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Risk Management Committee and Financial Reporting Quality: Evidence from Quoted Deposit Money Banks in Nigeria

Amah Kalu Ogbonnaya[1] &Amauwa Basil, C[2]
[1,2]Accounting Department, College of Management Sciences, Michael Okpara University of Agriculture, Umudike, Abia State Nigeria
Correspondence: Email: kaluogbonnaya30@yahoo.com, 08037790090

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Abstract
The study investigated the extent to which presence of Risk Management Committee has exerted influence on Financial Reporting Quality of money Deposit Banks in Nigeria. A total of 10 money deposit Banks were selected for the study. Time series data were obtained from annual report of the money deposit Banks from 2006-2019 Accruals model was used to compute the proxy for financial reporting quality, while risk management committee is calculated by the number of people on the committee board. Regression analysis was used to analyse the data. The study indicate that risk management committee has impact on Financial reporting quality of Money deposit Banks in Nigeria. The study therefore concludes that the Risk management committee should be given upper hand to critically scrutinize investments before the banks invest in them, as most of the portfolios that the Banks carry out are heavily risky in nature. The study recommends that Nigeria secturies and Exchange commission should strengthen it regulation to ensure full compliance since it only 64% of listed Banks compliances and also for Banks to practice prudent risk management and safeguarding of their assets.

KEY WORDS*: Risk* Management Committee, Deposit Money Banks, Accrual Model, Nigeria Securities and Exchange Commissions

INTRODUCTION

The quality of financial reporting is to promote transparency and deliver high quality annual report through comprehensive disclosure. This issue on ground has contributed to the accounting standard settings and law regarding financial reporting. The quality of financial reporting has always being an issue of interest among regulating bodies, share holders, researchers and accounting profession itself. This is due to the fact that financial reporting has been a principal means of communicating financial information to outside user (Johnson, Khurana&Reynold, 2002).

In the event of the massive collapse of great companies due to fraud and fraudulent financial reporting, it appear to have highlighted the loss of confidence of stake holders in the financial reporting system of organization a number of governance measures have been suggested to improve cooperate governance and financial reporting quality with major emphasis on the aspect of risk management. Risk management is a victual practice in enhancing the suitability of a company that is the context of globalization. Companies face a multitude of risks which are sometimes beyond their reach. (Maruhun, Abdullah, Afan& Yusuf, 2015).

Risk is an occurrence that executive will have to face in order to make a profit and avoid risk, which implies giving up the chance to make profit. The manager requires to handle risk stimulating parameters so that they can pursue strategic benefits and possibilities arising from potential risk,(Miclolis& Shah, 2000). Risk management system is essential if the company is to be successful and sustainable in today's dynamic business environment. As risk management continues to develop by integrating several events of company operators and activities cooperate governance and risk management are increasingly intertwined, highlighting the significant of interconnections and the shared influence of cooperate governance decision in general risk management policies(Lagili, 2009).

Following the post financial global crises, as well as past accounting scandals, which have changed the view on the importance of handling risk within business entity, following a global survey in 2018, 85% of financial institutions indicated that their board of directors had conducted regular review of entity and management report the figure increased by 12% compared to 2005. Deloittee (2011).

In the word of Baxter, Bedard and Yezegal (2013) shows that in the post-global financial crises period investors will offer a posture signal in proper risk management activities in related companies as shown through a positive relationship between the quality of cooperate governance and risk management.

The weakling confidence of risk management procedures, especially after the global economic crises in the banking sector has made cooperate governance a top priority for board of directors, senior management auditors and stakeholder's.Sobal and Reding (2004). As a result of the knowledge of risk management is increasing and company practices are increasingly structured around risk.

Resolving from the impact of cooperate meltdowns, policy makers and stakeholders are demanding high oversight from organization particularly the board of directors and top management to manage the fundamental risk facing the entities in this regard, senior managers need to take more responsibility in managing cooperate risks.

