SUSTAINING INVESTOR'S CONFIDENCE IN BANKS, THROUGH CREDIBLE FINANCIAL REPORTING

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Abstract

The focus of this paper is on sustaining investors, confidence in banks through credible financial reporting. The main objective of this paper is to emphasis the need for preparers of banks financial statements to comply with accounting standards, issued by Nigeria Accounting Standards Board and Central Bank of Nigeria, financial regulations. This will help to sustain the confidence of both local and foreign investors and equally stimulate economic progress in the sector. Compliance with accounting standards will help the shareholders to know the true state of the companies and guide the management and regulators in arriving at appropriate policies and sanctions . It was recommended that there should be appropriate legislation to enforce compliance .The central bank inspectors should be re-trained in order to improve bank regulations. Also, bank customers should be enlightened on their rights by the Central Banks of Nigeria.

The Financial statement of a company tells us that a company is making profit/Loss. Before drawing the financial statement it must have taking into account all relevant factor including challenges constraints and prospects. It helps who would be investors to decide where and when to invest.

In view of these critical role, preparers of financial statement are expected to be guided by strict and uniform rules, so as not to misled investing public. Annual statements of accounts of companies quoted in the Nigerian Stock Exchange are expected to apply accounting rules specified in statement of accounting standards issues by the Nigerian Accounting Standard board.

Compliance with the statements of accounting standards in the preparation, has to a large extent exposed the unwholesome practices by these companies, leading to enhanced investor's confidence. It has helped the shareholders to know the true state of the companies and guide the management and regulators in arriving at appropriate policies and sanctions.

There is no doubt that credible corporate financial reports would stimulate economic progress. Therefore preparers of Financial Statements, must at all time ensure mil compliance with statement of accounting standards in accordance with international best practices.

Cross border transactions, brought about by globalization has placed additional responsibility on Nigerian Accounting Standards Board. Preparers of financial statements like accounting and auditing firms and regulators of financial systems like Central Bank of Nigeria and Security and Exchange Commission are to ensure that companies operating in Nigeria, enjoy sustained confidence of both local and foreign investors.

One major fall out of global economic meltdown is the decision by the presidential committee on the crisis, to aligned banks financial reports to the International Financial Reporting Standards (IFRS). The IFRS, seeks to provide a single set of high quality global accounting standards that requires transparent and comparable information in general purpose financial statement. Already, banks in Nigeria have started adopting IFRS in the preparation of financial report to brighten their favorable global competition in the doing this, banks are liaising with the Nigerian Accounting Standards Board, whose responsibility is to domesticate the IFRS with local statements of accounting standards to ensure that both the interest of local and foreign investor are sustained. Compliance with according standards issued by Nigeria Accounting Standards Board {NASB} to companies, always been breached {Otongaran;2000-9}.

The recent changes in banking sector is the era of deregulation and consolidation/merger. The era of deregulation, saw the proliferation of banks and other financial institutions (Ogunlere, 1993; 16}.This brought stiff competition among banks and other attendant positive and negative consequences. Notably, were fraudulent practices, bank distress and default in obligation to customers. The present era, saw consolidation/merging of banks . The consolidation requires banks to capitalize their share capital to the tune of ₦25 Billion (twenty-five billion naira). The consolidation is to enable them withstand any distress and offer efficient services.

The Central Bank of Nigeria established a body called Nigeria Deposit Insurance Corporation (NDIC) by Decree 22of 1988 to protect depositors fund in the wake of bank distress. The banks and other financial institutions Decree No. 22 (BOFID), introduced in 1991 was meant to cover those finance companies in the informal sector. Also a Decree called failed banks (recovery of debt) and Financial malpractices in banks, Decree No. 18 of 1994 and advance fee fraud and other related offence decree of 1995, was promulgated, in the wake of increasing distress in banks, to try any bank employee(s) found wanting in any fraudulent act in the bank. (Awujo,1996;68) The above decree were meant to control banks to enable them manage their liquidity, protect depositors and checking fraudulent practices by banks staff.

Undoubtedly banks have their objectives; the desire to survive, to make profit and to grow. In order to achieve these objectives a bank has to manage its liquidity well to have adequate cash in hand to meet its financial obligations at all time and make profit.

Purpose/ Objective of the Paper

The focus of this paper is on sustaining investors' confidence in banks, through credible financial reporting. More specifically, the purpose is;

(1) To find out how compliance with accounting standards relates to safety of money in banks.

(2) To find out how compliance with Central Bank monetary policies relates to liquidity management in banks.

Research Questions

The following questions were addressed in the paper

(1) Is there any significant relationship between compliance with accounting standard and safety of money in banks.

