



Business governance and forensic accounting quality of listed deposit money banks in Nigeria

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ABSTRACT

The recent corporate collapses of large organizations including banks have raised questions about the efficacy of contemporary governance in companies and institutions as well as the role forensic accounting plays in investigating and identifying the cause of the failure. Therefore, the study investigates the effect of corporate governance mechanisms on the quality of forensic accounting in the Nigerian deposit money banks. The population of the study was all the listed Nigerian deposit money banks as at December, 2014 out of which 10 were arrived at, as the sample size. Multivariate technique of data analysis was employed using multiple regression model, structured using longitudinal panel data. The findings of the study revealed that board composition; audit committee and managerial shareholding has a significant effect on the corporate governance mechanisms of the Nigerian deposit money banks while Institutional shareholding has a positive and insignificant impact. Base on the findings of the study, the research therefore recommends among others that, the appointment of independent directors on the board should be based on the previous records of those directors and the Security and exchange commission (SEC) should ensure optimum compliance of the corporate governance mechanisms in the listed Nigerian deposit money banks because it was proved empirically that it improved forensic accounting quality. to improve their compensation as its influence on corporate performance is perceived to have been exaggerated.

Key words: Forensic Accounting Quality, Corporate Governance, NDMBs, Firm

1. Introduction

Corporate governance, as a concept, can be viewed from at least two perspectives: a narrow one in which it is viewed merely as being concerned with the structures within which a corporate entity or enterprises receive its basic orientation and direction and a broad perspective in which it is regarded as being the heart of both a market economy and a domestic society (Sanda, Mikailu & Garba, 2005). The adoption of various economic reform programs in Nigeria in which privatization of government-owned enterprises form a major plank, has heightened the corporate governance debate in the country (Iman, 2006).

Besides, the board of directors is viewed as internal governance mechanism. The purpose of board of directors is to monitor the top management, to establish executive compensation, and to protect the interests of shareholders. Hence, the board characteristics are also key elements to govern firm's risk. Hence, these become possible with the qualitative forensic accounting. While small boards may be better at monitoring, larger boards may be superior at providing assistance in planning.

Many people believe forensic accounting and fraud auditing are synonymous. They are not (Crumbley, Heitger and Smith, 2007). This means to say that many people see forensic accounting and auditing as being the same thing which is far from the truth. Forensic accountants are mostly required to tackle a precise accusation of fraud as contrasting to their auditor cousins who are called in to give an opinion on a company's financial statement (Wilson, 2008). The meaning of forensic accounting is made from two key words- forensic and accounting (Okoye, 2009). The term forensic means belongs to or used in the court of law and the term accounting is recording, summarizing analysing and verifying financial transactions (Okoye, 2009). Forensic accounting is an accounting which also incorporates detective skills and skills that lawyers use. This is due to the nature of the job at hand which is finding proof of fraudulent activities where the detective skills come in place and then proving them in court if need be where the skills of a lawyer come this is due to forensic accountants needing to give depositions. It is not simply auditing but a lot more than that. Forensic accounting involves a lot more than normal accounting it is a science which requires the abilities to solve financial puzzles and carry out investigations which then need to be presented in court. They don't just look at the numbers they read between the lines (Grippio, 2003).

The concern for how companies, particularly banks, should be governed lies precisely with the increasing impact of private corporate behavior on the collective welfare of the economy. The importance of banks to national economies is underscored by the fact that banking is, almost universally, a regulated industry and that banks have access to government safety nets. Also, the business of banking has a number of intrinsic risks that could jeopardize the entire financial system of an economy. Some of the intrinsic risks include operating with high leverage which can make banks vulnerable to losses, dependence on the confidence of depositors and the financial markets for securing necessary funds, general opaqueness of the business of banking; et cetera. It is therefore of crucial importance that banks having strong corporate governance. Corporate governance aims to protect the interests of all stakeholders and to minimize asymmetric information between a bank's managers, its owners as well as customers.