In most countries, including Nigeria the formations of risk management committee is a mandatory for companies in the banking sector, since the sector has more complex risk compared with other sectors. Risk management seems to be an essential process within the financial industry. According to Sseviziyivu, Meresigwa, Joseph and NkotaNabutu (2017) are of the opinion that risk management is the most important determinant in performance of a loan portfolio. For other sectors the formation of risk management committee is still important.

According to Brown, Steen and Foreman (2009) that due to the increase in business risk complexity also occurs in the non-financial industry the need also arise for cooperate governance that specifically focuses on risk management practice such shall be made to move it in the firms.

2.1 CONCEPTUAL REVIEW

2.1.1 The issues of Risk Management Committee

Section (101) of the code of corporate governance 2011 in Nigeria provides that board must establish risk management committee to assist the board in its over-sight of risk profiles, risk management and risk reward strategy for organization. It is a voluntary recommendation not binding on the companies. Risk is a concept used to describe future uncertainty.

Risk management has now become an integral part of corporate governance and in a link to the internal control system. This awareness has resulted in improving board over sight function which in turn can enhance the board governance structure.

The quality of individual who are members of risk management committee is an important indicator of the effective monitoring of risk matters. The risk management committee seems to be more independent non-executive directors. Frame and Jensen (1983)

One way to have a successful and good risk management committee is no doubt by including majority of non-executive directors to be put on the committee. Preventive action is the best cure and non-executive directors procure and acknowledge how management is taking care of risks. Barde (2009).The stakeholders wealth increases if non-executive directors establish a good risk management system and effective business and decisions.

2.1.2 Financial Reporting Quality Concept.

Financial reporting quality, allows financial analyst to conduct a financial analysis and relationship among financial element and making comparisons with relevant information Kariuki and Jagongo,(2013). It is a valuable tool used by investors and creditors. Financial analyst and others in their decision making processes related to stocks, bonds and other financial investment. The goal in analyzing financial statement is to access past performance and current financial position and to make predictions about the future performance of a company. Business and Finance Encyclopaedia, (2001). The primary qualities that make accounting information useful for decision making are relevance and reliability. Accounting information is relevant if it is capable of making a difference in a decision, and for information to be relevant, it should have predictive or feedback due and it must be presented on a timely basis.

The importance of information is affected by its predictive value, confirmatory value, materiality, timeliness. The fundamental principal of any financial report lies on it's under stability relevance, reliability and comparability. Quality in financial reporting is the hierarchy of hunting qualities with relevance and reliability.

2.2 EMPERICAL REVIEW

Larasati, Rati, Nasir and Harymawan (2019) carried out a research on independent audit committee, risk management committee and audit fees on 216 companies indexed in the Indonesia stock exchange. The study covered a period of 2 years ranging from 2014 – 2016, using ordinary least square analysis. The study shows that the existence of a stand-alone risk management committee and more independent commissioner sitting on the audit committee will demand higher audit coverage.

Olayimna, Uwuigbe, Sylvester, Uwuigbe&Amiolomen (2019) look at enterprise risk management impact on accounting quality? Evidence from the Nigeria Financing institutions. The study period being 5 years from 2007 -2011 (pre-ERM period) and another 5 years 2013 – 2017 (post-ERM period). In doing the work they the panel generalized method of movements estimating to test the hypotheses. The result shows that they is no significant association between enterprise riskmanagement and accounting quality during the pre-ERM period.

Sani, Latif, Al-dhamani (2018). Investigated risk management committee and real earnings management, through sales: evidence from Nigeria. The study made use of 80 listed financial firms for the period of 5 years (2012 - 2016). Thompson Reuters data base panel corrected standard error regression (PCSE) was employed. The result shows that risk management committee and independence directors reduce the management desire to manipulate the reported earnings. The study informs the regulators on the needs for firms to set up an independent RMC to restrain management from manipulating the real earnings activities through sales.

