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CORPORATE GOVERNANCE AND THE QUALITY OF AUDIT IN THE NIGERIAN BANKING SECTOR

[1]S. J. Inyada *Ph.D.;* [2]John Ugbede & [3]Edicha, Muhammed

[1]Department of Accounting,
Kogi State University, Anyigba, Kogi State, Nigeria.

Abstract

The main objective of this study was to examine the relationship between Corporate Governance and Audit Quality in Deposit Money Banks in Nigeria. Data for the study were obtained from the secondary sources. In analyzing the data gathered, multiple regression analysis was used with the aid of Stata 12 statistical package. The result revealed that Board Size has no significant influence on the quality of audit. It has a very weak relationship with Audit Quality. Also Audit Committee and Ownership Concentration are very significant to Audit Quality with a very good relationship with audit quality. The paper recommended that the relevance of corporate governance should be strongly re-emphasized among banks alongside its associated benefits. The professional bodies of accountants in Nigeria and other professional bodies should play a significant role in enlightening their members of the need for quality audit in the provision of audit services. Banks executives and board members should adhere strictly to the Code of Corporate governance to enhance accountability and transparency in banking practices and members of Audit Committee should also play a significant role in enhancing quality audit work. There should be strict adherence to the principle of corporate governance set by Central Bank of Nigeria and other corporate regulatory bodies in Nigeria.

Keywords: *Audit Quality, Corporate Governance, Board Size, Audit Committee, Multiple Regression Analysis.*

INTRODUCTION

Low-quality financial reporting has been a contributing factor in many high-profile corporate scandals during the last decade, financial reporting quality is affected by interactions between different internal and external governance mechanisms (Cohen, 2004), and while a firm's corporate governance effectiveness is related to the quality of these internal and external mechanisms. Internal governance mechanisms include audit committees, board structure and performance- related compensation contracts, while external mechanisms include takeovers, product market competition, regulatory frameworks and concentrated ownership (Lange & Sharpe, 1995; Shleifer & Vishny, 1997). Variations in the efficiency of governance mechanisms are based on the different attributes of the surrounding business environment. The stringent regulations and intensive supervisory framework in the banking industry are aimed at safeguarding the banking public

confidence in the industry, and achieving a sustainable performance capable of enhancing the value of the owners and other stakeholders. Recently, banking industry in Nigeria has experienced some factors that slow the desired level of economic growth and development, which according to Soludo (2004) include weak internal control, high incidence of fraud and poor corporate governance. This is in spite of the presence of independent external audit and a code of best practices on corporate governance. While the external audit services and corporate governance are among the main monitoring and control mechanisms in corporations, their presence do not seems to produce the true and fair view of the financial performance and position of banks in Nigeria. This pointed to the possibilities of creative accounting (earnings management/manipulation) in the industry, which affect financial reporting quality adversely. For instance, Watts and Zimmerman (1986) state that financial statements audit is a monitoring mechanism that helps reduce information asymmetry and protect the interests of the principals, especially, stockholders and potential investors, by providing reasonable assurance that financial statements prepared by managements are free from material misstatements and intentional errors. Thus, external audit is critical to the quality of financial reports and the level of confidence by the users of accounting information. Therefore, quality audit is mandatory for auditors and is required by the laws and regulations of the accounting profession. Audit quality is usually regarded as a measure of the auditor's ability to reduce noise and improve fitness in accounting data (Wallace, 1980). In the words of Lee, Leu and Wang (1999) regarded audit quality as the probability that an auditor will not issue an unqualified report for statements containing errors (intentional and unintentional). DeAngelo (1981) see it as a joint probability that a given auditor will both detect material misstatements in the client's financial statements and report the material misstatements.

