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CORPORATE GOVERNANCE AND FINANCIAL REPORTING QUALITY: A STUDY OF NIGERIAN MONEY DEPOSIT BANKS

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ABSTRACT
The proliferation of accounting scandals has prompted the need to improve the relevance of financial reporting by setting up good governance structures. The relationship between corporate governance and information quality has been strongly debated in the context of developed countries. It is only recently that attention turned to the study of governance and financial information quality in developing countries. This paper examines the effect of corporate governance mechanisms on the financial reporting quality of Nigerian banks. Multiple regression is used as a tool of analysis for the data collected from all the quoted banks on the Nigerian stock exchange as at 31st December, 2010. The results reveal that governance mechanisms have affected positively and strongly the financial information quality of the Nigerian banks. What therefore left to be done is for CBN to ensure that the Nigerian banks are structured with good governance to improve their financial information quality.

KEYWORDS
Financial Reproting, Accounting scandals, Corporate governance, Nigeria, Bank.

INTRODUCTION
The concern for how banks should be governed lies precisely with the increasing impact of private corporate behaviour on the collective welfare of the economy. The importance of banks to national economies is underscored by the fact that banking is, almost universally, a regulated industry and that they have access to government safety nets. Also, the business of banking has a number of intrinsic risks that could jeopardize the entire financial system of an economy. Some of the intrinsic risks include operating with high leverage which can make the banks vulnerable to losses, dependence on the confidence of depositors and the financial markets for securing necessary funds, general opaqueness of the business of banking. It is therefore of crucial importance that banks having strong corporate governance. Corporate governance aims to protect the interests of all stakeholders and to minimize asymmetric information between bank's managers, its owners as well as customers. The banks' corporate governance focus is also different due to the source of their financing. Banks typically receive a greater percentage of their financing through debt, which tends to be in the form of deposits from multiple unsophisticated debt-holders of non-financial businesses. Banks are also different due to deposit insurance which exists in some jurisdictions and which largely removes the incentive for depositors (the debt-holders of the bank) to monitor their activities and which can also lead to risky behaviour on the part of bank management (Hanc, 1999). In addition, banking businesses are generally more opaque than non-financial firms' businesses. Although information asymmetries plague all sectors, evidence suggest that these information asymmetries are large with banks (Furtine, 2001). Banks can alter the risk composition of their assets more quickly than most non-financial firms, and can readily hide problems by extending loans to clients that cannot service debt obligations. These traits have some implications for the corporate governance of banks.

The wave of accounting scandals occurred recently in the international financial community has raised many criticisms about the financial reporting quality (Agrawal and Chadha, 2005; Brown et *al*., 2010). Several prominent banks were involved in accounting frauds, such as Oceanic bank, Intercontinental bank and Unity bank etc, which has weakened the investor confidence toward the management team and the financial reports. The widespread failure in the financial disclosure has created the need to improve the financial information quality and to strengthen the control of managers by setting up good governance structures (Karamaou and Vafeas, 2005; Beekes and Brown, 2006; Brown and Caylor, 2006; Firth et *al.*, 2007; Petra, 2007). Indeed, the financial information serves as a basis for investment decisions of the capital market participants. It is useful for owners, creditors, firm partners and regulators, since it helps to determine the firm's past performance, predict its future profitability and monitor the managers' actions (Bushman and Smith, 2001; 2003).

According to Bushman and Smith (2001), publicly reported accounting information can be used as important input information in various corporate governance mechanisms. A vast body of literature acknowledged the importance of corporate governance mechanisms to improve financial information reporting quality and past literature has demonstrated that good governance reduces the risk of financial reporting problems. Good governance goes in-hand with reduced risk of financial reporting problems and other bad accounting outcomes Hermanson (2003).

The link between corporate governance and financial information quality has been strongly discussed in the developed countries. Emphasis was placed on specific governance mechanisms such as board independence and size (Beekes et *al*., 2004; Bradbury et *al*., 2006; Petra, 2007 Beasley, 1996; Dechow et. al., 1996; Peasnell et al., 2000; Klein; 2002, Davidson et al., 2005), institutional shareholding Ballesta and Meca, 2007 Beatty and Harris (1998), Kim and Yi (2006), Richardson (2000) and audit committee (Agrawal and Chadha, 2005 Anderson et al., 2004; DeZoort and Salterio, 2001, Klein, 2002; Bedard et al., 2004, Menon and Williams, 1994; Beasley et al., 2000). Recently, attention turned to the study of corporate governance and financial reporting in the emerging economies which are rapidly growing and have distinctive features about corporate control, capital allocation and regulations (Bradbury et *al*., 2006; Firth et *al*., 2007; Dimitropoulos and Asteriou, 2010).