Kakanda, Salim and Chandren (2017). Examine the disclosure intensity of risk management practice of listed financial service firms in Nigeria after the corporate government reform in 2011, 45 sampled firms were studied from 2012 to 2015. The study finds that there is significant disclosure of risk management practice of the sampled firms especially in relation to their risk management committee structure and responsibility.

Kallamu and Basiru (2015). Investigated risk management committee attributes and firm performance, a sample of 37 finance companies listed in Malaysian stock exchange covering a period of 2007 financial year to 2011. The result indicates that a committee composed of majority independent directors positively enhances firm market valuation and negatively affect accounting returns. Independent committee chair was found positively enhance accounting returns and market valuation of the companies, finally the presence of executive on RMC shows a significant negative relation withROA, which support agency theory that suggests that independent directors are in better position to monitor the executive and protect the interest of the various stake holders.

Kakanda, Salim and Chandren (2017) examined the relationship between board characteristics, riskmanagement disclosure and performance of Deposit Money Banks (DMBs) in Nigeria. The period of study was from 2012 to 2016 with the DMBs listed on the Nigeria stock exchange (NSE) random effect regression model was employed. The study finds that risk management disclosure have a significant positive effect on ROA.

Amran, Manat and Che(2015) conducted a study of risk reporting in Malaysia, using multiple regression on a sample of 100 quoted companies in Burea Malaysia for 2005, the study indentifies that there is no adequate disclosure of risk management by Malaysian companies.

Dabari and Saidin (2015) employed logistic regression model, examined the level of implementing enterprise risk management (EVM) in Nigeria banking industry, with 21 banks. The finding of study discloses that ERM is implemented by some banks and yet to be implemented by others.

A study by Nahar, Jubb and Azing (2016) utilizes multiple regression and report that there is a significant relationship between risk governance (disclosure risk management committee existence and number of risk management committees) and performance of 30 sampled Australian banks covering a period of 2006 to 2016.

Abdullah and Ismail,(2016) studied the effectiveness of risk management committee and hedge accounting practices in Malaysia, a total of 500 large non-financial companies listed in 2013 were. The study made use of regression and the result reveal that there is no significant relationship between the application of hedge accounting and effectiveness of RMCs.

2.3 Gap in Literature.

After reviewing the related literature, this study identified some gap, in earlier studies in Nigeria, for instance Kakanda ,Salim and Chandren (2017) examined the disclosure intensity of risk management practice of listed financial service firms in Nigeria The approach in this study is quite different in that we used only quoted deposit Money Banks 2006-2019, ie a total of fouteen years and the Banking sector are the backbone of every economy that is the gap this study want to fill.

2.4 Hypothesis.

Risk management committee has no significant effect on financial reporting quality of quoted deposit money banks in Nigeria

2.5 Theoretical Review

Stakeholders Theory.

This theory stipulates that a corporate entity invariably seeks to provide a balance between the interest of its diverse stakeholders in order to ensure that each interest constituency receives some degree of citification -Abaram(1951) A stakeholder is any individual or group who can affect or is affected by the achievements of the organisation's objectives. Mohiuddin&Karbbi(2010). Thus stakeholders include shareholders, employees, supplier, customers, creditor's communities in the vicinity of the entity's operations and the general public (including government). Stakeholders theory represents that the entity and it is connected to different parties in achieving a broad range of purpose.(Donaldson&Preston 1995). They pointed out that mangers are responsible for deploying their wise decision and best effort in obtaining benefits for all stakeholders,. The board cannot overlook its responsibility in protecting stakeholder's interest.

3.0 Methodology

3.1 Research Design

The research design adopted for the study was *ex-post facto* as the study used documented data which were extracted from the annual reports and accounts of the sampled banks. In view of the use of documented data for the study, the uses of *ex-post facto* research design is thought justified, and as such are not subject to manipulation. Purposive sampling was used to select ten quoted money deposit banks in Nigeria who have complete data points for the relevant number of years. The study period of the research is from 2006-2019 because the CBN reform of 2005 introduced the corporate governance mechanisms of 2006.

