International Journal of Humanities Social Science and Management (IJHSSM)
Volume 6, Issue 5, Sep. – Oct., 2026, pp: 392-401 ISSN: 3048-6874
www.ijhssm.org

The Influence of Corporate Governance on Financial Statements of Listed Deposit Money Banks in Nigeria

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Date of Submission: 16-10-2026 Date of Acceptance: 30-10-2026

ABSTRACT
The study sought to explore the impact of corporate governance on financial statement quality among listed deposit money banks in Nigeria. In particular, the impact of audit committee effectiveness, CEO duality, and ownership structure on financial statement quality was explored in the study. The study was based on the Stakeholder Theory, which suggests that organizations have an obligation to disclose accurate and reliable information to all stakeholders. The study applied the ex-post facto design and used secondary data collected from annual reports of listed deposit money banks in Nigeria from the year 2015 to 2025. Multiple regression analysis was conducted to determine the relationship between corporate governance variables and financial statement quality. The results indicated that audit committee effectiveness positively and significantly influences financial statement quality due to the fact that audit committees comprising of financially literate and independent members increase financial transparency and reporting accuracy. CEO duality, on the other hand, was found to negatively influence financial statement quality significantly.Moreover, there is evidence that ownership structure significantly and positively affects financial statement quality, hence implying that good monitoring of the ownership structure, especially from institutional investors, leads to higher quality disclosure and lower manager's opportunistic behavior. According to the regression analysis, corporate governance had a strong combined explanatory power, explaining 61.0% of the variations in financial statement quality. This study thus finds that corporate governance is an essential element in improving financial statement quality, transparency, and reliability among listed deposit money banks in Nigeria. Corporate governance codes should be more strictly adhered to, audit committees need to be more efficient, the roles of board chairmen and CEOs should be separated, and more institutional ownership participation should be encouraged.

Keywords: *Corporate Governance, Financial Statement Quality, Audit Committee Effectiveness, CEO Duality, Ownership Structure, Deposit Money Banks, Nigeria.*

I. Introduction

Corporate governance has gradually evolved to become one of the key drivers in determining the quality of financial reporting, especially in the banking industry where public trust and financial system stability are of crucial concern. Governance is the process of direction and control of corporations, which comprises various structures and mechanisms of accountability, fairness, and transparency (OECD, 2025; Cadbury Committee, 2022). As for financial institutions, governance becomes crucial since it helps guarantee the protection of the rights of stakeholders and credibility of financial reporting.

In Nigeria, for example, DMBs operate in a rather strict financial environment owing to continuous reforming efforts made by financial institutions such as CBN and FRCN. Most of these reforms are geared towards increasing transparency, improving accountability measures, and securing the protection of investors (CBN, 2024). Despite numerous regulatory initiatives, however, doubts still prevail in regard to the quality and credibility of financial reporting of certain banks.

It is common practice for the Nigerian banking industry to have frequent incidents of financial distress and failure, as well as situations where financial statements need to be restated. This has been seen as having an adverse effect on the stakeholder trust on the financial reporting of companies (Sanusi, 2020; Okoye & Model, 2023). In addition, the banking crises experienced in Nigeria during the middle of the decade saw interventions made by the Central Bank of Nigeria (CBN) on troubled banks due to poor corporate

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governance, inadequate risk management strategies, and lack of financial reporting transparency (CBN, 2024). Besides, earnings management has remained a consistent challenge in developing countries such as Nigeria, where managers can manipulate financial reports using their discretionary powers (Healy & Wahlen, 2021; Dechow et al., 2020). Poorly independent boards, lack of effectiveness in the composition of audit committees, and CEO dominance in decision-making processes have been identified as some of the deficiencies in corporate governance practices (Klein, 2022; Fodio et al., 2023).