(2) Is there any significant relationship between compliance with Central bank monetary policies and liquidity management in banks.

Hypothesis (Null or Ho)

The following hypotheses were tested

Hoi; there is no significant relationship between compliance with accounting standards and safety of money in banks.

Ho2 ; there is no significant relationship between compliance with central bank monetary policies and liquidity management in banks

Significance of the Paper

The paper will be relevant, in the following ways;

(1) It will further enhanced protection of depositors in banks.

(2) It will further enhance stable payment system.
(3) It will further enhance efficiency and competition in banking sector.

According to Onochie (2005; 155, 156), a bank is a type of financial institution that is recognized as bank by regulatory authorities in the countries in which it operates and usually has exclusive right to use the term bank as part of its name. They have custody of large volumes of monetary items, including cash and negotiable instruments, whose physical security has to be assured. They are regulated by governmental authorities and the resultant regulatory requirements often influence generally accepted accounting principles and auditing practices within the industry.

Banks Financial Statement and Audit

There is a need to ensure that banks financial statement are uniformly presented and that their contents are reliable, factual and comparable so as to assist the user in evaluating banks performance. Uniform presentation will also assist regulatory agencies to properly classify bank and to better regulate the operation (Onochie; 2005:156).

Section 335 (1) of the companies and Allied Matters Decree 1990 requires all fmancials statement issued in Nigeria to comply with standard s laid down in the statement of accounting standards issues from time to time by Nigerian Standard Board (NASB).Independent auditors are responsible for ensuring that accounting standards are applied properly by management. In addition to the provision of the Companies and Allied Matters Decree, section 26 (2) of the Banks and Other Financial Institution Decree (No. 25) of 1991 requires the financial statements of banks to comply with all applicable standards. The auditors of a bank is required by regulatory authorities to state that accounts of banks have been prepared in compliance with relevant standards.

Banks are expected to maintain good accounting and internal control system. However, banks management often engage in falsification of accounting records, rendering inaccurate returns to regulatory authorities. It has also been revealed that multiple financial statements have been issued by some banks for different purposes in order to mislead the monetary and tax authorities (Irechukwu; 2001; 6).

Bank Regulation

According to Awujo (1996;56), the most basic reason for the regulation of banks and other financial institutions is the depositors , protection by restoring its confidence in the banking industry. An industry which has been badly shaken by financial distortion. To achieve this some Decree were promulgated. Notably, is the Banks and Other Financial Institutions Act 1991 (BOFIA).It places restrictions on payment of dividends among other thing. Also banking regulations through monetary policy is meant to ensure monetary stability. The Central Bank has responsibility for ensuring stable payment system, thereby discouraging financial panics. Central bank of Nigeria is always interested in banks having adequate liquid assets, adequate capital base and sound management. This will ensure depositors' confidence and ability of the banks to create credits. The capital adequacy is also a measure of going concern, particularly in bad times. This measure is necessary in the wake of increase in distress banks, in other to safeguard depositor's funds. In Nigeria, the capital base of every bank is twenty-five billion naira (#25 Billion). This was brought about by consolidation in the sector.

Banking regulation can engender competition and efficiency, which was brought about by consolidation. Sourcing of depositor depends on the quality of services offered by the bank. Any bank that cannot measures up under this consolidation may be required to close down.

Ethics and Professionalism in Banking

Two issues that the Central bank of Nigeria (CBN) and the Nigeria Deposit insurance Corporation (NDIC) are taking serious now are ethics and professionalism (Alao,2001;31). The regulatory authorities and professional bodies including the Chartered Institute of Bankers of Nigeria and the Institute of Chartered Accountants of Nigeria have lent their weight in support of these requirement. Bankers are expected to exhibit good behaviour, engage in proper and fair banking practices and indeed play according to the rules of the game. The utmost objective is to uphold the integrity of the profession and thereby culturate public confidence in the system. The principle element of this ideals include not only the avoidance of conflict of interest and abuse of position, but also the need to ensure completeness and accuracy of relevant record, confidentiality of financial transaction, disclosure of illegal transactions and fair equitable treatment of all parties to transaction.

Unethical Practices in Bank

It follows that unethical practices and unprofessional conduct arises when professional ethics ideals are disregarded or when the relevant regulations are not observed. Such instance includes the misrepresentation of material facts or statutory report to the regulatory authorities in order to derive some benefit or avoid some liability. Other variant of professional misconduct include non-conformity with accounting standard in the preparation of financial statements, resulting in incompleteness or false information.

