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DETERMINANTS OF ACCOUNTING QUALITY OF NIGERIAN BANKS

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Abstract

This study aims at investigating the quality of accounting information in Nigerian Banks and its relationship with some attributes (performance, leverage, bank size and audit size). It purposes to find some determinants of accounting quality (AQ) considering the most cited theory in this regard, agency theory, in order to test if this theory is supported in Nigeria. The sample of the study consists of 14 banks listed on the Nigerian Stock Exchange (NSE). This study also does a longitudinal analysis with the aim of assessing the trend of AQ in Nigeria over a five-year period (2011-2015). To test the association between the level of AQ (measured using non-discretionary accruals) and some bank's attributes, we used data for panel regression analysis. Results of the regression analysis indicate that performance, bank size and audit size are significantly related to accounting quality, while leverage is found to be statistically insignificant with accounting quality, this study also reveals areas of improvements for Nigerian Banks reporting quality accounting information in financial statements. It is recommended that the country should make conscious effort to improve on the existing institutional quality and governance particularly in the banking sector, so as to help strengthen the financial reporting mechanism.

Keywords: Accounting Quality, Agency Theory, Leverage, Audit Size, Bank Size, Performance

INTRODUCTION

Accounting Quality is the extent to which accounting information accurately reflects the company's current operating performance, is useful in predicting future performance, and helps assess firm value (Deschow & Schrand, 2004 as cited in Hribar, Kravet & Wilson, 2011).

The empirical study conducted in this paper examines the determinants of accounting quality in the Nigerian Banking Sector. The main goal is to study closely certain characteristics of banks such as performance, leverage and auditor size. These characteristics being determinants of accounting quality disclosure practices have been established in disclosure studies through explanations provided by agency theory.

The quality of financial statements is not an indicator that can be easily quantified, as it cannot be observed directly, being based on the perception of the users of financial information. Each category of users has its own expectations and perceptions regarding what information is useful and of good quality (Achim & Chis, 2014).

In the field of economics and accounting, recent studies are analysing more and more the term of accounting quality. One of the main objectives of the large number of studies on this subject is finding an appropriate measure for it. That is why, it is important to understand what accounting quality represents and how it can be explained and quantified.

As analyzed and further explained in the sample description section of this paper, about 86% of Nigerian Banks rely on external borrowing to finance their operations. In terms of the auditor size, only one bank out of the 14 banks does not engage the service of the "Big four". This fact should be accounted and taken as one of the factors influencing the quality of financial reporting (Atanasovski, 2013).

Statement of Research Problem

The primary objective of financial reporting is to provide quality financial reporting that is useful in making decisions about providing resources to the entity and in assessing whether the management of the entity have made efficient and effective use of the resources provided (IASB, 2010). The quality of the financial reporting has been receiving greater attention, especially after recent accounting scandals.

This study tends to find out whether Nigerian banks adhere to accounting reporting quality by using Performance, Leverage and Audit Size as key variables.

Previous studied have shown that profitability may influence the disclosure quality of a financial statement. A firm will be interested in disclosing good news to the market in order to avoid the undervaluation of their shares and reduce capital costs (Trueman, 1986). Since firms exist in order to maximise shareholders' wealth, hence the need to ensure quality accounting reporting.

Objectives of the Study

The main objective of this study is to examine the determinants of accounting quality of Nigerian Banks using performance (return on capital employed), leverage (debt ratio) and audit size as proxies of accounting quality. The other objectives are to:

i. Investigate whether there is a significant relationship between bank's performance, in terms of returns on equity with accounting quality
ii. Ascertain whether auditor size significantly impacts on the accounting quality of banks.
iii. Find out whether leverage have a direct relationship with accounting quality

Research Questions

Specified below are research questions that are invaluable for the completion of this study:

i. Is there significant relationship between bank's performance and accounting quality?
ii. Does auditor size have any significant impact on the accounting quality of banks?
iii. Is there any direct or significant relationship between leverage and accounting quality of banks?

Research Hypotheses

The researcher expects that with the adoption of IFRS in 2012 by Nigerian banks, the accounting quality of the banks will be much more emphasised. Accounting Quality is the extent to which accounting information accurately reflects the company's current operating performance; it is useful in predicting future performance, and helps assess firm value (Deschow & Schand, 2004). The under listed hypothesis are tested in order to draw inferences as to the level of accounting quality in Nigerian banks.

H_0:1 There is no significant relationship between bank's performance and accounting quality.

H_0:2 There is no significant impact of auditor's size on the accounting quality of the bank

H_0:3 There is no relationship between the bank's leverage position and accounting quality.

