

Research paper

The Effect of Auditor's Attributes on Audit Quality Management: Empirical Evidence from Listed Service Firms in Nigeria

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ABSTRACT: This study focused on the corporate governance and financial performance of service firms in Nigeria. Five (5) banks were selected which are First Bank Plc, United Bank of Africa Plc, Guarantee Trust Bank Plc, Zenith Bank Plc and Fidelity Bank Plc. The data obtained to test and validate the hypotheses were of secondary sources with respect to the variables of interest. However, the data generated are as follows; 2015 – 2022 (8 years) financial statements of five sampled banks which provided the information about the variables tested and discussed. The data analysis revealed that measures of financial performance (ROA, BOD & BS), recorded means and standard deviations of 0.021966, 13.8, 13.8 and 0.0136177, 2.988868, 2.988868 respectively. The low standard deviation recorded by each of the measures of financial performance suggests that the return on asset of the respective sampled banks, members of their board of directors and board size has proximity with their respective average values. The respective minimum values recorded for ROA, BOD and BS are 0.0025847, 2 and 2; whereas the maximum values were 0.0561668, 19 and 19 respectively. This implies that the minimum of all the measures is not below 0.0561668 and the maximum did not exceed 19. It is concluded that Board composition which entails Board of Directors and Board Size has no significant effect of the financial performance of firms. The study recommended that efforts to improve corporate governance should focus on the value of the stock ownership of board members, since it is positively related to both future operating performance and to the probability of disciplinary management turnover in poorly performing banks.

Keywords: Auditor's attributes, audit quality management, empirical evidence, listed service firms

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INTRODUCTION

A well-performing and credible capital market is a precondition for the development and sustainability of a vivacious private enterprise sector. And the principal policy objective is to make sure that corporations get access to the capital they need for innovation, job creation, and growth. For this to happen markets need to have a healthy framework of corporate governance rules and regulations that provides investors with assurance in the system and entrepreneurs with the incentives to develop their businesses (Farhan et al., 2017). Ensuring a proficient link between finance and enterprise is particularly important in the aftermath of the financial crisis when policymakers are looking for reforms to unleash innovation and productivity for sustainable growth. It is also essential for many developing and

emerging markets where new generations of enterprises should be allowed to access external capital, which will make it possible for them to realize their full potential and contribution to economic growth (Mohammed and Buhari, 2019). Corporate governance has been at the center of debate for a long time now since the problem of the principal-agent relationship was established. According to them, the need to separate ownership and control of organizations brought with it a conflict of interests between the shareholders and the managers who are in charge of the organization's activities. Researchers have however been carried out to reduce if not resolve these conflicts. According to Hussain, et al., (2019) at the height of every financial crisis, more attention is given to corporate governance to increase investment by enhancing

investor's confidence. The 2008 financial scandals in Lehman, World COM, and Enron, among others made room for the interest of policymakers, regulatory bodies, researchers, and other stakeholders on the quality of corporate governance in existence in organizations, as it is meant to describe the form of responsibilities of the organization's stakeholders, and most importantly, determine best codes of practices that will ensure firms continuous existence and inform better company performance. In any organization, especially a cooperative society, the management committee is in place to monitor the activities of the trustees, this function they achieve by appraising trustees' proposals, approving same, and also serving as a check for the achievement of effective and efficient governance practices in the cooperative society (Mallin, 2016).

There is a related strand of the literature that considers corporate board characteristics as important determinants of corporate governance: board independence. The question posed by Farhan et al. (2017) was if a single variable board characteristic can effectively measure corporate governance compared with those that adopted 24 or 52 variables. Their response to this was positive. They pointed out that corporate boards have the power to make, or ratify, all decisions taken within the organization and that it is likely that board members with the right volume of stock will have what it takes to provide effective supervision. With this, they concluded that board independence or ownership can be a good proxy for overall good governance. In addition, the error with measuring variables will be lower with one variable than with the adoption of more variables (Mallin, 2016).

Adu (2014) informed that cooperatives stand as an alternative in the economy, formed with the motive of a group factor of achieving what is unachievable individually. Cooperative Societies around the world and most especially in Africa were brought into existence relying solely on voluntary relationships of people with the same ideology and goal on a "one-individual-one-vote basis", with the main aim of serving their needs. Despite the above, cooperative societies have not been very popular in Nigeria, according to (Adu, 2014) until recently when workers' cooperatives began to have a strong footing in the country. Before now, cooperatives were seen as a strategy for local farmers and sellers to better their lots (Hussain et al., 2019).

