



**IMPACT OF ACCOUNTING REGULATORY FRAMEWORK ON QUALITY OF
FINANCIAL REPORTING AND CORPORATE GOVERNANCE REGULATION:
THE NIGERIAN BANKING SECTOREXPERIENCE**

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Abstract

This study considers the influence of accounting regulatory framework on quality of financial reporting and corporate governance regulation in Nigeria. The scope covers 2011-2020. The standard least square multiple regression analysis was adopted. The regression model showed linear sensitivity or elasticity between independent and dependent variables and whether or not the identified linear relationship was significant. The findings further show a covariant, significant and positive relationship between accounting regulatory framework and quality of financial reporting and corporate governance regulation. However, this appears to be only in the short term. The study recommends more stringent supervisory role by the Central Bank of Nigeria to ensure complete compliance by banks in Nigeria by regularly observing the banks financial statements with regards to compliance with International Financial Reporting Standards.

Key words: Accounting Regulatory Framework, Quality of Financial Reporting, Corporate Governance Regulation, Nigerian Banking Sector.

1. Introduction

Quality of corporate disclosure characterized by reliable, adequate and accurate financial information disclosure is crucial and essential in corporate governance and modern company



management. It encompasses providing information by the companies to the public and regulatory authorities. According to Bhasin (2010) communication through corporate governance disclosure is unmistakably very central in the sense that sufficient disclosure improves respectable corporate governance. Whittington (1993) cited in Bhasin (2010) cogently states that annual reports publications are employed as a means for communicating both qualitative and quantitative corporate information to stakeholders and other users. Although the annual publication of report is a constitutional requirement, companies generally willingly disclose information. According to Bhasin (2010), this is so because company management appreciates the facts that there are economic benefits from a well-managed disclosure policy.

The Nigeria banking sector has faced turbulence in recent times. Some of the banks (defunct intercontinental bank, Oceanic bank and Diamond bank) collapsed shortly after receiving a clean bill of health from the external auditors who only relied on the disclosures made by these banks in their financial statements to express opinions. This has raised questions as to the compliance level of these banks to accounting regulatory framework as defined by the International Financial Reporting Standards. Also, there are insufficient studies, in recent times, in the area of relationship between accounting regulatory framework and quality of financial reporting and corporate governance. On the whole, empirical assessments have been predicated on data from developed countries, notably Anglo-American and Europe. The few studies (Oino, 2017; Pasiouras, 2008; Unuagbon and Oziegbe, 2016; Okoroigwe, 2018) were not conducted in Nigeria, except Unuagbon and Oziegbe (2016) and Okoroigwe (2018) which investigated Financial Reporting and Voluntary Disclosure in Nigeria Quoted Companies, and effect of Environmental Accounting on Corporate Disclosure, respectively. But these studies by Unuagbon and Oziegbe (2016) and Okoroigwe (2018) dealt on the voluntary aspect of financial reporting, whereas accounting regulatory framework regulates mainly the compulsory aspects of disclosures. The other Nigeria studies (Adenikinju and Ayorinde (2001), Sauda et al. (2005), Ezi-Herbert and Tsegba (2010), and Umoren (2011) which were conducted more than a decade ago, apart from not been recent, they all investigated the relationship between ownership attentiveness, insider ownership, firm performance and corporate factors encouraging disclosures which yielded conflicting results that does not even address the issue of disclosure practices and accountability. This makes the study very significant as it bridges the geographical and literature gap existing in this subject matter. Hence, this study investigates the impact of accounting regulatory framework on quality of financial reporting and corporate governance regulation in Nigerian banking sector.

The objectives of the study are:

- i. To investigate the influence of IFRS Compliance (IFRS) on quality of financial reporting and corporate governance regulation in Nigerian banking sector.
- ii. To examine the impact of External Auditor's Report (EAR) on quality of financial reporting and corporate governance regulation in Nigerian banking sector.
- iii. To evaluate the impact of Format of Financial Statements (FFS) on quality of financial reporting and corporate governance regulation in Nigerian banking sector.
- iv. To investigate the influence of Conformity with Disclosure Requirements (CDR) on quality of financial reporting and corporate governance regulation in Nigerian banking sector.



