CORPORATE GOVERNANCE AND THE RELIABILITY OF FINANCIAL STATEMENT OF SELECTED BANKS IN NIGERIA

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ABSTRACT

The study investigated corporate governance as a tool for measuring the reliability of financial statement of selected banks in Nigeria. The population of this study consisted of all management and other senior staff of Ecobank in Nigeria and First Bank of Nigeria PLC. The study adopted an Expost-Facto design of which the researcher cannot manipulate the effect on the dependent variable but just obtain the effect already existing in the natural course of events. The instrument for data collection was "Corporate Governance and financial statement questionnaire (CGFSQ)" administered to the respondents and used for the study. The instrument was vetted by experts in statistics and test/measurement for validity while the reliability test was conducted with 30 respondents which produced the reliability coefficient of 0.89, proving the instrument to be reliable for the study. Data collected were analysed using Pearson Product Moment Correlation and regression analysis. It was observed that board structures and board size have significant relationship with the reliability of financial statement. One of the recommendations was that the regulatory agencies should create more awareness of the concept of corporate governance mechanisms and its role in developing the financial sub-sector of the economy.

KEYWORDS: Corporate governance, board size, board structure, financial statements, banks

Introduction

Decisions making by investors are largely dependent on the quality of Information available to them. This information are classified into quantitative (financial) and qualitative (Non financial). However, financial information is of great significance, as it requires a reasonable level of reliability. The published financial statements the directors of limited liability companies and audited by external auditor's remains the primary means of informing shareholders and other users about the financial performance, progress and position of the business. Ceteris Paribus, audited financial statement should be credited and reliable. However, this condition, other things being equal may not hold. Exception to this conditions assumption includes: lack of cooperate governance structures, codes and institutions, timeliness of the financial information, and the level of skills and sophistication of the capital and financial market for which the financial statement have been prepared.

Low quality reporting results from sloppy accounting, inadequate regulation, crony capitalism, lagging and multiple regulation, economic and political factors influence managers and auditors incentives (see Liv and Zhang, 1996; Ball et.al., 2003; Fox, 1998 and Rask, et.al; 1998). Where there is a separation of ownership from control of a business enterprise, as in the limited liability company usually a tendency for managers of these companies to engage in fraudulent financial reporting to protect their interest at the detriment of the interest of the users of financial statements.

As observed by Oyegide and Soyibo (2001), managers in some unforeseen circumstances assume contingent control rights that provide them with potential to operate against investor's best interest and as such conceal some information in other to align the interest of managers to that of the stakeholders. In order to revitalize the confidence of reporting system, there has been a glamour for cooperate governance. Sloan (2002) in his view observed that the reliability of financial statement depends largely on the existence of strong cooperate governance structures. A review of literature reflect an inextricable link between cooperate government and board effectiveness. Therefore, effective board would be concerned about the reliability of the financial statements. An effective board seeks to minimize shareholders wealth through the mean of enterprise and accountability. It is this accountability that links cooperate governance with reliability of financial statements.

Statement of the Research Problem

It has become obvious that the upsurge in accounting scandals that have been witnessed within the international financial arena in recent years has raised many questions and concern about the quality of financial reporting. The doubt about the quality of financial reporting implies that financial reports of corporate entities are not reliable and useful for decision making. Corporate financial reporting is of great concern globally especially in recent time as a result of the reported cases of corporate failures arising from improper, false and misleading financial reporting in firms which hitherto had enjoyed good reputation due to the track record of great success in their lines of business.

A financial report is said to be misleading if it lacks the qualities of accuracy, relevancy, compatibility and it contains fundamental errors or is prepared with the intention to deceive and/or confuse the users. Such deception can be carried out in a number of ways, among which are distortions of accounting records, falsification and omission of transactions or misapplication of accounting principles. Preparation of misleading financial statement is that misleading financial statements are prepared for the demand of high returns by shareholders on their investments. However, the recent intervention by the Central Bank of Nigeria (CBN) into the audit of financial institutions in the country cast doubt on the quality of audit reports issued by external auditors. This study therefore, seeks to examine the extent of corporate governance in measuring the reliability of financial statement of selected banks in Nigeria.

Objectives of the study

The main objective of this study is to assess the extent of corporate governance in measuring the reliability of financial statement of selected banks in Nigeria, specifically; the study attempts:

1. To find out the relationship between board structures and the reliability of financial statement.
2. To determine the relationship between board size and the reliability of financial statement.

Research questions

The following research questions will be answered:

1. What is the relationship between board structures and the reliability of financial statement?
2. What is the relationship between board size and the reliability of financial statement?

Research Hypotheses

The following null hypotheses will be tested:

1. There is no significant relationship between reliability of financial statement and board structures.
2. There is no significant relationship between reliability of financial statement and board size.