However, advocates of agency theory believe that board composition of a bank comprising majority of outside directors reduce agency conflicts as they provide effective monitoring tool to the board (Fama and Jensen, 1983). They argue that the inclusion of outside directors increases the boards' ability to be more efficient in monitoring the top management and to ensure absent of collusion with top managers to expropriate stockholder wealth as they have incentives to develop their reputations as experts in decision control. Normally, the outside directors are expert managers from other large organizations and with their expertise, independence, objectivity and legal power, outside directors become potentially powerful governance mechanisms to mitigate agency costs and protect shareholders wealth (Li, 1994).

Accounting-based numbers are a persistent and traditional standard that creditors use to assess firm health and viability. Smith and Warner (1979) note for instance, that such criteria have been used in lending agreements and debt covenants for hundreds of years. Firms violating these accounting-based standards allow debt holders, as senior claimants, to liquidate projects or renegotiate lending contracts (DeFond and Jiambalvo, 1994). Managers as such, may have incentives to issue misleading financial statements to conceal negative information and thereby provide private personal benefits or potential shareholder benefits (Dechow et al., 1996). The importance creditors place on accounting numbers and the countervailing managerial incentives to manipulate these reports suggests that bondholders potentially exhibit great concern over factors influencing the reliability and validity of the financial accounting process (Smith, 1993 and Leftwich, 1983).

From a creditor's perspective, perhaps one of the most important factors influencing the integrity of the financial accounting process involves the board of directors. Boards of directors, among other tasks, are charged with monitoring and disciplining senior management, and lending agreements typically require that boards supply audited financial statements to the firm's creditors (Daley and Vigeland, 1983; DeFond and Jiambalvo, 1994; and Dichev and Skinner, 2002).

Klein (2002a), Carcello and Neal (2000), Beasley (1996), and Dechow et al. (1996) examine the importance of directors monitoring the financial accounting process and document a relation between board characteristics and manipulation of accounting information. Board attributes that influence the validity of accounting statements may thus be of great importance to creditors. Smith and Warner (1979) suggest that creditors price the firm's debt to reflect the difficulties in ensuring the validity of the lending agreement, indicating that if board structure is an important oversight element in the financial accounting process, debt prices may be sensitive to board of director characteristics.

Smith and Warner (1979) and Kalay (1982) observe that bondholders' concerns lie with protecting their investment. One of the more important elements in bondholders' ability to protect their investments is the firm's financial accounting numbers. Creditors use accounting numbers to judge compliance with debt covenants and to administer lending agreements (DeFond and Jiambalvo (1994) and Daley and Vigeland, 1983). Boards of directors have a primary responsibility of overseeing the firm's financial reporting process. Boards meet routinely with the firm's accounting staff and external auditors to review financial statements, audit procedures, and internal control mechanisms (Klein, 2002a). As such, bondholder's potentially view boards of directors and, in particular, board composition as critical elements in delivering credible and relevant financial statements.

The corporate governance culture in Nigeria has consistently failed to be responsible to the stakeholders, accountable to the shareholders and has no deep-rooted mechanism to maintain a balance among the major players (board of directors, shareholders, and management) in corporate governance which resulted into poor financial reporting quality. The challenges and failure of corporate governance in Nigeria stems from the culture of corruption and lack of institutional capacity to implement the codes of conduct governing corporate governance. Company executives enjoy an atmosphere of lack of check and balances in the system to engage in gross misconducts since investors are not included in the governing structure. Policy and procedures required to ensure efficient internal controls are disregarded, and total lack of thorough selection process of CEO, board members and audit committees – round pegs in square holes remain a challenge in Nigeria.

This paper therefore examines the effects of corporate governance mechanisms on the quality of Nigerian banks' financial information. It is therefore hypothesized that corporate governance mechanisms have no significant effect on the financial information quality of Nigerian banks. This question is relevant to be examined because the Nigerian market is more and more expanding. It adopted several reforms to modernize the financial market, promote the foreign investment, privatize the public firms and liberalize the trade. Although the concept of corporate governance is still at an embryonic stage, the Nigerian regulators emphasized the necessity of disclosing relevant and reliable information by the banks.

Hence, we posit in our study that the governance mechanisms do not affect the quality of financial information of the Nigerian banks. Our research contributes to the extant literature in three ways. First, we investigate the relationship between corporate governance and financial information quality in a developing economy which is Nigeria. Second, we identify the control mechanisms which are specific to the financial information of Nigerian banks i.e. Board, Independence, size, audit committee and institutional shareholding. Principally, we focus on the directors and shareholders to identify the principal governance mechanisms. Third, we assess the quality of financial information by combining an accounting and a market based measures into one factor, in order to have a relevant measure of financial information quality for the Nigerian banks. In addition, there is extensive literature that discusses corporate governance around the world (Schleifer and Vishny, 1997; La Porta et al. 1999), there is scarce evidence from prior literature that empirically examine the relationship between corporate governance mechanism and financial reporting outcomes. Exception of prior studies that examine the relationship between corporate governance and performance (Bathala and Rao, 1995; Mitton, 2002; Vethanayagam et al., 2006), little is known in terms of the relationship between corporate governance and financial reporting quality especially on the earnings quality issues in a developing economy like Nigeria. To the best of our knowledge, the identity of the directors or the shareholders and its effect on the financial reporting quality were not heavily discussed by prior research especially in the developing economies (Dimitropoulos and Astenou, 2010). This constitutes principally the contribution of this paper compared to prior studies.

