Innovations

Corporate Governance Mechanisms and Reported Earnings Quality of Quoted Nigerian Banks

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Abstract

This study investigates the impact of corporate governance mechanisms on reported earnings quality of quoted Nigerian banks. Post consolidation of banks in Nigeria in 2004 resulted in increase in the capital base of Deposit Money Banks (DMBs) but did not mitigate the propensity of the management to engage in earnings manipulation due to weak corporate governance regime. With the introduction of the corporate governance code in 2006 and the revised code for banks and finance houses in 2014 by the Central Bank of Nigeria as well as the adoption of the International Financial Reporting Standards, it is expected that financial reporting practice in the quoted banks should improve. This study is directed at ascertaining the extent at which governance mechanisms associate with earnings management in the banking industry. The study used 10 (ten) quoted DMBs during the period 2010-2019, regressed six governance mechanisms on reported earnings quality proxy. Multiple regressions analysis was employed using the software E-view version 10. The study finds a significant and positive relationship between the size of the audit committee, audit committee independence and firm (bank) size and reported earnings quality while board size, board independence and size of external auditors are found to be insignificant but negatively associated with reported earnings quality. The study therefore recommends in light of the findings: that the Code of Corporate Governance 2014 and provisions of CAMA 1990 on audit committee size, audit committee independence and external audit should be upheld in Nigeria quoted banks as they are significant factors in reduction of opportunistic financial reporting by management.

Keywords: 1.*Corporate Governance Mechanisms, 3.Earnings Quality, 4.Financial reporting.*

Introduction

In moral parlance, honesty is said to be the best policy. However, where vested interest is present, there may be no guarantee of honesty except some steps are in place to enforce or encourage honest behavior. Lack of honesty has been the trap that has led to the collapse of several giant organizations. Montesdeoca, Medina and Santana (2019) highlights that the tragic collapse of WorldCom, Xerox and Enron, which has been one of the most resounding displays of lack of honesty globally, emphasized on the critical need to focus on sound corporate governance in both developed and developing countries.Expatiating further, they made known that thebankruptcy faced by the companies is due to accounting fraud which stems from earnings manipulation andarises from the fraudulent practices displayed by the board of directors and the weak governance mechanisms in operation. This led to the creation of the Sarbanes-Oxley Act in 2002 and studies such Salleh and Othman (2016) and Adboli and Royace (2012) argues that corporate governance regulations would be the most significant tool to regaining the lost confidence.

Corporate governance dynamics are time tested mechanisms for determining how compliant an enterprise is in observance of sound corporate practices which would in turn mitigate conflicts of interests between bank management and the shareholders. An important role of corporate governance is the operational framework it gives to the activities of organizations, which helps to bridge disclosure and transparency gap and also reduce the divergence of interest between managers and shareholders (Castrillon and Alfonso, 2021; Grantham, 2020). Such divergence of interests could border along the management of earnings through the use of accounting accruals. A number of measures have been adapted to access firms' performance, with profitability, and most especially, accounting earnings being the most used indices for performance measurement. Since earnings is a key performance index, Fodio, Ibikunle and Oba (2013) stipulated that sound governance mechanisms are expected to be relevant in improving investors' confidence in the performance of organizations, because, the higher the earnings declared in the published financial statements of an organization, the better the organization is perceived to be. However, Musanovic and Halilbegovic (2021) and Bisogno and De Luca (2015) warns that its reliability becomes questionable when managers have an incentive to manipulate reported earnings opportunistically. Such manipulations are stated by Fodio et al. (2013) to alter shareholders' perception of the reliability of reported earnings. Explaining further, they stated thatsince earnings quality, which is an accounting derivative, is a powerful element in the corporate governance process, and actually drives other corporate mechanisms, there exist a fellowship between governance and financial reporting quality of which reported earnings quality is a major ingredient, and when governance structures fail to detector prevent improper financial disclosure, a reporting failure results.