On the other hand, Heirany, Sadrabadi and Mehrjordi (2013) posit that recent attention given to the issues of corporate governance assumed that when corporate governance mechanisms are strong, managers find it unfavorable to manipulate accounting information and this consequently increases the quality and reliability of their financial reporting. Hence, corporate governance refers to the set of principles, guidelines and mechanisms adopted in order to ensure that directors and managers make decisions and act in the best interest of all the stakeholders (Sanda, Mikailu & Garba, 2005). According OECD (1999), corporate governance entails a set of relationship between company directors, its shareholders and other stakeholders; and it provides the structure through which the company's objectives are set and the means of attaining those objectives and monitoring performance. This indicated that corporate governance is concerned with both the internal aspects of the company, such as internal control, and the external aspects. However, it is in view of the recent defaults and failures including fraud and misstatement in the Nigerian banking industry that this study intends to critically evaluate audit quality and corporate governance in relation to real earnings management.

According to Schipper (1989) earnings management is a purposeful intervention in the external financial reporting process, with the objective of obtaining some private gain. Healy and Wahlen (1999) further explain that, earnings management occurs when managers use judgment in financial reporting and in structuring transaction to alter financial reports to either mislead some stakeholders about the underlying economic performance of a company, or to influence outcomes that depends on reported earnings. In a study by Bello (2011) earnings management is considered as ethical misconduct of accountants and it is related to the recent times corporate failures and loss of investors' confidence on both financial reports and auditors. Extant literature shows that earnings management is perpetrated either through accrual-based manipulations or real activities manipulations. While accrual-based earnings management involved the manipulations of accruals (non-cash transactions at the discretion of the managers), real activities manipulation is a management actions that deviate from normal business practices to mislead at least some stakeholders, undertaken with the primary objective of meeting certain earnings thresholds (Roychowdhury, 2006). A major strand of the earnings management literature examines managers' use of discretionary accruals to shift reported earnings among fiscal periods (Bartov, Gul & Tsui, 2000). That is, managing earnings by manipulation of accruals, which has no direct cash flow consequences. This involved under provisioning for bad debt expenses and delaying asset write-offs (Roychowdhury, 2006). He added that managers also have incentives to manipulate real activities during the year to meet certain earnings targets. This manipulation affects cash flows and in some cases, accruals. Therefore, this study is motivated by the trend in the current research on earnings management which generally focuses on detecting abnormal accruals. Moreover, the previous researches have concentrated on non-financial institutions, prompting a research question of whether banks are immune to real activities manipulations or not? This constitute the gap that this study attempt to fill. This study contributes to the literature on earnings management by presenting evidence on the management of real activities, which has received little attention to date. Hence, the study examine revenue manipulation and discretionary expenses manipulation in relation to audit quality and corporate governance mechanisms. To the best knowledge of this study, only a few studies have examined the effect of audit quality and corporate governance on deposit money bank. These studies include Osma (2008) in United Kingdom, Visvanathan (2008), Zhao et al. (2012), and Ge and Kim (2013) in USA who studied corporate governance in relation to banking sector. Henshaw and Smith (2010) outline steps involved in reviewing and testing the calculations involved in the estimate, comparing them and considering management approval procedure where they are consistent with the data processed through the accounting system. Segam (2006) also claimed the external evidence in auditing is more reliable than internal evidence. This study therefore examines the relationship between corporate governance principles (board size, board composition, composition of the audit committee, ownership concentration and separation of the roles of the CEO from that of the chairman of the board) and audit quality.