Significance of the Study

Professional Bodies (financial analysts, audit firms) will benefit from this research work because it will give them a clearer view on the importance as well as the need for high accounting quality. Information on accounting quality as examined in this study would provide important guidelines to various stakeholders, including potential foreign investors and creditors, in determining banks' performance and future prospects. It also serves as a beacon for other researchers that are involved in carrying out studies on banks in developing economies like Nigeria. Finally, this study serves as a reference point for subsequent research on accounting quality practices among Nigerian banks.

Scope of the Study

The study is empirical in nature and it is centered on the determinant of accounting quality in Nigerian banks. The population size is the 15 commercial banks in Nigeria listed on the Nigerian Stock Exchange as at 31st December, 2015. However, data for one of the commercial banks were not available; hence the population size was reduced to 14 banks. The Annual Financial Reports and Accounts for 2011- 2015 of the listed banks were examined.

LITERATURE REVIEW

Definition of Accounting Quality

The objective of financial reporting is to provide information about financial position, performance and changes in financial position of an entity that is useful in making economic decisions for a wide range of users, such as investors, employees, lenders, suppliers, customers, government and the public in general (Morais & Curto, 2008).

After recent accounting scandals, the quality of financial reporting has been receiving greater attention. Despite the increased attention, the term accounting quality is difficult to define.

The objective of International Accounting Standard Board (IASB) is to develop, in the public interest, a single set of high quality accounting standards that require transparent and comparable information in financial statements. However, IASB does not present a definition of high quality.

Penman (2002) in Morais and Curto (2008) considers that accounting quality should be discussed in terms of shareholders' interests and the fair valuation of those interests. Penman's notion of accounting quality is based on the usefulness of information for the shareholders and the use of the modified shareholder perspective. Under this perspective, accounting should promote shareholders' interest but also consider the public interest.

Biddle, Gilles and Verdi (2009) define financial accounting quality as the precision with which financial reports convey information about the firm's operations, in particular its cash flows, in order to inform the equity investors.

According to Hribar, Kravet and Wilson (2011), a broad definition of accounting quality which is similar to the definition provided by Deschow and Schrand (2004) is: *Accounting*

Quality is the extent to which accounting information accurately reflects the company's current operating performance, is useful in predicting future performance, and helps assess firm value.

International Financial Reporting Standards (IFRS) and Accounting Quality

According to Duarte, Saur-Amaral and Azevedo (2015), the successors of International Accounting Standards (IAS), IFRS were originally developed in the 1970s and 1980s more specifically after the "foundation of International Accounting Standards Committee (IASC), constituted by the accounting bodies in Australia, Canada, France, Germany, Japan, Mexico, Netherlands, UK, Ireland and the United States to issue accounting standards that could be accepted globally. Since then, IFRS are applied as standards which: reflect economic substance rather than legal form; reflect economic gains and losses in a more timely manner (in some respects, even more than the Generally Accepted Accounting Principles (GAAP) of the United States (U.S.); announce more about the earnings; provide more useful balance sheets; and reduce the historical description of Continental Europe, providing administrators conditions to manipulate provisions, create hidden reserves, gains 'smooth' and hide economic losses from public view ".

International Financial Reporting Standards (IFRS) are body of prescriptive rules and guidelines with global reach and appeal which provide direction and guidance on how business enterprises in a globalised world could achieve the goal of proper record keeping, transparency, uniformity, comparability and enhancing public confidence in financial reporting (Tendeloo & Vanstraelen, 2005 in Abata, 2015). Thus, failure on the part of the firm to apply the requirements of IFRS would result in inconsistencies, lack of accountability and transparency, distortion in financial reports, which in turn results into poor financial reporting practices and dissemination of accounting information that is of less value to any particular group of users (Abata, 2015).

Odia and Ogiedu (2015) stated that the adoption of IFRS around the world is occurring rapidly to bring about accounting quality improvement through a uniform set of standards for financial reporting. Accounting quality, however, is a function of the firm's overall institutional setting. Land and Lang (2002) document that accounting quality has improved worldwide since the beginning of the 1990s, and suggest that this could be due to factors such as globalization and anticipation of international accounting harmonization. Barth, Landsman and Lang (2006) find that firms adopting IFRS have less earnings management, more timely loss recognition, and more value relevance of earnings, all of which they interpret as evidence of higher accounting quality.

Existing literatures document improvements in accounting quality following voluntary IFRS adoption to reduce information asymmetry between managers and shareholders and it can be evidenced by proper assets and earnings management, lower cost of capital, and high capacity by the investors about firm's future earnings.

