings revealed that board size had a positive insignificant impact on financial reporting quality in

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Nigeria. Board independence on the other hand, had a positive significant impact on financial reporting quality in Nigeria. The findings further revealed that frequency of audit committee meetings had a positive significant impact on financial reporting quality in Nigeria. Thus, it was recommended that the Securities and Exchange Commission should strengthen the code of corporate governance by advocating an increase in the number of Directors that are independent of the board and also advocating the need for audit committees to increase the frequency of meetings held so as to enhance the quality of financial reports in Nigeria. Though board size had a positive insignificant impact on financial reporting quality in Nigeria, the study recommended that there should be an optimum board size.

Amah and Ekwe (2021) investigated the effect of corporate governance structure and financial reporting quality of quoted pharmaceutical companies in Nigeria. A total of ten pharmaceutical companies were used from 2006-2019. Data were extracted from the annual report and accounts of the pharmaceutical companies in Nigeria. Financial reporting quality was calculated using Dechow and Dicher's (2002) model. The Housman test of multiple regression analysis was employed to test the hypotheses. The result found that board independence has a positive effect on the financial reporting quality, board compositions have a positive and significant effect on financial reporting quality, board meeting has negative association on the financial reporting quality of pharmaceutical companies in Nigeria. The ownership structure also reflects the positive and significant financial reporting quality of the selected companies. The number of times the risk management committee meets yearly as an indicator of corporate governance structure yield a positive influence on the financial reporting quality of selected pharmaceutical companies. The result for a ratio of female members in the board, i.e. gender composition and numerical strength of audit committee members each, is yielding positive and significant effect on financial reporting quality. The study therefore, recommended that quoted firms should

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adhere to the guidelines given by CBN and SEC on the code of corporate governance as it affects their financial reporting quality.

Ogoun and Chinaemezu (2023) conducted a study which interrogated the effect of board diversity on financial reporting quality of listed manufacturing companies in Nigeria. Specifically, the study interrogated how board diversity (measured by age diversity and education diversity) affects the quality of financial reporting (proxied by relevance and faithful representation), using a cross-sectional data of 21 consumer goods manufacturing companies listed on the Nigerian Exchange Group from 2018-2022. Adopting ex-post facto research design, as well using multiple regression techniques for the analysis of data obtained from the annual reports and other relevant materials of the companies under study, findings revealed that education diversity and age diversity have a significantly positive effect on the quality of financial reporting of these companies. It was therefore suggested by way of recommendation that in order to continue to have ahigh-quality financial reporting, listed manufacturing companies in Nigeria should endeavour to have a rich blend of age and education in the composition of their board of directors. In fact, this study went a step further to suggest that individuals between the age of 45-60, as well as, individuals with a minimum qualification of PhD should be the only ones appointed into the board.

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CHAPTER THREE

METHODOLOGY

3.1 Research Design

The researcher adopted the ex-post facto design method. This is because the study sought to investigate the relationship between corporate governance and financial reporting quality in Nigeria, using data that are historical in nature. In other words, the data relating to this study were obtained from the annual reports of the companies under study from 2018 to 2022, hence they are believed to have already occurred before this study.

3.2 Characteristics of the Study Population

The population of the study includes all the deposit money banks with both national and international authorization listed companies on the Nigerian Exchange Group as at September 30, 2023.Therefore, the population size of this study is 19 listed deposit money banks with national and international authorization.

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3.3 Sampling Design and Procedures

For the purpose of this study, all the 19 deposit money banks with national and international authorization listed on the Nigerian Exchange Grouprepresented the sample size of this study.

3.4 Method of Data Collection

The data for this study were obtained mainly from secondary sources which were collected from the audited annual reports and accounts of companies quoted on the floor of the Nigerian Exchange Group. Additionally, the Nigerian Factbook served as reference.

3.5 Operational Measurement of Variables

In order to examine the relationship between corporate governance and financial reporting quality in Nigeria, a linear model was built. The model captures the impact of board independence, board size and frequency of audit committee meetings on financial reporting quality in Nigeria. The researcher adopted the model of Onuorah and Imene (2016).

