



**IMPACTS OF CORPORATE GOVERNANCE AND
ACCOUNTING CONTROL PRACTICE ON FINANCIAL REPORTING QUALITY
OF MICROFINANCE BANKS IN NIGERIA**

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Abstract

The persistent failures of microfinance banks in Nigeria have undermined stakeholders' faith in the quality of financial reporting of these institutions, attributable to board inefficiencies and inadequate internal control systems in many MFBs. This study investigated the influence of corporate governance and accounting control practices on the quality of financial reporting in Microfinance Banks located in Kwara State, Nigeria. This study employed a cross-sectional survey research methodology and utilized a purposive sample technique to pick 252 target respondents from the staff of 28 licensed Microfinance Banks in Kwara State, Nigeria. Primary data were gathered by a questionnaire distributed to the chief finance officer, internal audit manager, accountant, and other personnel, and the quantitative data were analyzed utilizing multiple regression techniques. The study demonstrated that board expertise positively and significantly influences the financial reporting quality of MFBs and board independence does not significantly affect the financial reporting quality of MFBs. The study indicated that board competence, board responsibility, and internal control effectiveness had enhanced the quality of financial reporting for MFBs in Kwara State. This study recommends that microfinance banks in Kwara State enhance board knowledge, board accountability, and internal control efficacy to improve financial reporting quality.

Keywords: *corporate governance, accounting control practices, microfinance banks, financial reporting quality.*

Introduction

The revocation of licenses for 224 microfinance banks in 2010 severely undermined public trust in the financial reporting integrity of microfinance institutions in Nigeria. The demand for enhanced financial reporting quality has prompted regulators to seek strategies to improve

financial reporting (Nalukenge et al., 2017). The quality of financial reporting would be enhanced through the institutionalization of robust corporate governance and internal control systems. The purpose of financial reporting for financial institutions is to provide users with pertinent financial information to aid in decision-making. To ensure sound judgments, pertinent information in financial reports must be accurately portrayed, relevant, comprehensible, comparable, timely, and verifiable (International Accounting Standards Board, IASB, 2013). The capacity of a firm to get external funding and provide adequate accountability is fundamentally dependent on the quality of its financial reporting (Kaawaase, Nairuba & Bananuka, 2021).

Shareholders, lenders, and suppliers are just a few of the many stakeholders who are affected by the integrity of financial reporting around the world. Methods of financial misreporting are widespread worldwide. According to Price Waterhouse Coopers (PwC, 2018), the Global Economic Crime and Fraud Survey revealed that 49% of financial reports submitted by corporations fail to fulfill quality standards. PwC was prohibited from operating in India for two years due to its inability to identify overstated revenues at Satyam (Mundy, 2018). The Securities and Exchange Commission (SEC) determined that Miller Energy's financial statements exaggerated asset values by more than US\$400 million, while Hertz Global Holdings Inc. significantly misrepresented pre-tax income amounting to US\$235 million (SEC, 2019).

Microfinance banks in developing nations, like Nigeria, exhibit inadequate The management of companies and inadequate internal controls over financial reporting. Research conducted by the Department for International Development (DFID, 2017) revealed that numerous Savings and Credit Cooperatives, which exemplify Microfinance Banks (MFBs), possess inadequate internal controls, permitting errors and omissions to persist for extended periods before detection. The low workforce levels enhance the difficulty of segregating responsibilities. Consequently, it is prevalent for a single individual to initiate a transaction, authorize it, and execute the payment. DFID (2017) further highlighted that the management board is anticipated to oversee staff operations but lacks the requisite technical expertise to fulfill this role.

The primary causes of failure in microfinance banks are inadequate or incompetent management, fraudulent practices, weak internal controls, and unsound corporate governance. Data indicates that 73.68% of participants identified these problems as the primary causes of the microfinance bank's failure in Kwara State (Jenyo and Adebayo, 2014). In many instances,

the managing directors of microfinance banks either inadequate qualifications and experience or are fraudulent individuals previously dismissed from conventional banks, now employed by microfinance institutions. The repercussions of employing incompetent fraudulent management are significant. Certain personnel lack necessary accounting abilities and qualifications. This adversely impacts the financial reporting of these banks.