According to Ugwu (2000: 21) an analysis of unethical practices by bank staff include presentation of forged cheques, granting of unauthorized loans, posting of fictitious credit, suppression of cheques and fraudulent transfer and withdrawals. Despite, the bank and other financial institution Decrees (BOFIDs) No 25 OF 1991 which has various provision aimed at ensuring transparency in banks, many bankers still engage in insider abuse and prohibited transaction which set in motion a wave of distress in the banking sector, in the 1990s.

Liquidity Management and Distress in Banks

> *Banks are businesses like other concerns. They are in business to make profit, but unlike most others, there product is money. They borrow from one source and lend to another. By lending at a higher rate of interest than borrowed, they make money for themselves and their shareholders (Ikechukwu; 2001: 6)*
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> *Banks are required to keep 35 percent of their liquid asset depending on the size of the bank and type of deposit, but to lend out the remainder. This is called Liquidity ratio requirement. This level of ratio is expected to take care of unanticipated withdrawal from depositors. Therefore it is the responsibility of the bank management to prevent liquidity crisis by ensuring maximum liquidity at all time. Liquidity management aims at scoring optimum investment (Anyanwu 1993:24).*
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> *Distress in banks may be evidence by inability of the Banks to meet most of its financial obligation. A bank is illiquid when it would no longer, out of its cash flows, meet its maturing obligations as at when due. A bank is insolvent when liabilities exceeded the fair and realizable value of its asset, resulting in deficit equity. Non-performing loans and advances have been known to be the greatest cause of banks failure. This is because pricing of the loan are too high that the return from the investment are not adequate to carry both interest and principal repayment others may include sharp practice in utter disregard to statutory provision, insider abuse and bank fraud (Ubaka, 2000: 17).*

Methods

The research provides information about the procedures for the research paper. This covers population of the study, sample and sampling method, data collection techniques and tools for data analysis.

The population under study is the subject area or the subject matter. The subject matter is sustaining investor's confidence in banks through credible financial reporting. The members of the population were senior staff of banks in Delta state.

The sampling procedure is 'Random Sampling". Every member of the population has equal chance of being selected as a member. The accessible population for the research study will be used for the collection and validation of the data.

Based on the above, the researcher distributed 100 questionnaires to senior staff of banks in Delta State.
The method used in data collection is through primary source. Primary data were collected with the aid of questionnaires.

The data collected from the various sources were analyzed, using the following method:

1. Table and percentage: The formula adopted is shown below:

$$\frac{\text{No. of Response in each category} \quad \text{X} \quad 100}{\text{Total response}}$$

Note: This is not used for test of hypotheses.

2. The Chi-Square (X^2):This is used in testing the two hypotheses formulated. The Chi-Square (X^2) is the difference between observed and expected frequency. It is used, where data are collected from various sources and no response is related to the other. The formula is stated below (Baridam, 2001:165).

$$\text{Chi-square } (X^2) = \Sigma \frac{(of - fe)^2}{Fe}$$

X^2 = Chi – square

Σ = Summation.

Fo = Actual frequency or observed frequency

Fe = Expected frequency

$$Fe = \frac{\text{Row total X Column Total}}{\text{Grand Total}}$$

The test for level of significance is 0.05 with (R - 1)(C - 1), degree of freedom = N

Decision

If the calculated chi-square (X^2) is less than table value, the Null hypothesis is accepted.

If the calculated chi-square (X^2) is greater than the table values, the Null hypothesis is rejected.

Data Analysis and Result

Analysis

Based on the responses gathered through items in the questionnaires, the research questions were analyzed using tables and percentage.

(1) Respondents were asked, if compliance with accounting standards and statutory provisions are important in banks.

Table. 1.

Category of Response	No. of Response	Percentage
Yes	60	60
No	40	40

Total	100	100

Source: field data

Respondents were asked to indicate the safety of money in the banks

Table 2:

Category of Response	No. of Response	Percentage
Safe	30	30
Safer	28	28
No idea about safety	42	42
Total	**100**	**100**

Source: Field data

Respondent were asked if monetary policies are important in management of banks liquidity.

Table 3:

Category of Response	No. of Response	Percentage
Yes	65	65
No	35	35
Total	**100**	**100**

Source: field data

Respondents were asked to rate the bank liquidity position.

Table 4:

Category of Response	No. of Response	Percentage
Above Average	28	28
Average Below	32	32
Average	40	40
Total	**100**	**100**

Source: field data.

Test of Hypothesis

Hypothesis one

Ho$_1$: There is no significance relationship between compliance with accounting provision and safety of money in the banks. Extracts from Table 1 and 2

Table 5. Data Validation for Hypothesis one

	Safe	Safer	No Idea	Total

		Fe	Of	Fe	Fo	Fe	
Yes	20 10	(18)	1810	(16.8)	22	(25.2)	60
No		(12)		(11.2)	20	(16.8)	40
Total	**30**		**28**		**42**		**100**

Source: Response to table 1 and 2.