FRQ is financial reporting quality (dependent variable) measured by the discretionary accruals of firm i in year t consistent with the Modified Jones (1995) model (Miko & Kamardin, 2015; Onuorah & Imene, 2016).

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BRDIDit is board independence (independent variable) measured by the percentage of independent directors on the board of firm i in year t (Chalaki *et al* 2012; Onuorah & Imene, 2016).

BRDSZit is board size (independent variable) measured by the number of directors on the board of firm i in year t (Miko & Kamardin, 2015; Uwalomwa *et al* 2018).

FADCMit is frequency of audit committee meetings (independent variable) measured by the number of times the committee meets during the financial year end in firm i and in year t (Ogbaisi *et al* 2016; Uwalomwa *et al* 2018).

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3.6 Method of Data Analysis

To start with, the main tool of data analysis used is the Ordinary Least Squares (OLS), using the multiple regression method. Since the methodology allows comprehensive information about the dynamics of the interactions, the relationship between the dependent and the independent variables are easily explained. The following models are specified to achieve the objectives of this study:

Models

$$FRQ = \beta_0 + \beta_1 CG + \epsilon i \qquad (3.1)$$

Where:

FRQ = Financial Reporting Quality

β_0 = RegressionIntercept

β_1 = Corporate governance

ϵi = Error Term of the model

Disaggregating Equation 3.I

The relationship between corporate governance and the quality of financial reporting is specified as;

$FRQit= \alpha0+\alpha1BRDIDit + \alpha2BRDSZit + \alpha3FADCMit + \varepsilon t$

Where:

α is constant

$\beta1 - \beta3$ are the coefficient of the parameter estimate

ε is the error term

Data Analysis Procedure

The main tool of analysis is the Ordinary Least Squares (OLS) using the multiple regression method for a period of 5years, annual data covering 2018– 2022. Statistical evaluation of the global utility of the analytical model, so as to determine the reliability of the results obtained were carried out using the coefficient of correlation ® of the regression, the coefficient of determination (r^2), the student T-test and F-test.

(i) Coefficient of Determination (r^2) Test: This measure the explanatory power of the independent variables on the dependent variables.R^2 gives the proportion or percentage of the total variation in the dependent variable Y that is accounted for by the single explanatory variable X. The higher the R^2 value the better. For example, to determine the proportion of financial market penetration through capital fundamental in our model, we used the coefficient of determination. The coefficient of determination varies between 0.0 and 1.0. A coefficient of determination say 0.20 means that 20% of changes in the dependent variable is explained by the independent variable(s).Therefore, we shall use the R^2 to determine the extent to which variation in capital market fundamentals variables

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are explained by variations in monetary policy transmission mechanism using various transmission channels.

(ii) Correlation Co-Efficient ®: This measures the degree of the relationship between two variables x and y in a regression equation. That is, it tries to establish the nature and magnitude of the relationship when two variables are been analyzed. Thus correlation co-efficient show whether two variables are positively or negatively correlated. That is, it takes the value ranging from – 1, to + 1.

(iii) F-Test: This measures the overall significance. The extent to which the statistic of the coefficient of determination is statistically significant is measured by the F-test. The F-test can be done using the F-statistic or by the probability estimate. We use the F-statistic estimate for this analysis.

(iv) Student T-test: measures the individual statistical significance of the estimated independent variables. This is a test of significance used to test the significance of regression coefficients (Gujurati, 2003).Generally speaking, the test of significance approach is one of the methods used to test statistical hypothesis. A test of significance is a procedure by sample results are used to verify the truth or falsity of a null hypothesis (Ho) at 5% level of significance.

(v) Durbin Watson Statistics: This measures the collinearity and autocorrelation between the variables in the time series. It is expected that a ratio of close to 2.00 is not auto correlated while ratio above 2.00 assumed the presence of autocorrelation.

(vi) Regression coefficient: This measures the extent in which the independent variables affect the dependent variables in the study.

(vii) Probability ratio: It measures also the extent in which the independent variables can explain change to the dependent variables given a percentage level of significant.