3.2 Source of Data

In order to assess the effect of risk management on financial reporting quality, the data selected for the research were secondary in nature and were collected from the published audited financial statement of banks covering a period 2006-2019.

3.3. Method of Data collection and Analysis.

Annual time series data was employed ranging from 2006-2019 with a sample size of 10 quoted deposit money banks, and Annual report published by the Banks Selected.

In this study Accrual model was used as a proxy for financial reporting quality serves as the dependent variable. Accrual model was developed by Jones 1991 which is

$$\Delta WC = CFO_{t-1} + CFO_1 + CFO_{t+1} + \Delta Sales + PPE + €$$

Where ΔWC= Change in Working Capital in year t, ie ΔAccounts receivables +Δinventory – ΔAccounts Payable – Δtaxes payable + Δother assets (Net).

CFO_{t-1}= Cash flow from operation in year t-1

CFO_1= Cash flow from operation in year t

CFO_{t+1}= Cash flow from operation in year t+1

ΔSales= Sales in Year t less sales from Operation in year t-1

PPEt= Gross property, plant and equipments in the Year.

The Independent Variable is the Risk Management committee which is computed as the number of people in the committee quoted deposit money banks in Nigeria,

Proxy for financial reporting quality is the accrual model which is calculated using Jones model.

The study made use of simple linear regression sine the explanatory variable (Risk Management committee) is one. The method of data analysis is Ordinary Least Square (OLS) technique. The statistical formation of the model is presented as follows:

$$FRQ = f(RMC)$$

The simple linear relationship is stated thus:

$$LOGFRQ = \beta + \beta_1 \, LOG\, RMC + \mu$$

Where:

FRQ- Financial Reporting Quality

RMC- Rick Management Committee.

β- Intercept

β_1- Estimation of Coefficient

μ- Error term

Techniques of Analysis

This study employed the panel data based simple regression model to understand the interaction among the variables and estimating the relevant data. Time series data was collected on annual basis on variables captured in the model.

Model Specification

$FRQ_{it} = \beta_0 + \beta_1 RMC_{it} + u_{it}$ ………………….(i)

Where

FRQ = financial reporting quality (measured using accruals).

RMC = risk management committee

4.0 DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

Data Presentation

The data extracted were estimated based on the panel data regression analysis to determine the effect of the variables. Accrual was used as proxy for financial reporting quality (dependent variable) while risk management committee was used as the independent variable. The adjusted R square which is the coefficient of determination and the F statistic was used to ascertain the significance of the overall model. Specifically, the probability of the F-statistic test was used to test the hypotheses of the study to determine the relationship between the variables. The data for the various variables are shown in the appendix 1 below.

Data Analysis

Haussmann Test

Correlated Random Effects - Haussmann Test
Equation: Untitled
Test cross-section and period random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.000000	1	1.0000
Period random	8.277452	1	0.0040
Cross-section and period random	9.793441	1	0.0018

* Cross-section test variance is invalid. Hausman statistic set to zero.
** WARNING: estimated period random effects variance is zero.

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
RISK_MGT	0.026703	0.021943	-0.000084	NA

The Haussmann test is used to differentiate between fixed effects model and random effects model in panel data. In this case, random effect is preferred under null hypothesis due to higher efficiency, while under the alternative fixed effects is at least as consistent and thus preferred.

In this case, fixed effect panel data is preferable. This is so because the null hypothesis was rejected (p-value of 0.0040 is less than 0.05).