Krishnan et al. (2011) identified that board independence, board experience, and auditor types are key determinants of internal control disclosures. Conversely, the research conducted by Abbas and Boonmaya (2017) demonstrated that the incorporation of external members on the board has enhanced the efficacy of management oversight in mitigating financial statement fraud. The presence of independent directors on the board failed to serve as an effective internal control mechanism for the executive directors, owing to their opportunistic tendencies, as noted by Rej et al. (2020). Beasley (2017) found that microfinance banks engaging in fraudulent activities exhibited weaker corporate governance and a reduced proportion of external directors. Mitra et al. (2018) contended that a board consisting of a limited number of independent members, along with inexperienced and unqualified individuals, would fail to effectively oversee management decisions in corporate matters. The implication is that boards lacking independence will struggle to address shortcomings of senior management, including flaws in the internal control framework, and their impartiality won't guarantee the accuracy of financial data released to the public.

Prior literature (Madugba & Ogbonnaya, 2017; Gift, 2018; Uwalomwa et al., 2019; Muhammad & Isah, 2020; Olutokunbo et al., 2020; Adegboye, 2021; Olofiladen et al., 2021) focused on the influence of corporate governance on the internal control of financial reporting quality in deposit money banks in Nigeria. This study aims to examine the influence of Corporate Governance and accounting control practices on the quality of Financial Reporting in microfinance banks in Kwara State.

Moreover, the literature reviewed indicates that limited studies have investigated the effect of corporate governance on the financial performance of deposit money banks in Nigeria (Madugba & Ogbonnaya, 2017; Olutokunbo et al., 2020; Adegoboye, 2021; Olofinlade et al., 2021) or the impact of internal control systems on the quality of financial reporting in these banks (Gift, 2018; Uwalomwa et al., 2019; Muhammed & Isah, 2020). Nevertheless, none of these studies directly addressed the influence of corporate governance and accounting control practices on the quality of financial reporting in Nigeria. This study aims to investigate the relationship between corporate governance and accounting control practices and their impact

on the financial reporting quality of microfinance institutions in Kwara State within a single analysis. Consequently, this work has closed the information gap. The study will benefit the academic domain, policymakers, and practitioners. The study offers valuable insights into company organizations, corporate governance, and accounting control practices.

Literature Review

Kusnadi et al. (2016) examine the impact of three characteristics of cucumber brackets on the financial reporting quality of of India companies: independence, expertise, and overlapping audit committee membership. The main finding is that having a diverse audit committee with experience in accounting, finance, and/or inspection will improve the quality of financial reporting. Furthermore, since most of the directors on audit committees are already independent, we find little evidence that their increased independence enhances the quality of financial reporting. The impact of overlapping membership in audit and pay committees on financial reporting quality is investigated in this study. The results point to a policy that would enhance corporate governance's efficacy in relation to the standard of financial reporting. Salameh (2019) investigated how Jordanian banks' quality was affected by the internal control system. A questionnaire was used to collect primary data for the study, and 88 valid responses from different staff classifications were obtained. Multiple regression techniques were used to analyze the study's data. The results of the study show that the quality of financial reporting is positively impacted by the internal control system.

Fekadu (2018) investigated the influence of Corporate Governance on the financial performance of Microfinance Institutions in Ethiopia. The study utilized an ex post facto research design and employed secondary data sources for data collection. The result revealed that effective management control positively and significantly influences the economic profitability of microfinance institutions, exhibiting a high correlation coefficient. The financial viability of microfinance organizations is positively influenced by the procedures and makeup of their governing boards of directors.