Statement of Problem

The weakness of corporate governance is perhaps the most important factor blamed for the corporate failure consequences from the economics and corporate crises. The questionable role of auditor's in ensuring the quality, reliability and credibility of financial report has been a debate. This is because auditor's independence from their clients can be compromised through poor regulation and supervision of the auditing practice. Provision of non- audit services to the client, auditor's personal interest in the client's business among others. Thus effective and perceived qualities (usually designated as apparent quality) are necessary for auditing to produce beneficial effects as a monitoring device. Emphasis on the interest in the corporate governance practices of modern corporations, particularly in relation to auditing and accountability has increased following the high-profile collapses of a number of large corporations in the recent years, most of which are characterized by accounting and auditing fraud and the scenario worsened with the recent national and global financial crisis. The code of corporate governance for banks in Nigeria specified that there should be an external auditor of high integrity independence and competence. This stems from the need that the various changes in accounting, financial reporting and auditing were all designed to provide protection to investors. In essence, auditing is used to provide the needed assurance for investors when relying on audited financial statements. More precisely, the role of auditing is to reduce information asymmetry on accounting numbers, and to minimize the residual loss resulting from managers' opportunism in financial reporting. Corporate governance is concerned with ways in which all parties interested in the wellbeing of the firms ensure that managers and other insiders take measures or adopt mechanisms that promote accountability. Lack of corporate governance codes in firms have been responsible for the collapse of many business organisation through abuse of power; recklessness in handling of finances leading to financial misappropriation; inability to follow laid down internal control systems leading to lack of credible organizational leadership especially as it affects hiring of manpower; flouting of laid down policies that should act as a guide in achieving organizational goals. The role of auditor's in ensuring the reliability of financial reports is perceived in the audit quality. Following the enactment of corporate governance codes for banks in Nigeria in 2007, this study examines the relationship between corporate governance indices and audit quality using banking sector.

Objectives of the Study

The general objective of the study is to examine the relationship between corporate governance and audit quality in Nigeria. However, the specific objectives are:

i. To determine the relationship between board size and audit quality in Deposit Money Banks in Nigeria.

ii. To ascertain the relationship between audit committee composition and audit quality in Deposit Money Banks in Nigeria

iii. To ascertain the relationship between power separation of CEO from that of the chairman and audit quality in Nigeria.

Research Hypotheses

Based on the objectives and research questions above, the following hypotheses were formulated.

i. There is no significant relationship between the size of the board and audit quality in Deposit Money Banks in Nigeria.

ii. There is no significant relationship between audit committee composition and audit Quality in Deposit Money Banks in Nigeria.

iii. There is no significant relationship between power separation of the CEO from that of chairman and audit quality in Nigeria.

LITERATURE REVIEW

Audit Quality

Audit refers to a systematic process of objectively obtaining and evaluating evidence in respect of certain assertion about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and reporting the results to interested parties over a particular period of time (the Institute of Chartered Accountants' of Nigeria, ICAN 2010). The institute also defined an auditor as a person or audit firm with final responsibility for the audit. Specifically, ICAN regarded external auditor as independent auditor who is not subject to management controls and linked him to independent audit which refers to the providing reasonable assurance that published audited financial statements are free from material misstatement and are in accordance with legislation and relevant accounting standards. However, Angus (2004) argue that the recent well publicized audit failures in Enron and other high-profile companies make interest in audit quality at an all-time high. Similarly, it created a crises of public confidence concerning the corporate governance and auditing of publicly listed companies. Many authors attempt to conceptualized audit quality. For example, Wallace (1980) defined audit quality as a measure of the auditor's ability to reduce noise and improve fitness in accounting data. DeAngelo (1981) defined audit quality from market perspective, in which it refers to the market-based joint probability that a given auditor will both detect material misstatements in the client's financial statements and report the material misstatements. She emphasizes the role of the market in assessing audit quality through financial reporting.

From her definition, the auditor's ability to detect material misstatements is termed auditor competence, while the willingness to report discovered material misstatements is regarded as auditor independence. Titman and Trueman (1986) see audit quality as the

accuracy of the information reported by auditors. Audit quality according to Lee, Leu and Wang (1999) refers to the probability that an auditor will not issue an unqualified report for statements containing errors, intentional and otherwise. Audit quality received adequate attention from all stakeholders due to the deep concern about the quality of reported accounting earnings. One of the audit quality models indicated that audit quality comprises of technical quality and service quality (Angus, 2004). The components of the technical quality includes status (reputation and capability), independence and knowledge (expertise and experience); while the service quality are the responsiveness, Non-audit services and understanding (empathy and client service). Therefore, an audit assignment with technical and service quality is capable of detecting and reporting material misstatement and fraud including real activities manipulations in the financial reports. Based on an in-depth interviews of 20 experienced auditors Commerford et al., (2013) provide detailed insights into auditors' perspectives concerning real earnings management. The interviews reveal that auditors are aware of various real activities manipulations techniques, and that most interviewees care about real activities manipulations primarily because it may signal the use of other, less acceptable earnings management methods that clients may be using to meet targets. In terms of specific real earnings management methods, auditors are most concerned about inventory overproduction and sales manipulation, each of which can result in future accounting issues. Some of the early empirical works on audit quality provide an insight into the relation between earnings management and audit quality. For example, DeAngelo (1981) revealed that auditor size has a positive relationship with audit quality, because large audit firm has more to lose by failing to report a discovered material misstatement in a client's records. Teoh and Wong (1993) used Big8 audit firm as proxy for size and found that Big 8 clients are associated with higher earnings response coefficients.