Despite the enormous importance of good corporate governance as an effective tool of improving the forensic accounting quality in banks, it is still characterized with some weaknesses (Shehu, 2011). These include, disagreement between board and management giving rise to board squabbles, ineffective board oversight function, fraudulent and self-serving practices among members of the board, management and staff; over bearing influence of chairman or MD/CEO, especially in family controlled banks; weak internal control; non-compliance with laid down internal control and operational procedure; ignorance of and non-compliance with rules, laws and regulations guiding banking business; passive shareholders; poor risk management practices resulting in large quantum of non-performing credit including insider- related credit abuse of lending; succumbing to pressure from other stakeholders for example, stakeholders' appetite for long dividend and depositors quest for high interest on deposit; technical incompetence; poor leadership and administration ability; inability to plan and respond to changing business circumstances and inefficient management information system (CBN, 2006).

Consequently, despite all the deficiencies identified above, the forensic accounting which also involves aspects of law and investigative skills, there is no single professional accounting body/institution which do provides the real service of forensic accounting in Nigeria. However, except for the public security

organs and some accounting firms with forensic accounting services identification, there is no specialist outfit that provide a real forensic accounting service solemnly for client except mixing accounting and other services with forensic accounting engagement assignments. This therefore necessitates this research to examine the influence of corporate mechanism in determining the quality of forensic accounting in the Nigerian deposit money banks. In addition, the recent corporate collapses of large organizations including banks have raised questions about the efficacy of contemporary governance in companies and institutions as well as the role forensic accounting plays in investigating and identifying the cause of the failure

In Nigeria, as already observed, some banks such as Savannah Bank failed prematurely in the 80s and 90s. The license of Peak Merchant Bank was also revoked by the Central Bank of Nigeria in 2003. The 14th August, 2009, shake up which affected the banking industry, and the replacement of the CEOs of five banks (Oceanic Bank, Intercontinental Bank, Union Bank, Afribank, Finbank, and ETB) have further exposed the problem of lack of good corporate governance within the banking sector in militating against forensic accounting quality (Modugu & Anyaduba, 2013).

These have manifested in the deep rooted mismanagement and the existence of large cases of insider lending to directors and their relations, unsecured margin loans and other toxic debts which were already threatening the financial well-being of the banks. Although several studies have been conducted on corporate governance in Nigeria, such as (Sanda, Mikaila and Garba, 2004; Musa, 2006; and Ogbechi and Koufopoulos, 2007) all these studies examined the relation between corporate governance and performance of firms in Nigeria. Ibrahim, (2011), however, studied the effect of corporate governance on capital structure of quoted firms in Nigeria. There is no study in Nigeria, to the best of this study, knowledge, which examined the effect of corporate governance on the quality of forensic accounting in Nigeria. It is against this back drop that this study examines the impact of corporate governance on quality of forensic accounting in the Nigerian deposit money banks.

The main aim of this study is to examine the impact of corporate governance on the quality of forensic accounting of Nigerian banks. Other objectives include:

1. To determine the effect of executive directors shareholding on the quality of forensic Accounting of deposit money banks in Nigeria.
2. To identify the impact of board composition on the quality of forensic Accounting of deposit money banks in Nigeria.
3. To examine the impact of institutional shareholding on the quality of forensic Accounting of deposit money banks in Nigeria.
4. To evaluate the impact of audit committee on the quality of forensic Accounting of deposit money banks in Nigeria.

In line with the objective of the study, the following hypotheses have been formulated in null form

- H₀₁: Executive director's shareholding has no significant effect on the quality of forensic Accounting of deposit money banks in Nigeria.
- H₀₂: Board composition has no significant effect on the quality of forensic Accounting of deposit money banks in Nigeria.
- H₀₃: Institutional shareholding has no significant effect on the quality of forensic Accounting of deposit money banks in Nigeria.
- H₀₄: Audit committee has no significant effect on the quality of forensic Accounting of deposit money banks in Nigeria.