Akande (2016) and Abid and Ahmed (2014)affirmed that the massive fraud and doctoring of companies' financial statement, including insider dealings, bad governance,compromised boards of directors, fraudulent activities, corruption, failure of internal audit and audit committee, spineless shareholders' associations, delayed reactions of regulators and rubber stamp Annual General Meetings (AGMs) all suggest the collapse of corporate governance in Nigeria. In the Nigerian corporate environment, extant literatures reveal the prevalence of poor corporate governance record.Particularly, Oluwole (2021), Ozili (2021) and Ahmodu, Areo and Adeniyi (2017) emphasized the need for a study of this nature in an environment like Nigeria, due to the fact that the environment is characterized with growing calls for effective corporate governance and financial reporting particularly for public limited liability companies.

This study aims to unfold the possible nexus between the various corporate governance dynamics (mechanisms) and earnings quality in the Nigerian banking industry. The banking industry in Nigeria particularly calls for this study in view of its contribution to national economic growth and reported unethical practices after the post-consolidation period. According to Soludo (2004),poor corporate governance was identified as one of the major factors in virtually all known instances of bank distress in the country. Weak corporate governance was seen manifesting in form of weak internal control measures, absence of or non-adherence to limits of authority, disregard for cannons of prudent lending, absence of risk management processes, insider abuses and fraudulent practices remain a worrisome feature of the banking system. All these abuses are perpetrated by boards and management of banks in order to manage earnings ultimately. However, with the steps already taken by Nigerian government to integrate the banking industry into the global best practices in financial reporting disclosure through the adoption of the International Financial Reporting Standards from 2012, the Code of Corporate Governance for Banks in Nigeria (2014) and collaboration between banks and regulatory institutions like the Financial Reporting Council of Nigeria (FRCoN), Securities and Exchange Commission (SEC) and actions of government have raised the stake of corporate governance in the banking industry.

Objective of the Study

A principal objective of corporate governance is to ensure that managers act with minimal propensity to permit the agency problem from occurring. This can be done through ensuring quality financial reporting. This study is poised to ascertain the extent to which some of the corporate governance mechanisms in the code of good corporate governance for the banking industry in Nigeria have mitigated earnings management thereby enhancing quality financial reporting. Specifically, the study is directed at ascertaining the extent to which governance mechanisms associate with earnings management in the banking industry.

Research Hypotheses

In view of the empirical studies provided by a handful of the literature and in line with the objective of determining the nexus between corporate governance mechanisms and reported earnings quality of quoted Nigerian banks, the following null hypotheses are proposed:

- Board size has no significant impact on reported earnings quality of quoted Nigerian banks
- Board independence has no significant impact on reported earnings quality of quoted Nigerian banks
- Audit committee size has no significant impact on reported earnings quality of quoted Nigerian banks.
- Audit committee independence has no significant impact on earnings management of quoted Nigeria banks.
- Audit firm size has no significant impact on the quality of reported earnings of quoted Nigerian banks.
- Firm size has no significant impact on the quality of reported earnings of quoted Nigerian banks.

Corporate Governance in the Banking Industry in Nigeria

The financial sector plays a pivotal role in the growth and size of every nation's economy. In Nigeria, the financial sectoris dominated by the banking industry, especially the Deposit Money Banks (DMBs). The DMBs account for 93.0% of non-central assets in 2000 and holds 94.0% and 95.2% of the aggregate financial savings in 2002 and 2003 respectively, as well as above 60.0% of the stock market capitalization (Gololo, 2018). The DMBs plays a leading role in channeling the growth of the Nigerian economy by mobilizing the needed capital to ensure production, income and employment generation (Clementina and Isu, 2016). The Central Bank of Nigeria (CBN) on the other hand operates as the main regulatory agency in the banking industry and derives its legal authority from the CBN Act No. 24 of 1991 (amended in 1997 and 1999), the Banks and Other Financial Institutions Act (BOFIA) No. 25 of 1991) (amended in 1997, 1998 and 1999) and lately the CBN Act 2007. As stated by Olowosegun and Moloi (2021), the CBN set up corporate governance measures as a blueprint for the activities in the banking industry. The 1992 Cadbury report implies corporate governance to mean a system through which companies are directed and controlled. As viewed by Adegbite (2015), corporate governance is a system of internal and external check and balances of an organization activities in order to ensure accountability by the management to the shareholders. It also ensures that organizations are socially responsible in all areas of their business activities.