The discussion in this paper is organized as follows. In the second section, literature will be reviewed covering the link between corporate governance and financial information quality. In the third section, the methodological approach is displayed and in the forth section, the results of our empirical investigation is presented and discussed. Finally, conclusion and recommendation are provided.

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

A survey of the theoretical and empirical literature concerning corporate governance and financial information quality are reviewed. The emphasis is placed on the board composition, size and independence of the board of directors, audit committee as well as institutional shareholding all as relate to financial information quality. Researchers have found evidence on the association between poor governance and poor quality of financial reporting including earnings manipulation, financial restatements and frauds (Beasley, 1996; Dechow et al., 1996; Peasnell et al., 2000; Klein, 2002b; Kao and Chen, 2004; Davidson et al., 2005). Previous studies bring evidence that corporate governance influences the monitoring mechanism a company uses including the monitoring of earnings management activities. Wang (2006) states that corporate governance has important effects on reported earnings. However, the influence of directors' independence, institutional investors and audit committee on the ability of managers to manipulate earnings remains a controversial issue.

BOARD COMPOSITION AND INFORMATION QUALITY

Board composition is the combination of both executives and non-executives directors as members of the board. The code of corporate governance for Nigerian banks provided that at least two (2) non-executive board members should be independent directors who do not represent any particular shareholder interest and hold no special business interest with the bank. He must also be appointed by the bank on merit. In addition, the number of non-executive directors should not be more than that of executive directors subject to a maximum board size of twenty (20) directors. The independent directors must be solely outside directors who have no other relationship with the companies except being on the board of directors.

However, efficient monitoring from non-executive directors that free from managerial influence is capable to improve the quality of financial information conveyed to the user of financial statement (Higgs Report, 2003). A number of studies in developed countries have reported a positive role of having higher proportion of independence non-executive directors sit on the board and financial reporting quality (Beasley, 1996; Dechow et. al., 1996; Peasnell et al., 2000; Klein; 2002a, Davidson et al., 2005). As outside members do not play a direct role in the management of the company, their existence may provide an effective monitoring tool to the board and thus produce higher quality financial reports (Peasnell et al., 2000). However, evidence from countries with highly concentrated Corporate governance is inconclusive. Kao and Chen (2004) and Jaggi et al. (2007) find significant negative evidence between earnings management and the presences of higher proportion of outside directors in Taiwan and Hong Kong sample which suggest that the inclusion of larger proportion of outside members on the board of directors provides better oversight of management to mitigate earnings management activity. Park and Shin (2004) however, fail to find empirical support on the association between earnings management and board independence for their Canadian sample where the Corporate governance is highly concentrated and a large block holder controls the public traded firms in Canada. Additionally, study by Abdullah and Mohammed (2004) and Abdulrahman and Ali (2006) also fail to find any significant evidence between independence of boards and earnings management in the Malaysian firms. This may be a result of non – inclusion of financial firms in their sample. Furthermore, study by Jaggi et al. (2007) provides evidence of insignificant relationship between proportions of non-executive directors and accrual quality in high family-ownership samples of Hong Kong listed companies which suggest that the monitoring effectiveness of independent directors is reduced in family controlled firms. The result may be different if the study include other firms not only family controlled firms.

Beasley (1996) argued that the probability of detecting financial statement fraud in the American firms decreases with the percentage of outside directors. Peasnell et *al*. (2000) and Klein (2002)b revealed that the independent board mitigates earnings management. In the same line, Bushman et *al*. (2004), Vafeas (2005) and Karamanou and Vafeas (2005) advanced that the information quality increases with the percentage of outside directors. Similarly, Beekes et *al*. (2004) noticed that the board independence allows disclosing information of good quality by the firms in the United Kingdom. In other contexts, Firth et *al*. (2007) indicated that the presence of independent directors improves the earnings quality of Chinese firms. Dimitropoulos and Asteriou (2010) confirmed this finding for a sample of Greek firms. In contrast, other studies suggested that the independent directors are not enough elements to control the managers and their presence in the board has no effect on the reporting quality of information, (Petra (2007) for American firms, Bradbury et *al*. (2006) for Singapore and Malaysian firms and Ahmed et *al*. (2006) for New Zealand firms.

Prior literature generally posits that board of director independence from senior management provides, among other things, the most effective monitoring and control of firm activities. Beasley (1996) and Dechow et al. (1996) find that the proportion of independent directors on the board (board independence) is inversely related to the likelihood of financial statement fraud. If independent boards provide superior oversight of the financial accounting process, then we expect bondholders to directly benefit through greater transparency and validity in accounting reports.