Kewo and Afiah (2017) investigated the impact of internal control and internal audit on the quality of financial statements for 66 local governments across 15 districts and cities in Indonesia. The survey research design employed primary data to collect information for empirical findings. The data collected from the study's primary source was examined through component analysis. Data was evaluated using statistical software from the social sciences. Research demonstrates a high correlation between board experience, board performance, and

the quality of financial reporting. Furthermore, the quality of internal audits is substantially correlated with the quality of financial reporting. Born in dependency is not a strong predictor of financial reporting quality.

Agbenyo et al. (2018) examined the influence of governmental internal control systems on the quality of financial reporting in Ghana, utilizing the Ghana Revenue Authority as a case study. Analyze the characteristics and standards of Financial Reporting and the influence of governmental internal control systems on the quality of Financial Reporting. Both quarter and simple random sampling methods were employed to choose a sample size of fifty (50) individuals for the investigation. Data were acquired by questionnaires. The correlation matrix was utilized to analyze the relationship between internal control systems and financial reporting quality. The study reveals that, contrary to a priori expectations, sign monitoring as a component of the internal control system adversely affects the quality of financial reporting, albeit this finding is statistically significant. The study indicates that a unit increase in collection performance will enhance the Financial Reporting quality of GRA.

Fekadu (2018) investigates the correlation between Corporate Governance and the financial success of microfinance institutions in Ethiopia over a seven-year period from 2010 to 2016. A quantitative technique was utilized, deemed appropriate for the study as it sought to investigate the correlation between Corporate Governance characteristics and the financial performance of microfinance institutions. The study used panel data to analyze the relationship between variables, utilizing fixed effect approaches to identify the most significant factors among the selected Corporate Governance variables.

Ndifon et al. (2014) and Gupta et al. (2020) investigate the objective of this study, which is to determine the correlation between internal control activities and financial performance in tertiary institutions in Nigeria. The research location is Cross River State College of Education in Akampa, Cross River State. Data was gathered using questionnaires, interview guides, and the examination of documents and articles. The analytical method utilized was sulfate design, and a stratified sampling strategy was implemented for the distribution of the questionnaires. The data were analyzed utilizing basic percentage tables, coefficients, and z-scores. The analysis indicated that all college activities are begun by the upper management. Concerning control actions.

Gift (2018) examines the influence of internet regulation on the financial performance of hospitality firms in Rivers State. This study employed a survey research design. Data gathering was mostly conducted through standardized questionnaires, supplemented with

authentic articles, textbooks, and online resources. The questionnaire received validation from esteemed academic and professional peers. Uwalomwa et al. (2019) examined the quality of financial statements in the context of listed Nigerian banks. Data were collected from the annual reports of the listed banks on the Nigerian Stock Exchange for the period 2008-2015 to address the research topics posed in the study. The data were examined utilizing descriptive statistics, a correlation matrix, and panel data regression analysis. The study demonstrated that board size and board independence have a well-established significant negative correlation with the timeliness of financial reports. Ultimately, additional evaluations indicate that foreign executives on the board show a markedly good correlation with the promptness of Financial Reports.

Methodology

This study utilized descriptive and inferential statistics. Descriptive statistics included means, medians, and standard deviations, which were utilized to summarize the statistics of all variables employed in the investigation. Prior to employing multiple regression analysis on the data, a reliability assessment was performed utilizing the Cronbach Alpha test to improve the dependability of the results. A data normality test was conducted utilizing histograms and normal probability plots, while a multicollinearity assessment was performed employing Pearson correlation matrix coefficients and variance inflation factor (VIF). Multiple regression approaches were employed to quantify the impact of independent factors on the dependent variable in financial statistics.