Several studies provide evidence on the association between IFRS adoption and accounting quality. Tendenloo and Vanstraelen (2005) in Paiva and Lourenco (n.d.) analyses earnings management of German firms that have adopted IFRS voluntarily, providing evidence that for firms audited by Big-4, earning management decreases significantly. They conclude that the mere adoption of IFRS is not sufficient to guarantee a better quality of accounting information.

Christensen, Lee and Walker (2008) investigate the impact of incentives on accounting quality changes around IFRS adoption by German firms. They found that improvements in accounting quality are confined to firms applying IFRS voluntarily. Paiva and Lourenco (n.d.) opined that these empirical results lead them to conclude that even in the presence of high-quality accounting standards (IFRS), the financial information presented by firms remains a manipulation target. They stressed that a possible explanation for these findings is that accounting quality is moulded by various factors, such as, by one hand, the strength of the execution system (audit), firms' size, companies' indebtedness, market competition, firms' compensation and, by the other hand, the regulation of the capital market, the taxation system and the regulation structure of the country, with its functioning characteristics.

Determinants of Accounting Quality

Financial accounting information is used for multiple and specific purposes, mainly related to the process of decision making (Achim & Chis, 2014). Each of the several categories of users, among which are investors, creditors, government agencies, management, employees and clients, is interested in some specific information which is valuable for them. Based on this information, they take decisions. That is why accounting information should be of high quality.

Based on the agency theoretical framework, three hypothesis and three predictor variables have been developed in the current study. The variables used are bank's performance, leverage and auditor size.

Performance and Accounting Quality

Findings from different studies about the relationship between the level of accounting quality and profitability show mixed results. A review of prior results shows that there is little evidence of such a positive relation. While some studies have documented a positive association between two variables (Agyei-Mensah, 2015; Patton & Zelenka, 1997 cited in Michailesco, 1999); Michailesco, (1999) found no relationship in this sense. Agency theory suggests a possible relationship between profitability and accounting (Agyei-Mensah, 2015). In this study, bank's performance is measured using bank's profit before tax (PBT) on shareholders' fund.

Leverage and Accounting Quality

Atanasovski (2013) stated that the agency theory and cost of capital theory offer suitable explanation for the association of the capital structure and debt to equity ratio of the firm and the quantity of disclosed information in financial statements. He furthermore pointed out that higher rates of leverage motivate companies to disclose more information in order to reduce agency costs, reduce information asymmetry and consequently costs of capital. Based on agency theory, a company with a higher debt ratio has an incentive to disclose more information. Previous studies (Christensen et al, 2007 and Atanasovski, 2013) report a positive relationship between the two variables while others (Paiva & Lourenco, n.d.) found no significant relationship between leverage and accounting quality. Mixed results here provide a gap in knowledge. For the purpose of this study, fixed interest security on total capital employed will be employed as a proxy for leverage.

Auditor Size and Accounting Quality

Fathi (2013) stated that an external audit can significantly influence the amount of information disclosed. He further opined that this relationship is consistent with agency theory; an audit firm with large size has a strong incentive to maintain their independence and to impose more stringent disclosure standards because they have more to lose from damage to their reputation. For the purpose of this study, the Big Four audit firms are used to determine whether banks that engage the Big Four disclose high accounting quality than those who engage other audit firms. The Big Four comprises: KPMG (Klynveld Peat Main Goerdeler), Akintola Williams Deloitte (AWD), PwC (Pricewaterhouse Coopers) and Ernst & Young. Prior studies (Michailesco, 1999 and Atanasovski, 2013) revealed that firms audited by the Big Four tend to disclose high accounting quality than others that are audited by small local audit firms, although Paiva & Lourenco (n.d.) found no relationship between the two variables.

Prior Research on Bank's Characteristics and Accounting Quality

Cohen (2003) investigated the determinants and economic consequences associated with firms' financial reporting choices. Recognizing the endogeneity associated with these choices, he found evidence of a positive association between investors' demands for firm-specific information and financial reporting quality. He also found that higher proprietary costs are associated with a lower quality of financial information, that firms with high quality financial reporting policies have reduced information asymmetries, he found no significant evidence that firms choosing to provide financial information of higher quality enjoy a lower cost of equity capital.

Elhelaly, M. (2014) investigated the relationship between Related Party Transactions (RPTs) on Accounting Quality in Greece and found there is no significant difference in accounting quality between RPTs firms and non-RPTs firms.

