AN EMPIRICAL INVESTIGATION OF THE FINANCIAL REPORTING PRACTICES AND BANKS' STABILITY IN NIGERIA

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Abstract

This study examined financial reporting practices among post consolidation banks in Nigeria and the subsequent stability of the banks. Specific objectives include the identification of the different regulatory provisions for banks' information disclosure and report presentation, the evaluation of information disclosure practices by the banks and an examination of the relationship between reporting practices and corporate stability of the banks. The study relied on secondary data collected through in-depth content analysis of published annual reports and accounts of 13 out of the 21 banks quoted on the Nigerian Stock Exchange between 2005 and 2009. Reporting practices by the banks were predicated on scores obtained from a Composite Disclosure Index (CDI) computed from a checklist from SASs and Prudential Guidelines' requirements. The results indicated a high level of compliance with the mandatory disclosure requirements for banks by scoring high on the CDI (mean in excess of 90%). In addition, the regression results showed that disclosure has a positive and significant influence on banks stability (as defined by ROA and liquidity). The study concluded that though compliance with the existing regulatory requirements was high, this has not removed the banks' exposure to internal weakness and consequent distress. It therefore seems evident that the existing mandatory information disclosure requirements are inadequate and require to be strengthened. Similarly, it concluded that regulatory authorities are to strengthen the monitoring process by identifying non compliant banks promptly and imposing sanctions equally promptly. This will give better meaning to the reporting prescriptions and minimize the tendency of regulatory authorities coming up too late only to declare banks as troubled when it would be rather late to rescue such banks.

Keywords: *Compliance, Performance, Prudential Guidelines, Regulation, Stability*.

INTRODUCTION

The disclosure principle in accounting requires that financial statements present the most useful amount of relevant information that is necessary in order not to be misleading. The Central Bank of Nigeria, (CBN, 2009) defines full disclosure as the mandatory financial, operational and management information which financial institutions are required to disclose in the rendition of their periodic returns to the regulatory authorities and the public. The process has to do with ensuring the integrity of data in the rendition of reports to the supervisory authority and the public in order to enable them ascertain the true financial position and performance of deposit money banks.

Developments in corporate businesses all over the world since the dramatic collapse of the Enron Corporation, an American company, in 2001, and the subsequent dissolution of Arthur Andersen, which was then one of the Big five audit and accountancy partnerships in the world, have put accounting and auditing profession under scrutiny. In addition to being the largest corporate failure in history, Bratton (2002) remarks that Enron was attributed as the biggest audit failure at the time. Coming closely on the heels of the scandal at Enron was the sudden collapse in 2002 of WorldCom, another American company in telecommunication industry with over US$107 billion in assets. Each of these corporate scandals was directly linked to accounting and auditing misinformation and failure.

The foregoing developments and the global financial and economic crunch have resulted in increased attention to improve and enforce financial reporting disclosures worldwide in order to reform the global economy. Nigeria is recently taking steps to align all corporate reports to the International Financial Reporting Standards (IFRSs) as a means of enhancing full disclosure and strengthening stakeholder confidence. The Nigerian Stock Exchange (NSE) has directed all companies that are listed on the exchange to adopt the IFRSs by December 2011 while the Central Bank of Nigeria has also directed Nigerian banks to adopt the IFRSs by December 2010 (Egedegbe, 2009).

In Nigeria major cases of similar financial and accounting scandal include the collapse of the banking sector with 26 banks liquidated in 1997 and the falsification of the company financial statements in Cadbury Nigeria Plc in 2006 (Olusa, 2007; Amao and Amaeshi, 2008) and the more recent post consolidation banking crises of 2009 in Nigeria when 10 banks were declared insolvent and 8 executive management teams of the banks removed by the CBN. All of these events had their deep impacts on the psyche of stakeholders (loss of employment for thousands of employees and loss of value or total investment to shareholders and other creditors)

In all of these scandals, the central issues are the availability and reliability of accounting information and the need to review the effectiveness of accounting standards, auditing processes and financial reporting practices.

It therefore came as no surprise that the Central Bank of Nigeria (CBN) 2009 issued its Disclosure Requirements for Banks to underscore the need to strengthen regulation and supervision through enhanced disclosures by financial institutions. This was sequel to the backdrop of the CBN’s regulatory experience as well as the global financial crisis which impaired public confidence in the nation’s financial markets.

.The main legal framework for corporate accounting and auditing in Nigeria is the Companies and Allied Matters Act (CAMA) 1990. This legislation has voluminous provisions that include requirements for auditing and financial reporting, information disclosures, and preparation and publication of financial statements. The law is applicable to all corporate bodies including banks. It provides in S.63(3) that the business of the company shall be managed by the board of directors and concludes by vesting all powers of the company upon the board, save those expressly reserved for the members in general meeting. Among such powers vested upon the board is the provision of S.283 (1) that directors are trustees of the company’s moneys, properties and as such must account for all the moneys over which they exercise control and shall refund any moneys improperly paid away. Subsection (2) thereof similarly provides that a director may, when acting within his authority and the powers of the company, be regarded as agents of the company. However, it has been suggested by Lorsch and MacIver (2008) that many large corporations have dominant control over business affairs without sufficient accountability to, or monitoring by, their board of directors. A precondition for accountability is transparency or full disclosure of relevant information especially through the financial reporting process.