Table 1: Descriptive Statistics

Variables	Minimum	Maximum	Mean	Std. Deviation	N
	Statistic	Statistic	Statistic	Statistic	Observation
Board Expertise	1.00	5.00	4.2927	0.52572	192
Board Independence	1.00	5.00	3.8965	0.41402	192
Board Responsibility	1.00	5.00	4.3234	0.45526	192
Internal Audit Effectiveness	1.00	5.00	4.1510	0.66875	192
Internal Control Effectiveness	1.00	5.00	4.3415	0.39628	192
Financial Reporting Quality	1.00	5.00	4.4381	0.44111	192

Source: Author's computation

Table 1 presents the descriptive statistics, indicating a maximum value of 5 and a minimum value of 1 for all variables. The greatest value of 5 signifies strong agreement, while the minimum value of 1 indicates severe disagreement in the coding of Likert scale responses. The findings of the main analysis, which represent the average score of responses from the exponent, ranged from 3.89652 to 4.4381. This signifies an appropriate value for the data acquired for the variable, as the value of 4.4381 is elevated and above three, according to the interpretation of Likert scale scores by Nik, Jantan, and Taib (2010). The guideline is derived from the recommendations of Nik et al. (2010). Values below 2.33 are classified as low level, those between 2.332 and 3.67 as moderate level, and values of 3.67 and beyond high level. The results of descriptive statistics indicate that the mean value represents the average score. Consequently, all variables exhibit a mean score exceeding the threshold of 3.67. This indicates that they fall within the high-level spectrum, with Financial Reporting quality exhibiting the highest mean score of 4.4381 and a standard deviation of 0.44111.

Table 2: Pearson correlation Matrix

Variable	Financial Reporting Quality	Board Expertise	Board Independence	Board Responsibility	Internal Audit Effectiveness	Internal control
Financial Reporting Quality	1.000					
Board Expertise	0.617	1.000				
Board Independence	.498	.451	1.000			
Board Responsibility	.649	.389	.423	1.000		
Internal Audit Effectiveness	.654	.360	.370	.487	1.000	
Internal control Effectiveness	.693	.251	.290	.596	.393	1.000

Source: Author's Computation

Table 2 presents the correlation matrix values for the explanatory variables. The values elucidate the potential for a flawless linear correlation between any pair of two or more independent variables. The linear regression technique presupposes the absence of multicollinearity among the independent variables, which is essential for achieving a greater

level of estimation accuracy. Gujarati (2009) posits that multi-collinearity constitutes a significant problem when the correlation coefficient between two regressions exceeds 0.8. The correlation coefficient among the explanatory factors was below 0.8 for all tested variables, indicating the absence of multicollinearity among them.

- **Multiple Regression Analysis**

In a model with regression, the coefficients of multiple regressions elucidate the impact of each unique explanatory variable on the dependent variable. Consequently, the table below encapsulates and presents the findings from the hypothesis testing of this investigation.

- **Restatement and Testing of Hypothesis**

The following paragraphs examined the five null hypotheses presented in Chapter One of this study, which were evaluated using the multiple regression coefficients. The results revealed the β value, t-value, and p-value at a 0.05 level of significance for the acceptance or rejection of the hypotheses.

H01: The expertise of the board exerts no substantial influence on the financial reporting quality of microfinance banks in Kwara State. The coefficient results indicate that board expertise positively and significantly influences the financial reporting quality of microfinance banks in Kwara State ($\beta=0.335$, $t=8.454$, $p=0.000$) at a 5% significance level. This indicates that board expertise has the potential to improve the quality of financial reporting in microfinance banks in Kwara State. The beta coefficient of 0.335 indicates that a one percentage change in board independence has no meaningful impact on the financial reporting quality of microfinance banks in Kwara State.

The coefficient results indicate that board independence exerts an insignificant influence on the financial reporting quality of microfinance banks ($\beta = 0.077$, $t = 1.918$, and $p = 0.057$) at the 5% significance level. This signifies the acceptance of the null hypothesis, suggesting that board independence does not significantly influence the enhancement of financial reporting quality in microfinance institutions. The beta value of 0.077 signifies that a one percentage point change in board independence will result in a 7.0% alteration in the quality of financial reporting. The ineffectiveness of board independence will consequently result un substandard financial reporting in microfinance banks. The effectiveness of board independence in microfinance banks will ensure the quality of financial reporting in these institutions.