With the expansion in the banking sector following the Structural Adjustment Programme (SAP) in 1986 and subsequent deregulation of the economy resulting in the establishment of more banks and other regulatory agencies such as Nigeria Deposit Insurance Corporation (NDIC) in 1988, the Security and Exchange Commission through the SEC Act of 1979 and Investment and Securities Act No. 45 of 1999, the ground was set for tighter control by the Central Bank of Nigeria over players in the banking sector (Herbert and Agwor, 2021). However, a major problem confronting the banking sector in Nigeria is poor observance of best corporate practices (Kafidipe et al., 2021; Akande, 2016). As opined by Obi (2012), a critical review done by several studies has shown that one of the problems confronting the banking industry in Nigeria is the issue of poor corporate governance. He stated further that closing reports of liquidated banks between 1994-2002 reveals clearly established evidence that poor corporate governance led to their failures. Supporting this, Ordu (2021) explicitly stated that some closing reports of liquidate banks revealed that many owners and directors abused or misused their privileged positions or breached their fiduciary duties by engaging in self-serving activities, which include granting of unsecured credit facilities to owners, directors and related companies who in some cases were in excess of their bank's statutory lending limits in violation of the provisions of the law.

The revised Code of Corporate Governance for Banks in Nigeria (2014) provides several determinants of corporate governance for board and management. The determinants according to Alley (2022) are size and composition of boards, separation of powers on the positions of the Board Chairman and the Managing Director (Chief Executive Officer), procedure for appointment to the board, board Committees, board meetings, remuneration, board appraisal covering all aspects of the board's structure, composition, responsibilities process and relationships as prescribed by the CBN, rights and powers of the shareholders, meetings, shareholders' associations and issue of robust disclosures beyond the statutory requirements of BOFIA 1991 as amended, CAMA 1990 and other applicable laws. Furthermore, transparency and integrity reporting, appointment of external auditors, whistle blowing, ethics and professionalism, conflict of interest are expected to be observed by all banks in Nigeria (Oluwole, 2021; Ahmodu et al., 2017; Akande, 2016).The provisions of the Code of Corporate Governance 2014 are observed through the lens of corporate governance mechanisms which have been classified into internal and external. Afolabi and Amupitan, (2015) identify internal corporate governance mechanisms to include oversight of management, independent internal audits, structure of the board of directors into level of responsibility, segregation of control and policy development. The present study focuses on the corporate governance mechanism observance on reported earnings in quoted banks in Nigeria

Theoretical Framework

Prior studies have identified a number of theoretical frameworks to explain the link between corporate governance and quality of reported earnings in the banking industry in Nigeria. Prominent among such theories are the agency and stakeholders' theory. Jensen and Meckling (1976) posit that the ultimate element in agency theory is the conflict of interests between principals and agents. The theory holds that conflicts and dissimilar interests lead to information asymmetries between the two parties resulting in major agency problems. Habbash (2010) agrees that the most important basis of agency theory is that the managers are usually motivated by their own personal gains and work to exploit their own personal interests rather than considering shareholders' interest and maximizing shareholders value. On the contrary, the stewardship theorists maintain that the interests of corporate executives are aligned with those of the organization and its owners. The theory suggests that the agents are trustworthy and good stewards of the resources entrusted to them, which make monitoring unnecessary (Donaldson 1990; Donaldson and Davis, 1994; Davies et al., 1997). However, this study adopts the agency theory to develop an empirical framework for interrogating the link between corporate governance and quality of reported earnings of quoted banks in Nigeria. Fodio et al (2013) contend that the relationship between the stakeholders, who are the owners of the company, and the upper echelon that is, the board of directors is a pure agency relationship. Agency theory appears suited to provide a natural backdrop to this kind of study. Fodio et al (2013) argues that when this agency problem does not exist, financial reporting quality becomes a non-issue since managers do not have any incentive to misreport information. A fundamental target of corporate governance structure is to reduce the agency problem (Ibikunle 2013). Thus, a natural link appears to exist between corporate governance and financial reporting.