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CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation

The presentation of data begins with descriptive statistics which shows the level of average and risk variation of the quoted sampled firm for the period of 2018 to 2022. The result was represented in the Table below.

Table 1: Descriptive Statistics

	FRQ	BRDSZ	BRDID	FADCM
Mean	1.329896	7.500902	6.260753	6.456745
Median	-0.052250	7.514060	6.000000	5.435678
Maximum	23.56230	9.291927	13.00000	19.87656
Minimum	-21.98420	5.926975	2.000000	2.126549
Std. Dev.	7.097926	0.983219	2.092025	3.768974
Skewness	1.038693	0.013344	0.609105	1.679456
Kurtosis	8.513725	1.883951	3.297479	4.892468
Jarque-Bera	117.1688	4.206188	24.37427	34.89654
Probability	0.000000	0.022078	0.000005	0.000023
Sum	107.7216	607.5730	2329.000	397.8654

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Sum Sq. Dev.	4030.444	77.33750	1623.700	4078.785
Observations	95	95	95	95

Source: E-Views11 (2023)

The descriptive statistics of the variables used in the analysis are presented in Table 1. Financial reporting quality is the dependent variable and constitutes the main variable of interest. From Table 4.1, financial reporting quality has a mean value of 1.329896 and a median value of 0.052250. It had a maximum value of 23.56230 and a minimum value of value of -21.98420. Financial reporting quality was positively skewed with value of 1.038693. Board size had a mean value of 7.500902 and a median value of 7.514060. Board size was positively skewed with a value of 0.013344. Board independence had a mean value of 6.260753 and a median value of6.000000. Board independence was positively skewed with a value of 0.609105. Frequency of audit committee meetings had a mean value of 6.456745 and a median value of 5.435678. Frequency of audit committee meetings was positively skewed with a value of 1.679456. All the independent variables exhibited positive skewness. The Jacque-Bera probabilities with $p<0.05$ is an indication that all the variables are normally distributed. To examine the relationship between corporate governance and financial reporting quality in Nigeria, Pearson correlation matrix was conducted and the result was presented in Table 2 below:

Table 2: Correlation Analysis

Correlation: t-Statistics

Probability	FRQ	BRDS Z	BRDID	FADCM
FRQ	1.000000			
BRDSZ	0.282511	1.000000		
BRDID	0.276762	0.642621	1.000000	
FADCM	0.012468	0.0000 0	7.454793	1.000000

Source: E-Views 11 (2023)

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Correlation matrix measures the degree of linear association between the dependent variable and the independent variables. The Table shows that the co-efficient of correlation of a variable within respect to itself is 1.00. The analysis showed that all the independent variables all had a positive relationship with financial reporting quality. A close look at the correlation matrix also revealed that no two explanatory variables were perfectly correlated. This means that there is the absence of multicollinearity problem in our model. Multicollinearity between explanatory variables may result to wrong signs or implausible magnitudes, in the estimated model coefficients and bias of the standard errors of the coefficients. To examine the significant impact of corporate governance attributes on financial reporting quality in Nigeria, the researcher employed a multiple regression technique to test the formulated hypotheses. The results obtained are presented in Table 3 below:

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4.2 Test of Hypotheses

Table 3: Regression Analysis

Dependent Variable: FRQ

Variable	Coefficient	Std. Error	T Statistic	Prob.
C	-7.668477	6.689887	-1.146279	0.0053
BRDSZ	0.956	0.948268	2.270	0.024
BRDID	0.746	4.814555	0.672	0.501
FADCM	-1.188	1.632357	-2.800	0.007

R-squared	0.635101	Mean dependent var	1.329896
Adjusted R-squared	0.594843	S.D. dependent var	7.097926
S.E. of regression	6.369008	Akaike info criterion	6.600505
Sum squared resid	3082.884	Schwarz criterion	6.748311
Log likelihood	-262.3205	Hannan-Quinn criter.	6.659807
F-statistic	5.839873	Durbin-Watson stat	1.793950

Prob(F-statistic)	0.000375

Source: E-Views (2023)