Fathi (2013) examined the relationship between the quality of financial information disclosed and the presence of the Big 4 among others for French companies listed on the SBF 250 for a period of five years from 2004 to 2008. The quality of financial information is approximated by the discretionary accruals and with a disclosure index with 78 items. The result shows a positive effect between the quality of financial information and the presence of the Big 4.

Suberi, A. Z., Hsu, G. and Wyatt, A. (n.d.) examined the consequences for firm growth on higher accounting quality and found out that there is little relation between the firm growth measures and ‘accounting quality’.

Michailesco, C. (2010) related the quality of disclosure in the annual reports of French listed companies to possible determinants representing agency theory. The sample she used included 100 industrial and commercial companies whose corporate reportings have been studied from 1991 to 1995. Independent variables are measures of use of external financing, profitability among others. She found that leverage has a significant influence only in 1995. Nevertheless, since 1993, as the influence of these variables is getting stronger, it indicates a trend toward a better transparency in French companies’ reporting practices. Profitability has no influence on disclosure quality.

METHODOLOGY

Theoretical Framework

Company’s characteristics selected to explain the quality of the information disclosed by a company are measures of performance, use of external financing, and auditor size. This study is a longitudinal analysis with the aim of assessing the trend of AQ in Nigeria over a five-year period (2011-2015). This data time series was used in order to measure the accounting quality of the banking sectors in Nigeria after the adoption of International Financial Reporting Standards in 2010. Agency theory provides the theoretical framework of the discussion.

Agency Theory

The literature on agency theory largely focuses on methods and systems, and their consequences that arise to try to align the interests of the principal and agent (Delves & Patrick, n.d.). Delves and Patrick (n.d.) stated that while the agent/principal dilemma in a corporate context had been pondered as early as the 18th century by Adam Smith3—and many of its key concepts were developed in literature on the firm, organizations, and on incentives and information, a separate theory of agency did not emerge until the early 1970s when Stephen A. Ross and Barry M. Mitnick, working independently, each presented a theory of agency.

Stephen Ross and Barry Mitnick, independently and roughly concurrently, were the first scholars to propose, explicitly, that a theory of agency be created, and to actually begin its creation (Mitnick, 2006). He stated that Ross was responsible for the origin of the economic theory of agency; that he introduced the study of agency in terms of problems of compensation contracting; in essence, agency was seen as an incentives problem, and Mitnick was responsible for the institutional theory of agency pointing to the fact that institutions form around agency and evolve to deal with agency, in response to the essential imperfection of agency relationships.

An agency relationship is defined as one in which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent (Jensen & Meckling, 1976).

According to Investopedia (2016), Agency Theory is the relationship between two parties, where one is a principal and the other is an agent who represents the principal in transaction with a third party. It explains the relationship between principals (such as shareholders) and agents (such as company executives) in business.

Agency theory is based on the relationship between the principals or the owners of the firm and the agents or the managers (Elhelaly, 2014).

An Agency Theory seminal paper developed by Jensen and Meckling to explain the financial structure of firms is the foundation of positive accounting theory (Watts & Zimmerman, 1986).

Agency theory is mostly concerned with protection of ownership rights of shareholders. Due to the separation of ownership and control, conflicts of interest can occur due to both parties wish to maximize utility (Thanh & Cheung, 2010). It deals with how to solve those conflicts with the help of governance code, allowing them to monitor and control manager's behavior (Jensen & Meckling, 1976).

Performance

Profitability is one of the measures of firm performance. Agency theory suggests a possible relationship between profitability and accounting quality (Agyei-Mensah, 2015). Inchausti, (1997) (in Agyei-Mensah, 2015) found that managers of very profitable firms will disclose more quality accounting information in order to support compensation arrangements and the continuance of their positions. Based on the above explanations, there is expected to exist a positive relationship between performance and accounting quality. The return on capital employed is used as a ratio of performance measure in this study. The return on capital employed is calculated as:

$$\text{Return on capital employed} = \frac{\text{Profit before interest and tax}}{\text{Capital employed}} \times 100$$