2. Methodology and Model Specification

Correlational research design was used on the data to determine the relationship between corporate governance proxies and the quality of forensic accounting. This is because it offers a systematic empirical investigation in which the researcher does not have direct control of data since their manifestation have already occurred and cannot be manipulated easily. The population of the study consists of all the listed Nigerian deposit money banks as at December, 2014 out of which 10 were selected using filters that sieve all banks that were not affected by merger or acquisition within the period of the study (2010-2014). The study will employ the multivariate technique for the purpose of data analysis. A multiple regression model will be structured using longitudinal panel data. The overall regression model that captures the hypotheses of the study is as follows:

$$QFA_{it} = \beta_0 + \beta_1 BC_{it} + \beta_2 AC_{it} + \beta_3 MS_{it} + \beta_4 IS_{it} + e_{it}$$

Where:

QFA=Quality of Forensic Accounting

β_0 = Intercept

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

BC = Board Composition

AC = Audit Committee

MS = Managerial Shareholding

IS = Institutional Shareholding

e = Residual or error term

Table 1: Measurement of variables

S/No	Variable	Measurement
1.	Quality of Forensic Accounting	Measured by Forensic Index Score: (QFA) is measured by the Forensic Index Score (FIS), which sums the effect of the most used Forensic Accounting characteristics. To obtain the forensic index score, the three dichotomous variables are summed up. Then 1 is coded for a sample bank whose FIS is greater than 1 or equal to 2 (indicating high quality of forensic accounting) and 0 otherwise.
2.	Executive directors shareholding	Measured using proportion of shares owned by executive directors to total number of shares issued, expressed in percentage (Mazadu et al, 2015).
3.	Board Composition	Measured by the proportion of independent non-executive directors on the board, expressed in percentage (Shehu, 2011).
4.	Institutional Shareholding	Measured using proportion of shares owned by institutional investors to total number of shares issued, expressed in percentage (Abdul Wahab, 2007).
5.	Audit Committee	Measured by the proportion of outside members in the committee (Garba and Shehu, 2014).

3. Empirical Result and Discussion

The summary of the regression model is presented and discussed below:

Table 2: Discriptive statistics

Variable	Min.	Max.	Mean	Std.Dev	Skewness	Kurtosis
FRQ	33.27	180.57	97.5062	37.31655	-.211	-.580
BC	7.67	33.91	16.9906	9.36503	1.655	3.034
AC	1.27	3.16	.4166	.51949	.498	-.958
MS	.68	7.95	3.4873	1.53732	.636	1.089
IS	1.35	33.37	20.8953	20.86771	.665	1.847

Source: Spss Output 2016

Table 2 is the summary statistics of the explanatory variables. The average of board composition (independent outside directors) is 16.9% with the minimum of 7.6% and a maximum of 33.9%. The result indicates that there is weak presence of independent outside directors on the board of directors of our sample firms. Institutional shareholding averages 20.8%, ranging from the extreme values of 1.35% and 33.37% of total equity ownership. This implies that while some firms are substantially owned by institutional investors, others are almost wholly owned by individual investors. The average of the audit governance score of the sample firms is as high as 0.41, which is quite impressive. Ranging from 1.27% to 3.16%, managerial ownership averages 0.68%. Here also, the disparity of all the means from their standard deviations is minimal, indicating that the data are not positively skewed and are fit to produce result that is reliable. Thus this is confirmed by the statistics of skewness and kurtosis in Table 2.

The correlation matrix table above shows the relationship between all pairs of independent variables in the study model. The result reveals that board composition (BC) is inversely correlated with managerial shareholding. While all other independent variables appear to have positive association with each other. This calls for an investigation of the possibility of multicollinearity. The multicollinearity test using the variance inflation factor (VIF) indicates absence of excessive correlation as all factors are above 1.0 and tolerance values are below 10. The mean of the VIF is 1.48. Further, the diagnostic statistics obtained from White's heteroskedasticity test indicate that the regression model performs properly. The results are not shown for brevity.

Table 3: Correlation matrix

Vaiable	FAQ	BC	AC	MS	IS
FAQ	1.0000				
BC	0.5767	1.0000			
AC	0.4808	0.0270	1.0000		
MS	-0.3942	-0.1950	0.1468	0.0000	
IS	0.4287	0.0936	0.6726	-0.0119	1.0000

Source: Stata Output 2016

The cumulative correlation between dependent variable and all the independent variables is 0.68 indicating that the relationship between forensic accounting quality and corporate governance mechanisms used in this study is 68% which is positively, strongly and statistically significant. This implies

that for any changes in corporate governance mechanisms of Listed Nigerian deposit money banks; their forensic accounting quality will be directly affected.