Table 3 reports the regression results of the effects of corporate governance on financial reporting quality in selected quoted non-financial listed firms. There is evidence that board size and board independence have a positive effect with financial reporting quality in quoted non-financial firms in Nigeria, while audit committee meetings have a negative effect with financial reporting quality among selected quoted non-financial firms in Nigeria. In addition, there is evidence that board size has a significant positive effect on financial reporting quality among selected quoted non-financial firms in Nigeria (BZ= 0.956, *t*-test = 2.270, p =0.024<0.05), this means that the higher the board size, the higher the quality of financial reporting. While audit committee meetings have a significant negative effect with financial reporting quality among selected quoted non-financial firms in Nigeria (ACM= -1.188, *t*-test = -2.800, p = 0.007<0.05). This means the higher the number of audit committee meetings, the lower the quality of financial reporting. This implies that board size and audit committee meetings were significant factors influencing changes in the financial reporting quality of selected quoted non-financial firms in Nigeria. In sharp contrast, board independence has an insignificant positive effect on financial reporting quality of quoted non-financial firms in Nigeria (BI = 0.746, *t*-test= 0.672, p =0.501>0.05), board independence is not sufficient enough to improve the quality of financial reporting.

Concerning the magnitude of the estimated parameters, the coefficients for the quoted non-financial firms are 0.956, 0.746 and -1.188. This implies that a unit increase in board size and board independence will lead to 0.956 and 0.746 increase in financial reporting quality

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respectively, while a unit increase in audit committee meetings will lead to decrease of 1.188 in financial reporting quality of selected quoted non-financial firms in Nigeria respectively.

The Adjusted R^2 measures the proportion of the changes in financial reporting quality in Nigeria as a result of changes in board size, board independence and audit committee meetings explain about 49 per cent changes in financial reporting quality in Nigeria, while the remaining 51 per cent were other factors explaining changes in financial reporting quality for quoted non-financial firms but were not captured in the model.

The F- test of 15.51 is statistically significant with $p < 0.05$. This indicates that the board size, board independence and audit committee meetings jointly explain changes in financial reporting quality in selected quoted non-financial firms in Nigeria.

For the quoted non-financial firms, at the level of significance of 0.05, the F- test is 15.51 and P-value of 0.003 which is less than 0.05 level of significance. On the overall, the statistical significance of the model showed that the null hypothesis that corporate governance (board size, board independence and audit committee meetings) has no significant effect on financial reporting quality in quoted non-financial firms in Nigeria was rejected. Thus, the alternative hypothesis was accepted that corporate governance (board size, board independence and audit committee meetings) has a significant effect on financial reporting quality in quoted non-financial firms in Nigeria.

This supports the findings of Akeju *et al.(*2017) and Nkanbia-Davies *et al.* (2016) who found that board size has a positive association with accrual quality. Adebiyi (2017) and Onuorah *et al.* (2016) found a positive relationship between board size and discretionary accruals. Also, Fathi (2013) found a positive relationship between governance and quality of financial reporting. This

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contradicts the findings of Gois (2014) who found that changes of board composition have no influence on the quality of the accounting information.

4.3 Discussion of Findings

From the regressions results, the findings revealed that board size (BS) has an insignificant positive impact on financial reporting quality in Nigeria at 5% level of significance. This means that increase or decrease in board size has a positive butinsignificant impact on financial reporting quality in Nigeria. The finding is consistent with the studies of Uwalomwa *et al* (2018); Onuorah and Imene (2016). The finding is, however, inconsistent with the findings of Aigbovo & Ashafoke (2015).

Board independence had a positive significant impact on financial reporting quality in Nigeria at 5% level of significance. This connotes that increase in directors that are independent of the board increases financial reporting quality. The finding is in tandem with the studies of Onuorah and Imene (2016); Joseph & Ahmed (2017). However, the finding is not in tandem with the studies of Uwalomwa *et al* (2018).