Leverage

According to the agency theory (Jensen & Meckling,1976), a company with a higher debt ratio has an incentive to disclose more information. Fathi (2013) stated that creditors can protect themselves by restrictive covenants in debt. To reduce agency costs, managers have incentives to increase disclosure. Disclosure of quality accounting information reduces agency costs and facilitates to creditors the risk assessment of the company. Creditors likely ask more information to ensure their funds. From these explanations, it is anticipated that the relationship between the quality of accounting information and leverage is positive. The Debt ratio is used to measure the leverage position of the banks, a high debt ratio will mean that the bank is relying heavily on external funding, a situation which is quite risky for the external capital providers (Ilaboya O. J., 2015 pp 368). Debt Ratio is calculated as;

$$\text{Debt Ratio} = \frac{\text{Total Debts}}{\text{Total Assets}}$$

Audit Size

According to Fathi (2013), an external audit can significantly influence the amount of information disclosed. He further opined that this relationship is consistent with agency theory; an audit firm with large size has a strong incentive to maintain their independence and to impose more stringent disclosure standards because they have more to lose from damage to their reputation. DeAngelo (1981) in Fathi (2013) pointed out that the large audit firms invest more to maintain their reputation as providers of effective control than small audit firms. He stated that the independence enjoyed by a large company audit allows them to influence corporate financial information disclosed, to satisfy the needs of external users for reports, since their values as auditors depend on the nature of user perception of financial information. This suggests that firms with higher agency costs will be more inclined to obtain higher quality audits by contacting large audit firms. Based on these, it is expected that there is a positive relationship between accounting quality and the engagement of the Big 4.

Most of the hypotheses on these determinants have been formulated and tested by previous studies, so we also review prior evidence as discussed under literature review.

Model Specification

The model specification of any relationship must be guided by empirical evidence from previous studies. The model specification below is used in finding the relationship or association of accounting quality and the regressands. The model is specified as follows:

AQi = F(PERF, LEV, AUDSIZE, ε)

Where:

AQ = Accounting Quality

PERF = Bank's Performance

LEV = Leverage

AUDSIZE = Auditors Size

ε = Stochastic error term

Put in linear form, the model can be re-written as:

$AQ_{it} = \beta 0 + \beta 1PERF_{it} + \beta 2CSIZE_{it} + \beta 3AUDSIZE_{it} + \varepsilon_{it}$

Where:

AQ_i: - proxy of total equity of Commercial Banks *i*

PERF: - % of profit before tax (PBT) on shareholders' fund

LEV: - fixed interest security on total capital employed

AUDSIZE: - whether the company engaged the service of the Big Four audit firms (dummy variable, 1 for companies that engaged the big four and 0 for those that engaged others)

β0 - intercept or constant term

(β1…..4) - are the coefficients of the independent variables

ε - Stochastic error term

The a priori expectations are:

$b_0 > 0$, $b_1 > 0$, $b_2 < 0$, $b_3 > 0$

This simply means that all the independent variables are expected to be positively related to the dependent variable.

Research Design

Panel research design is employed in this study to examine the determinants of accounting quality with regards to the post IFRS adoption of Nigerian banks. The Panel research design is used to establish meaningful relationship between variables. That is, it is used to determine the impact of DMBs' attributes (performance, leverage and auditor size) on post IFRS accounting quality.

Population Size

The population size of the study includes all the 18 commercial banks in Nigeria as at 31st December, 2015.

Sampling and Sample Size

In this study, a total number of 15 banks listed on the Nigerian Stock Exchange are used. The other three banks are privately held and are not listed on the Nigerian Stock Exchange. These banks are Heritage Bank, Citi Bank and Standard Chartered Bank. The list of the number of banks used is as reported in table 1.

Table 1. List of Nigerian banks listed on the Nigerian Stock Exchange

S/N	BANKS	S/N	BANKS
1	ZENITH BANK PLC	9	UNITY BANK PLC
2	STERLING BANK PLC	10	FIDELITY BANK PLC
3	ECO BANK PLC	11	WEMA BANK PLC
4	FCMB PLC	12	DIAMOND BANK PLC
5	FIRST BANK OF NIGERIA PLC	13	UNION BANK PLC
6	UNITED BANK FOR AFRICA PLC	14	STANBIC IBTC PLC
7	ACCESS BANK PLC	15	GUARANTY TRUST BANK PLC
8	SKYE BANK PLC		

Source: www.nse.com.ng/listed-companies

Sources and Method of Data Collection

The source of data for this study is secondary source of data. Data were sourced from annual reports and accounts of Nigerian Banks from the websites of the banks and the Nigerian Stock Exchange (Benin City, Edo State Branch); and were for the post-IFRS adoption period 2011 through 2014. The data on performance, leverage and auditor size were collected for the period of four years after IFRS adoption. The data so obtained were used to constitute the explanatory variables which identify the determinants of accounting quality.

Data Analysis Techniques

The data for this study were analysed using the economic, statistical and econometric criteria. PERF, LEV and AUDSIZE were the independent variables while total equity is the dependent variable. The researcher will have to establish whether the signs and sizes of the estimates are in line with theory, using the following diagnostic tests: normality test, panel least-square, the serial correlation test (to understand the interrelationship between variables), heteroskedasticity test (to ensure the fitness of the model), model specification order and the descriptive statistics (which provide information on mean, standard deviation and minimum and maximum values in the set of data analysed).