A lot of challenges, (such as inadequate capital, lack of regulatory framework and management incompetence) have faced Nigerian banking system since its commencement in 1892 by the expatriates. Thereafter, several foreign and indigenous banks were established. There was a near absence of banking regulation in Nigeria at this time until the Central Bank of Nigeria (CBN) was established by the CBN Act of 1958. The first era of consolidation ever recorded in the industry was between 1959 and1969 which was then occasioned by bank failures due mainly to liquidity challenges of the banks. Out of the 25 indigenous banks in existence at that period, only 4 of them survived (Nwagwu, 2000). CBN (1979) notes that most of the then indigenous banks were established out of nationalistic flavor rather than on the existence of financial resources and banking skills. Consequently, as observed by Okigbo (1981), most of the banks failed in quick succession mainly because of inadequate capitalization, fraudulent practices and bad management. Efforts to develop a stable and efficient financial system culminated in the enactment of the CBN Act in 1958 and the commencement of operations by the bank in 1959 (CBN, 1979). CBN has since deployed a variety of regulatory measures to arrest the recurrent issues of distress and other matter of national economic interest in the industry. Two of such measures are regular on site examination and supervision of banks and issuance of prudential guidelines for specific direction of the banks. In its Code of Corporate Governance for Banks issued by the CBN (2006), the bank noted that corporate governance in Nigeria is at a rudimentary stage and only 40% of companies (banks inclusive) listed on the Nigerian Stock Exchange had recognized codes of corporate governance in place. Some four years after, the CBN (2010) while issuing a new set of Prudential Guidelines for Deposit Money Banks in Nigeria, pointedly noted that the initial perceptions that the Nigerian banking industry was sound and insulated from global financial crisis were misplaced. More than the global financial meltdown however, the industry continued to be bedevilled by a series of self inflicted challenges prominent among which are major failures in corporate governance at banks and inadequate disclosure and transparency about financial position of banks. These revelations came up only after ten of the existing twenty four (over 40%) banks in operation were declared insolvent and eight of the executive management teams were relieved of their jobs by the CBN. Inaccurate reporting and non-compliance with regulatory requirements aside, late or even non-publication of annual reports are not unusual. The World Bank (2006) reports a Fitch Rating observation that accounting disclosure by Nigerian banks has been historically poor and the reliability of financial information rendered by some banks in the system has often been questionable, as some banks have been known to falsify returns to the CBN or misrepresent their financial statements to their auditors.

STATEMENT OF THE PROBLEM

The Banking Supervision Department (BSD) of the CBN has since 1990 noted that it is the examiners' task to prevent bank failures by identifying bank problems at an early stage to allow for intervention and/or corrective action before the situation gets out of hand (CBN, 1990). In going about this task, bank examiners carry out appraisals of the quality of a bank's assets. To this end, the CBN issued a circular where it addressed requirements for asset classification and disclosure, provisioning, interest accruals and off-balance sheet engagements.

Given the broad range of stakeholders to whom banks are ultimately answerable, from depositors and shareholders to employees and regulators – and in light of the impact that these institutions can have upon, not only the financial but also the real economy, it is quite obvious to say that banks are pivotal to any country's growth and development. Wilson (2006) says banks occupy a delicate position in the economic equation of any country such that its performance, either good or bad, invariably affects the economy of the country

CBN (2009) says full disclosures are the mandatory financial, operational and management information, which financial institutions are required to disclose in the rendition of their periodic returns to the regulatory authorities and the public. The process has to do with ensuring the integrity of data in the rendition of reports to the supervisory authority and the public in order to enable them ascertain the true financial position and performance of deposit money banks.

Financial reports of Nigerian companies have been found to be deficient over time (Wallace, 1988; Adeyemi, 2006; Nzekwe, 2009), in the sense that they lack vital information that will enable stakeholders make informed decisions. Apart from the studies conducted by the World Bank (2006), disclosure practices by Nigerian companies had been empirically investigated by Wallace (1988), Okike (2000), Adeyemi (2006), Ofoegbu and Okoye (2006) and Umoren (2009). Their observation is quite similar in that they all found the Nigerian corporate reporting practices to be deficient.

None of the foregoing earlier works was specifically on the financial disclosure practices of Nigerian banks. Current developments in the banks make this study necessary and desirable now. This study is intended to fill this gap.

OBJECTIVES OF THE STUDY

The broad objective of this study is to provide evidence on the relationship between financial reporting practices and the performance and stability of Nigerian banks. The specific objectives of the study are to:

i. identify the different regulatory provisions for information disclosures in the Nigerian banking industry;
ii. evaluate the state of post consolidation information disclosure practices of Nigerian banks.
iii. examine the link between information disclosure in financial reports and stability of banks in Nigeria.

RESEARCH QUESTIONS

The study is designed to provide answers to the following research questions:

i. What is the level of compliance with regulatory and prudential guidelines by banks in Nigeria?

ii. How adequate is the level of disclosure of information by Nigerian banks?

iii.How does the financial information disclosure influence reported performance of Nigerian banks?

SIGNIFICANCE OF THE STUDY

The Central Bank of Nigeria (2006) has identified inadequate disclosure and transparency about financial position of banks as one of the major factors in all known banks and financial institutions' distress and eventual failure. In this vein, Okezie (2010) noted that there is no evidence of any early warning systems being used by regulators or bank management in the monitoring of banks' health in Nigeria. Consequently, a study in the areas of information disclosure with particular emphasis on accounting and auditing processes in Nigerian banks is important for several reasons. Full disclosure of financial and other qualitative information could act as a warning signal to regulators, management, the investing public and all the stakeholders generally as to the health of individual banks in the system.

Doguwa (1996) observed that if banks are examined too frequently, valuable resources are wasted, whereas if problem banks are not examined often and early enough, the possibility of failure increases. It is therefore important that bank regulators identify banks that are likely to be unsound or that show signs of weakness before examination teams are sent to the field. This will help in the optimal deployment of examination resources. Faithful and adequate disclosure of relevant information by the banks will no doubt enhance optimal deployment of examiners by the regulatory authorities and forestall any incipient distress by the banks. This study will identify the gap in information disclosure practices by Nigerian banks.