Financial performance refers to a company's capacity to reduce operating costs, maximize asset utilization, and increase shareholder value. High performance demonstrates management effectiveness and efficiency in utilizing a company's resources, which helps the economy as a whole (Afrifa, and Tauringana, 2015). Recently, more attention has been paid to financial performance, particularly in accounting and strategic management. This is understandable; given financial performance has an impact on an organization's health

and long-term survival. Financial performance is defined as an organization's efficient and effective use of resources to achieve its goals, resulting in a growth in stock price, sales, market share, profitability, earnings, and cash flows, as well as meeting the expectations of its many stakeholders (Ibrahim and Abdullahi, 2019).

Board size, board independence, and board gender diversity are among the board structures that are thought to play a significant impact on corporate governance. Advising and monitoring are the two most significant tasks of the board of directors. As a result, the board of directors is regarded as an important corporate governance mechanism for matching the interests of managers and other stakeholders in a company (Hussain et al., 2019). The size of a board has an impact on the quality of deliberation among members and the board's capacity to make the best corporate decision. As a result, determining the optimum board size is critical, as board size might reduce corporate governance effectiveness beyond its ideal level. However, in the corporate governance literature, defining an appropriate board size has been a continuing and contentious topic. The importance of board size in achieving board effectiveness and enhanced company performance was also discovered (Kifordu, 2022).

Cooperative societies have operated for this long period with little attention paid to their existence. It was also discovered that members have little knowledge of what it entails - its strengths and abilities. The government had also paid "lip service" attention. Society has gone through 'thick and thin', especially in developing countries. Hussain et al., (2019) identified problems of governance in cooperative societies to include the following among others: mismanagement of funds, dearth of transparency and accountability, corruption, and lack of respect for the rule of law as the system encourages insider trading, which hampers corporate governance and economic performance, Kifordu et al., (2022).

The problem

The world financial crisis of 2008 has led to a pressing need for establishing sound corporate governance practices as an emergent demand. Currently, the financial crisis and an increasingly competitive business environment have made corporate governance have significant implications for the financial stability and performance of companies. The specific business problem is that some business leaders of publicly listed companies do not have sufficient knowledge of the relationship between corporate governance, financial performance, and market value to determine the relevance and importance of implementing corporate governance rules and regulations. Corporate governance challenges arise because of the separation between shareholders of the business and its control in response to a system by which corporations are directed and

controlled. Sometimes, an agent (manager) may have some opposing interest to that of the principal (shareholder). The problem of conflict of interest can occur as a result of asymmetric information resulting from imperfect contractual agreements between managers and shareholders, directors acting illegally or in bad faith toward their shareholders. This study sought to bridge this huge gap in corporate governance and the financial performance of parastatals in Nigeria in an attempt to provide more empirical data.

Objectives

1. To determine the effect of return on assets on the financial performance of parastatals in Nigeria.
2. To determine the effect of firm size on the Financial Performance of parastatals in Nigeria
3. To determine the effect of the board of directors on the financial performance of parastatals in Nigeria
4. To determine the effect of companies with large board sizes to achieve superior financial performance of parastatals in Nigeria

Hypotheses

1. There is no significant effect of return on assets on the financial performance of parastatals in Nigeria.
2. There is no significant effect of corporate governance on the Financial Performance of parastatals in Nigeria
3. There is no significant effect of corporate governance and the composition of the board of directors of parastatals in Nigeria
4. There is no significant effect of companies with large board sizes to achieve superior financial performance of parastatals in Nigeria

Literature review

Audit quality concept

Audit refers to an examination and there are broadly, two kinds of audit. The independent audit is an external audit, and the internal audit is provided by an employee who is usually a member of the firm and is usually part of the management function. Note worthily, most mentions of audits refer to external audits. The usage of the term here is consistent with that pattern. The purpose of an audit, according to Kasmir (2016), is to make sure that assurance is provided on financial statements and that the quality of the audit is therefore the degree of the promise that material misstatements are not found in such financial statements. The quality of the audit is examined by the ability of the auditor to ascertain the standards of accounting breaches as well as their