RESULTS

Descriptive Statistics

Table 1. Descriptive Statistics (Eviews 8 output)

VARIABLES	AQ	PERF	LEV	AUDSIZE
	12.12002	0.136283	0.076233	0.9142857
Median	12.27657	0.1371	0.0648	1
Maximum	14.37528	1.1923	0.2626	1
Minimum	9.290537	-0.5799	0	0
Std. Dev.	0.974833	0.190146	0.051562	0.281963
Skewness	-0.37357	1.509409	1.10869	-2.9598001
Kurtosis	3.152875	17.7473	4.853763	9.7604167
Jarque-Bera	9.672038	660.9055	24.36354	235.50596
Probability	0.003433	0	0.10E-06	0
Sum	836.2813	9.53982	5.3363	64
Sum Sq. Dev.	64.62039	2.494727	0.183444	5.4857143
Observations	69	70	70	70

The table above shows the descriptive statistics of the variables. It is obvious that the mean value of accounting quality of banks in Nigeria stood at 12.12002, which implies that about 12% of banks in Nigeria are not holistic about accounting quality. The standard deviation within the period of the study stood at 0.974833, very close to 1, indicates the existence of strong clustering of the sample in this case in relation to accounting quality in Nigeria. The maximum and minimum values for the period are 14.37528 and 0.974833 respectively. The mean value of Bank Performance (PERF), which is a percentage of profit before tax on shareholders fund stood at 0.136283, with a standard deviation of 0.190146, shows considerable clustering of Bank performance around the mean, indicating that firm's performance in the sample may not be significantly different from the mean size. While the maximum and minimum values within the period stood at 1.1923 and -0.5799 respectively.

The mean value of Leverage (LEV), a proxy for debt ratio measured as total debt over total assets stood at 0.076233, with maximum and minimum values of 0.2626 and 0 respectively. The standard deviation of 0.051562 at its low value implies that Leverage (Debt ratio), is not significantly different from the average.

Auditors Size (AUDSIZE), which measures whether the Banks engage the service of the Big Four audit firms with a mean of 0.9142857 shows that about 91% of the Banks employ the services of the Big Four audit firms in Nigeria. The standard deviation stood at 0.281963, indicates a clustering of the sample around the mean, but in this case in relation to average auditor's size. The maximum and minimum values for the period stood at 1 and 0 respectively.

Normality Test

The normality of the regressand was gotten by the transformation of the variable. This is done by checking the log of the variable- Accounting Quality (AQ), and this is proven by the Jacque-Bera-Statistics of the variables (AQ, PERF, LEV, AUDSIZE), at (9.672038, 660.9055, 24.36354, 235.50596) and their respective P-values at (0.033433, 0, 0.102, 0), indicates the normality of the data series at 5% level of significance with ($P<0.05$). This shows the absence of heteroskedasticity in the model.

Pearson Correlation Coefficient

Table 2. Correlation Coefficient

VARIABLES	AQ	PERF	LEV	AUDSIZE
AQ	1			
PERF	-0.01446	1		
LEV	-0.45576	-0.01491	1	
AUDSIZE	0.361189	-0.2499	-0.30527	1

The table above shows the Pearson correlation coefficient result of the variables. It is obvious that accounting quality (AQ) is positively correlated with all the variables in the model such as (PERF, LEV, and AUDSIZE). The correlation coefficient result shows that all the variables in the model were not very strongly correlated with each other and this indicates the absence of multicolinearity. In other words, the variables are suitable for conducting regression analysis.

Regression Analysis

Table 3. Panel Least-Square with (AQ) as dependent variable

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	11.75356	0.516845	22.74098	0.0000
PERF	0.225921	0.564244	0.400397	0.6902
LEV	-7.183829	2.142459	-3.353076	0.0013
AUDSIZE	0.960402	0.432888	2.218592	0.0300

R-squared	0.263909	Mean dependent var	12.12002
Adjusted R-squared	0.229935	S.D. dependent var	0.974833
S.E. of regression	0.855449	Akaike info criterion	2.581842
Sum squared resid	47.56651	Schwarz criterion	2.711355
Log likelihood	-85.07353	Hannan-Quinn criter.	2.633224
F-statistic	7.768084	Durbin-Watson stat	0.828047
Prob(F-statistic)	0.000165		

$$AQi = 11.75356 + 0.225921PERF – 7.183829LEV + 0.960402AUDSIZE$$

$$R^2 = 26, \quad \bar{R}^2 = 22, \quad F – Statistics = 7.77, \quad DW = 0.83$$

Econometric analysis aims primarily at the verification of economic theories. According to Iyoha (2004), interpretation of a regression result should be holistic, that is, covering economic theory, statistical analysis and econometric issue. In other words, a research work that is not guided by economic theory cannot be said to be relevant, nowadays. To this end, the evaluation of panel regression result is done on the basis of these criteria.