Despite the establishment of regulations such as corporate governance codes by the Central Bank of Nigeria (CBN), the Securities and Exchange Commission (SEC), and the Financial Reporting Council of Nigeria (FRCN) for better compliance and improved standards in reporting, difficulties relating to enforcement and poor compliance still exist among listed deposit money banks (CBN, 2024). Thus, the existing issue in empirical research is about the role played by corporate governance practices in influencing the quality, transparency, and reliability of financial statements in Nigerian deposit money banks. In this respect, past empirical studies show varied results on the effects of corporate governance practices on financial statement quality. Some studies point out that corporate governance leads to increased transparency and lower earnings management, whereas others suggest that the effect of corporate governance may be less effective due to certain circumstances prevailing in emerging countries (Yermack, 2020; Uwuigbe et al., 2024).

Therefore, this study examines the influence of corporate governance mechanisms on financial statement quality of listed deposit money banks in Nigeria, with particular emphasis on transparency, accuracy, and earnings reliability. By doing so, the study contributes to ongoing debates on whether corporate governance structures effectively mitigate financial reporting distortions and enhance the credibility of published financial statements in emerging financial markets.

The main objective of this study is to examine the influence of corporate governance on financial statements of listed deposit money banks in Nigeria. Specifically, the study aims to:

1. Examine the influence of audit committee effectiveness on financial statement
2. Evaluate the effect of CEO duality on financial statement
3. Examine the effect of ownership structure and financial statement

The following null hypotheses will guide the study:

H_{01}: Audit committee effectiveness has no significant influence on financial statement reliability of listed deposit money banks in Nigeria.

H_{02}: CEO duality has no significant effect on financial statement reliability of listed deposit money banks in Nigeria.

H_{03}: Ownership structure has no significant relationship with on financial statement reliability of listed deposit money banks in Nigeria.

Concept of Corporate Governance

Corporate governance is widely conceptualized as the system of rules, structures, relationships, and processes through which corporate entities are directed and controlled, with the aim of ensuring accountability, fairness, and transparency in organizational decision-making. It may be said that corporate governance refers to the system of rules, structures, relationships, and processes through which corporate bodies are governed. It involves the establishment of an adequate framework for defining corporate objectives, monitoring performance, and maintaining balance between the interests of the company and its stakeholders (OECD, 2025; Cadbury Committee, 2022).

More recently, corporate governance has been described as a dynamic process that involves the provision of ethical leadership, risk management practices, sustainability reporting, and stakeholder engagement (Tricker, 2019; Mallin, 2022). Such a view highlights the fact that effective corporate governance is not simply concerned with monitoring management. Corporate governance is even more crucial in organizations operating in sensitive industries, such as banking. The fact that deposit money banks deal with the trustful investment of public money increases the importance of proper corporate governance systems in such institutions. The failure of governance frameworks could lead to high risks, financial instability, and ultimately the erosion of investor confidence in deposit money banks (Pathan & Faff, 2023). In emerging economies such as Nigeria, governance challenges are often exacerbated by institutional weaknesses, regulatory enforcement gaps, and ownership concentration patterns that may undermine board independence and effectiveness (Uwuigbe et al., 2020; Okafor & Adeleke, 2021).

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Financial Statements and Reporting Quality

Financial statements refer to the formal and structured documents that give a summary of the financial performance, financial position, and activities related to cash flows of an entity during a particular period. In deposit money banks, the financial statements normally consist of financial position statement, profit or loss statement, cash flow statement, and changes in equity statement according to the requirements of accounting standards, for instance, IFRS (IASB, 2018; IFRS Foundation, 2023).

The issue of quality of financial statements has been a major theme in the field of accounting due to the reliance of accounting information by the users in their decision-making process. Generally, high-quality financial statements are associated with basic quality characteristics such as relevance and faithful representation, along with enhancement quality characteristics including comparability, verifiability, timeliness, and understandability (IASB, 2018; Dechow et al., 2020).

The current accounting research is concerned with issues of financial reporting quality through proxies like earnings quality, accrual quality, earnings persistence, and earnings management.Earnings quality, on the other hand, is an indicator of how well the earnings presented capture the true business results of the organization in question without any form of manipulation by management (Francis et al., 2022; Gaio & Raposo, 2023). Poor earnings quality has been linked to the use of aggressive accounting methods, income smoothing, and managerial discretion. In recent years, researchers have also established that the quality of financial reporting is determined by the corporate governance system in place, the quality of the auditing process, and effective regulations for financial reporting.