incentives for such breaches to be reported. That is to say that the quality of an audit is a product of the competence of the auditor as well as independence. Adu(2014) stated in their study that the quality of audit is considered to be one of the issues that are most vital of the auditing profession. The audit exercise can find out material errors as well as fraud that lead to those material misstatements of various financial statements and where such exist is what is considered to be audit quality. Audit quality definition, according to Mallin(2016), is said to be based on the ability of the auditor to find out and ensure material misstatements are eliminated as well as the manipulations that result in reported net income. Some scholars see audit quality in two ways: to start with, finding out misstatements and financial statement errors, and secondly, ensuring that misstatements of these material and errors are reported. Shahwan, and Fathalla, (2020) in his view see “audit quality as the market assessed joint probability that a given auditor will both discover a breach in a client’s accounting system and report the breach”. It is therefore reasonably logical to see it in the same light as recent scholarly reports who see the quality of audit as an assurance level. External auditing that is of high quality is found to be a component that is essential for capital markets to function well. According to Yilmaz, (2018) auditors are likely to be changed by various corporations with a reputation for financial reporting that is credible when their quality of audit is questioned in order to avoid the consequences of the capital market of unreliable financial reporting. Kifordu (2022) explained in his study that the quality of an audit simultaneously depends on the characteristics of several audit firms such as auditor experience, auditor independence, and auditor accountability. The quality of the audit was also measured by using peer review results.

Concept of corporate governance

Corporate governance, as a system connecting several scientific branches such as accounting, financial management, economy, and law and maintaining a balance between social and economic objectives and group and individual goals, encourages and enhances efficient and optimal use of resources and accountability of companies regarding other stakeholders in the company. On the other hand, the implementation of a corporate governance system can lead to optimal appropriation of resources and improvement of transparency of financial information spread in the market and eventually economic development (Rostami et al., 2016; Akinleye et al., 2019). Corporate governance has been characterized in a variety of ways by various authors. Corporate governance is interested in how all stakeholders in a company try to ensure that managers and other insiders adopt a structure that protects the

stakeholders' interests. A typical company has several owners who do not manage the company and managers who have no or little stake in the company. The free-condition dilemma associated with diffused equity ownership prevents any shareholder from taking unilateral action to shoulder the costs of monitoring the managers, who may pursue goals that are incompatible with the shareholders'.

Corporate governance is a set of procedures (accounting standards and laws governing financial disclosure, CEO compensation, and the size and composition of corporate boards) and institutions (legal, economic, and social) designed to safeguard the interests of the corporation's owners (Puni and Anlesinya, 2019). Corporate governance is also the system by which a company's board of directors establishes and works toward attaining objectives by separating ownership and control effectively and efficiently. In addition, CG can be thought of as a set of mechanisms by which organizations operate when ownership and management are separated, as well as systems that offer investors in corporations some protection in their investments (Karaye et al., 2014).

Corporate governance can be defined as a system by which firms are directed and managed in the best interests of the owners and investors to create shareholder value and meet the expectations of other stakeholders, based on the aforementioned definitions. Corporate governance often addresses topics such as how boards and CEOs are chosen, what mandates and obligations they have, and if shareholders have a right to vote on certain types of corporate decisions, and if so, what shape these shareholder rights take (Akinleye et al., 2019).

Corporate governance in Nigeria

Corporate Governance has become an acceptable international practice, which every country is embracing. Realizing the need to align with international best practices the Security and Exchange Commission (SEC) in collaboration with the Corporate Affairs Commission (CAC) inaugurated a seventeen (17) member committee in June 2000, in Nigeria. The committee was mandated to identify weaknesses in the current corporate governance practices in Nigeria. Membership of the committee was carefully selected to cut across all sectors of the economy including members of professional organizations, organized private sector, and regulatory agencies (Ibrahim and Abdullahi, 2019). The committee submitted a draft code of corporate governance which centered on Codes of Best Practice on Corporate Governance in Nigeria.

Concept of financial performance

Financial performance refers to the degree to which

financial objectives have been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure a firm's overall financial health over a given period and can also be used, to compare similar firms across the same industry or to compare industries or sectors in aggregation. The financial performance analysis identifies the financial strengths and weaknesses of the firm by establishing a relationship between the items of the balance sheet and the profit and loss account. According to Ilaboya, and Obaretin (2015), the performance of a firm reflects how effectively the firm has been managed and resources utilized. It can be measured in terms of profitability. Scholars have characterized financial performance in a variety of ways. Financial performance refers to a company's capacity to reduce operating costs, maximize asset utilization, and increase shareholder value. High performance demonstrates management effectiveness and efficiency in utilizing a company's resources, which helps the economy as a whole (Afrifa, and Tauringana, 2015). Financial performance was described as an organization's endeavor to accomplish its objectives or production effectiveness (Karaye et al., 2014). Financial performance, on the other hand, is a measure of an organization's earnings, profits, and value appreciation, which is represented in the rise in share price (Abdulfattah et al., 2020).