BOARD SIZE AND INFORMATION QUALITY

The size of the board of directors is the other factor popularly used by researchers to proxy the strength of corporate governance Denis (2001) and Wilkinson and Clements (2006). Many studies argue that the notion that larger board size represents strong governance may be misplaced. On one hand, the costs of coordination and free riding are less for smaller boards. Many studies also indicate lower earnings management as board size decreases. On the other hand, many studies argue for larger size boards in firms. For example, Adams and Mehran (2005) documents that banking firms with larger boards do not underperform their peers in terms of Tobin's Q. Consequently, given good performance, the comparison of weak and strong governance could be affected by classification errors.

Previous studies indicate that board size play an important role in directors' ability to monitor and control managers. Lipton and Lorsch (1992) and Jensen (1993) for instance, argue that because of difficulties in organizing and coordinating large groups of directors, board size is positively related to the board's ability to advise and engage in long-term strategic planning. In contrast, Adams and Mehran (2002) and Yermack (1996) suggest that some firms require larger boards for effective monitoring. Chaganti et al. (1985) posit that large boards are valuable for the breadth of their services. Klein (2002b) for instance, finds that board committee assignments are influenced by board size since large boards have more directors to spread around. As such, she suggests that board monitoring is increasing in board size due to the ability to distribute the work load over a greater number of observers. Monks and Minow (1995) and Lipton and Lorsch (1992) extend this argument by suggesting that larger (smaller) boards are able to commit more (less) time and effort to overseeing management. If large boards are more effective monitors of the financial accounting process, then bondholders should benefit through improved financial transparency and reliability.

Empirical studies are inclusive. Beasley (1996) reports that board size is positively associated with the likelihood of financial statement fraud; however, Uzun *et al*. (2004), Carcello and Nagy (2004a) and Farber (2005) do not confirm Beasley's US results, nor do Smaili and Labelle (2007) in Canada, Sharma (2004) in Australia or Chen *et al*. (2006) in China. Similarly, Abbott *et al*. (2004) find a positive association between the probability of earnings restatement and board size. However, Dechow *et al*. (1996) report that the average board size of firms subject to SEC enforcement actions for alleged accounting violations is virtually the same as the average board size of control firms (viz., about nine directors). Studies suggest that board size is not significantly associated with the probability of having financial information quality Peasnell *et al*., (2001), Song and Windram, (2004) or the extent of earnings management Peasnell *et al*., (2005). However, board size is negatively associated with short-term earnings management, proxy by abnormal working capital accruals, both in the US (Xie *et al*., 2003) and in Singapore-Malaysia Bradbury *et al*., (2004). The findings are inconsistent with the proposition that large boards are poor monitors of financial information quality. However, two studies using earnings returns associations suggest that small boards are associated with higher financial information quality than large boards: one in the US by Vafeas (2000), the other in New-Zealand by Ahmed *et al*. (2006). Therefore, the concluding remark is the results are mixed; determining the right size depends on the size of the firms in question.

AUDIT COMMITTEE AND INFORMATION QUALITY

Audit committees have been long seen as a vital institution in assisting the board of directors in enhancing the transparency and integrity of financial information reporting Dan (2007). The code provided that the audit committee will be responsible for the review of the integrity of the banks' financial reporting system and oversee the independence and objectivity of the external auditors. Specifically, effective audit committees are expected to enhance financial reporting quality by fulfilling its numerous responsibilities including, commenting on and approving accounting policies, reviewing the financial statements, and maintaining and reviewing the adequacy of internal controls. Moreover, audit committees are also expected to play an important role in enhancing the effectiveness of external auditors over financial reporting quality by, assuming responsibilities for the appointment and remuneration of external auditors, and discussing the scope of and reviewing the auditors work.

However, prior research indicates that the construct of audit committee effectiveness over financial reporting is multidimensional and is affected by variety of audit committee characteristics such as committee size (Anderson et al., 2004; DeZoort and Salterio, 2001), committee independence (Klein, 2002; Bedard et al., 2004) and committee number of meetings (Menon and Williams, 1994; Beasley et al., 2000). Audit committee member financial expertise is another important dimension of audit committee effectiveness that has gained the attention of regulators and academics (Treadway Commission, 1987; GAO, 1991; POB, 1993; Kalbers and Fogarty, 1993; DeZoort, 1997, 1998; BRC, 1999; SOX, 2002). Advocates propose that the presence of financial experts in audit committees do assist the committee in, critically analyzing accounting policies and financial statements, identifying potential problems, and solving them. Carcello and Neal (2000) provide support for this argument by documenting a relation between greater audit committee independence and the quality of financial reporting.