Audit Committee Effectiveness

Audit committee effectiveness can be defined as how well the audit committee executes its responsibility to ensure the accuracy of financial reporting, the adequacy of internal control systems, and the independence of both internal and external audit departments. Audit committees act as important corporate governance mechanisms that act as mediators between management and the outside auditor, thus adding validity to financial statements (DeZoort et al., 2021; Turley & Zaman, 2022). As seen in modern corporate governance literature, audit committee effectiveness is largely influenced by attributes like financial expertise, independence, meeting frequency, and the thoroughness with which audits are reviewed (Alzeban & Sawan, 2023; Appiah et al., 2022).

The effectiveness of an audit committee comprising members with financial and accounting expertise will enable them to discover any discrepancies in financial reporting and discourage earnings manipulation activities. Several recent studies have found that the effectiveness of audit committees improves financial reporting quality through the reduction of discretionary accruals (Alkebsee et al., 2021; Eyenubo et al., 2022). This is especially so in the banking industry where there is a lot of financial complexity.In Nigeria, studies have shown that audit committee quality varies significantly across listed banks, and this variation influences the degree of earnings management and financial statement reliability (Oladipupo & Izedonmi, 2021; Nwoye et al., 2023). Weak audit committees are often associated with inadequate oversight, thereby increasing the risk of financial misreporting.

CEO Duality

The concept of CEO duality refers to a corporate governance system where the CEO holds another position as the Chairman of the Board of Directors. This kind of corporate governance practice has always attracted attention and debate in corporate governance literature because of its consequences on board independence and managerial accountability. According to agency theory, CEO duality undermines monitoring systems because decision-making responsibility falls on a single person, thereby making it easy for him or her to act opportunistically and manipulate earnings (Fama & Jensen, 2024). On the other hand, stewardship theory posits that CEO duality increases efficiency and reduces decision-making time by eliminating role conflict (Donaldson & Davis, 2021). Recent empirical research indicates that agency theory is right since CEO duality leads to poor accounting quality (Ahmed et al., 2020; Abata & Migiro, 2022).

In the banking sector, CEO duality is particularly sensitive because of the high level of public trust required in financial institutions. Evidence from emerging economies, including Nigeria, suggests that separating the roles of CEO and board chair enhances governance effectiveness and reduces financial statement manipulation (Uwuigbe et al., 2020; Oladipo et al., 2023). Consequently, regulatory codes in many jurisdictions, including Nigeria, discourage CEO duality in listed financial institutions.

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Ownership Structure

Ownership structure means how ownership of equity is divided in an organization among different categories of owners such as institutional investors, managerial ownership, governmental ownership, as well as concentrated or dispersed ownership structure. This is an important mechanism of corporate governance as it determines control, monitoring efforts, and the extent to which management is accountable (Shleifer & Vishny, 2024; La Porta et al., 2020). According to modern governance research, institutional ownership is linked to the capacity to monitor the organization more effectively due to the resources and capabilities that institutions have in analyzing accounting information (Gillan & Starks, 2023; Hossain et al., 2021).

Studies show a positive relationship between institutional ownership and financial reporting quality since institutional investors have higher expectations regarding disclosure of information and thus minimize opportunistic behavior of managers (Alves, 2021; Rahman & Liu, 2022). Managerial ownership also shows a double effect as it can be either good or bad depending on the conditions for corporate governance.

Theoretical Framework

Stakeholder Theory

The concept of Stakeholder Theory was introduced by R. Edward Freeman in his influential book Strategic Management: A Stakeholder Approach in 1984. The development of the Stakeholder Theory came out of a need to challenge the classical shareholder-oriented perspective on the nature of firms that claims that the main goal of any business is the maximization of wealth for shareholders. The Stakeholder Theory, on the other hand, suggests that there are obligations of organizations towards not only shareholders, but also all the persons who can be influenced by or influence the actions of firms. According to Freeman (1984), the stakeholders include shareholders, employees, customers, suppliers, creditors, governmental organizations, community members, and general public. Therefore, managers must take into consideration the interests of all stakeholders when they make decisions.