Financial performance can be measured at a single moment in time or across time. It can also be compared to similar enterprises in the same industry, or it can be used to aggregate industries or sectors. From the foregoing, financial performance is a measure of an organization's earnings, profits, and appreciation in its value which are reflected by the rise in share price and the degree to which financial objectives are being met or have been accomplished (Igweh and Kifordu, 2022).

Effect of firm size on financial performance

The concept of firm size is mainly viewed from the perspective of sales volume, number of employees, capital base, assets, or value-added features. Normally, those using the technological theory based on economy of scale derived from capital inputs would use only sales figures or assets for measurement purposes. It has been found that sales and assets are not particularly appropriate methods of measurement for size; the main issue would be how agency transactions and the range of costs impact the profits. Costs are normally related to the fundamental way the organization is controlled by a hierarchy more than just the value of physical assets. Moreover, firm size is said to be one of the determinants of financial performance and performance indicators like return on assets and earnings per share are major pointers of strong or weak corporate attributes. By simple conception, firm size is a characteristic or feature of a firm that is determined by capital base, number of

employees, or turnover, whereas financial performance is the result of activity and the appropriate measure to assess performance in terms of the profit output of an entity (Ibrahim and Abdullahi, 2019). According to Rostami et al., (2016), they investigated the relationship between firm size and performance of small and medium-sized Portuguese companies for the period 1999 to 2003. Their results indicate that there is a positive and statistically significant relationship between the size and profitability of SMEs. On the other hand, for the large Portuguese companies, they found a statistically insignificant relationship between size and profitability. According to Ilaboya, and Obaretin (2015) measuring the employee's enrolment and value add are a better choice in measuring the size of the firm in organizational theories rather than sales or assets. Firms should be large enough to be capable of competing in the global market. Because of the increasing competition and improvements in communication networks, larger firms have better advantages in the international market.

Effect of Return on Assets (ROA) on financial performance

Return on Assets is one of the profitability ratios of money that can describe a company's condition. Kasmir (2016) says ROA is a ratio that states the return on the number of assets utilized in the company. ROA serves to know the level of effectiveness of the company's overall operations. The larger the ratio, the better because the company can use its assets effectively to bring profit. It is a measure that assesses the efficiency of assets employed and shows investors the earnings the firm has generated from its investment in capital assets. Efficient use of a firm's assets is best reflected by its rate of return on its assets. ROA is an indicator of short-term performance which is calculated as net income divided by total assets (Ilaboya, and Obaretin, 2015). Since managers are responsible for the operation of the business and utilization of the firm's assets, ROA is a measure that allows users to assess how well a firm's corporate governance system is working in securing and motivating the efficiency of the firm's management (Ibrahim and Abdullahi, 2019).

Effect of the board of directors on financial performance

The board of directors, as an internal mechanism of governance, has a major function in the limitation of managerial discretion and thereafter to manage the agency relationship between shareholders and managers and stakeholders of the company (Ilaboya, and Obaretin, 2015). Indeed, several researchers suggest that the number of directors may influence the functioning of the board and therefore the financial performance of the company. Some authors seem to favor a large council.

Indeed, in an uncertain environment, the larger the board, the greater knowledge of the various administrators can improve financial performance and exercise effective control. Kifordu, Ibegbulem and Odita (2023).

Effect of Board Size on Financial Performance

The board size of an organization is the number of directors on board of the organization which includes executive and non-executive directors. Board size as highlighted in Chapter One of this study influences the performance of an organization. Ilaboya and Obaretin (2015) viewed that small board size can improve the financial performance of an organization because the benefits of larger boards of increased monitoring are outweighed by the poorer communication and decision-making of larger groups and suggested an optimal board size between seven and nine directors. Rostami et al., (2016) reported that small-size boards are positively related to high firm value. In a Nigeria study, Ylmaz (2018) reported that value is positively correlated with small, as opposed to large boards. The argument is that large boards are less effective and are easier for a CEO to control. The cost of coordination and processing problems is also high in large boards and this makes decision taking difficult. On the other hand, smaller boards reduce the possibility of free-riding and therefore tend to enhance the value of the firm.