However, accounting expertise may be more important for audit committee members than any other expertise, since banks code of best practices (2006) suggest that audit committee members are responsible for tasks that require high degrees of accounting sophistication. Prior studies argue that financial reporting issues involve the highest level of technical detail among audit committee effective areas (Kalbers and Fogarty, 1993; Green, 1994), and ideal audit committee members should have knowledge of accounting concepts and the auditing process to enhance their understanding of the financial reporting process, recognize problems, ask probing questions of the management and auditor and make leadership contributions to audit committees (McDaniel et al., 2002; Libby and Luft, 1993; Bull and Sharp, 1989; Lipman, 2004; Scarpati, 2003). Archival evidence suggests that audit committee accounting expertise is negatively associated with SEC enforcements and restatements (McMullen and Raghunandan, 1996; Agrawal and Chadha, 2005) and suspicious auditor switches (Archambeault and DeZoort, 2001), and positively associated with firm credit ratings (Ashbaugh-Skaife et al., 2006) and the likelihood of supporting auditors in financial reporting disputes with management (DeZoort and Salterio, 2001).

DeFond et al. (2005) document positive market reactions to the appointment of new audit committee members with accounting expertise, but no reactions to the appointment of audit committee members with non-accounting expertise. It is therefore likely that accounting expertise, relative to other expertise, can contribute more to the effectiveness of audit committees which in turn improve the quality of financial information.

INSTITUTIONAL SHAREHOLDING AND INFORMATION QUALITY

Considering the influence of shareholder activism in governance reforms is important to obtain insight into governance practices (Daily et al., 2003). Institutional investors' participation has emerged as important force in corporate monitoring to serve as mechanisms to protect minority shareholder's interest. The significant increase in the institutional investors' shareholdings especially in banks has led to the formation of a large and powerful constituency to play a significant role in corporate governance. To mitigate the problems associated with conflict between controlling owners and minority shareholders in Asian firms, the involvement of institutional investors' equity participation may improve corporate governance practices (Claessen and Fan, 2002). Concentrated shareholdings by institutions provide an incentive for diligent monitoring as they have the resources, expertise and stronger incentives to actively monitor the actions of management and prevent managers' opportunistic behaviour (Wan Hussin and Ibrahim, 2003). Given they own substantial shareholdings that make it difficult to sell shares immediately at prevailing price, the institutional investors have greater incentives to closely monitor companies with high free cash flow (Chung et al., 2005). Extending prior research that look into the role of internal governance mechanisms and earnings management, Mitra and Cready (2005) provide evidence that active monitoring from the institutional investors also help to prevent managerial opportunistic reporting behaviour and improve the quality of governance in the financial reporting process. They find that institutional shareholders intervene and mitigate the self-serving behaviour of corporate managers in financial reporting based on a sample of 136 companies belong to the S&P 500 group and 237 belong to non- S&P 500 category for eight years period (1991-1998). The result may be different if the study could have been conducted recently.

Chung et al. (2005) find evidence that institutional shareholders moderate the discretionary accrual and surplus free cash flow relationship when the surplus free cash flow is high. The presence of institutional investors with substantial shareholdings restrain managers from engaging in income increasing discretionary accruals when companies have high free cash flow, however, when there is no free cash flow agency problems, the institutional investors do not effectively constrain the management's use of income increasing discretionary accrual.

In this paper, we draw on agency theory to develop an empirical framework for examining the link between corporate governance and financial reporting behavior of Nigerian banks. We use this framework to formulate and test specific hypothesis on the association between measures of earnings quality and corporate governance.

Agency theory provides a natural backdrop for our analysis because financial reporting concerns arise when there is a conflict of interests between managers and owners (shareholders) coupled with information asymmetries Beatty and Harris (1998), Kim and Yi (2006), and Richardson (2000). Without this agency problem, reporting quality is a non-issue because managers do not have any incentive to misreport or hide information (keeping aside reporting incentives that might arise from strategic product market considerations). The purpose of corporate governance in its various forms is to reduce this agency problem, suggesting a natural link between corporate governance and financial reporting. All else equal, effective corporate governance should result in high reporting/earnings quality. Indeed, Chtourou, Bédard, and Courteau (2001) provide evidence that effective boards and audit committees constrain earnings management activities.

METHODOLOGY, MODEL SPECIFICATION AND ROBUSTNESS TESTS

The paper focuses on corporate governance mechanisms and banks' financial information quality. The population of the study is 21 banks that are quoted on the Nigerian Stock Exchange as at 31st December, 2010 and all of them are studied making 100% sample using census sampling technique. Multiple regression is used as a tool of analysis and the secondary data is collected from the financial statements of the banks for 3 years (2007 – 2009). Further, we check if there is a multicollinearity problem among the explanatory variables of our model. According to the VIF test (variance inflation factors), it is concluded that this problem does not arise all factors are below 1 and the tolerance values are less than 10 Gujarat (2005). The result not shown for brevity.