Panel Data Test

Dependent Variable: ACCRUALS
Method: Panel Least Squares
Date: 05/02/20 Time: 23:15
Sample: 2006 2019
Periods included: 12
Cross-sections included: 10
Total panel (balanced) observations: 120

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.385119	0.196336	27.42812	0.0000
RISK_MGT	0.143169	0.055475	2.580790	0.0113

Effects Specification

Cross-section fixed (dummy variables)
Period fixed (dummy variables)

R-squared	0.810246	Mean dependent var	5.869508
Adjusted R-squared	0.769584	S.D. dependent var	1.314979
S.E. of regression	0.631212	Akaike info criterion	2.081791
Sum squared resid	39.04596	Schwarz criterion	2.592832
Log likelihood	-102.9075	Hannan-Quinn criter.	2.289327
F-statistic	19.92655	Durbin-Watson stat	1.276699
Prob(F-statistic)	0.000000		

The panel data result shows the effect of risk management committee on financial reporting quality (accruals) of deposit money banks in Nigeria. The coefficient of determination R-square of 0.810 implied that 81.0% of the sample variation in the dependent variable financial reporting quality (accruals) is explained or caused by the explanatory variables (risk management committee) while 19.0% is unexplained. This remaining 19.0% could be caused by other factors or variables not built into the model. The value of R-square is an indication of positive and strong relationship between the dependent variable (financial reporting quality) and independent variables (risk management committee).Consequently, the value of the adjusted R^2 is 0.769. This shows that the regression line which captures 76.9 per cent of the total variation in financial reporting quality is caused by variation in the explanatory variable specified in the model with 23.1 per cent accounted for the stochastic error term. The F-statistic was also used to test the overall significant of the model. The F-value of 19.927 with p-value of 0.0113 is an indication that the model is not statistically significant at 5 percent level of significant at degree of freedom df1= 1 and df2= 3.Finally, the test of autocorrelation using Durbin-watson shows that the Durbin-watson value of 1.276699 falls outside the conclusive region of Durbin-watson partition curve. Hence, we can clearly say that there is no sign of autocorrelation.

Test of Hypotheses

Hypothesis

H_0**:** Risk management committee has no significant effect on financial reporting quality of deposit money banks in Nigeria.

To test the hypothesis:

The F-statistic with 19.927 has probability of 0.0113% level of significance. Since the probability of the F statistics is less than 5% level of significance, we would reject the null hypothesis, H_0 and therefore conclude that Risk management committee has a significant effect on financial reporting quality of deposit money banks in Nigeria.

Discussion on Results

Result in the hypothesis revealed that risk management committee has a significant effect on financial reporting quality of deposit money banks in Nigeria. The decision is based on the fact that the P-value is less than 0.05. The findings are consistent to the findings of Gitman and Zutter (2010), which revealed that risk management committee affect financial reporting quality of firms in Nigeria. Also, the findings are consistent to the findings of Gyekyi (2011), which revealed that risk management committee affects the financial reporting quality of firms in Nigeria. In contrary, the findings of Gup, & Brooks (2013), which revealed that there is no relationship between risk management committee and financial reporting quality.

5. CONCLUSION AND RECOMMENDATIONS

Conclusion

This study focused on risk management committee and financial reporting quality of deposit money banks in Nigeria. Risk management committee (RMC) is a sub-committee of the board that performs the oversight of risk management. It is required that every listed company to have a risk management committee separate from the audit committee. Prior to this guideline, the burden of risk management is carried out by the audit committee. Therefore, the risk management committee is expected to facilitate a significant role in risk management monitoring and thus enhance the performance and market value of the firms

The study was carried out using ten (10) selected deposit money banks in Nigeria for the period of 14 years ranging from 2006 to 2019. The data collected were analyzed using panel data based simple regression analysis and the findings revealed that risk management committee has a significant effect on financial reporting quality of deposit money banks in Nigeria.

Recommendations

Based on the summary of findings and conclusion of the study, the following recommendations were made.

(i) Nigerian Securities and Exchange Commission should strengthen its regulation to ensure full compliance relating to risk management committee since only 64% of listed companies in Nigeria set up the risk management committee.

(ii) It is of crucial importance that banks practice prudent risk management and safeguarding the assets of the banks and protect the investors' interests.

(iii) For asset quality banks need to improve their processes of screening credit customers and monitoring of credit risk .This is an important indicator because banks have had serious problem with non-performing loans in the past which led to collapse of many banks.

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