The research hypothesis for the study is stated below

Ho: There is no significant relationship between accounting regulatory framework and quality of financial reporting and corporate governance regulation in Nigerian banking sector.

2. Literature Review and Theoretical Framework

2.1 Literature Review

There are a number of studies reviewed in the area of accounting framework and quality of disclosure as follows. According to Healy and Palepu (2001), cited in Bhasin (2010) disclosure encompasses all types and forms of voluntary corporate communications with management forecasts analyst's presentations, press releases, the annual general meetings, information placed on corporate Websites and other corporate reports, for example, social or stand-alone environmental reports are all inclusive. Thus, suitable corporate disclosure systems entails that a good company is able to electrify the markets with its integrity. Collett and Hraskey (2005) affirm that corporate governance problems have become so important that it is possible firms use information about them for "impression" management. However, it is generally accepted that all material issues relating to corporate governance of the enterprise ought to be disclosed in an appropriate method; the disclosure should be clear, concise, precise, and governed by the substance over form principle.

Baek *et al.* (2009) in Bhasin (2010) point out that every important piece of information must be made accessible to the users in a lucrative and timely way. Whatsoever disclosures are made and whichever means are used, the aim is to make a clear distinction between audited and non-audited financial information, and matters of confirmation of supplementary non-financial information should be provided for (OECD, 2004). The Organization for Economic and Cooperation and Development (OECD, 2004) code and the Central Bank of Nigeria (CBN, 2006) code quoted in Maimako (2010) provides that governance disclosure should incorporate every material matters regarding the corporation's financial situation, performance, ownership and governance of the company. Across the globe, company managements recognize that there are financial benefits to be rewarded from a well-managed disclosure policy. A detailed and structured system of disclosure enables investors to understand, and obtain accurate and reliable information of companies in order to make better investment decisions. Some research studies have revealed that firms experience a reduction in cost of equity capital (Botosan and Plumlee, 2002) and the cost of debt with increased corporate disclosure. In the same way, Healy *et al.* (1999) cited in Bhasin (2010) discovers an advantageous increase in the firm's stock liquidity and performance. Furthermore, information disclosure is a strategic tool used to enhance a company's ability to increase capital at the lowest possible cost.

Empirically, Collett and Hraskey (2005) cited in Bhasin (2010) examined the relationships between voluntary disclosure of corporate governance information by the companies and their intention to raise capital in the financial market. In the study, a sample consisting of 299 companies listed on Australian stock exchange had been taken for the year 1994 and Connect-four database had been employed for compilation of annual reports of companies. The study revealed that only 29 Australian companies made voluntary corporate governance disclosure, and the level of disclosures were varied from company to company. Similarly, Barako *et al.* (2006) investigated that the level of voluntary disclosure by the Kenyan companies is over and above the compulsory requirements. This study covered a period of 10 years from 1992 to 2001. The outcome revealed that the auditing



committee was the major factor connected with level of voluntary disclosure. Recently, corporate governance has received much attention in the Asian countries due to its financial crisis. Gupta *et al.* (2003), cited in Bhasin (2010), examined the corporate governance reporting practices of 30 selected Indian companies listed in BSE. The corporate governance section of the yearly reports for the years 2001-2002 and 2002-2003 had been examined by using the content analysis, and least square regression technique for data analysis. The study found variation in the reporting practices of the companies, and in certain cases, omission of mandatory requirements.

Another study carried out by Subramanian (2006) cited in Bhasin (2010), recognized the differences in disclosure model of financial information and governance features. A sample of 90 companies from BSE 100 index had been taken. The data with respect to disclosure score had been collected from the annual reports of the companies for the financial year 2003-2004. The study employed the Standard and Poor's "Transparency and Disclosure Survey Questionnaire" for collection of data.

According to Unuagbon and Oziegbe (2016), the following are a number of factors which are capable of influencing the quality of financial information a company discloses to its stakeholders. First, competition in the dynamics of products and services in the market place may restrict a firm's disclosure policies. This happens when managers are forced to make a choice between maximizing the competitive advantage of the firm in the market by not disclosing information which is adjudged to affect the firm's market position, or to disclose that information in order to aid the capital market to achieve an efficient evaluation of the shares of the firm.