Table 4: Regression results

Variable	Coefficient	t-values	p-values	Vif	Tolerance
Constant	37.53805	2.53	0.015		
BC	1.181705	5.66	0.000	1.05	0.953573
INST	0.0319488	0.44	0.664	1.88	0.532153
MG	-8.989787	-4.24	0.000	1.08	0.921989
AC	1.782444	4.21	0.000	1.91	0.523588
R ²					0.6829
Adj. R ²					0.6547
F-statistics					24.22
F-sig					0.0000
Hettest Test Chi2					0.42(0.5149)
Hausman Test Chi2					1.09(0.8966)
Random Effect Test: Chibar2					0.00(1.0000)

Source: Stata Output 2016

The cumulative Adj. R² (0.65) which is the multiple coefficient of determination gives the proportion or percentage of the total variation in the dependent variable as explained by the explanatory variable jointly. Hence, it signifies 65% of the total variation in forensic accounting quality of Nigerian Listed deposit money banks is caused by their corporate governance mechanisms of board composition, institutional shareholding, managerial shareholding and audit committee. This indicates that the model is fit and the explanatory variable are properly selected, combined and used. Thus this is evidenced by F-statistics of 24.22 which is statistically significance at 1%.

Furthermore, the results in table 3 show a complete absence of Heteroskedasticity in the panel as indicated by the Breuch Pagan/Cook-Weisberg test for heteroskedasticity Chi2 of 0.42 with p-value of 0.5149. The table also show that OLS regression model is the most appropriate for the study as indicated by the random effect test, Breusch and Pagan Lagrangian Multiplier Test for Random Effects (Chibar2 of 0.00 with p-value of 1.0000), which indicates that there is no statistically significant variance among the units in the panel, implying that OLS technique is appropriate.

The regression result reveals that independent directors as measured by the proportion of independent non-executive directors on the board is positively correlated with forensic accounting and statistically significant at 1% level of significant. This implies that the independent directors are free from managerial influence and capable of monitoring the managers efficiently which improve the quality of financial information conveyed to the users of financial statement in the Nigerian listed deposit money banks. In addition, this study finds that the increase in the percentage of independent directors on the board improve forensic accounting quality which has a positive role in determining the quality of earnings reported in the financial statement. This may be as a result of outside member's play a direct and important role in controlling management of the company, their existence may provide an effective

monitoring tool to the board and thus produce higher quality financial reports. Thus, this revelation is hardly surprising because the independent outside director does not possess any interest with the firm and he is appointed based on expertise, integrity, caliber and reputation. It is only natural to assume that such a director will act in such a manner that does not temper with his integrity and reputation. The study therefore concludes that in the Nigerian case and within the sample banks, boards dominated with independent outside directors constrain managers in their use of discretion to alter reported earnings, thereby converging the managers' interest with that of the shareholders, thus, validating agency theory. However, this result produced an evidence of rejecting hypothesis one of the study which state that board composition has no significant impact on the forensic accounting quality of Nigerian manufacturing firms. This findings support the findings of (Higgs 2003); Beasley, (1996); Dechow et. al., (1996); Peasnell et al, (2000); Klein; (2002)a, Davidson et al., (2005). However, Park and Shin (2004); Abdullah el.al, (2004); Abdulrahman et.al (2006) and Jaggi et al, (2007) did not find any supporting of association between the variables empirically.

Looking at the relation between institutional shareholding and forensic accounting quality, a positive association emerged which was not supported at any level of significance. This insignificance association indicates that institutional investors are not in any way contributing to the quality of forensic accounting. This result is not surprising. In Nigeria, most institutional owners are social security institution (government pension funds) and financial firms. There is no existence of developed mutual funds or investment companies (Shehu, 2012). As a result, institutional investors in Nigeria are effective in constraining managerial behavior of earnings management through abusive accounting, income manipulations and smoothening therefore improving the quality of forensic accounting. Consistent with the argument that institutional investors in Nigeria are short-term oriented and create incentives for managers of their portfolio firms to manage earnings aggressively, these institutional investors focus excessively on current earnings performance. Substantial institutional presence acts as a deterrent to a firm's accrual management activity.