Table .6.Computation of Chi-square (x) Values

Of	Fe	Fo-Fe	(Fo-Fe)2	(Fo-Fe)2 'Fe
20	18	2	4	0.2222
1 8	16.8	1.2	1.44	0.0857
22	25.2	-3.2	10.24	0.4063
10	12	-2	4	0.3333
10	11.2	-1.2	1.44	0.1286
20	16.8	3.2	10.24	.06095
100	100	0	Cal X^2=	1.7856

Decision

The test for the significance at 0.05 level and degree of freedom at (2-l)(3-l) =2x1=2, give chi-square table value to be 6.00.

The chi-square calculated = 1.7856. Since, the calculated X^2 value, is less than 6.00, the Null is accepted, stating that is no significant relationship between compliance with accounting standards and safety of money in the banks.

Hypothesis Two

Ho_2: There is no significant relationship between central bank monetary policies and liquidity position in banks.

Extracts from Table 3 and 4.

Table 7. Data Validation for Hypothesis Two

	Above Average		**Average**		**Below Average**		**Total**
	Fo	**Fe**	**Fo**	**Fe**	**Fo**	**Fe**	
Yes	20 8	(18.2)	26 6	(20.8)	19 21	(26)	65
No		(9.8)		(11.2)		(14)	35
Total	**28**		**32**		**40**		**100**

Source: Response to table 3 and 4

Table 4.3.5 Computation of Chi-square (X^2) Values

Fo	FB	Fo-Fe	(Fo-Fe)2	(Fo-Fe)2/Fe
20	18.2	1.8	3.24	0.1780
26	20.8	5.2	27.04	0.3000
19	26	-7.0	49.00	0.8846
8	9.8	-1.8	3.24	0.3306
6	11.2	-5.2	27.04	2.4143
21	14	7	49.00	3.5000
100	100	0	Cal X2=	9.6075

Decision

The test for the significance at 0.05 level and degree of freedom at (2-l)(3-l) = 2x1=2 gives chi-square table value to be 6.00. The chi-square calculated is 9.6075. Since, the calculated X^2, 9.6075 is greater the table value, the Null is rejected, stating that there is significant relationship between central bank, monetary policies and liquidity position in banks

Discussion of Findings

This is base on the analysis and literature review.

The findings revealed that 60 (60%) respondents indicated yes and 40 (40%) respondents indicated No, as to whether compliance with accounting standards is important in banks. Also, the finding revealed that 30(30%) respondents indicated safe, 28(28%) respondents indicated safer and 42(42%) respondents indicated no idea about safety. This is in response to safety of money in the banks. According to Awuyo (1996:56), the most basic reason for the regulation of banks and other financial institution is the protection of depositors' money and reposition of their confidence in banking industry

The findings revealed that 65(65%) respondents indicated yes (agreed) and 35(35%) respondents indicated No (disagreed), as to whether monetary policies is important in management of banks liquidity. The findings also showed that 28 (28%) respondents indicated above average, 32(32%), respondents indicated average and 40(40%) respondents indicated below average. This is in response to the rate of banks liquidity position. According to Anyanwu (1993:24), liquidity management aims at scoring optimum investment. Banks are required to keep 35% of their liquid asset. This is called liquidity ratio requirement. This level of ratio is expected to take care of unanticipated withdrawals by depositors.

Conclusion

In summary, the test revealed that compliance with accounting standards and safety of money are not related. The fact remains that not all the accounting standards are complied with (Otongaran; 2000:9). Also unethical practices still continues (Ugwu; 2000:21). Also the Central Bank's monetary policy is related with banks liquidity position. However the liquidity ratio of banks is often violated. The effect is that the banks will not be able to meet most of its financial obligations (Ubaka; 2000:17)

Recommendations

(1) Institutional and legal framework should be strengthened through appropriate legislation, to enforce local accounting standards.

(2) The Central Bank Governor should be given will power to invoke any provisions which will make banks to comply with any rules, regulations, guidelines or administration directive made, given or issued to them by Central Bank of Nigeria.

(3) The public complaints units of the Central Bank should be empowered to investigate and decide on complaints brought to by customers. Base on this, Central Bank should enlighten customers on their rights.

(4) There should be improvement in the control and regulation of bank. In this case, retraining of bank inspectors is necessary.

(5) Accounting and Auditing firms should comply with Nigerian Accounting Standards issued by Nigerian Accounting Standards Board and financial regulation issued by Central Bank of Nigeria.

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