Secondly, another influencing factor is the traditional pattern of producing reports mainly to satisfy needs of the shareholders and not that of other stakeholders such as employees and the general public. As such, a decision of the firm's managers to re-examine the company's disclosure pattern to include the satisfaction of other interest groups such as trade unions will influence the quality of its disclosures.

Thirdly, company attributes also influence the general policy of a firm towards the quality of information it discloses. Such attributes include firm's size, listing status, organizational culture, business complexity, number and type of the firm's shareholders, market level, rate of profit and the disclosure cost. For example, a large firm with high rate of profit may be favorable to incur more disclosure costs to ensure its information disclosed are of high quality and meets the needs of its different stakeholders. Hence, it is of necessary to do a cost profit analysis must be done before a firm can carry on with disclosure of information beyond the traditional pattern. Lastly, the study finally assumed that there was no discrepancy in disclosure pattern of public or private sector companies, as much as financial transparency and information disclosure were concerned.

Correspondingly, Gupta *et al.* (2003) found out the discrepancies in corporate governance practices of few indigenous companies of an automobile industry. The data with respect to governance practices had been collected from the annual report of the companies for the year 2004-05. The study did not perceive significant deviations of genuine governance practices. In Nigeria, empirical assessment of corporate governance disclosure practices and its impact on bank performance and accountability is commonly meager. On the whole, empirical assessments have been predicated on data from developed countries, notably Anglo-American and Europe. The few reported Nigerian



studies-Adenikinju and Ayorinde (2001), Sauda et al. (2005), Ezi-Herbert and Tsegba (2010), and Umoren (2011) all investigated the relationship between ownership attentiveness, insider ownership, firm performance and corporate factors encouraging disclosures which yielded conflicting results that does not even address the issue of disclosure practices and accountability.

2.2 Theoretical Framework

This study underpinned stakeholder theory which aids in recognizing communal interest groups to whom the business might be considered accountable, and therefore to whom an adequate account of its operations would be viewed as essential. The stakeholder theory attempts to explain organizational strategy. Its main focus is on the emphasis placed on the role of stakeholders of a company in the pursuit of its objectives. It acknowledges the dynamic and complex relationships between organizations and their stakeholders and that these relationships involve responsibility and accountability (Gray et al., 1996).

On the other hand, Legitimacy theory emphasizes that a corporation’s activities must be justifiable in the eyes of society to allow it to remain. Legitimacy theory disagrees on the point that organizations seek to make sure that they function within the bounds and norms of society. Companies need the backing of stakeholders for continuous existence. If the company loses its legitimacy, then it will cease to exist. Legitimacy perspective opines that whenever managers consider that the supply of a particular resource or information is fundamental to the continuous existence of the organization, then they will implement strategies to ensure the continued provision of that information to gain or maintain legitimacy (Deegan and Gordon, 1998).

This study is anchored on both the legitimacy and stakeholder theories which are useful in explaining ‘what’ an organization disclosed.

3. Methodology

The study adopted quantitative research design. It made use of time Series data which are secondary data obtained from the Central Bank of Nigeria (CBN) statistical bulletin and the National Bureau for Statistics. The standard least square multiple regression analysis was adopted using e-view statistical package. It tried to establish a link between accounting regulatory framework were proxied by IFRS Compliance (IFRS), External Auditor’s Report (EAR), Format of Financial Statements (FFS), and Conformity with Disclosure Requirements (CDR); whereas the explanatory variable is proxied by existing of independent member(s) in the audit committee and board of directors.