Information asymmetry is the core of the agency theory. Asymmetrical information occurs when one party or in fact both parties to a contract has more knowledge regarding critical information required in the contract than the other (Pandey, 2005). Carciumaru (2009) agrees that an understanding of information asymmetry is crucial for the discussion on corporate governance and reporting quality. Elsenhardt (1988) outlines the assumption of agency theory to include the existence of divergent goals between agent and principal, existence of information asymmetry either before or after contracting the agent and the difference in risk preferences between agent and principal.The existence of a vibrant corporate governance mechanism in financial reporting can help reduce the possible conflict of interest that exists between the owners (shareholders) and the board and management of quoted banks.

Empirical Review on Corporate Governance Mechanism

In advanced economies, the relationship between corporate governance and earnings quality has been extensively debated and attention is gradually shifting to this important concept in the developing economies.Hasyudeen (2010) argues that the integrity of earnings quality is highly anchored on the performance and conduct of those involved in the financial reporting system, particularly directors, management, audit committee, auditors and so on.Fodio et al (2013) posit that the quality of reported earning relies on corporate governance dynamics, while Agrawal and Chadha (2005); Baxter and Cotter (2009); Chang and Sun (2010) and Vefeas (2005) affirm that emphasis has been placed on governance dynamics such as board size, board independence, audit committee independence and audit committee size.

Board Size

Vefeas (2005) contends that both too small and too large a size of board is likely to make it ineffective. Lipton and Lorsch (1992) recommend that the ideal size for a board should not exceed eight or nine directors. Jensen (1993) argues that when a board has beyond seven or eight members, it is less effective due to the problems of coordination and process, which in turn, contributes to weak monitoring. Monks and Minow (2004) suggest that larger boards are able to commit more time and effort to oversee management due to their ability to distribute the work load over a greater number of observers. Yu (2008) in a related study finds that small boards seem more prone to failure to detect earnings management while Abdulrahman and Alli (2006) find a positive relationship between the size of the board and earnings management. On the converse, Bedard et al (2004) observe that board size is not significantly related to the credibility of management earnings forecasts. However, the Central Bank of Nigeria Code of Corporate Governance for Banks and Discount Houses in Nigeria 2014 (hereafter described as the Code)prescribes that the size of the board of any bank or discount house shall be limited to a minimum of five (5) and a maximum of twenty (20).

Board Independence

Davidson, Godwin and Kent (2005); Klein (2002) and Beasley (1996) submit that there is a positive link between higher proportion of independent non-executive directors on the board and financial reporting quality. Peasnel et al (2000) contend that since 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. Jaggi, Leung and Gul (2007) find significant negative relation between earnings management and the presence of higher proportion of outside directors in Taiwan and Hong Kong, thus suggesting that the inclusion of large proportion of outside members provide better abilities of management to mitigate earnings management activity. Abdulrahman and Alli (2006) did not find any significant evidence of a link between the board's independence and earnings management. Similarly, Park and Shin (2004) did not find empirical support on the association between earnings management and board independence in their study of Canadian firms. The Code for Nigerian banks in a bid to strengthen the independence of the board stipulates that members of the board shall be qualified persons of proven integrity and shall be knowledgeable in business and financial matters, in accordance with the extant CBN Guidelines on Fit and Proper Persons Regime. Furthermore, the board shall consist of Executive and Non-Executive Directors and the number of Non-Executive Directors shall be more than that of Executive Directors.

Furthermore, the board of banks shall have at least two (2) Non-Executive Directors as Independent Directors

Audit Committee

Buchaller and Yakomoto (2015) admit that the purpose of the audit committee is to ensure the accuracy of the financial reports. It normally has a majority of non-executive directors and is expected to view the company's affairs in a detached and dispassionate manner. Studies by Adeyemi and Fagbemi (2010) and Chang and Sun (2010) demonstrate that the presence of audit committees is effective in reducing the occurrence of earnings management which could result in misleading financial statements. Fodio et al (2013) affirm that audit committee size is a significant factor in mitigating earnings manipulation and thus improving reported earnings quality. Yang and Krishnan (2005) find a negative association between the size of the audit committee and earnings management. Ismail, Dunstan and Van (2009) find that a larger audit committee is more effective in detecting and preventing earnings manipulations.