Firstly, we measure the financial information quality using the Dechow and Dichev (2002) which considers the standard deviation of the residuals as a measure of financial information quality. Large values of the model residuals mean a considerable level of discretionary accruals and so a poor quality of the financial information vice virsa. Our selection of the model is informed by the study of Keith, Gopal and Kevin (2007) who evaluated the ability of ten measures derived from the extant discretionary accruals models to detect the very existence of fraudulent events in financial statements, the extent of fraudulent earnings, and voluntarily earnings restatements including a total of 35 accruals, a low-cost alternative to discretionary accruals. They found that while total accruals are associated with a fraudulent event, many commonly used measures, such as discretionary accruals derived from the Jones model, the modified Jones model, and performance-matched models are not associated with fraud. The following three measures have explanatory power for detecting fraud beyond total accruals: accrual estimation errors estimated from cross-sectional models of working capital changes on past, present, and future cash flows (Dechow and Dichev 2002), McNichols (2002) and the Beneish (1999) probability of earnings manipulation. They also recommended that future research could develop better measures by including corporate governance and other characteristics which happens to be the focus of this paper.

Dechow and Dichev (2002) suggested a new approach and became widely accepted to assessing accrual and earnings quality as a proxy of financial information quality in this paper, which examines estimation errors related to the mapping of accruals with cash flows. Specifically, they model changes in working capital accruals as follows: $\boldsymbol{\Delta WCit = \beta_0 + \beta_1 CFOit_{-1} + \beta_2 CFOit + \beta_3 CFOit +_1 \varepsilon\ it}$

Where $\Delta WCit$ is computed as the change in accounts receivable plus the change in inventory minus the change in accounts payable and taxes payable plus the change in other assets (net); and *CFO* represents cash flow from operations. The model is estimated using firm-specific regressions, where the residual determines the accrual quality.—the larger the standard deviation of the residuals, the lower the quality of accruals. They also point out; *CFO* is actually comprised of three components: current-period net cash flows plus net cash flows related to the previous period's income plus net cash flows related to next period's income

Secondly, we identify the corporate governance mechanisms of the Nigerian banks that are related to the board of directors (Composition, Size, Audit Committee and Institutional Shareholding).

Board Composition (BC) is measured by the proportion of independent non-executive directors on the board, expressed in percentage Che Haat (2006).

Board Size (BS) is measured by the total number of directors on the board.

Institutional Shareholding (IS) is measured using proportion of shares owned by institutional investors to total number of shares issued, expressed in percentage (Abdul Wahab et al., 2007).

Audit Committee (AC) is measured using audit committee governance score (*AC GOV SCORE*) that captures the overall strength of the audit committee. Specifically, *AC GOV SCORE* is derived from three commonly used audit committee characteristics: audit committee size (*ACS*), audit committee independence (*ACI*), and audit committee meetings (*ACM*). To develop the summary measure, we create dichotomous measures of the three audit committee governance characteristics for each sample bank, with a value of 1 representing strong governance and a value of 0 representing weak governance:

1) Audit committee size (*ACS*)—Banks with larger audit committees devote more resources to oversee the financial reporting and internal control systems (Anderson et al., 2004) and facilitate quality discussions among audit committee members (DeZoort and Salterio, 2001). Since the code requires a bank to have at least three directors in the audit committee, we code sample banks 1 if they have above three members on their audit committee in each year during the sample period and 0 otherwise.

2) Audit committee independence (*ACI*)—there is considerable evidence depicting a positive relationship between audit committee independence and financial reporting integrity (Klein, 2002; Bédard et al., 2004). We code sample banks 1 if their audit committees are entirely composed of independent members in each year during the sample period and 0 otherwise.

3) Audit committee meetings (*ACM*)—Menon and Williams (1994) argue that audit committees that do not meet or meet only once are unlikely to be effective monitors while audit committees that meet several times exert more serious efforts in monitoring management. We code sample banks 1 if the audit committee met at least four times in each year during the sample period and 0 otherwise.

The three dichotomous variables are then summed up to obtain the summary governance measure (*AC GOV SCORE*). An overall measure of audit committee strength (*ACGOV*) is then constructed by coding it 1 if a sample bank's *AC GOV SCORE* is greater than or equal to two (strong audit committee governance), and 0 otherwise.

Thirdly, we introduce D_1 as control variable 1 to control bank size which is measured as natural logarithm of total assets.

Fourthly, we introduce D_2 as control variable 2 to control bank generation which is measured as natural logarithm of total deposit.