Literature Review

Overview of Bank Corporate Governance

It is a fact good Corporate Governance practices are indispensable for achieving and sustaining public trust and confidence in the banking system, which are vital to the proper functioning of the banking sub-sector and the economy as a whole. On the other hand, poor corporate governance can contribute to bank failures, which can in turn pose significant public costs and consequences due to their potential impact on any applicable deposit insurance system and the possibility of broader macroeconomic implications, such as contagion risk and impact on payment systems. This has been illustrated in the financial crisis that began in mid-2007 in most international monetary fund countries including Nigeria. In addition, poor corporate governance can lead markets to lose confidence in the ability of a bank to properly manage the assets and liabilities, including deposits, which could in turn trigger a bank run or liquidity crisis (Caprio and Klingbiel, 1996a; 1996b). Indeed, in addition to their responsibilities to shareholders, banks also have a responsibility to their depositors and to other recognized stakeholders. The legal and regulatory system in a country determines the formal responsibilities a bank has to its shareholders, depositors and other relevant stakeholders.

As stated by Eton (2016), corporate governance involves the allocation of authority and responsibilities, i.e. the manner in which the business and affairs of a bank are governed by its board and senior management, including how they:

- set the bank's strategy and objectives;
- determine the bank's risk tolerance/appetite;

- operate the bank's business on a day –to-day basis.
- protect the interests of depositors, meet shareholders obligations, and take into account the interests of other recognized stakeholders; and
- align corporate activities and behavior with the expectation that the bank will operate in safe and sound manner, with integrity and in compliance with applicable laws and regulations; and protect the interests of depositors (Basel Committee on Banking Supervision, 2003).

The Basel Committee further summarized the main components of good corporate governance to include:

- the corporate values, codes of conduct and other standards of appropriate behaviour and the system used to ensure compliance with them;
- a well articulated corporate strategy against which the success of the overall enterprise and the contribution of individuals can be measured;
- the clear assignment of responsibilities and decision making authorities, incorporating hierarchy of required approvals from individuals to the board of directors;
- establishment of mechanisms for the interaction and cooperation among the board of directors, senior management and auditors;
- strong internal control systems, including internal and external audit functions, risk management functions independent of business lines and other checks and balances;
- special monitoring of risk exposures where conflict of interests are likely to be particularly great, including business relationships with borrowers affiliated with the bank, large shareholders, senior management or key decision makers within the firm.
- the financial and managerial incentives to act in an appropriate manner, offered to senior management, business line management and employees in the form of compensation, promotion and other recognition;
- appropriate information flows internally and to the public.

Basel Committee on Banking Supervision (2003) views corporate governance as an economic discipline, which examines how to achieve an increase in the effectiveness of certain corporations with the help of organizational arrangements, contracts, regulations and business legislation. It is not a disputed fact that banks are crucial element to any economy: this therefore demands that they have strong and good corporate governance if their positive effects were to be achieved.

Corporate Governance Structure

Corporate governance was traditionally viewed as the mechanism for aligning the interests of management and those of shareholder, which arose from the separation of ownership and control of public companies. The role of corporate governance has been to reduce agency costs and to create long-term shareholder value by focusing on the decision control responsibilities of the board of directors and decision management functions of senior executives. There is no globally accepted corporate governance structure. Different structures of corporate governance reflect the nature of cultural, social, legal, regulatory, business, and economic systems. The Anglo-Saxon structure focuses on managerial functions to maximize shareholders' wealth, whereas the German structure emphasizes the interests of a wide range of stakeholders, including shareholders, creditors, employees, and communities. The corporate governance structure is therefore based on three interrelated components of corporate governance; viz: principles, functions and mechanisms, (Eton, 2016).

Corporate Governance Principles

There are no globally accepted set of corporate governance principles that can be applied across a broad range of broad structures; business practices; and legal, political, and economic environments. At the international scene, we will focus on the corporate governance principles, rules and policies of the following institutions: New York Stock Exchange (NYSE) Corporate Governance Rules, the Organization for Economic Co-operation and Development (OECD), Corporate governance principles and International Corporate Governance Network (ICGN), (Craswell *et al.,* 2002).

RESEARCH METHODS

Research Design

A case study design was used for this study. In this type of design the researcher cannot manipulate the effect on the dependent variable but just obtain the effect as already existed in the natural course of events.

Population of the Study

The population of this study consisted of all of study consists of all the auditors; management and other senior staff of Ecobank in Nigeria and First Bank of Nigeria PLC.

Sample size and Sampling Technique

The simple random sampling method was used in selection of the sample. This method is unbiased techniques that gave all the respondents equal chance of being selected. The respondents in the study consisted of 200 out of 228 people who properly filled in the questionnaire whose information was used for the study and this was obtained statistically through the Taro Yamane (1967) formula for finite population.