DeFond and Jiambalvo (1993) show that auditor-client conflicts relating to income increasing accounting practices are more likely to occur if the auditor belongs to the Big Eight. They conclude that the Big Eight are better able to resist managerial pressure and are more likely to maintain an independent opinion. Francis et al. (1999) also observe a lower level of abnormal accruals among Big Six-audited companies.

Corporate Governance

Organization for Economic Corporation and Development (OECD) embarked on a project that led to the production of code of best practices on corporate governances for public companies. This followed the council of OECD Ministers' meeting in April 1998, and in May 1999 the Ministers approved the principles of corporate governance standards and guidelines for corporate entities (OECD, 1999) to mitigate the issues believed to be cause of corporate failures. Corporate governance is defined by OECD (1999) as a set of relationship between company directors, its shareholders and other stakeholders; It also provide the structure through which the company's objectives are set and the means of attaining those objectives and monitoring performance. The SEC (2003) and CBN (2006) see corporate

governance as a system by which corporations are governed and controlled with a view to increasing shareholder value and meeting the expectation of the other stakeholders. The code further emphasizes that, the need for the practice of good corporate governance by corporation particularly financial institutions, is the retention of public confidence through the enthronement of good corporate governance considering the utmost importance given to the banking industry. According to the Code, the primary responsibility for ensuring good corporate governance in banks lies with the board of directors. And, the principal objective of the board is to ensure that, banks are properly managed and management performance is effectively overseen to protect and enhance the interest of all the banks stakeholders. Following the persistent corporate crises in Nigeria, on June 15, 2000 a seventeen (17) member committee headed was inaugurated by the Nigerian

Securities and Exchange Commission (SEC) in collaboration with the Corporate Affairs Commission (CAC) to align the corporate governance of companies in Nigeria with the international best practices (SEC, 2003). The committee's terms of reference include the identification of weaknesses in the corporate governance practices in Nigeria, examining practices in other jurisdiction with a view of adopting international best practices in corporate governance, making recommendations on necessary changes to current practice and evaluating any other issue relating to corporate governance in Nigeria. Specifically, the committee was saddle with the responsibility to identify weaknesses in the corporate governance in Nigeria and come out with possible changes capable of improving the corporate governance practice. The committee successfully comes up with Nigerian Code of Best Practices on corporate governance for public companies and private companies with multiple stakeholders in 2003. Moreover, following some cases of corporate failures in Nigeria, a committee was set up to review the SEC 2003 code of corporate governance to address its weaknesses and to improve the mechanisms for its enforceability. The committee came up with a reviewed code of best practices for public companies in Nigeria effective April, 2011. In another effort to preserve public confidence in banks, the CBN in 2006 established a code of corporate Governance for Banks in Nigeria post-consolidation, effective April 2006. The code identified weak internal controls, non-compliance with laid-down internal controls and operations procedures; poor risk management practices resulting in large quantum of non-performing credits including insider-related credits, and abuses in lending, as problems of the Nigerian banking sector (CBN, 2006). According to the code the board of directors of banks should be of sufficient size relative to the scale and complexity of the bank operations and should contain individuals in such a way as to ensure diversity of experience without compromising independence, compatibility, and integrity in carrying out their role. Moreover, the board is composed of executive and non-executive directors, the number of non-executive directors should be more than that of executive directors subject to a maximum board size of 20 directors, and at least two nonexecutive directors should be independent directors. Specifically, the code mandated at least three major board committees that a bank should have these are the Board Credit Committee,