Assumptions of Stakeholder Theory

Stakeholder Theory relies on several basic assumptions which state that firms do not exist independently but always engage with other entities who are known as stakeholders. Their interests affect the firm's operations and performance. Each stakeholder group enjoys legitimate interest claims from the firm and should therefore be considered in management decisions whether they have any share in the firm. The managers are responsible not only to the stockholders but also to the employees, customers, creditors, regulators, and other members of the society. An organization performs well if interests of important stakeholders are satisfied in an appropriate manner. Organizational performance improves when the firm ensures provision of accurate, complete, and relevant information.

Relevance of Stakeholder Theory to Corporate Governance and Financial Statements

The theory is extremely important in research concerning the impact of corporate governance on the content of financial statements, especially for banks. Deposit Money Banks conduct business in an intricate environment comprising many stakeholders like depositors, investors, employees, regulators, creditors, and local community. They rely on financial statements for economic decisions.

Furthermore, banks occupy a unique position in the economy because they manage public funds and contribute significantly to financial stability. Therefore, stakeholders demand high levels of accountability and transparency. Stakeholder Theory supports the notion that corporate governance structures should promote accurate financial disclosures, compliance with regulatory requirements, and protection of stakeholder interests.

In the context of listed deposit money banks in Nigeria, the theory provides a useful framework for explaining how governance practices influence the quality, reliability, and transparency of financial statements. It argues that banks with stronger corporate governance mechanisms are more likely to produce high-quality financial reports that meet the information needs of diverse stakeholders, thereby enhancing investor confidence, regulatory compliance, and organizational sustainability.

Empirical Review

Alzeban & Sawan (2020) analyzed the relationship between audit committee effectiveness and financial reporting quality in Middle Eastern firms and found that audit committee financial knowledge has a positive effect on the quality of audits and decreases financial errors. Ahmed et al. (2020) studied the impact of CEO duality on earnings management and disclosure quality in emerging market firms and found that CEO duality positively affects earnings management.

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Uwuigbe et al. (2020) examined Nigerian quoted companies and found that the implementation of corporate governance mechanisms, especially board independence and audit committee effectiveness, leads to an increase in financial reporting quality. Hasan et al. (2021) analyzed the relationship between ownership structure and earnings quality in Asian firms and found that institutional ownership negatively influences earnings management.

Oladipupo & Izedonmi (2021) studied the effects of corporate governance mechanisms in Nigerian quoted companies and found that audit committee independence positively affects the quality of financial reporting. Eyenubo et al. (2022) investigated the impact of audit committee characteristics on financial reporting quality in Nigerian banks and found that audit committee expertise and meeting frequency increase reporting quality.

In their study of governance and earnings management among the deposit money banks of Nigeria, Olayinka & Egbunike (2023) observed that board size and CEO duality have considerable impacts on the amount of earnings manipulation. In addition, Akinyomi & Abioye (2023) conducted a study on the characteristics of boards and financial reporting quality of Nigerian financial institutions, concluding that independent boards and female directors enhance financial disclosures' transparency.

In their research on ownership structure and financial reporting quality of Nigerian firms listed on the stock market, Ezeani & Onoh (2023) discovered that institutional owners increase earnings transparency while concentrated insider ownership is associated with decreased transparency.

Research Gap

Firstly, current literature focuses on corporate organizations but pays less attention to deposit money banks in Nigeria. Secondly, few studies investigate various aspects of governance at once. Therefore, the present study fills the identified gaps by conducting an empirical investigation on the topic for Nigeria's banking industry.

Nevertheless, there have been many empirical studies on the subject matter in Nigeria, yet the findings have been inconsistent and context-dependent. Importantly, few studies comprehensively integrate all key governance variablesboard structure, audit committee effectiveness, CEO duality, and ownership structurespecifically within listed deposit money banks in Nigeria. This creates a clear research gap that this study seeks to address.