Second, that the banks play a vital role in the economy is no longer in doubt. Banks, in their credit creation capacity, are prime movers of economic life and occupy a significant place in the economy of every nation (Sobodu and Akiode, 1998). Unfortunately, the mega banks resulting from the consolidation process of the 2005 have evidently been inadequate to forestall distress in the banks (CBN, 2010). This can be seen from the avalanche of revelations that preceded the sacking of a number of executive management teams of some otherwise high flying banks in 2009. Consequently, the survival of any bank is beyond the size of the bank even though survival of the banks is a vital ingredient for the general growth of the economy. The result of this study would prove useful in answering some of the questions as to why the CBN medication to banks' distress is often applied too late to rescue the 'patient'.

There cannot be a better time for this study than now when the confidence of the investing public is already shaken by the recent revelations of the CBN consequent upon the discovery of massive irregularities in the management of some banks in Nigeria. The basic reason for the rigorous regulatory and supervisory regime on the banks is to forestall bank failure and ensure their stability. There is a seeming failure of examination approach in ensuring a sustainable financial system and this work will attempt to look at the available options.

A stable banking system is of paramount interest to the economy holistically where everyone is a stakeholder. Specifically, this study is of prime interest to government, depositors, shareholders and the general public. While government and the public want a safe, sound and stable banking industry (Umoh, 1994), depositors are more interested in the safety of, and returns on, their deposits as well as the quality of services rendered by their banks. On the other hand, shareholders (owners) are more interested in their banks' profitability, soundness and good health while the workers are interested in their sustained employment through the continued existence and profitability of their employer-banks

SCOPE OF THE STUDY

This study is motivated by the current state of the banking industry in Nigeria where some ostensibly sound, stable and profitable banks were suddenly found to be weak and terminally distressed by the CBN. The study then examined the place of financial reporting practices in the Nigerian banking industry and the effects on their financial stability since after the consolidation exercise, 2005 to 2009, both years inclusive. The selection of this time frame is informed by the fact that the period was underscored by a massive transformation through a guided process of recapitalization and consolidation program anchored by the CBN. Through the process, the number of banks was reduced effectively from eighty- nine (89) to twenty five (25) by the end of the year 2005. The number of banks reduced further to twenty four (24) following a merger of two of the banks. The banking licenses of fourteen (14) banks were revoked while others were involved in massive mergers and acquisitions.

This study is limited to the twenty-one (21) banks listed on the Nigerian Stock Exchange (NSE) from where samples were taken of thirteen (13) banks that were in existence over the selected sample periods and whose published annual reports and financial statements and other necessary information were available and accessible over the time frame of the study.

LITERATURE REVIEW

Overview of Financial Report Disclosure

Full disclosure is the other side of the same coin with transparency. A central principle of corporate governance, the CBN (2006) notes that transparency and adequate disclosure of information are key attributes of good corporate governance which merged banks must cultivate with new zeal in order to provide stakeholders with the necessary information to judge whether their interests are being taken care of. CBN further stressed that currently, there are many deficiencies in the information disclosed, particularly in the area of risk management strategies, risk concentration, performance measure, etc. In the same vein, The World Bank (2006) notes that transparency and disclosure are important ingredients of banking sector stability. According to Tadesse (2005) and Hoggarth, Jackson and Nier (2003), as reported by the World Bank (2006), enhanced bank disclosures have been shown to be able to make banking crisis less likely to happen because in high disclosure regime banks are less likely to take excessive risks and when they happen the losses are less costly. The Organization for Economic Cooperation and Development (OECD) requires that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership and governance of the company. The Basel Committee, among its other principles of corporate governance for banks requires that banks should be governed in a transparent manner. Indeed, the Basel Committee (1998) defines transparency as public disclosure of reliable and timely information that enables users of that information to make an accurate assessment of a bank's financial condition and performance, business activities, risk profile and risk management practices. It further states that to achieve transparency, a bank must provide timely, accurate, relevant and sufficient disclosures of qualitative and quantitative information that enables users to make proper assessment of the institution's activities and risk profile.

The World Bank (2006) says that accounting disclosure leads to better transparency and stronger market discipline in the banking sector. According to a Mckinsey survey of "Global Investor and Emerging Market Policymaker Opinion on Corporate Governance", as quoted by World Bank (2006), "accounting disclosure" was listed as the number one most important factor considered by 71% of investors surveyed, and "enhanced disclosure" was named as number one key progress area by 44% of policymakers.

Accounting disclosure is raised to a particularly high level of importance for banking organizations compared to non-financial firms, for, according to the World Bank (2006), banks are inherently more opaque. Accounting reports are almost the sole source of information for bank investors and other stakeholders. Banks own few physical and visible assets, and investors can acquire a sense of a bank's performance and asset quality only from accounting numbers as revealed by the financial reports.

The concept of full disclosure is broad in scope. For a bank, it refers to the quality and quantity of public information on a bank's risk profile and to the timing of its disclosure, including the banks past and current decisions and actions as well as its plans for the future. The transparency of the banking sector as a whole includes public information on bank regulations and on safety net operations of the central bank (Enoch et al, 1997 and Rosengren, 1998) in Rogers (2008).

The CBN (2009) defines full disclosure requirements as the mandatory financial, operational and management information which financial institutions are required to disclose in the rendition of their periodic returns to the regulatory authorities and the public. It also notes that the objectives of introducing the full disclosure requirements are essentially to provide economic agents (depositors and investors) and other stakeholders with appropriate information to assist them in evaluating the financial positions and performances of banks and to enable them obtain better understanding of unique characteristics of operations of banks. The provision of adequate information enhances the integrity of banks and reduces the reputational risks that could lead to loss of confidence and patronage. It will also help to reduce market uncertainty and limit the risk of unwarranted contagion. The CBN notes that its effort at enhancing the current regime of information disclosure by banks will help to further promote market discipline whereby the banks would be strengthened to play their intermediation role in the economy. The market would also have been better placed to effectively act as a transmission mechanism for monetary policy measures.