On the strength of the above arguments, a school of thought believes that the audit committee size is a significant factor in mitigating earnings manipulation. Contrarily, Abdulrahman and Alli (2006) investigate the extent of the effectiveness of the audit committee in reducing earnings management among 97 Malaysian listed firms over the period 2000-2002. Their research reveals no significant relationship between audit committee size and earnings management.

Audit Committee Independence

The effectiveness of audit committee is not only seen from its size but also from the independence of its members. A string of studies suggest that independent audit committees are less likely to be associated with financial statement fraud (Abbot et al., 2004; Abbot et al., 2000) and more likely to be associated with lower earnings management (Klein, 2002; Xie et al., 2003; Beddard et al., 2004; Davidson et al., 2005) and a lower incidence of earnings restatement (Agrawal and Chadha, 2005). The independent committee members such as non-executive directors are expected to provide unbiased assessment and judgment and to be able to monitor management effectively. On the contrary, Carcello and Neal (2000) provide evidence of the relationship between audit committee independence and the disclosure choices of firms in financial distress. They suggest that firms with a higher percentage of independent audit committees are less likely to receive a going concern audit opinion from auditors. Fodio et al (2013) opine that audit committee independence might not guarantee that managers would not manipulate earnings. According to them, a possible explanation could be that the independent members of the audit committee might not be financially literate enough and may not have the industry experience which allows for monitoring effectiveness.

External audit

As a part of corporate governance structure, external audit provides the assurance that reported earnings present a true and fair view. Watts and Zimmerman (1983) posit that external audit is the controlling mechanism used by the company to address agency problems and like Jensen and Meckling (1976) affirm that any manipulation of accounting information can be reduced through an audit. Ahmed (2005) as cited by Fodio et al (2013) observes that although company management is primarily responsible for preparing the financial report, the external auditors play a key role in the disclosure practices of their clients. Studies by Glan and Street (2003) and Wallace and Naser (1995) categorized audit firms based on their size; whether they belong to the "big five" or not. In Nigeria according to Fodio et al (2013) the big four auditing firms are Price Waterhouse Coopers, KPMG, Delloits and Touche and Ernst and Young.

In a related study, Umoren and Peace (2011) provide evidence that the audit type influences overall disclosure level and as argued by DeAngelo (1981) and Krishnan (2003), this is possibly because large audit firms are able to provide high quality audit services due to their big reputation.

Firm Size

The size of a firm has been observed to have an impact on the quality of financial reporting framework. Thus, larger firms have the likelihood to employ a more sophisticated financial reporting framework which could make the detection of earnings management difficult (Ibikunle, 2013). Abdoli and Royaee (2012) find in a studyof 165 Iranian companies that the relationship between firm size and reported earnings quality is positive and confirmed. Their results indicate that firm size leads to the improvement of earnings reporting which they argued stemmed from the increase in monitoring of corporate performance.

Methodology

Population and Sampling Technique

The population of this study is made up of all quoted Deposit Money Banks(DMBs) in the Nigerian Stock Exchange from the year 2010 to 2019. The choice of this time frame was due to the fact that the implementation of the International Financial Reporting Standards (IFRS) from 2012 in the banking sector was just at its infancy and if quoted banks were complying with the Corporate Governance Code and the provisions of the IFRS, five years or more after implementation should be enough to observe compliance and consequent effect on quality of reporting earnings for such quoted banks. As at 31st March, 2021 there were 8 banks with commercial banking license with international authorization, 11 with national authorization and 4 with regional authorization giving a total of twenty-three (23) Deposit Money Banks (DMBs) and they are all quoted. These twenty-three banks make up the population of the study. A sample of ten (DMBs) was taken purposively as these had published annual reports and financial statements and other necessary information available and accessible over the time frame of reference.