Research Instrument

The instrument used by the researcher for this study was a research questionnaire. The questionnaire was tagged" "Corporate Governance and financial statement questionnaire (CGFSQ)". It was used to obtain data on the independent and dependent variables presented in section B of the questionnaire. Section A measured the demographic data of the respondents

Validation of the Instrument

The instrument was subjected to face and content validated by the experts in test and measurement and my supervisors comments was considered in the final draft of the questionnaire.

Reliability of the Instrument:

Cronbach Alpha technique was used to determine the level of reliability of the instrument. In the trial test, a total of 40 respondents who were not part of the main study were randomly selected from one of the banks that were not used for the main study and the instrument administered on them. The reliability coefficient obtained using Cronbach reliability test was 0.87. The test-retest reliability measure was used in the pilot survey.

Method of Data Analysis

Pearson Product Moment Correlation Analysis was used in testing the degree of relationship existing between the various variables in the research hypotheses. The test for significance was done at 0.05 alpha levels.

RESULTS

Hypothesis One

The null hypothesis states that there is no significant relationship between reliability of financial statement and board structures. In order to test the hypothesis, two variables were identified as follows:-

1. Board structures as the independent variable
2. Reliability of financial statement as the dependent variable

Pearson Product Moment Correlation analysis was then used to analyze the data in order to determine the relationship between the two variables (see table 1)

Table 1

Pearson Product Moment Correlation Analysis of the relationship between reliability of financial statement and board structures.

Variable	$\sum x$ / $\sum y$	$\sum x^2$ / $\sum y^2$	$\sum xy$	r
Board Structures (x)	3312	55514	53830	0.90*
Reliability of financial statement (y)	3211	52357		

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***Significant at 0.05 N= 200; level; df = 198; Critical r – value = 0.197**

The table presents the obtained r-value as (0.90). This value was tested for significance by comparing it with the critical r-value (0.197) at 0.05 levels with 198 degree of freedom. The obtained r-value (0.90) was greater than the critical r-value (0.197). Hence, the result was significant. The result therefore means that there is significant relationship between reliability of financial statement and board structures.

Hypothesis Two

The null hypothesis states that there is no significant relationship between reliability of financial statement and board size. In order to test the hypothesis, two variables were identified as follows:-

1. Board size as the independent variable

2. Reliability of financial statement as the dependent variable

Pearson Product Moment Correlation analysis was then used to analyze the data in order to determine the relationship between the two variables (see table 2)

Table 2
Pearson Product Moment Correlation Analysis of the relationship between reliability of financial statement and board size.

Variable	$\sum x$ / $\sum y$	$\sum x^2$ / $\sum y^2$	$\sum xy$	r
Board Size(x)	3055	47411	49795	0.96*
Reliability of financial statement (y)	3211	52357		

***Significant at 0.05 N= 200; level; df = 198; Critical r – value = 0.197**

Table 2 presents the obtained r-value as (0.96). This value was tested for significance by comparing it with the critical r-value (0.197) at 0.05 levels with 198 degree of freedom. The obtained r-value (0.96) was greater than the critical r-value (0.197). Hence, the result was significant. The result therefore means that there is significant relationship between reliability of financial statement and board size.

Discussion of findings

The result of the data analysis in table 1 which sought to find the relationship between reliability of financial statement and board structures was significant due to the fact that the obtained r-value (obtained r-value (0.90) was greater than the critical r-value (0.197) at 0.05 level with 198 degree of freedom. This result implies that there is significant relationship between reliability of financial statement and board structures. The result is in agreement with the research findings of experts in the related fields. The significance of the result of the analysis caused the null hypotheses to be rejected while the alternative one was retained.

The result of the data analysis in table 2 which sought to find the relationship between reliability of financial statement and board size was significant due to the fact that the obtained r-value (0.96) was greater than the critical r-value (0.197) at 0.05 level with 198 degree of freedom. This result implies that there is significant relationship between reliability of financial statement and board size. The result is in agreement with the research findings of Eton (2016), who stated that corporate governance provides a medium of monitoring managerial performance, opportunistic behaviour and financial disclosures. Several studies have attempted to use underlying statistical methods in regression analysis so as to investigate the effectiveness of internal corporate governance. Accordingly, prior studies have suggested several measures, such as numbers, percentage and dummy variables so as to measure the characteristics of internal corporate governance. For example, to measure board size, simply calculate the number of members or measure board independence, simply divide the number of outside directors by the total number of board members. The significance of the result of the analysis caused the null hypotheses to be rejected while the alternative one was retained.

Conclusion

Due on the findings of the research it could be concluded that there is significant-relationship between reliability of financial statement and board structures. Besides, there is significant relationship between reliability of financial statement and board size.

Recommendations

The following recommendations are deemed necessary:

1. The regulatory agencies should create more awareness of the concept of corporate governance mechanisms and its role in developing the financial sub-sector of the economy.
2. The composition of the board of directors should be done in such a manner that guarantees diversity of experience without trading-off independence and integrity.

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