Theoretical framework

Agency theory

The study was anchored on the Agency theory having its roots in economic theory. Agency theory is defined as *"the relationship between the principals, such as shareholders, and agents such as the company executives and managers"*. In this theory, shareholders who are the owners or principals of the company, hire the agents to perform work. Principals delegate the running of business to the directors or managers, who are the shareholder's agents. By so doing, principals have handed over the power to managers to perform on their behalf. The implication of this is that the owners in the end will be expected to be given profit from their capital. However due to differences that may exist between the ownership from control, conflict of interest may come up. This is due to the owner's side that the management can act for their interest as well as personal gain and not for that of the shareholders. Agency theory, put forward that the appointment of the auditor is for the interests of the third parties as well as that of the management. "This relationship, as is observed by analysts, creates information asymmetry with the managers having information advantage". In this case, the necessity for accurate monitoring that has led to the auditor role is therefore needed to give an examination of independent

of company affairs in order to give a good expression of perception of the financial statements of the corporation. The essence of “faith” and “confidence” in this is due to the opinion expressly given by the auditor. The agency hypothesis is shown to be applicable when looking at the impact of corporate governance on the financial performance of listed businesses in the UAE Exchange market. The relationship between the principal and the agent, such as shareholders and firm executives or managers, is referred to as agency theory. Managers are assumed to be self-interested and risk-averse under this approach (Kabir and Thai, 2017). When managers do not own 100 percent of the company's wealth, they may operate to maximize their wealth rather than the wealth of the shareholders. Furthermore, CSR is an indication of an agency problem or a conflict of interest between management and shareholders. The rationale for how a board oversees management on behalf of shareholders is based on agency theory, which has dominated corporate governance research. The separation of ownership and control causes managers' interests to be misaligned with those of shareholders. According to agency theory, one of the key functions of managers is to align the interests of corporations with the interests of shareholders, and the agency relationship is defined as one party, the principal, delegating work to another party, the agent. The owners are the principals, while the directors are the agents, in the context of a corporation (Singh, 2018). When it comes to companies and corporate governance, agency theory sees corporate governance mechanisms, particularly the board of directors, as an important monitoring instrument to ensure that any problems caused by the principal-agent relationship are minimized. Furthermore, according to agency theory, principals (shareholders) and agents (managers and other company insiders) have opposing interests, risk tolerances, capacities, and information. Wherever possible, opportunistic management motivated by self-interest and deception will act against outside investors (Queiri et al., 2021).

Shareholders can use a variety of corporate governance mechanisms to challenge this assumption, including contractual relationships, board monitoring systems, and incentives. These governance methods are intended to ensure that agent-principal interests are aligned, that shareholder interests are protected, and that agency expenses are minimized (Kabir and Thai, 2017). Furthermore, boards exert control by preventing managers from acting opportunistically to further their interests. As a result, agency theory provides a foundation for corporate governance through various internal and external methods to control the agency problem and attain a desirable level of performance and trustworthy financial reporting (Kabir and Thai, 2017). According to agency theory, a larger board size translates to more effective management oversight by diminishing the CEO's dominance on the board, resulting

in higher business performance. The board of directors, according to agency theory, controls and monitors management to prevent them from taking actions that benefit them rather than the shareholders. Larger boards can be more effective since the monitoring supervisors' workload can be spread out over a larger number of people. On the other side, with a larger board, agency difficulties might grow more serious, making it easier for the CEO to influence and dominate the board. According to this hypothesis, a larger board might cause coordination and communication problems, allowing profit-driven managers to gain control.

Dalwai et al. (2015) stated that when it comes to board independence, agency theory recommends the use of independent directors since they can better oversee management. Independent directors, as opposed to inside directors who may have a conflict of interest, can ensure that the company's management is operating in the best interests of the company. According to the agency hypothesis, having non-executive directors on the board is critical for ensuring that managers behave in the best interests of shareholders. The usual expectation is that non-executive directors will be able to oversee executive directors since they are independent and have the expertise to do so and that their knowledge and experience in monitoring services would improve business performance. Agency theory is primarily concerned with the monitoring function of directors when it comes to board gender diversity. A balanced board will have representation from a variety of groups, ensuring that no single person or group of individuals can dominate the board's decision-making (Kabir and Thai, 2017).