Measurement of Variables

- Earnings Quality – The proxy for earnings quality in this study is discretional accruals. This measure has been extensively used in prior studies, Dechow, Sloan, and Sweeney(1995).
- Board size is measured as the total number of directors on the board.
- Audit committee size is measured as the total number of audit committee members.
- Audit committee independence is measured as the proportion of non-executive audit committee members to total audit committee members.
- Board independence is taken as the proportion of non-executive directors to total directors.
- Firm size is the natural logarithm of total assets.
- External audit is captured as a dummy variable. Big 4 audit firms are assigned 1; others are assigned 0.

Results and Discussion

The present study employs the model developed by Dechow et al(1995)in order to isolate discretional accruals from non-discretional accruals as components of the dependent variable (earnings) or total revenue.

Table 1 presents the regression result on the effect of corporate governance mechanisms on earning quality of quoted banks in Nigeria. The corporate governance indicators adopted include the board size of the banks, the audit committee size, the audit committee independence, board independence, the firm size and the external auditors. The estimated result shows that there is an insignificant but positive relationship between the size of the audit committee and earnings (revenue) of quoted banks in Nigeria. This agrees in part with findings in Ismail, Dunsan and Van (2009) that a larger audit committee size is more effective in detecting and preventing earnings manipulation. Similarly, Yang and Krishnan (2005) find a negative association between the size of the audit committee and earnings management. However, evidence in Abdulrahaman and Alli (2006) reveals no significant relationship between audit committee size and earnings management. This study provides evidence of positive and significant relationship between audit committee independence and earnings (revenue) of quoted banks in Nigeria. The independent committee members such as non-executive directors are expected to provide unbiased assessment and judgment and to be able to monitor management effectively. This is supported by a string of studies which tend to suggest that independent audit committees are less likely to be associated with financial statement fraud (Abbot et al; 2004; Abbot et al 2000) and more likely to be associated with lower earnings management (Klein, 2002; Xie et al, 2003; Beddard et al; 2004; Davidson et al, 2005) and a lower incidence of earnings restatement (Agrawal and Chadha, 2005). These findings however contradict the work of Fodio et al (2013) which holds that audit committee independence might not guarantee that managers would not manipulate earnings because the independent members of the audit committee might not be financially literate enough and may not have the industry experience which allows for monitoring effectiveness. This study controls for the effect of the firm size on reported revenue. The size of a firm has been observed to have an impact on the quality of financial reporting framework. Thus, larger firms have the likelihood to employ a more sophisticated financial reporting framework which could make the detection of earnings management difficult (Ibikunle, 2013). Contrarily, Abdoli and Royaee (2012) find in a study of 165 Iranian companies that the relationship between firm size and reported earnings quality is positive and confirmed. Their results indicate that firm size leads to the improvement of earnings reporting which they argued stemmed from the increase in monitoring of corporate performance. Thus, the present study confirms a significant and positive relationship between the size of the quoted banks and the reported revenue quality. A large size organization could exploit the benefits of economies of scale in minimizing cost and maximizing quality of earnings. A percent improvement in the size of the audit committee, the audit committee independence, and the size of the quoted banks likely improved the quality of their earnings (revenue) by about 0.29, 0.62, and 18 percent respectively. These explain the importance of audit committee independence in examining the transactional activities of the organization without any external influence as well as having adequate member of the committee on the performance of an organization. The size of an organization also contributes significantly to organization performance.

On the other hand, the board size in this study revealed a negative and insignificant effect on reported revenue. Monks and Minow (2004) suggest that larger boards are able to commit more time and effort to oversee management due to their ability to distribute the work load over a greater number of observers. This does not agree with findings in Bedard et al (2004) which observe that board size is not significantly related to the credibility of management earnings forecasts. The board independence presents a negative but insignificant effect on the quality of earnings (revenue) of the quoted banks in Nigeria. Peasnel et al (2000) contend that since 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. Park and Shin (2004) did not find empirical support on the association between earnings management and board independence in their study of Canadian firms. From Table 1 a percent point increase in board size and board independence likely reduces the size of revenue by about 0.12 and 0.17 percent point respectively. These effects are however insignificant. It was also found that increase in number of external auditors likely reduces the quality of earnings in the Nigeria quoted banks. According to Fodio et al (2013), the independent external audit (as captured by the big four auditors) do not necessarily reduce the extent of earnings management. Umoren and Peace (2011) provide evidence that the audit type influences overall disclosure level and as argued by DeAngelo (1981) and Krishnan (2003), this is possibly because large audit firms are able to provide high quality audit services due to their big reputation. A percent point increase in the number of external auditors likely reduces quality of earning of the Nigerian quoted banks by about 0.18 percent point.