Economic or Appriori Criterion

These are determined by the principles of economic theory and refer to the signs and magnitudes of the parameters of economic relationships.

From a priori expectations, the relevant explanatory variables were expected to be related positively to the regressand, which are Bank Performance (PERF) and Auditors Size (AUDSIZE), while Leverage (LEV), is expected to be negatively related. It therefore means that all the variables appears in accordance with a priori expectation and economic postulations'. By economic interpretation, therefore, a 1 percentage – point increase in these variables will lead to a decrease (fall) or increase (rise) in the dependent variable (AQ) to the tune of the values of the relevant coefficients of the model. Conversely, a 1 percentage- point increase in PERF and AUDSIZE will lead to a corresponding increase in AQ to the extent of the coefficient values (0.225921 and 0.960402). To fix facts, a 1 percentage-point increase in LEV will result to a decrease in AQ by the coefficient value (-7.183829).

Statistical Criterion also known as First-order Test

From the result of the equation, the adjusted R-bar-square, which is a measure of the predictive ability of the model, shows that the estimated ability of the model fit the data well. The adjusted R-bar square from the model put at 22%, shows that the explanatory variables such as PERF, LEV and AUDSIZE, are able to explain 22% changes of the systematic variations in AQ. Hence, the remaining 78% can be regarded as the unexplained variations attributable to the stochastic error term, which means that there are other variables that were not captured in the model that also explains Accounting Quality in Nigeria.

F-Statistics

This is used to test the overall significance of the estimated regression line, that is, whether AQ is linearly related to the explanatory variables. In other words, the F-values of 7.77, from the model, provides the test of null hypothesis that the true coefficients are zero when put together, as the result shows, the P-values of the computed F-statistics is practically zero (0.000165), as against it high value of 7.77 approximately. Which lend credence to the fact that the regression model is statistically significant as earlier shown by the adjusted R-bar-squared value. In other words, the regressors are linearly related to the regressand.

t-Statistics

The t-statistics is used to test the individual statistical significance or otherwise of the relevant explanatory variables. This is whether the individual coefficient is significantly different from zero or not. The report of the regression result shows that LEV and AUDSIZE are statistically significant. In other words, LEV and AUDSIZE are significantly different from zero. By interpretation, therefore, the aforementioned variables have significant influence on AQ and by extension, are determinants of Accounting Quality in Nigeria and that they should be included in the model because they have positive relationship or association. Hence, one can reject the first null hypothesis that the relevant true population coefficient is not significantly different from zero. Conversely, the regression result also shows that PERF are statistically insignificant, by interpretation, the aforementioned variables have no significant influence on AQ and by extension, are not determinant of Accounting Quality in Nigeria, and that it should be excluded from the model because it has no business there in the model, in addition, we accept the relevant null hypothesis that the variable is statistically different from zero.

Table 4. t-test at the 5% significant level for the model

Variables	T-statistics	5% Critical values	Decision rule
Constant	22.74098	2.132	Significant
PERF	0.400397	2.132	Insignificant
CSIZE	-3.353076	2.132	Significant
AUDSIZE	2.218592	2.132	Significant

The standard errors of the variables, shows that errors were minimal in the model because the values appears very low. This also proves the absence of heteroskedasticity. This is because heteroskedasticity enlarges the standard error of the variables thereby making the t-statistics insignificant in the model. Due to the fact that our t-statistics is significant to the dependent variable shows the absence of heteroskedasticity. Using the rule of thumb as explained above shows that the model is free from heteroskedasticity.

The Durbin-Watson Statistics, which is actually a time-series problem and not a cross-sectional data problem, enable us to conclude that there is no auto-correlation or serial correlation in the model.

Evaluation of the Hypotheses

H_0:1 There is no significant relationship between bank's performance and accounting quality.