Empirical review

The effect of corporate governance on the financial performance of firms has yielded conflicting outcomes in different studies. According to certain studies, corporate governance has a good impact on financial performance (Sheikh et al., 2018). Other research has discovered that corporate governance hurts financial performance. Certain researchers discovered mixed results, with some variables having a favorable impact and others having a detrimental impact within the same study (Yilmaz, 2018). Another study looked at the influence of corporate governance on the financial performance of 15 banks listed on the Amman Stock Exchange (ASE) in Jordan from 2007 to 2009 (Hussain et al., 2019). Board size, board composition, CEO status, and foreign ownership were used as corporate governance indicators, while financial performance measures such as ROA, ROE, NPM, and EPS were utilized as financial performance indicators, and bank size was used as a control variable. For data analysis, descriptive statistics and multiple regression analysis were utilized. The findings show a favorable association between the number of outside

board members, foreign ownership, and bank performance in Jordan, but a negative relationship between board size and the separation of the roles of CEO and chairman (Akinleye et al., 2019).

Shahwan and Fathalla (2020) study the role of Intellectual Capital (IC) as a mediator variable in the relationship between corporate governance practices and business performance (2020). The level of corporate governance practices and the performance of IC were assessed using the value-added intellectual coefficient technique and the designated corporate governance index. Tobin's Q (TQ) and the operating efficiency ratio were used to assess the firm's performance. According to the data, the aggregate corporate governance score has a significant positive impact on the IC and the two metrics of company performance (Shahwan, and Fathalla, 2020). According to the agency theory and resource dependency theories, businesses with good corporate governance outperform those with poor governance (Akinleye et al., 2019). Furthermore, utilizing panel data from 2006 to 2011, the relationship between ownership structure, board structure, and financial performance of 311 listed companies on the Tehran Stock Exchange in Iran was investigated (Paniagua et al., 2018). Ownership and board structure features were represented by ownership concentration, board independence, board size, institutional share ratio, and CEO duality, while financial performance was measured by ROE. For data analysis, descriptive statistics, OLS, Fixed Effects, and Random Effects regressions were used. The findings show a favorable correlation between board size and board independence, but a negative correlation between institutional share ratio, CEO duality, and firm performance, as well as no significant correlation between ownership concentration and business performance. More specifically, the impact of board qualities on the financial performance of 30 Pakistani banks was explored using panel data from 2007 to 2011 (Hussain et al., 2019).

The number of directors, the presence of non-executive directors, the CEO duality, and the number of board committees were used as proxies for board size and structure, whereas ROA was used as a proxy for financial performance. Data analysis techniques included descriptive statistics and linear regression analysis. The findings show a positive association between the number of directors, non-executive directors, CEO duality, and the presence of women directors, as well as a negative relationship between the number of board committees and financial performance. Similarly, using panel data for the years 2002–2003 and 2008–2009, the association between corporate governance mechanisms and the financial performance of 105 companies listed on the National Stock Exchange of India (NSE) was investigated (Paniagua et al., 2018). Firm size, leverage, type of company, industry, risk, the ratio of R&D expenditure to sales, the ratio of advertisement expenditure to sales,

and the ratio of PBDITA to sales were used as proxies for corporate governance. Economic Value Added (EVA), Tobin's Q, ROA, and ROCE were used as financial performance measures, while firm size, leverage, type of company, industry, risk, the ratio of R&D expenditure to sales, and the ratio of PBDITA to sales were used as control variables. The analysis used pooled and random effects regressions, and the results show that board size has a significant positive relationship with financial performance, whereas the proportion of outside directors, the number of board meetings, and CEO duality all have a negative relationship with financial performance.