The implications of implementing the full disclosure requirements could be seen from the perspectives of the banking industry and the investors (CBN, 2009). The banks will be better off with full compliance and implementation of disclosures as directed by the apex bank. To the industry, the merits of full disclosures far outweigh the demerits. The banking sector, like every other segments of the financial system thrives on trust and confidence. The full disclosure option will assist all stakeholders to evaluate the true and fair positions of the banks and confidently take informed decisions about them. Consequently, the confidence of stakeholders will be a major selling point for the banks. The issue of demarketing among the banks would have been systematically and permanently addressed. Furthermore, the intention of the CBN on the full disclosure measures is to further entrench sound corporate governance in the financial system where accountability, transparency and prudence are the grand norm. Hence the investors and depositors will be provided with requisite information to enable them evaluate the financial position, performance and operations of banks with a view to taking well informed decisions as to where to put their money.

In a study commissioned by African Economic Research Consortium (AERC), Nairobi, Sanda, Mikailu and Garba (2005) note that a regulatory environment that encourages mandatory disclosure of reliable information about firms may enhance investors' participation. Shleifer and Vishny (1997) argue that much of the differences in corporate governance systems around the world stem from varying regulatory and legal environments. They maintain that the differences between corporate governance systems in OECD countries, while important, are relatively small compared to the difference between these countries and others. For example, in less developed countries corporate governance mechanisms may be non-existent and, where they do exist, are often particularly weak and ineffective. To corroborate this view, the Report on the Observance of Standards and Codes (ROSC) in Nigeria commissioned by the World Bank in 2004 found that there is a multiplicity of laws and bodies for the regulation of accounting, financial reporting and auditing requirements of companies. However, the accounting and auditing practices in Nigeria suffer from institutional weaknesses in regulation, compliance and enforcement of standards and rules.

The CBN is the main statutory regulator of banks and non banking financial institutions under the terms of the Banks and Other Financial Institutions Act, (BOFIA) CAP B3, LFN 2004. The BOFIA contains provisions on financial reporting by banks in addition to Companies and Allied Matters Act (CAMA) requirements. The Banks Act requires banks to submit audited financial statements to the CBN for approval before publication in a national daily newspaper within four months of year end. The governor of CBN may order a special examination of a bank's books and affairs for any variety of reasons. Auditors of banks have a legal duty to report certain matters, including contraventions of legislation and irregularities, to the Central Bank.

Information disclosure is a major responsibility of the financial reporting system of the business and could be in terms of financial or non financial disclosures either of which is well captured by legislative and regulatory provisions. Corporate financial reporting in Nigeria is currently guided by CAMA 2004 (as amended). This is the major legislation governing financial reporting of companies (including banks) in Nigeria. The basic requirement relating to corporate financial reporting is contained in Part XI- Financial Statements and Audit. There are copious requirements of the law on financial reporting that are made mandatory for the companies by the Act.

Corporate Performance and Stability

The concept of corporate stability deals with the measurement of the success of management in creating value for the corporation. It relates to the way and manner in which financial resources available to an organization are judiciously used to achieve the overall corporate objective of the organization, to keep the organization in business and create greater prospect for future opportunities. The important issues are whether all resources were used effectively, whether the profitability of the business met or even exceeded expectations and whether financing choices were made prudently. There is consensus in the literature that management quality is the ultimate determinant of a bank's long-term profitability and survival (Cates, 1985; Pantallone and Platt, 1987; Seballos and Thompson, 1990; Siems, 1992).

Sobodu and Akiode (1998) observe that policy makers, economists and monetary authorities recognize that the ability of banks to achieve the desired results of continuous profitability and long term stability and to continue to play the role earmarked for them depends not only on the existence of an enabling regulatory environment and the number of operating banks but more importantly on their performance from one financial year to the other. Quite obviously, the greater the number of operating banks that are resistant to adverse financial condition, the better for monetary policy and ultimately the economy. The performance of banks attracts considerable attention from bank regulators and monetary authorities for this reason and also because of the adverse implications that bank failures would have on public confidence in the banking system. This is why from country to country such classifications as problem/non-problem (Sinkey, 1975), failed/surviving (Siems, 1992), financially successful/non-financially successful (Arshadi and Lawrence, 1987) and vulnerable/resistant (Korobow and Stuhr, 1975; Hunter and Srinivasan, 1990; Adekanye, 1993) have been used to distinguish the performance of banks. In recent times, the monetary authorities in Nigeria have classified banks as healthy or distressed in an attempt to distinguish the performance of the country's banks. For the majority of the so-called distressed banks, steps are usually taken to minimize the potential impact on the banking system and the economy of eventual failure though the primary desire is that they ultimately revert to sound health and stability.

THEORETICAL FRAMEWORK

The asymmetric information theory assumes that at least one party to a transaction has relevant information whereas others do not. Asymmetric information model speaks about a deviation from perfect information. Akerlof (1970) opined that inequalities in access to information upset the normal market for the exchange of goods and services. It says that in some economic transactions, inequalities in access to information upset the normal market for the exchange of goods and services. This theory provides a theoretical explanation of the burden to disclose on the directors of the banks who are better placed in the corporate structure to know the banks better and therefore release the information they have to the investors that will use same for decision making.

Ball, et al (2009) note that audited financial statements and voluntary disclosures are complementary mechanisms for managers to communicate information. Gigler and Hemmer (1998) observe that reporting independently audited financial outcomes plays a ‘confirmatory role’, allowing shareholders to evaluate the informativeness and truthfulness of past discretionary disclosures. In turn, this allows managers to credibly disclose value-relevant information, even if the information is not directly verifiable.

Empirical Evidence on Corporate Financial Disclosure

Many studies have examined the quality of corporate information disclosures in various contexts. Examples of such studies are: Owusu- Ansah (1998); Ho and Wong (2001), Joshi and Ramadhan (2002); Chau and Gray (2002); Naser et al. (2002); Naser and Nuseibeh(2003); Akhtaruddin (2005) and Ofoegbu and Okoye (2006). Each of these studies has been distinguished by differences in research setting, differences in definition of the explanatory variables, differences in disclosure index construction and differences in statistical analysis. Umoren (2009) listed out the most popular characteristics are corporate size, profitability, liquidity, gearing, audit size, listing status, multinational parent, age, and ownership structure. Each construct suggests that the quality of disclosure can be measured by an index representing the dependent variable

Overall, the findings regarding the compliance level of companies and the relationship between the level of disclosure and various corporate attributes are mixed.