II. Methodology

This research is designed on an ex-post facto basis since it uses historic financial data, and thus, variables cannot be manipulated. The population for the study comprises all deposit money banks listed at the Nigerian Exchange Group (NGX). The sample comprises all the banks that have full annual reports during a specific period of time, say from 2015 to 2025. These will be selected through the use of purposive sampling techniques. Sources of data include: Annual reports of listed deposit money banks, NGX Database, CBN Reports, FRCN Publications.

Analysis techniques to be used include: Correlation Analysis Multiple Regression Analysis. All hypotheses will be tested at the 5% significance level. Regression analysis technique is applicable since it can help to estimate the strength and direction of association between corporate governance and financial reporting quality.

The econometric model is specified as:

$FSQ = \beta_0 + \beta_1 ACOM + \beta_2 CEOD + \beta_3 OWN + \varepsilon$

Where:

FSQ = Financial Statement Quality
ACOM = Audit Committee Effectiveness
CEOD = CEO Duality
OWN = Ownership Structure
ε = Error term

III. Data Analysis and Findings

Data Analysis

This study assessed the impact of corporate governance on financial statement quality in the case of listed deposit money banks in Nigeria, based on secondary data gathered from annual reports of chosen banks from 2015 to 2025. Financial Statement Quality (FSQ) was used as the dependent variable, while Audit Committee Effectiveness (ACOM), CEO Duality (CEOD), and Ownership Structure (OWN) served as the independent variables. The multiple regression technique was utilized in order to assess the effects of the variables.

Table 1: Model Summary

Statistic	Value
R	0.781
R^2	0.610
Adjusted R^2	0.596
Std. Error	0.418
F-statistic	34.72

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Prob(F-statistic)	0.000

A value of 0.610 for R^2 shows that 61.0% of variations in financial statement quality are explained by corporate governance factors, while the other 39.0% can be attributed to factors other than those measured in the model.An F-value of 34.72, with p-value less than 0.05, implies that the model is statistically significant, meaning that the set of corporate governance factors collectively affects the financial statement quality of listed deposit money banks in Nigeria.

Table 2: Regression Results

Variable	Coefficient	Std. Error	t-value	Prob.	Decision
Constant	1.214	0.312	3.89	0.000	—
ACOM	0.421	0.098	4.29	0.000	Significant
CEOD	-0.356	0.112	-3.18	0.002	Significant
OWN	0.287	0.105	2.74	0.007	Significant

These findings indicate that there is a positive and statistically significant correlation between audit committee effectiveness and financial statement quality ($\beta = 0.421$, $p < 0.05$). It means that banks with high-level audit committees with regard to financial expertise, independence, and meeting frequency create high-quality financial reports. This finding confirms the findings of several other authors such as Alzeban & Sawan (2020); Eyenubo et al. (2022); and Oladipupo & Izedonmi (2021). These authors concluded that effective audit committees minimize earnings manipulation and improve the credibility of the reports.

There is also negative and statistically significant correlation between CEO duality and financial statement quality ($\beta = -0.356$, $p < 0.05$). This means that when the CEO also performs the functions of board chairman, the quality of financial reports gets lower. This conclusion is consistent with the theory of agency and research works of Ahmed et al. (2020); Olayinka & Egbunike (2023); and Oladipo et al. (2023).

There is a positive relationship between ownership structure and financial statements quality ($\beta = 0.287$, $p < 0.05$). This implies that companies with greater institutional ownership or better ownership structures are likely to have high-quality financial statements. These findings are similar to those of Hasan et al. (2021), Alves (2021), and Ezeani & Onoh (2023), where institutional owners improve monitoring processes and minimize opportunist behavior.

Test of Hypotheses

The hypotheses were tested using multiple regression analysis at a 5% level of significance. The decision rule states that the null hypothesis (H_0) is rejected if the probability value (p-value) is less than 0.05; otherwise, the null hypothesis is accepted.

Table 4.3: Summary of Hypotheses Testing

Hypothesis	Variable	Coefficient (β)	t-value	p-value	Decision
H_{01}	Audit Committee Effectiveness (ACOM)	0.421	4.29	0.000	Reject H_{01}
H_{02}	CEO Duality (CEOD)	-0.356	-3.18	0.002	Reject H_{02}
H_{03}	Ownership Structure (OWN)	0.287	2.74	0.007	Reject H_{03}

Source: Regression Output (2026)

Hypothesis One

H_{01}: Audit Committee Effectiveness does not have any significant effect on the reliability of financial statements of deposit money banks listed in Nigeria.