The overall regression model that captures the hypothesis of the study is presented below:

$FRQ = \beta_0+\beta_1X_1+ \beta_2X_2+ \beta_3X_3 + \beta_4X_4 + D_1 + D_2 +e$

Where:

FRQ = S.D. of the residuals of ($\Delta WCit = \beta_0 + \beta_1 CFOit_{-1} + \beta_2 CFOit + \beta_3 CFOit +_1 \varepsilon\ it$)

β_0 = Intercept

β_{1-4} = Coefficient of the independent variables

X_1 = Board Composition

X_2 = Board Size

X_3 = Audit Committee

X_4 = Institutional shareholding

D_1 = Control Variable 1
D_2 = Control Variable 2
e = Residual or error term

RESULT AND DISCUSSION

The analysis begins with a range of descriptive statistics on dependent variable and independent variables with mean, standard deviation, minimum and maximum presented below:

TABLE 1: SUMMARY OF DESCRIPTIVE STATISTICS

	BC	BS	AC	IS	D_1	D_2
Mean	0.204907	6.034606	0.600013	0.260900	2.614560	1.822277
Std. Dev.	0.131880	5.571870	0.590011	0.216501	1.961204	1.237002
Minimum	0.150638	5.357671	0.000000	0.186190	1.412321	1.033994
Maximum	0.352090	12.15121	1.000000	0.392601	12.91358	3.508349
Observation	63	63	63	63	63	63

Source: Output of data analysis using E-view

From the above table, the average independent directors in the board composition of the Nigerian banks is 20%, board size accounted for about 6 directors, audit committee is 60% indicating most of the Nigerian banks have a strong audit committee governance, institutional shareholding averaging 26% of the shares issued by the banks. The control variables 1 and 2 are accounting for 2.6 and 1.8 billion naira respectively. The standard deviations of all the variables are not far away from their respective means values. This indicates that the data is not skewed and good to produce a reliable result. The minimum number of independent directors of the banks is 15% and the maximum is 35%, while that of the total number of both executives and non-executives directors are 5 and 12 respectively. In addition, only few banks have less strong audit committee governance with a minimum and maximum of institutional shareholding of 18% and 39% respectively. The total assets and deposits of the banks range from 1.4 to 12.9 and 1 to 3.5 billion naira during the period of the study.

TABLE 2: CORRELATION MATRIX

	FIQ	BC	BS	AC	IS	D1	D2
FIQ	1						
BC	0.61	1					
BS	0.76	-0.069	1				
AC	0.72	-0.276	-0.675	1			
IS	0.63	-0.405	-0.323	-0.115	1		
DI	0.69	0.0147	-0.034	0.030	-0.402	1	
D2	0.09	-0.0547	-0.101	-0.210	-0.012	0.21	1

Source: Output of data analysis using E-view

The correlation results presented in table 2 above shows that all the explanatory variables are positively and strongly correlated with the explained variable. Thus, there is a strong relationship between corporate governance and financial information quality in the Nigerian money deposit banks. On the other hand, all the independent variables are negatively correlated between themselves except two and control 1 that are negligibly insignificant. This indicates an absence of multicollinearity between the explanatory variables of the study.
The following section presents and discusses the regression results.

TABLE 3: SUMMARY OF REGRESSION RESULT

Variable	Coefficient	Standard Error	t. test	Probability
Intercept	0.721671	0.065633	4.611386	0.0011*
BC	0.530721	0.058783	4.255308	0.0064*
BS	0.712355	0.161117	3.232486	0.0010*
IS	0.013020	0.100341	2.016052	0.0430**
D_1	0.015341	0.021515	3.088364	0.0144*
D_2	0.002420	0.112245	3.468224	0.2051
R-squared		0.670816		
Adjusted R-squared		0.520434		
Durbin-Watson stat		2.203214		
F-statistic		7.510430		
Prob(F-statistic)		0.000211*		

Source: Output of data analysis using E-view

Table 3 above shows the summary of the estimated regression model:
$FIQ = 0.7217 + 0.5307BC + 0.7123BS + 0.0130IS + 0.0153D_1 + 0.0024D_2$
The results show that the estimated model of the study is fit because all the explanatory variables are significant in determining the dependent variable except control 2 variable controlling bank generation. It can also be observed that the coefficients of all the explanatory variables are positive showing all none of the variables in inversely related with financial information quality of Nigerian banks. Thus, board composition, board size and control 1 are all significant at 1%, whereas, institutional shareholding is significant at 5% level of significant and control 1 is not significant at all.
The findings related to board composition or independence above supported that of Fama and Jensen (1983) that outside directors are argued to have incentives to carry out their monitoring tasks more effectively, not collude with top managers in expropriating shareholder wealth, and objectively question and evaluate management performance (Carcello and Neal, 2003). Also, Rosenstein and Wyatt, 1990; Dechow et al., 1996; Beasley, 1996; Core et al., 1999 empirically indicated that independent directors are associated with stronger corporate governance and financial reporting integrity which is in line with the finding of this study. Therefore, the policy implication is for Nigerian banks to have atleast 15% and not more than 35% independent directors out of the total number of directors.
Further, for board size our finding supported that of Jensen (1993) and Lipton and Lorsch (1992) who suggest that large boards are less effective monitors and are easier for CEOs to influence. Yermack (1996), Eisenberg et al. (1998), and Loderer and Peyer (2002) find a significant negative relationship between large board size and financial reporting quality. Our result reveals that Nigerian banks should have a minimum of 5 and maximum of 12 executive and non-executive directors for their reported financial information to be of quality.
The result also reveals that the audit committee size, independent and frequent meetings determines it strength and quality of financial information in Nigerian banks. The findings is in support of Anderson et al., (2004) that firms with larger audit committees devote more resources to oversee the financial reporting, internal control systems and facilitate quality discussions among audit committee members and DeZoort and Salterio (2001) who provide evidence that firms