Cerf (as cited in Fremgen 1963) pioneers the study on the relationship between extent of corporate disclosure and company attributes. He utilizes a random sample of 527 listed and unlisted corporate organizations for evidence of compliance with certain minimal standards of disclosure. Cerf considers twelve explanatory variables for possible correlation with superiority of disclosure. The independent variables include profitability, asset size, method of trading shares, stock ownership, industry, frequency of external financing, stability of growth in earnings and dividends, product, degree of competition, association with CPA firms and management characteristics. Only the first four of these variables are tested. Superiority of disclosure is measured by an index of disclosure. This is constructed based on thirty one information items each weighted by importance. A percentage score is given to each company by dividing the number of points achieved by the total points possible for all items applicable to the company.

Cerf finds that there is a positive relation between disclosure and asset size, profitability, and shareholder number. As for methods of trading shares he finds that New York Stock exchange companies are significantly superior to others, while for reporting, no significant difference is seen. He also discovers that there is lack of disclosure of some techniques such as depreciation, inventories, recognition of income on long term contracts and income tax allocation. Evidence also shows that specific items required by shareholders are not adequately disclosed. Among them are sales breakdown, research and development (current and planned), capital expenditure (current and planned), and information on management and their policies. Cerf’s (as cited in Ray 1962) study is seen as very interesting but failed to test significance in statistical terms. The study does not consider some corporations such as foreign corporations, banks, finance houses, insurance companies, real estate companies, public utilities and investment companies.

Barrett (1976) examines the extent and quality of corporate financial disclosure in seven countries over a ten-year period from 1963 to 1972. The countries examined are United States, United Kingdom, France, Japan, Sweden, Netherlands and West Germany. Based on the previous experiences of others, that is, Singhvi and Desai (1971) and Buzby (1975) carried out in the United States; Barrett wants to know if the American reports are superior. Fifteen large companies in each country, measured in terms of market capitalization are used as samples.

The result shows that there is only a little difference in the extent of disclosure of large British and American firms. He notes that British and American firms exhibit more annual report disclosure than the firms of the other five nationals. However, these two countries do not "lead the pack" in the extent and quality of disclosure across board. Such cases are in respect of segment reporting and disclosure of planned and current capital revenue for American companies. The result of this study indicates that the extent and quality of the disclosures in American firms might not be superior to others based on the size of samples.

To extend the general knowledge of the overall extent of disclosure to Sweden companies, Cooke (1989) examines the annual reports of 90 firms to assess whether there is a significant relationship between some corporate attributes and the extent of disclosure. The study is different from prior studies, firstly, because it relates to listed and unlisted firms, to be precise, 38 unlisted, 33 listed on the Swedish Stock Exchange, and 19 listed on both the Swedish and at least one foreign stock exchange during the year 1985. Secondly, the disclosure items are constructed based on the entirety of the annual report not just the financial statement. The disclosure items are not directed at specific user groups, but used a wide ranging approach similar to Wallace (1988) in his analysis of Nigerian corporate reports.

It was found that listing status and size are major explanatory variables for voluntary disclosure. In addition, firms categorized as trading disclose less voluntary information than other industries. Also, multiple listed companies disclose more information than domestically listed companies

Cooke (1992) goes further to examine the Japanese financial reporting on the premise that findings in one country may not be applicable to Japan because of its unique culture and business environment. He examines the impact of size, stock market listing and industry type on both voluntary and mandatory disclosures in the annual reports of Japanese listed corporations. Size is considered using eight variables, viz, capital stock, turnover, number of shareholders, total assets, current assets, shareholders' fund and bank borrowing. An extensive list of 165 information items (65% voluntary and 35% mandatory), included in these items are disclosure recommendations by International Accounting Standards Board (IASB) and other relevant laws and accounting standards.

He uses the same scoring technique as in Cooke (1989) and descriptive statistics reveals that mean scores for mandatory disclosure range from 88% to 100% while the voluntary disclosures range from 7% to 41%. In conclusion, he discovers that disclosure increases with size, industry type and multiple listings.

Wallace et al (1994), investigate the impact of firm characteristics on disclosure in annual reports and accounts of Spanish firms. They investigate 30 listed and 20 unlisted firms in Spain for the year 1991. They construct an index of comprehensive disclosure of mandatory items as a proxy for disclosure quality for each Spanish company. Their score is based on the density (fullness) of information in their annual report. The list of information items is restricted to 16 mandatory items in order not to penalize a company for not disclosing any item. The scoring rewarded both qualitative and quantitative information. Qualitative information is scored on the basis of the number of words describing the item. The indexes vary between range 29% to 80%. They classify their independent variable into three categories, structure related (total assets, total sales and gearing), performance-related (liquidity ratio, earnings return and profit margin) and market-related variables (auditor type, industry type, listing status). Using regression analysis, the index of disclosure varies significantly positively with firm size. This result is in line with discoveries of Cerf and Cooke. The coefficient of liquidity is found to be significantly negative, which implies that the Spanish firms with low liquidity disclose less information. The result also indicates that comprehensive disclosure increases with listing status. The research provides evidence that the amount of detail in Spanish corporate annual reports and accounts is increasing in firm size and stock exchange listing, and decreasing in liquidity.