Board Audit Committee, and the Board Risk Management Committee. These committees are designed to ensure the effectiveness and efficiency of the board in monitoring and controlling the management and the operations of the banks with an eye of achieving the desired level of performance. However, the board audit committee functions involve the evaluation of the system, processes, procedures and rules governing the operations and reporting the state of affairs to the stakeholders. Therefore, the code mandated an effective and efficient audit committee in the board of every bank, it is required that all the members of the audit committee should be non-executive directors and ordinary shareholders appointed at the annual general meeting. The code also required that some of the committee members should be knowledgeable in financial matters and internal control processes. Moreover, banks audit committee is responsible for the review of the integrity of the bank's financial reporting and oversee the independence and objectivity of the external auditors. This critical role of audit committee is believed to be a means of improving economic efficiency and stakeholders' confidence. Researchers have examined the relationship between corporate governance and earnings management in different jurisdiction using different methodologies. For instance, Cornett et al. (2009) examined the effect of corporate governance mechanisms on earnings and earnings management at the largest publicly traded bank holding companies in the United States. They find that CEO pay for performance sensitivity (PPS), board independence, and capital are positively related to earnings and that earnings, board independence, and capital are negatively related to earnings management.

They also show that PPS is positively related to earnings management. Finally, they assert that PPS and board independence are positively related and the relationship is bidirectional. While both PPS and board independence are associated with higher earnings, their results indicate that more independent boards appear to constrain the earnings management that greater PPS compels. Dimitropoulosb and Asterioua (2010) assess the effect of board composition on the in formativeness and quality of annual earnings. They find that the in formativeness of annual accounting earnings is positively related to the fraction of outside directors serving on the board, but it is not related to board size. Moreover, firms with a higher proportion of outside board members proved to be more conservative when reporting bad news but on the contrary they do not display greater timeliness on the recognition of good news. Additionally, they indicate that firms with a higher proportion of outside directors report earnings of higher quality compared to firms with a low proportion of outside directors. Ge and Kim (2013) investigate the effect of board governance and takeover protection on real earnings management. The study consider four types of real earnings management; sales manipulation, overproduction, the abnormal reduction of research and development (R&D) expenses, and the abnormal reduction of other discretionary expenditures. They find that the level of real earnings management (sales manipulation, abnormal declines in R&D expenses, and other discretionary expenses) increases with better board governance and decreases with higher

takeover protection. These two governance factors generally have no significant effect on overproduction. They further find that firms substitute accrual-based earnings management with sales manipulation and abnormal cuts in discretionary expenses, and the substitution effect is more pronounced in firms with stronger board governance. Overall, the findings indicate that the level of real earnings management is higher when a firm is faced with tough board monitoring, and that takeover protection may reduce managerial incentives for real earnings management.

Board Size and Audit Quality

No doubt that in the banking sector, board of size is highly observed for an effective corporate governance practices are essential to achieving and maintaining public trust and confidence in the banking system, which are critical to proper functioning of the banking sector and the economy of a country as a whole. Although, according to Jensen (1993) argued that the preference for smaller board size stems from technological and organizational change which ultimately leads to cost cutting and downsizing. Poor corporate governance may contribute to bank failures, which could in turn lead to a run on the bank, unemployment and negative impact on the economy (Dezoort 2002 citing Basel Committee, 1999). The board of directors has a significant role to play in ensuring good corporate governance in the bank and at the heart of the corporate governance debate is the view that the board of directors is the guardian of shareholders' interest (Dezoor,2002). Boards are being criticized for failing to meet their governance responsibilities. Hermalin and Weisbach (2003) argued the possibility that larger boards can be less effective than small boards. When boards consist of too many members agency problems may increase, as some directors may tag along as free-riders. Lipton and Lorch (1992) recommended limiting the number of directors on a board to seven or eight, as numbers beyond that it would be difficult for the CEO to control. A large board could also result in less meaningful discussion, since expressing opinions within a large group is generally time consuming and difficult and frequently results in a lack of cohesiveness on the board (Lipton and Lorch, 1992). In addition, the problem of coordination outweighs the advantages of having more directors (Jensen, 1993) and when a board becomes too big, it often moves into a more symbolic role, rather than fulfilling its intended function as part of the management (Hermalin and Weisback, 2003). On the other hand, very small boards lack the advantage of having the spread of expert advice and opinion around the table that is found in larger boards. Furthermore, larger boards are more likely to be associated with an increase in board diversity in terms of experience, skills, gender and nationality (Dalton and Dalton, 2005). Expropriation of wealth by the CEO orinside directors is relatively easier with smaller boards since small boards are also associated with a smaller number of outside directors. The few directors in a small board are preoccupied with the decision making process, leaving less time for monitoring activities.