with larger audit committees are less likely to make suspicious auditor switches. However, for the committee independence it tallies with the findings of Klein, (2002); Bédard et al., (2004) and Anderson et al. (2004) depicting a positive relationship between audit committee independence and financial reporting integrity. Finally, Menon and Williams (1994) argue that audit committees that do not meet or meet only once are unlikely to be effective monitors while audit committees that meet several times exert more serious efforts in monitoring management therefore protecting earnings manipulation which improves the quality of financial information to be reported. Other supporting evidence indicates that firms whose audit committees meet less often are more likely to engage in fraudulent behavior (Beasley et al., 2000), face reporting problems (McMullen and Raghunandan, 1996), and make suspicious auditor switches (Archambeault and DeZoort, 2001). The evidence that firms with more members in the audit committee are more likely to have good quality financial reporting is in contrast with the evidence from previous studies such as Felo et al. (2003), Abbott et al. (2004) and Bedard et al. (2004), but consistent with Lin et al. (2006). This suggests that larger audit committees are more likely to be able to devote adequate time and effort to ensure that the information disclosed in the financial statements is accurate and timely and hence increase the quality of financial reporting.

Overall, the findings can provide guidance to users of accounting information such as investors and regulators. For users, our findings serve as a reminder that audit committees may appear to comply with regulatory requirements on independence, financial expertise and minimum number of meetings, yet in actuality they only play a ritualistic role with no substantive monitoring in the financial reporting process, in tandem with the institutional theory prediction (Cohen, Krishnamoorthy, & Wright, 2008). To help users make an informed decision on the quality of audit committee and to facilitate a sound assessment of "independence in substance", more qualitative disclosure is required on the activities of audit committees and the extent to which they have fulfilled their responsibilities. For the regulators, the efficacy of prescribing certain best practices for the audit committee remains an open question.

Moreover, for institutional share holder the result reveals that Nigerian banks have minimum of 19% and Maximum of 39% institutional shares holding with most of them having 26% out of the total issued shares and became significant on the quality of their financial information. This implies that banks should ensure that the institutional holding should not be above 39% of the total holdings so that the quality of the accounting figure may be maintained. In fact it should be noted that the higher the institutional holding the more block holding in a firm since must if the institutional holdings are bulk shares purchase.

Looking at the relation between institutional ownership and discretionary accruals, a positive relation emerged and supported statistically. This significant association indicates that institutional investors are a major consideration in managers' aggressive earnings management strategy. This result is not surprising. As a result, institutional investors in Nigerian banks are effective in constraining managerial behaviour of earnings management. Consistent with the argument that institutional investors in Nigeria create incentives for managers of their portfolio firms to manage earnings aggressively, these institutional investors focus excessively on current earnings performance (Koh, 2003). The result of influential effect of institutional investors on earnings management found in this study is consistent with what Velury and Jenkins (2006) found in a sample of US based firms. However, similar evidence is found by Siregar and Utama (2008) for Indonesian firms.

Regarding the other variables, included as control variables (D_1 and D_2), we found that banks' size significantly affecting the quality of accounting information while their generation is not. Size appears to affect earnings management significantly indicating that banks with larger assets have high earnings quality since they engage more in earnings management but bank generation (new or old) has nothing to do with their earnings quality.

Finally, the cumulative influence of all the explanatory variables put together is able to explain the dependent variable up to 72 as indicated by the adjusted R^2 and remaining 28% is controlled by other factors. Similarly, the result of the F- statistic value of 7.5 implies that the model is well fitted and significant at 1% considering the rule of thumb of 2. This provides evidence of rejecting the null hypothesis that corporate governance mechanisms have no significant effect on the quality of financial information of Nigerian banks. The Durbin- Watson of 2.20 reveals a complete absence of serial correlation within the 3 years of the study.

CONCLUSION AND RECOMMENDATION

Boards of directors, audit committees and institutional holdings are responsible for monitoring, evaluating, and disciplining banks' management. Perhaps one of the most important responsibilities of the board from a creditor's perspective is oversight of financial reporting. Because debt holders rely on accounting based covenants in lending agreements, creditors may have concerns with board and audit committee monitoring of the financial accounting process. Consistent with this idea, we find that board and audit committee independence are positively associated with significantly quality of financial information. In line with this, is it therefore concluded that corporate governance has significant effect in influencing the quality of financial information in banks. Overall, our study supports the argument that the corporate governance affects the accounting quality in the Nigerian money deposit banks. What left to be done is for the shareholders of Nigerian money deposit banks to ensure the inclusion of outside directors one of who must be financial expert in their audit committee and the committee to meet atleast 4 times annually in order to improve the quality of financial information reporting.

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