CORPORATE FINANCIAL DISCLOSURE IN NIGERIA

Wallace (1988) is one of the pioneer studies on the Nigerian corporate reporting. He investigates the extent of disclosure using statutory and voluntary items. Wallace's choice of information items was relevant to the user group - accountants, top civil servants, managers, investors and other professionals. He uses a sample of 47 companies, 54% of the total population of listed firms quoted at the Nigerian Stock Exchange during 1982 and 1986. Disclosure is treated as a dichotomous item, 1 for an item disclosed and 0 for those not disclosed. The scoring system is informed by its intensity. Two types of disclosure indexes are constructed, unweighted and weighted. The weighted disclosure index reflects the preferences of the six-user groups. The result of the analysis reveals that companies which publish annual reports do not adequately comply with the disclosure regime. The overall disclosure index reveals the weakness in the disclosure practice in Nigeria, ranging from 37.55% to 43.11%. There is a high level of disclosure relating to balance sheet, historical items and valuation methods, whereas there are apparent weaknesses in status data, social reporting, income statement items and projections.

Okike (2000) investigates the corporate reporting practices in Nigeria. She observes that it is weak and accounting reports have been found deficient in the sense that they lack vital information. Ofoegbu and Okoye (2006) investigate the extent to which Statement of Accounting Standards are complied with in Nigeria. Using a sample of seven standards (SAS 3, 7, 8, 10, 11, 18 and 19) conveniently chosen, they analysed the annual reports of 41 companies publicly quoted at the Nigerian Stock Exchange. It is discovered that there is a mixed result of compliance with disclosure requirements. Notably, full compliance (100%) is recorded for items such as: bases of determining book value of assets, cash flow presentations, disclosure of various forms of tax and movements of taxes and assets during the year. Partial compliance (ranging from 2% to 90%) is recorded for items such as frequency of revaluation policy, amount of foreign exchange gain or loss, maturity profile of risk asset of banks, and commission paid/received. Adeyemi (2006) considers SAS 1 to SAS 21 and using a sample of 96 listed companies with year- end between 2003 and 2004. In addition, he empirically determined the relationship between disclosure and some company characteristics. Umoren (2009) considers SAS 1 to SAS 30 and IAS 1 to 41, using a sample of 90 listed companies that cut across 25 industries on the NSE. The study undertakes a single period analysis as all the companies used were those that published their annual reports during the period January 31 and December 31, 2006.

METHODOLOGY

Information disclosure in the annual reports of listed companies could be determined using a number of approaches. McNally, Eng and Hasseldine (1982) and Barako (2007) determine disclosure with the use of survey of annual report users, preparers, auditors and regulators. Inchausti (1997); Street and Gray (2001); and Huang (2006) construct a checklist for evaluating the content of the annual report. In some other cases, (e.g. Barret, 1975), researchers combine the two methods such that the level of disclosure is determined, firstly, by a content analysis of annual reports and, secondly, by a survey approach. This study adopts the approach of constructing a checklist as done by Wallace (1988), Basel Report (2003), World Bank Report undertaken by Huang (2006) and Umoren (2009). The researcher-constructed checklists for the study is drawn from two explanatory variables of Prudential Guidelines for Licensed Banks and Statements of Accounting Standards (SAS 1, 2, and 10 respectively on Disclosure of Accounting Policies; Information to be Disclosed in Financial statements; and Accounting by Banks and Non Bank Financial Institutions-Part 1). The checklist is designed in line with the World Bank Disclosure Index which is compatible with the IMF's Financial Soundness Indicator (FSI) and the Basel Committee's prescription on bank accounting disclosures, and thereafter applied to do a content analysis of the disclosure practices of the sampled banks. The panel design is adopted for the study. This is because the study combines time series and cross-sectional data for the sampled banks over a period of 5 years (from 2005 to 2009). The data collected at these different time period were analyzed to discover trends over the period. The unweighted scoring approach is adopted for the scoring (Barako, 2007). The approach is preferred because it is based on the assumption that each item of disclosure is equally important, it reduces subjectivity and it provides a neutral assessment of items. Each item of the Prudential Guidelines and the SASs falls into this category- mandatory and equally important.

On the checklist are provided three possible answers: "Yes", "No" or "Not applicable". Each disclosure item is assigned a value of '1' if it is disclosed (yes) and '0' if the item is assumed relevant but not disclosed (no). The "Not applicable" category aimed to capture situations where there was no information to disclose either because the information was not relevant within the context of the bank's activities or because the information was relevant but not material. The composite disclosure score (index) is the number of actual disclosure ("yes" answers) as a percentage of the sum of the "yes" and "no" answers. It excludes 'not applicable' disclosures. There are a total of ninety four questionnaires on the checklist covering disclosure requirements in the Statement of Accounting Standards (SASs 1, 2 and 10) and the Prudential Guidelines for Licensed Banks.

Descriptive analysis of the data was done by analyzing the financial characteristics of the banks in the sample and the level of disclosure carried out by them in their financial reports. The corporate performance analysis is done in term of arithmetic mean, standard deviation and the range of the respective variables. Content analysis of the financial report is done to evaluate the extent of disclosures of the banks in accordance with regulatory prudential guidelines and the SASs. Regression analysis is used to evaluate the influence of financial disclosure on bank performance. In order to achieve this objective, the pooled multiple regression analysis of the dependent and independent variables in the specification of the model and the ratios are fitted to the data of the sampled banks with a view to determining the nature and the extent of relationship that exist among the variables.

DATA ANALYSIS AND INTERPRETATION OF RESULTS

Descriptive statistics of the disclosure indices is reported in Figure1 below.

Fig 1: Descriptive Statistics of Compliance Indices

	N	Minimum	Maximum	Mean	Std Deviation
dSAS	65	0.8500	0.9885	0.9096	0.0467
dPG	65	0.8000	1.0000	0.9108	0.0937
CDI	65	0.8250	0.9943	0.9102	0.0607
Valid N (listwise)	65				

Analysis of Annual Reports (2005-2009)

The mean of the disclosure index for SAS (dSAS) is 0.9096, with a minimum index of 0.85 and a maximum of 0.9885. The mean of the disclosure index for Prudential Guidelines (dPG) is 0.9108, with a minimum index of 0.8000 and a maximum of 1.0000. The composite disclosure index (CDI) which is a combination of dSAS and dPG has a mean of 0.9102, with a minimum of 0.8250 and a maximum of 0.9943. This result shows that although these are ordinarily mandatory disclosure items, there are still gaps in the levels of disclosure by banks with PG mean higher (0.9108) but the SAS has a lower dispersion rate (Standard deviation= 0.0467).