These responsibilities put great emphasis on formal issues such as board independence, board leadership structure, board size and committees. Board Size refers to

the total number of directors on the board of a sampled deposit money bank in Nigeria and determining the ideal board size for an organization is very important because the number and quality of directors in a firm determines and influences the board functioning and hence corporate performance. Proponents of large board size believe it provides an increased pool of expertise because larger boards are likely to have more knowledge and skills at their disposal. They are also capable of reducing the dominance of an overbearing CEO (Forbes and Milliken, 1999) and hence put the necessary checks and balances. Board's monitoring and supervising capacity is increased as more and more directors join the board (Jensen, 1993). Besides, there are authors who believe that large board size adversely affects the performance and wellbeing of any firm.

Audit Committee and Audit Quality

Audit committee members' financial and accounting expertise is an important attribute for its effectiveness in fulfilling their oversight role of ensuring audit quality. According to Dezoort and Salteerio (2001), audit committee members with previous experiences and knowledge in finance and accounting are more likely to make expert judgments and ensure audit quality. Audit committee's financial and accounting expertise reduce financial restatement or constrains the propensity of management to engage in creative accounting (Xie, Davidson & Dadalt, 2003 and Bedard, Chtourou & Courteau, 2004). Audit committee is a group of persons selected from the members of board of directors and among shareholders also who are responsible for ensuring audit quality of external auditors (Arens, Elder & Beasly, 2009). In his own contributions, Marx (2008) posits that audit committee is a sub–committee of the board of directors that consists of majority of independent non-executive directors tasked with an oversight role to assist the directors in meeting their financial reporting, risk management and control and audit related responsibilities. The above concept of audit committee is an indication that the committee is established to improve audit quality. A number of studies have found that companies with an audit committee, particularly when that committee is active and independent, are less likely to experience fraud (Beasley, *et al.*, 2000; Abbott, *et al.*, 2000; McMullen, 1996) and other reporting irregularities (McMullen, 1996; McMullen and Raghunandan, 1996). Findings also suggest that audit committees are effective in reducing the occurrence of earnings management that may result in misleading financial statements (Defond and Jiambalvo, 1991; Dechow, *et al.*, 1996; Peasnell, *et al.*, 2000). Audit committee is also expected to enhance the effectiveness of both internal and external auditors (Simnett, *etal.*, 1993). However, Cohen, *et al.* (2000) report that a number of audit practitioners involved in exploratory interviews expressed concern over the effectiveness of audit committees, with some partners suggesting that audit committees are not powerful enough to resolve conflicts with management. It is generally agreed that, for an audit committee to be effective, a majority, if not all members, should be independent (Cadbury, 1992) and they should have an understanding of accounting, auditing and control issues (Cohen, *et al.,* 2000; Goodwin and Seow, 2000; Hughes, 1999; Lear, 1998). Literature also linked audit

quality with the boards of directors, and the audit committees of boards of directors. This shows that audit quality is positively related to boards and audit committees when they are more independent (that is, higher number of outside directors). Carcello and Neal (2000) show that auditors are more likely to issue going concern reports in the presence of more independent boards and are less likely to be fired by the company following the issuance of a going concern audit report.