Discussion of Findings

This study investigated the impact of Corporate Governance, including board independence, board responsibility, and internal audit effectiveness, as well as accounting control practices, specifically internal control efficacy, on the quality of Financial Reporting at My Preference Bank in Kwara State, Nigeria. The empirical findings of the tested hypothesis concerning that board expertise positively and significantly influences the financial reporting quality of microfinance banks ($B = 0.335$, $t = 8.454$, $p = 0.000$) at a 5% significance level. This indicates that board members in microfinance banks have expertise in accounting, with the requisite experience to guarantee the quality of financial reporting for stakeholders and other public users. This finding aligns with the a priori expectation and the research of Nalukenge et al. (2017) and Kaawaase (2021); however, it contrasts with the findings of Fekadu (2018) and Krishnan et al. (2010), where board expertise was deemed ineffectual and inefficient in improving performance. The theory that elucidated the correlation between board expertise and performance was resource dependency theory.

The empirical results of the hypothesis examined in accordance with research question two indicate that board independence does not significantly affect financial reporting quality ($B = 0.077$, $t = 1.918$, $p = 0.057$) at the 5% level of significance. This indicates that board independence has been ineffective in guaranteeing the quality of financial reporting in microfinance institutions. It also suggests that board independence has been insufficient in overseeing management to prevent fraudulent activities in financial statements at certain banks. The findings of this investigation do not corroborate the initial expectations held by the researcher. The results of this study align with the findings of Nalukenge et al. (2017), Ogbonnaya (2017), Mitra et al. (2018), Raji et al. (2020), and Kaawaase (2021), which emphasized the correlation between board independence and financial reporting quality, indicating that board independence does not enhance financial reporting quality. Conversely, Chevers et al. (2016) and Adegboye (2021) emphasized the efficacy of board independence and its enhancement of organizational performance. The correlation between board independence and the quality of financial reporting in microfinance banks in Kwara State can be elucidated using stakeholder theory.

Conclusion

The empirical findings from the hypotheses examined in chapter four indicate that board experience, board responsibility, internal audit effectiveness, and internal control

performance significantly and positively impact the financial reporting quality of microfinance banks in Kwara State, while board independence has an insignificant effect on this quality. Consequently, the research determined that:

- i. The competence of the board enhances the quality of financial reporting in Microfinance Banks located in Kwara State. This suggests that board members in microfinance banks have expertise in accounting, with experience guarantees the quality of financial reporting for stakeholders and the public. Furthermore, it was decided that there has been equilibrium in board selections for knowledge, experience, expertise, and abilities in accounting, which has contributed to an enhancement in the quality of financial reporting.
- ii. The study revealed that board independence has been ineffective in ensuring the financial reporting quality of microfinance institutions. This also suggests that board independence has been insufficient to guarantee adequate oversight of management systems to prevent fraudulent practices in financial statements at certain institutions. This also signifies a lack of clear delineation of tasks between the board and management, which would fail to ensure adequate oversight, financial training, and control mechanisms for the executive directors.

Recommendations

The research indicated that board experience enhanced the financial reporting quality of microfinance institutions. The study recommended that microfinance banks in Kwara State should maintain a board composed of members who possess expertise, extensive experience, and advanced knowledge and skills in accounting to facilitate informed decision-making that enhances the quality of financial reporting. The study concluded that board independence does not significantly affect the quality of financial reporting. The report advised that the boards of directors in Kwara State Microfinance Banks should have both executive and non-executive members capable of influencing decisions to resolve any failures or deficiencies in internal controls that strategic management may encounter. The study recommended that microfinance banks assess the efficiency of board independence in combating financial statement fraud to maintain the constant and consistent quality of financial reporting.

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