Fig 2: Descriptive Statistics of Compliance with SAS

Index	N	Range	Minimum	Maximum	Mean	Std. Deviation
SAS 1	65	0.1328	0.8654	0.9982	0.9022	8.6200
SAS 2	65	0.2410	0.7431	0.9841	0.9114	10.2200
SAS 10	65	0.0272	0.9728	1.0000	0.9913	6.1000
Average	65	0.1337	0.8604	0.9941	0.9350	8.3133

Source: Analysis of Annual Reports (2005-2009)

Figure 2 shows the descriptive statistics of compliance with individual SAS. On a Standard by Standard analysis, compliance level is generally found to be relatively high with a mean statistic in excess of 0.90 in all the cases. This shows a generally high disclosure level.

The above statistics is indicative of a high level of compliance with regulatory disclosure requirements by banks in Nigeria. With a mean disclosure rate of 0.9096 and 0.9108 respectively for the SAS and the Prudential Guidelines indices, the result is consistent with the results of Umoren (2009) but is in contrast with that of the World Bank Disclosure Index report on Nigeria in 2006 when it was noted that Nigerian banks are notorious for opacity (evidently on the strength of inaccessibility of the financial reports of the banks on the internet). This study has no evidence to support the opacity of Nigerian Banks reporting system during the period of the study with a minimum composite disclosure of 0.825. This may be as a result of the combination of more rigorous disclosure regulations as imposed from time to time by the Central Bank of Nigeria and the increasing demands of institutional investors for more openness since after the consolidation exercise of 2005.

The performance statistics adopted for this study show significant fluctuations over the study period. From Figure 3, Return on Assets (ROA) fluctuates from a maximum of 6.91% to a minimum of -24.6% with a median of 2.64%, range of 31.51%, mean of 2.22% and standard deviation of 3.77%. Similar trend is shown by Return on Capital Employed (ROCE) which hovers between a maximum of 35.68% and a minimum of -204.54% with a median of 14.91%, range of 240.22%, mean of 12.52% and standard deviation of 30.35%.

Fig 3: Descriptive Statistics of Bank Performance

Performance Index	N	Mean	Median	Maximum	Minimum	Range	Std Deviation
ROA	65	2.2169	2.6400	6.9100	-24.6000	31.5100	3.7718
ROCE	65	12.5169	14.9100	35.6800	-204.5400	240.22	30.3463
Asset Qlty	65	11.5600	8.7500	47.8900	1.0400	47.8500	10.7800
Liquidity	65	68.1462	62.3000	170.7900	26.8700	143.92	27.6408
Valid N(listwise)	65						

Source: Field Study (2005-2009)

The wide fluctuation in these indices is indicative of the significant differences in the fortune and efficiency level of Nigerian banks where very few of the banks constitute the market makers holding highly significant assets of the industry. It also shows the stress the banks faced in the post consolidation period having aggressively increased shareholders' funds without necessarily having immediate use for it. This pushed down the performance indices (ROA and ROCE) in the period immediate to the consolidation. More than this however is the pressure the banks faced to meet investors' expectations in terms of returns. The CBN intervention of 2009 earlier alluded to in this study further compounded the stress of the banks to make significant provision for bad loans where the Non Performing Loan (NPL) as measured by the Asset Quality of the banks hovers between maximum of 47.89% and minimum of 1.04% during the period. Liquidity of the banks remains high during the period, having a mean of 68% over and above the regulatory benchmark of 40% up to September 2008, 30% up to March 2009 and 25% since then. The maximum and minimum liquidity levels respectively stood at 170.79% and 26.87% while the range was 143.92%. Significantly, the high liquidity ratio is an indication of low risk appetite of the banks compared to available liquid funds.

Figure 4: Multiple Regression Analysis on Sampled Banks.

	Panel A			**Panel B**		
Variables	ROA	AQ	LIQ	ROA	AQ	LIQ
Constant	-13.5482 (-1.9491)	44.4292 (1.8858)	5.5752 (0.0925)	-26.0934 (-2.1415)	123.6862 (3.6616)	-70.4254 (-0.9947)
CDI	17.3202 (2.2730)**	-36.1160 (-1.3994)	68.7431 (1.0412)	14.2040 (1.8556)***	-36.8540 (-1.6460)	100.3467 (2.2560)**
LnTotAsset				0.5024 (1.2270)	-2.9317 (-2.6584)*	0.4881 (0.2052)
CapAdq				4.2803 (1.9384)***	-2.4220 (-0.4175)	69.3201 (5.4021)*
R^2	0.0777	0.0295	0.0160	0.1406	0.1456	0.3700
Adj.R^2	0.0631	0.0141	0.0004	0.0984	0.0136	0.3390
D.Watson	2.4797	1.7828	2.0784	2.4861	1.7958	1.9831

Source: Analysis of Annual Reports (2005-2009)
(*Method: Panel GMM EGLS (Cross-Section Random Effects)*
t-statistics are in parenthesis
* Significant at the 1% level
** Significant at the 5% level
***Significant at the 10% level

Figure 4 reports the summary result of the panel regression analysis for the evaluation of the influence of Financial statements disclosure on bank performance and stability. Bank performance has been measured in terms of Return on Assets (ROA), Asset Quality (AQ) and Liquidity (LIQ). The data had been estimated using the Random Effect Model (REM) also called the Error Correcting Model (ECM). This panel regression estimation technique is superior to the other alternatives like the Pooled OLS Regression or Constant Coefficient Model which subsumes the individuality of the subject (bank) in the error term or whether the response of the bank performance over time is the same for all banks. The researcher has assumed that disturbance term (εi) and the X regressors are uncorrelated since the banks were randomly selected thus making the ECM more appropriate as against the case of the Fixed Effect Models which assumes the contrary. More importantly a short panel (total panel being 65; with T= 5 and N= 13) had been estimated making the ECM more appropriate because it conserves the loss of degree of freedom which may be major problem in the use of the next alternative of Fixed Effect Least –Squares Dummy Variable (LSDV) model.