This hypothesis was actually stated to investigate if there is a significant relationship between Bank Performance and Accounting Quality in the financial statements of Banks in Nigeria. The result appears positive but insignificant with accounting quality (AQ), which is in agreement with (Agyei-Mensah, 2015; Patton & Zelenka, 1997 cited in Michailesco, 1999); Michailesco, (1999), they found no relationship between the two variables. Therefore, we conclude by accepting the null hypothesis and rejecting the alternative counterpart that there is no relationship between Bank Performance and Accounting Quality in Nigeria.

H_0:2 There is no significant impact of auditor's size on the accounting quality among banks in Nigeria.

This hypothesis was stated to find out if auditor's size correlates with Accounting Quality in banks financial statement in Nigeria. The result shows a positive and significant relationship i.e. auditor size appears very significant to Accounting Quality in Nigeria. Therefore, we reject the null hypothesis and accept the alternative that there is a significant relationship between the variables. This is in agreement with the findings of Fathi (2013), he stated that an external audit can significantly influence the amount of information disclosed. He further opined that this relationship is consistent with agency theory; an audit firm with large size has a strong incentive to maintain their independence and to impose more stringent disclosure standards because they have more to lose from damage to their reputation.

H_0:3 There is no relationship between the bank's Leverage position and accounting quality.

This hypothesis was stated to find out if Leverage has significant relationship with Accounting Quality in Nigeria. The result shows a negative but significant relationship i.e. Leverage appears significant to the level of Accounting Quality in Nigeria. This is in accordance with Previous studies, (Christensen et al, 2007) report a significant relationship between the two variables while others (Paiva & Lourenco, N.D.) found no significant relationship between leverage and accounting quality. On the bases of this, we reject the null hypothesis and accept the alternative hypothesis.

SUMMARY OF FINDINGS

This study explains the determinants of accounting quality among banks in Nigeria for the period spanning 2011-2015 using a cross-sectional data and a panel least-square econometric technique as well as descriptive statistics and Pearson correlation coefficient.

The result notwithstanding, has been able to confirm the much-anticipated determinants of accounting quality (AQ) in Nigeria. The subject matter of the study further emphasizes the fundamental importance of Banks voluntarily disclosing it financial statement, as this has a way of assisting its shareholders, investors, creditors, government agencies, management, employees and clients who are interested on specific information, which is valuable to them.

To fix fact and make the work substantive, other variables like PERF, AUDSIZE and LEV were incorporated as the main explanatory variables in the model, and from the result, the following points were observed.

- PERF is not a major determinant of accounting quality (AQ) in Nigeria; this is because it appears insignificant in the model though it has a positive relationship..

- LEV appears to have a negative but significant relationship with accounting quality (AQ) in Nigeria. In other words, it is a determinant of accounting quality (AQ) in Nigeria.
- AUDSIZE shows a positive relationship or association, and is significant to accounting quality (AQ) in Nigerian banks. Theories and previous works, stated at the evaluation of the hypothesis above, supported these findings.

RECOMMENDATIONS

In line with the discoveries and the summary of findings highlighted above, the ensuing recommendations are postulated:

i. The study recommends that the managers and administration of quoted banks in Nigeria should subscribe to ethnical code of accounting quality.

ii. Committee members should be able to adequately comprehend the banks' financial statement, as this is very fundamental.

iii The study recommends orientation and reorientation of audit committee members to guarantee significant influences on financial reporting quality.

iv Monitoring establishments should establish satisfactory penalties against banks for noncompliance as regards to accounting quality standard. These penalties should be weighty enough to act as warning for fraudulent financial disclosure.

CONCLUSION

In line with the analysis and finding the determinants of accounting quality among the various banks in Nigeria quoted in the Nigeria stock exchange from 2011-2015 as the response variable, the study concludes that performance (PERF), is not a major determinant of accounting quality disclosures in Nigerian banks. However, auditor's size (AUDSIZE) and leverage (LEV) appear to have a very strong relationship with the dependent variable (AQ) for the period studied. Using the panel least-square in finding this relationship, the conclusion is that there exist a positive and significant relationship between PERF, AUDSIZE and AQ, while a positive but insignificant relationship exist between PERF and AQ, for the periods studied.

This led to the acceptance of the first null hypothesis and the rejection of the last two null hypotheses. It is therefore imperative that policies be formulated in line with these findings.

WAY FORWARD

Accounting Quality was calculated using the formula: $AQ_i = F(PERF, LEV, AUDSIZE, \varepsilon)$

The study found out that accounting quality in Nigeria is largely determined by several factors like total assets, profitability level, auditor size and fixed interest security on total capital employed. It is therefore advised that emphasis be made on the conception, formulation and implementation of policies aimed at including long-run stability in the financial sector such that will stimulate growth at the same time strengthening the accounting quality of the firm.

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