Institutional investors are, therefore, found to improve corporate governance by providing monitoring on the corporate financial reporting process. This study therefore concludes that institutional investors can go a long way in curbing the opportunistic tendencies of managers and reduce agency cost. The large ownership of the total equity shares of some of the firms explains the ability of the firms to make bulk purchases. Since they hold a substantial amount of equity ownership it is not unlikely that institutions will employ resources to protect their huge investments. However, this result of insignificance effect is surprising but that may be as a result of argument that institutional shareholders are short-term oriented. This result produced an evidence of rejecting hypothesis two of the study which states that institutional shareholders have no significant impact on the forensic accounting quality of Nigerian manufacturing firms. The findings is contrary to Koh and Hsu, (2003); Edwards and Hubbard, (2000); Jiambalvo, Rajgopal, and Venkatachalam, (2002); McConnell and Servaes, (1990); Healy et al. (1999) and Bushee and Noe (2000), whereas, (Wahal and McConnell, 2000; Greaves and Waddock 1990; Jacobs 1991; Potter 1992) are in contrary opinion.

Our expectation is that firms with managers as shareholders have stronger desires and are more likely to manipulate earnings to keep consistent earnings growth trend and meet or beat earnings expectations. The result in respect of managerial shareholding and forensic accounting quality did not prove otherwise but shows that managerial shareholding is negatively associated with forensic

accounting and significant at 1% in explaining forensic accounting quality of Nigerian Listed deposit money banks. This implies that the larger the number of shares held by managers in Listed Nigerian deposit money banks, the less reliable and quality information will be in their financial statements and hence the less the quality of forensic accounting. This result is consistent with the argument that managers are always selfish and exercising self-serving behavior at the detriment of the shareholders or firm objective of value maximization. Thus, the result may be as a result of managers holding shares may have opportunity and higher abilities to maneuver given wide range of accounting treatments available, and have stronger management power to make it easier to manipulate earnings. This result prove the reality given a widespread of corporate scandals happening in Nigeria specifically in the Nigerian listed deposit money banks by the collapsed of prestigious banks like Oceanic bank, intercontinental and most recently the distress of First inland bank (FIN Bank, Afri Bank etc). This result produced an evidence of rejecting hypothesis three of the study which states that managerial shareholders have no significant impact on the forensic accounting quality of Nigerian manufacturing firms. This findings confirms the finding of Ali et al. (2008); Banderipe (2009); Dhaliwal et al. (1982); Ebrahim, (2007); Klein (2002) and Warfield et al. (1995).

Our regression result reveals that Audit Committee is positively and statistically significant at 1% level in determining the forensic accounting quality of Nigerian Listed manufacturing firms. This implies that audit committee is significantly improving the quality of accounting information in the financial statement. Thus, this result implies that as the audit committee independence improves this help in improving the quality of forensic accounting which will consequently improve the quality of forensic accounting. However, this finding may be as a result of controlling power of verifying the accounting figures presented in the financial statement as supplied by the management and of course, frequent meeting held with the management and independent external auditors when executing their responsibility also contribute tremendously. In addition the conflict of interest that exists between the shareholders and the management (principal) is alleviated by this finding. This result produced an evidence of rejecting hypothesis two of the study which states that audit committee has no significant impact on the forensic accounting quality of Nigerian Listed deposit money banks. However, this findings disagree with Cornett et al. (2008) and Zhu and Tian (2009) and agree with Xie et al (2003); Chtourou et al. (2001) and Klein (2002).

Concluding Remarks

The study has provided both empirical as well as statistical evidence on the utility of four independent variables that constitute corporate governance; board composition, institutional shareholding, managerial shareholding and audit committee in explaining and predicting forensic accounting quality of the sample banks. Base on the above findings the study concludes that all the corporate governance variable used in this study (board composition, institutional shareholding, managerial shareholding and audit committee play an important role in predicting and explaining the quality of forensic accounting in the sampled banks except institutional share holding which was found to have a very weak or no role in determining the quality of forensic accounting in the Nigerian listed deposit money banks. Furthermore, it is recommended that the appointment of independent directors on the board should be based on the previous records of those directors and the Security and exchange commission (SEC) should ensure optimum compliance of the corporate governance mechanisms in the listed Nigerian deposit money banks because it was proved empirically that it improved forensic accounting quality.

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