Ownership Concentration and Audit Quality

The current practice of free, non-restrictive equity holding has led to serious abuses by individual's and their family members as well as governments in the management of banks (CBN, 2006). However, to encourage a private sector-led economy, holdings by individuals and corporate bodies in banks shouldbe more than that of governments. It is also recognized that individuals who form part of management of banks in which they also have equity ownership have a compelling business interest to run them well. Such arrangements should be encouraged. Government direct and indirect equity holding in any bank shall be limited to 10% by end of 2007. An equity holding of above 10% by any investor is subject to CBN's prior approval. Thus ownership concentration is measured by the percentage of equity shares owned by the largest shareholder in the period. Gul (2010, cited in Zureigat Q., 2011, p. 40) examined in their study "The effect of the largest shareholder ownership concentration on the amount of firm-specific information incorporated into share prices, as measured by stock price, synchronization. They concluded that synchronization is a concave function of ownership by the largest shareholders". Hu and Izumida (2008, cited in Zureigat Q., 2011, p. 41) "indicated that ownership concentration has a significant effect on the contemporary and subsequent corporate performance". Chen et al., (2007,cited in Zureigat Q., 2011, p. 41) Indicated "that the audit service requested by firms with controlling shareholders could be different from that requested by firm without controlling shareholders, and they revealed that audit quality is damaged and compromised when an auditor faces a business with family-controlled clients".

Agency Theory

Agency theory is a theory that has been applied to many fields in the social and management sciences: politics, economics, sociology, management, marketing, accounting and administration. The agency theory a neoclassical economic theory (Ping & Wing 2011) and is usually the starting point for any debate on the corporate governance. The theory is based on the idea of separation of ownership (principal) and management (agent). It states that "in the presence of information asymmetry the agent is likely to pursue interest that may hurt the principal (Sanda, Mikailu & Garba 2005). It is earmarked on the assumptions that: parties who enter into a contract will act to maximize their own self-interest and that all actors have the freedom to enter into a contract or to contact elsewhere. Furthermore, it is concerned with ensuring that agents act in the interest of the principals.

Stakeholders' Theory

The stakeholders' theory was adopted to fill the observed gap created by omission found in the agency theory which identifies shareholders as the only interest group of a corporate entity. Within the framework of the stakeholders' theory the problem of agency has been widened to include multiple principals (Sand, Garba & Mikailu 2011). The stakeholders' theory attempts to address the questions of which group of stakeholders deserve the attention of management. The stakeholders' theory proposes that companies have a social responsibility that requires them to consider the interest of all parties affected by their actions. The original proponents of the stakeholders' theory suggested a restructuring of the theoretical perspectives that extends beyond the owner Manage-employee position and recognizes the numerous interest groups.

Freeman, Wicks & Farmer (2004), suggested that: "if organizations want to be effective, they will pay attention to all and only those relationships that can affect or be affected by the achievement of the organization's purpose".

EMPIRICAL REVIEW

Semiu and Temitope (2010) Provides evidence on corporate governance and it quality and firm related attributes from developing a country Using logistic regression, he found that Ownership by nonexecutive directors as members of the board should be sustained and improved upon in order to enhance audit quality.

James (2012) Examines the relevance of internal auditors in Nigerian banking sectors in the height of recent negative corporate governance experiences Using a semi-structured interview conduct with 23 internal auditors in line of the currently existing 24 banks. The interview was structured around ten (10) questions drawn from internal audit manual of 2 banks. Their corporate governance of Central Bank of Nigeria (CBN) and that of security exchange commission (SEC) Revealed that majority of internal auditors consider management as most crucial drivers of corporate governance.

Liaboya and Lyafekhe (2014) examined the effect of board size board independence, audit firm type,audit committee independent firm size and audit report lag employing tine series and additional survey data covering five years period (2007- 2011) Data were analyzed using descriptive statistic correlation and ordinary least square (OLS) regression Revealed that board size, audit firm type , form size has a significant effect on audit report lag. Recommendation: that government should make stringent policies and regulations on audit report lag. Professional accounting bodies should monitor auditing firms for any completion of any engagement and governance practice should be carefully implemented in Nigeria organizations in order to reduce incidence of audit report lag.