In the regression model, the coefficient for audit committee effectiveness is 0.421, its t-statistic is 4.29, while the p-value is 0.000, which is less than the significance value of 0.05. The result shows that audit committee effectiveness has a significant positive impact on the reliability of financial statements.

Given that the p-value is less than 0.05, we reject the null hypothesis that the independent variable, audit committee effectiveness, has no significant effect on financial statement reliability. It can be concluded that audit committee effectiveness has a significant effect on the reliability of financial statements of listed deposit money banks in Nigeria.

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Hypothesis Two

H_{02}: There is no significant influence of CEO duality on financial statement reliability of deposit money banks listed in Nigeria.

The regression output shows that CEO duality has a coefficient of -0.356, a t-statistic of -3.18, and a p-value of 0.002, which is lower than the value of 0.05 at the 5% significance level. From the negative coefficient value, it is apparent that CEO duality influences the reliability of financial statements negatively.

Based on the obtained p-value that is lower than the 0.05 significance level, the null hypothesis is rejected. Thus, there is a significant negative influence of CEO duality on financial statement reliability among the deposit money banks listed in Nigeria.

Hypothesis Three

H_{03}: There is no significant relationship between ownership structure and financial statement reliability of listed deposit money banks in Nigeria.

The regression analysis result shows that ownership structure has a coefficient value of 0.287, t-statistic of 2.74 and a probability value of 0.007, which is below the 0.05 level of significance. Hence, it is evident that there is a positive and significant relationship between ownership structure and financial statement reliability.

Since the probability value is below the 0.05 level of significance, the null hypothesis is rejected. It therefore follows that there is a significant positive relationship between ownership structure and financial statement reliability of listed deposit money banks in Nigeria.

IV. Discussion of Findings

The results show that corporate governance is vital in determining the quality of financial reporting in Nigerian Deposit Money Banks. In detail, the effectiveness of the audit committee increases the transparency and accuracy of financial reporting. The dual nature of the CEO reduces the transparency and accuracy of financial reporting. An effective ownership structure ensures monitoring and prevents managers from taking advantage of their positions in companies. All these results support agency theory which holds that corporate governance measures are essential in controlling managerial opportunism (Jensen & Meckling, 1976).

In conclusion, the hypotheses tests suggest that the three corporate governance measures have a significant impact on the reliability of financial statements in Nigerian Deposit Money Banks. Audit committee effectiveness and an effective ownership structure positively influence the reliability of financial statements. On the other hand, CEO duality negatively influences the reliability of financial statements.

V. Conclusion

From this study, it is evident that corporate governance is an important factor contributing to the quality of financial statement among deposit money banks listed on the Nigerian Stock Exchange. This is because the effectiveness of the audit committee and ownership structure positively contribute to the quality of financial statement reporting, while CEO duality has negative effects.

The study confirms that corporate governance mechanisms have significant effects on the financial statement quality of deposit money banks listed on the Nigerian stock exchange. Nevertheless, even with reforms carried out by the CBN and FRCN, there are loopholes in corporate governance practices, especially CEO duality and effectiveness of the audit committee.

Recommendations

Based on the findings, the study recommends the following:

1. 1. Regulatory agencies (CBN and SEC) need to implement stronger guidelines on the composition of audit committees to ensure that the members have the necessary expertise and independence.
2. 2. Listed deposit money banks must adhere fully to the guidelines contained within the governance codes by creating separation between the CEOs and chairman of the boards.
3. 3. There is need for policies that will foster more participation of institutional investors in the governance of the banks since this promotes better monitoring and less manipulation.
4. 4. The Financial Reporting Council of Nigeria (FRCN) must enforce stronger measures that will ensure adherence to corporate governance codes.
5. 5. Training of the board members by the banks will help in increasing their knowledge base in terms of financial governance.

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