Frequency of audit committee meetings had a positive significant impact on financial reporting quality in Nigeria at 5% level of significance. This indicates that increase in the frequency of meetings held by audit committee increase financial reporting quality in Nigeria. The finding is consistent with the studies of Sharinah *et al* (2014). The finding is, however, inconsistent with the studies of Yadirichukwu and Ebimobowei (2013).

The R-squared value of 0.635101 is high and indicates that 64 percent of the systematic variation is explained by the explanatory variables. This figure when further adjusted reduces to 0.594843. This indicates that the estimated model has a good predictive power since only 41

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percent of the variations in the dependent variable was left unaccounted for. The Durbin-Watson statistic of 1.793950 indicates the absence of autocorrelation in the model.

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CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

The study set out to investigate the effect of corporate governance on financial reporting quality of deposit money banks listed on the Nigerian Exchange Group. From the regressions results, the findings revealed that board size (BS) has an insignificant positive impact on financial reporting quality in Nigeria at 5% level of significance. This means that increase or decrease in board size has a positive butinsignificant impact on financial reporting quality in Nigeria. Secondly, board independence had a positive significant impact on financial reporting quality in Nigeria at 5% level of significance. This connotes that increase in directors that are independent of the board increases financial reporting quality. Thirdly, frequency of audit committee meetings had a positive significant impact on financial reporting quality in Nigeria at 5% level of significance. This indicates that increase in the frequency of meetings held by audit committee increase financial reporting quality in Nigeria. On the overall, the statistical significance of the model showed that the null hypothesis that corporate governance (board size, board independence and audit committee meetings) has no significant effect on financial reporting quality in deposit money banks in Nigeria was rejected. Thus, the alternative hypothesis was accepted that corporate governance (board size, board independence and audit committee meetings) has a significant effect on financial reporting quality in deposit money banks in Nigeria.

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5.2 Conclusion

The major objective of this study was to examine the effect of corporate governance on financial reporting quality in Nigeria, using specifically board size, board independence and audit meetings as measures of corporate governance. The findings revealed that board size had a positive insignificant impact on financial reporting quality in Nigeria. This means that increase or decrease in board size has no significant impact on financial reporting quality in Nigeria. Board independence on the other hand, had a positive significant impact on financial reporting quality in Nigeria. This connotes that increase in Directors that are independent of the board increases financial reporting quality. The findings further revealed that frequency of audit committee meetings had a positive significant impact on financial reporting quality in Nigeria.

This indicates that increase in the frequency of meetings held by audit committee increases financial reporting quality in Nigeria. This study therefore concludes that corporate governance is a very important part of any organization and the preparation and presentation of a high-quality financial reporting is to a large extent, dependent on the corporate governance structure that is put in place by the management/ directors of any organization.

Conclusively, the quality of financial reports of companies relies on compliance with code of corporate governance, which emphasizes the need for adopting financial practices that would bring about credibility of the financial reports of deposit money banks. Therefore, code of corporate governance affects the financial reporting practices of firms which bring about good quality and boost corporate images, ensures growth and market value of companies.

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5.3 Recommendations

Based on the findings and the conclusions drawn from this study, the following recommendations are made:

i. The Securities and Exchange Commission should strengthen the code of corporate governance by advocating an increase in the number of directors that are independent of the board and also advocating the need for audit committees to increase the frequency of meetings held so as to enhance the quality of financial reports in Nigeria. Though board size had a positive insignificant impact on financial reporting quality in Nigeria, the study further recommends that there should be an optimum board size.

ii. There is need for deposit money banks to ensure that independent directors monitor accounting quality effectively. The independent directors should be powerful enough to perform their monitoring roles. This will in turn improve on accounting numbers as strong code of corporate governance influences financial practices of firms.

iii. More attention should be given to compliance with the FRCN (2018) code of corporate governance in quoted deposit money banks so as to reflect and impact on the financial practices. This will ensure that the capital market, money market and foreign exchange market are fed with high quality financial statements.

iv. Policy makers and government should ensure enforcement and monitoring of compliance of all firms with the various provisions of codes of corporate governance and ensure its appropriate applications. More attention should be given to review and continuous evaluation so as to enhance effective implementation.

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