METHODOLOGY

The study employed the ex post. The timeframe for this study was 2007-2017. The population of the study was fifteen (15) banks and the sample was seven (7) banks based

on the currency and availability of data from the Nigeria Apex Bank, the Central Bank of Nigeria. Secondary sources of data collection were used. The banks used are: Access bank, DiamondBank, ECOBANK, Fidelity Bank, First Bank Nigeria First City Monument Bank and Guarantee Trust Bank.

DATA ANALYSIS AND DISCUSSION OF FINDINGS

And Ownership Concentration) jointly explained the dependent variable which means Prob > F = 0.0058 is less than 5% (0.005) level of significant. Meaning the above independent variables have well defined dependent variable. Although, the coefficient of determination (R^2) at 17% indicates a weak relationship between the dependent variables (Audit quality) and the explanatory variables (board size, Audit committee and Ownership Concentration). Furthermore, the result above indicates that board size is not significant to Audit Quality, just because the p >I t I is more than 5% (0.005), also Board size is not having relationship with Audit Quality. But it does not mean the model should be rejected as a result of that, the model should be accepted because about 75% of it is fitted, as a result of Audit committee having a good level of significant with Audit Quality alongside with the ownership concentration having 0.005 and 0.015 respectively. These two variables also have a very good relationship with the dependent variable, meaning additional of 1 member of the Audit committee will give 27% better result of Audit Quality, therefore, Audit committee has a positive associate with Audit Quality while Ownership Concentration also has a good relationship with the Audit Quality too as a result of having positively 33% relationship with the audit quality, meaning addition of 1 member will lead to 33% realizable quality of Audit report.

Finally, the prob > F is highly significant, meaning the alternative hypotheses should be gladly accepted with the above result of (0.005) because is less than 5% of level of significant, which the independent variable jointly explain the dependent variables.

Variance inflated factor

. vif

Variable	VIF	1/VIF
BS	1.03	0.974262
AC	1.02	0.979624
OC	1.02	0.980096
Mean VIF	1.02	

The VIF and tolerance (1/VIF) values for BS, AC and OC are not worrisome. All of these variables measure income on AQ and the very high VIF values indicate that these variables are not possibly redundant. For example, after you know BS, AC and OC, you probably can predict AQ very well. In this work, multicollinearity not arises because we did not put in too many variables that measure the same thing. VIF values in the analysis above

appear much better. Also, note how the standard errors are reduced for the independent variables, BS, AC and OC. This is because the high degree of collinearity caused the standard errors to be inflated. With the multicollinearity eliminated, the coefficient for BS, which had been insignificant, is now significant.

CONCLUSION

The results of the hypotheses showed that Ownership Concentration, composition of the audit committee have positive and significant relationships with audit quality in Deposit Money Bank in Nigeria. On the other hand; board size does not have a significant relationship audit quality in Nigeria. Again, the strength of the positive linear relationship between the separation of the roles of the CEO from that of the chairman of the board and the quality of audit is 27% followed by the relationship between board size and the quality of audit which stood at negative 31%. Furthermore, the positive and significant relationship between composition of the audit committee and separation of the roles of the CEO from that of the chairman of the board and audit quality been statistically significant at 0.005 and 0.015 suggests that these corporate governance principles play a vital role in effective corporate governance. This is because these mechanisms or principles lead to effective auditing and representation of corporate facts for the benefit of the managers, shareholders and investors.

Recommendations

Based on our research findings, the following recommendations are made:

1. The relationships between management and shareholders have to be characterized by transparency and fairness.
2. The CBN code that states the role of the Board is to "retain full and effective control of the bank and monitor executive management" has to be followed properly at least up 80%.
3. The situation where CEOs control the composition of the board and lessen its monitoring role should stop because it creates inadequate or weak internal control system.

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