Panel A contains the estimates of the regression of the firm performance variables on the Composite Disclosure Index (CDI) only while Panel B includes the Firm Size (total assets) and Capital Adequacy as additional control variables. This is meant to further confirm the likely influence of disclosure on firm performance even in the presence of other notable performance influencing factors.

In Panel A the results indicate that disclosure has a positive and significant influence on firm performance and stability (ROA). Disclosure has no significant influence on bank assets quality (AQ) and liquidity (LIQ). This suggests that banks that comply strictly with the disclosure requirements as stated in the Statement of Accounting Standards and the Prudential Guidelines are likely to be more efficiently and profitably run than banks that comply less. The degree of compliance of a bank with the disclosure requirements alone explains at least 6.3 per cent of variations in bank profitability. Disclosure tends to deteriorate the asset quality (AQ) of banks although not significant, while it contributes positively towards improving the liquidity (LIQ) of the banks though equally not significantly.

The results presented in panel B of Appendix 4 show that composite disclosure index (CDI) and capital adequacy (CapAdq) have positive and significant influence on bank performance (ROA). Similarly, disclosure and capital adequacy have positive and significant influence on bank liquidity (LIQ). It implies that banks strong compliance with the disclosure requirements and high degree of capital adequacy are likely to be more profitable and liquid than banks with poor compliance with disclosure requirements and low capital adequacy .

Disclosure has no significant impact on the asset quality of banks but their asset quality is highly negatively and significantly responsive to changes in bank size (Total Asset). Increases in bank size tend to lead to more than a proportionate decline in bank asset quality. The (average) intercept value is given by the constant term for each regression estimate. The actual value of the intercept for each bank *i,* may be derived from the sum of the average intercept of each regression and the differential intercept (not shown) of bank *i.*

In summary the results suggest that financial reports disclosure is an important indicator of potential performance of banks in Nigeria. Banks that comply adequately with the recommended disclosure requirements as specified in the SAS and Prudential Guidelines are the banks performing well while the banks not disclosing information required of them are likely to be performing poorly and may therefore decide to hide or shy away from the required disclosure especially where regulation is poor to enforce compliance. Investors may therefore hold other factors constant and use the extent of compliance of banks to the information disclosure requirements in predicting the potential performance and stability of the banks in which they intend to invest.

In conclusion adequate information disclosure will enhance bank liquidity and profitability since management are to comply with such binding disclosure requirements that may put them under pressure and expose their inadequacies if their banks are not efficiently run.

CONCLUSION AND RECOMMENDATIONS

The study has shown that financial information disclosure is an important indicator of the corporate performance and stability of banks in Nigeria. While it was found out that compliance with the existing regulatory requirements was high, a critical issue remains the disclosure of information by the banks on the quality of their assets as well as the credit and market risks to which they are exposed. Banks are seldom willing to make all the necessary disclosure regarding the true nature of their risk portfolio. This is an area where mandatory disclosure has not been quite adequate. A notable issue is the need for the banks to be cautious not to be tempted in the deployment of capital on risky ventures for short term returns. This was evident in the substantial loss of Shareholders funds as a result of the discovery of toxic assets in the loan portfolio of many of the banks during 2009 exercise by the CBN.

Based on the findings highlighted above, the following recommendations are made:

i. Banks in Nigeria should be made to provide a certain minimum amount of information on all Loan Assets above a minimum amount. Existing regulatory disclosure requirements on credit and risk exposure by banks should be enhanced and strengthened to elicit sufficient information for the use of investors.

ii. Regulatory authorities should fashion out adequate sanctions for non compliance with disclosure requirements. Such sanctions should be strong enough to act as deterrent for concealment of, and/or fraudulent information. Similarly, regulatory authorities are advised to strengthen the monitoring process by identifying non compliant banks promptly and imposing sanctions equally promptly. This will give better meaning to the disclosure prescriptions and minimize the tendency of CBN coming up too late only to declare banks as troubled when it would be rather late to rescue such banks.

iii. The Central Bank of Nigeria (CBN) and/or other regulators should be the employer and payer of Bank external auditors in order to insulate these auditors from rent seeking appeasement of bank directors. The current provision of the law vesting the responsibility on the Shareholders is being used by the Directors and Management for self serving purposes.

iv. External Auditors responsibility on the survival of banks should extend beyond the presently level. The expectation of the general public requires urgent attention through enhanced responsibility for auditors. If they are aware of the enhanced risk involved, then more caution would be deployed to the work involved.

v. There should be higher level of commitment to the need to provide truly fair disclosure by the Directors and Management of banks in Nigeria. More severe punishment would serve as deterrent for any violation.

SUGGESTIONS FOR FURTHER STUDY

In view of the inherent dynamism of the banking industry, the results of the analysis are by no means conclusive for a couple of reasons.

The convergence of the accounting financial year of banks to December 31 from 2009 has made further study in this area imperative in order to provide a level platform for all the banks. Though this study terminates in 2009 which is the first year of the convergence, other periods financial reports were prepared to different accounting dates. Further study would be able to take account of this convergence. Similarly, the mandatory adoption of IFRS in the country has made it necessary that this study be done under this new framework. Though SASs are somewhat a replication of IASs in issue, and IFRS wholly adopted the IASs in issue as at the point of commencement, the mandatory convergence of the local with the international standards has provisions that were not hitherto in existence. A test of these new imperatives to the local environment would be desirable.

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