QFR & CGRt (Y) is regressed on the following accounting regulatory framework indicators (X's): IFRS Compliance (IFRS), External Auditor’s Report (EAR), Format of Financial Statements (FFS), and Conformity with Disclosure Requirements (CDR). The study complies with the theoretical framework which were used by previous and related research (Bhasin (2010); Unuagbon and Oziegbe, 2016). With little changes, we translate their specification as follows:

$$QFR \ \& \ CGR_t = \beta_0 + \beta_1 IFRS_t + \beta_2 EAR_t + \beta_3 FFS_t + \beta_4 CDR_t + U_t \dots\dots\dots 1$$

Where:

U_t=ErrorTerm



4. Results and Discussion

4.1 Results

ANOVA Ordinary Least Square was used to determine the relationship between accounting regulatory framework on one hand and quality of financial reporting and corporate governance regulation on the other hand. Table 4.1 above shows that the estimated F-ratio of 218.73212 has a P-value of 0.01, as such we reject the null hypothesis and accept the alternative hypothesis, implying that there is a significant relationship existing between accounting regulatory framework and quality of financial reporting and corporate governance regulation in the Nigerian banking sector, for the period 2011-2020. The model was found to be statistically significant at 1%, with strong fit and a Durbin-Watson score of 3.019172, indicating the model's resilience for prediction. In whole, the model shows that changes in the independent variables, when combined, can be used to explain the variations in the dependent variables to extremely high levels; at least 97 percent. The model also indicated that three of the Accounting regulatory variables, IFRS Compliance (IFRS), External Auditor's Report (EAR), and Format of Financial Statements (FFS) were statistically significant, whereas only Conformity with Disclosure Requirements (CDR) failed to satisfy the a priori assumption due to its positive coefficient.

Table4: ANOVA Analysis of variance

Dependent Variable: **QFR & CGR**

Method: Least Squares

Date: 01/04/22 Time: 18:23

Sample: 2010 2020

Included observations: 50

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.134102	2.975430	1.097192	0.3122
LIFRS	-0.913419	0.192351	-1.321451	0.1452
LEAR	-0.000178	0.512912	-0.001281	0.8823
LFFS	-0.409122	0.412814	-0.813623	0.2331
LCDR	-1.291861	0.039221	28.81672	0.0000
R-squared	0.892514	Mean dependent var	5.952341	
Adjusted R-squared	0.900182	S.D. dependent var	2.922652	
S.E. of regression	0.523152	Akaike info criterion	1.659113	
Sums of squares	7.214329	Schwarz criterion	1.701326	
Log likelihood	-18.12671	Hannan-Quinn criter.	1.231587	
F-statistic	218.73212	Durbin-Watson stat	3.019172	
Prob(F-statistic)	0.000000			

Source: E-views version 10.0 Econometric Package.



The estimated regression results can therefore be presented as follows:

QFR & CGR_t = 3.134102-0.913419IFRS_t-0.000178EAR_t-0.0409122FFS_t+1.291861CDR_t
.....Equation II

4.2 Discussion

From the findings of the study, accounting regulatory framework has a significant and positive impact on quality of financial reporting and corporate governance regulation in Nigeria banking sector from 2011 to 2020. Furthermore, with the exception of conformity with disclosure requirement, most of the included explanatory variables showed the expected signs and only three of the Accounting regulatory variables, IFRS Compliance (IFRS), External Auditor’s Report (EAR), and Format of Financial Statements (FFS) are statistically significant. This shows that IFRS compliance, External auditor’s report, and format for financial statements play influential roles in enhancing quality of disclosure and corporate governance regulation.

5. Conclusions and Recommendations

5.1 Conclusions

From the findings of the study, accounting regulatory framework has a covariant, significant and positive relationship with quality of financial reporting and corporate governance regulation in Nigeria banking sector from 2011 to 2020. Only conformity with disclosure requirements did not show the expected signs and hence does not impact on quality of disclosure and corporate governance regulation. The study therefore concludes that IFRS compliance, External auditor’s report, and format for financial statements play influential roles in enhancing quality of disclosure and corporate governance regulation in Nigerian banking sector.

5.2 Recommendations

Based on the findings, the paper recommends more stringent regulatory supervision by the Central Bank of Nigeria to ensure total compliance by banks in Nigeria by regularly observing the banks’ financial statements with regards to compliance with International Financial Reporting Standards and that they are in agreement with accounting and financial frameworks with regards to the type of financial information disclosed and how they should be disclosed as stipulated by the International Financial Reporting Standards (IFRS).

Punishments should be melted out to any erring bank by the Central Bank of Nigeria as this will help sanitize the banking system in Nigeria. The banks should embrace complete and high quality disclosures if they must become global players and strengthen investors’ confidence.

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