The R-squared of the estimated result reveals that about 92 percent of changes in the revenue (earnings) quality of the quoted banks are captured in the model, while the remaining 8 percent are explained by other factors outside the model.

Table 1: Regression Analysis

DEPENDENT VARIABLE: LOG (REVENUE)				
METHOD: PANEL LEAST SQUARES				
VARIABLE	COEFFICIENT	STD. ERROR	T-STATISTIC	PROB.
LOG(BOARDSIZE)	-0.122	0.089	-1.374	0.172
LOG(AUDITCOMMITEESIZE)	0.297	0.341	0.872	0.385
LOG(AUDITCOMMITEEINDEPENDENCE)	0.623	0.308	2.021	0.045
LOG(BOARDINDEPENDENCE)	-0.174	0.118	-1.475	0.143
LOG(FIRMSIZE)	18.127	0.496	36.557	0.000
EXTERNALAUDITORS	-0.187	0.061	-3.074	0.003
C	-23.268	1.881	-12.373	0.000
R-SQUARED	0.924	MEAN DEPENDENT VAR		18.622
ADJUSTED R-SQUARED	0.921	S.D. DEPENDENT VAR		0.827
S.E. OF REGRESSION	0.233	AKAIKE INFO CRITERION		-0.023
SUM SQUARED RESID	6.794	SCHWARZ CRITERION		0.130
LOG LIKELIHOOD	8.506	HANNAN-QUINN CRITER.		0.039
F-STATISTIC	254.116	DURBIN-WATSON STAT		1.575
PROB (F-STATISTIC)	0.000			

*Significance at 0.05 level
Sources: E-view Output 10

The Table 2 above shows the Wald test result which tests the coefficient significance of the estimated results. The null hypothesis of the model is that the coefficients are not statistically different from zero. Given the probability value of the model, the null hypothesis should be rejected, indicating the coefficients of the model are statistically different from zero.

Table 2: Wald test

Test Statistic	Value	Df	Probability
F-statistic	254.12	(6, 125)	0.000
Chi-square	1524.70	6	0.000

Conclusions and Recommendations

The motivation for the present study centers on theimpact of reforms introduced by the Central Bank of Nigeria (CBN) code in the banking sector in Nigeria following the corporate failures, practices in the global banking industry and the possible implications of such reforms on the financial reporting practice. Furthermore, the paper is aimed at uncovering the relevance of corporate governance mechanisms in improving financial reporting credibility and reducing management opportunistic behavior in the Nigeria banking industry. This work employed a multivariate regression analysis to investigate the hypotheses generated in testing the relationship between the dependent variable (earnings quality) and the independent variables (corporate governance mechanisms). In line with prior studies, discretional accruals were used as proxy for earnings quality. The study established that audit committee size, audit committee independence and firm (bank) size have positive relationship with earnings quality and all but audit committee size are significant at 5% level. This implies that these corporate governance mechanisms might not reduce the extent of earnings manipulation by managers. On the other hand, variables such board size, board independence and external audit have negative association with earnings quality though none of these is significant at 5% level an indicator that the variables may reduce the extent of earnings management thereby triggering higher reported earnings quality. In light of the findings in this study, the following policies are recommended: that the Code of Corporate Governance 2014 and provisions of CAMA 1990 on audit committee size (maximum of six), audit committee independence (mixture of executive and non-executive directors) and external audit (on tenure and competence) should be upheld in Nigeria quoted banks as they are significant factors in reduction of opportunistic financial reporting by management.

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