Queiri et al. (2021) investigate the relationship between specific board qualifications and ownership determinants and company performance on the Muscat Securities Market (MSM30). The study looked at how the size of the board of directors, the number of board meetings, and the ratio of independent board of directors, as well as the types of ownership concentration, influenced the company's financial performance. Their findings suggest that the attributes chosen for board members and ownership have an impact on the firm's success. The association between the amount of application of corporate governance principles and the financial performance of companies listed on the Istanbul Stock Exchange (ISE) National 100 Index in Turkey for the fiscal year 2008 was also explored. The application level of corporate governance principles was measured using ROA, ROE, and stock return as proxies of financial performance, with business size, firm age, and leverage ratio serving as control variables. results show that there is a strong and positive association between corporate governance and financial performance, as revealed by multiple hierarchical regression analyses. In addition, throughout the period 2004-2012, the association between board qualities and the financial success of 50 businesses listed on the Egyptian Stock Exchange was explored (Muller et al., 2014). Board independence, board meeting frequency, CEO duality, and director ownership were used as proxies for board composition, financial performance was measured with ROA, ROE, and Tobin's Q, and firm size, firm age, and firm leverage were used as control variables. The data was analyzed using descriptive statistics, Pearson correlation coefficient, and GLS random effect regression. The study's findings demonstrate that there is a favorable and significant link between CG and financial performance.

METHODOLOGY

The research design employed in this study is the *ex post facto* research design. The study will be conducted using five (5) selected banks in Nigeria. They are First Bank Plc, United Bank of Africa Plc, Guarantee Trust Bank Plc, Zenith Bank Plc, and Fidelity Bank Plc. They are selected based on their widespread around all states of the nation. The data for this study were obtained and extracted from

secondary data sources. Secondary data were extracted from the published annual reports of the banks, Central Banks of Nigeria, and the Nigeria Stock Exchange (NSE) fact book for the relevant years. Using the Purposive sampling method their indices consist of Firm size, Return on Assets, Board of directors, and Board size. The data sourced period will be between 2015 to 2022. The study relied on data from such official sources for accuracy and standardization. The population of the study consists of all the commercial banks in Nigeria. The total number of commercial banks in Nigeria is 21 and is made up of the following Access Bank Plc, Citibank Nigeria Limited, Ecobank Nigeria Plc, Fidelity Bank Plc, First Bank Nigeria Limited, First City Monument Bank Plc, Globus Bank Limited, Guaranty Trust Bank Plc, Heritage Banking Company Ltd, Keystone Bank Limited, Parallax Bank Ltd, Polaris Bank Plc, Premium Trust Bank, Providus Bank, Stanbic IBTC Bank Plc, Standard Chartered Bank Nigeria Ltd, Sterling Bank Plc, Union Bank of Nigeria Plc, United Bank For Africa Plc, Unity Bank Plc, Wema Bank Plc, Zenith Bank Plc, the five (5) listed banking firms as at 31st December 2022 (Source: Generated by the researcher from www.nse.com.ng (May 2023)). The five (5) selected banking firms represent the sample size for this study. Data were gathered from the published financial statements of the five (5) (First Bank Plc, United Bank of Africa Plc, Zenith Bank Plc, Guarantee Trust Bank Plc, and Fidelity Bank Plc) listed banking firms for Eight (8) years period spanning from 2015-2022, using purposive sampling method (that is all the banking firms that consistently filed their annual financial statements with Nigeria Stock Exchange for the study period).

Model specification

The study adopted multiple regression analysis to analyze the data. The data was also subjected to descriptive statistics which comprises the mean and standard deviation to assess the spread of the variables, minimum as well as maximum values of the variables. The data will be tested for its robust fullness. Financial performance is a function of corporate governance;

$$Y = f(X) + \mu$$

The model is expressed as follows:

$$ROA_{it} = \beta_0 + \beta_1 FS_{it} + \beta_2 BS_{it} + \beta_3 BOD_{it} + \mu_{it}$$

Financial performance is proxied by Return on Assets (ROA)

Where

FS_{it} = Firm Size

ROA_{it} = Return of Assets

BOD_{it} = Board of Directors

BS_{it} = Board Size

β_0 = Constant term (intercept) of the study model

$\beta_1 - \beta_3$ = Coefficients of corporate governance

μ_{it} = Error term (Stochastic Term) of bank i at time t

RESULTS

There are two sets of variables in this study; the dependent and the explanatory variables:

The results of the descriptive statistics of the variables are presented in (Table 2). Table 1 and 2 present the summary of the descriptive statistics of all the variables of concern in this study. The dependent variable is Firm Size (FS) while the independent variables are Return on Asset (ROA), Board of Directors (BOD), and Board Size (BS). As indicated in the (Table 4), have a total of 40 observations concerning the data from the sampled banks for 8 years. As observed the dependent variable FS, recorded a mean and standard deviation of 16.70001 and 2.789636 respectively. Observably, the mean value represents the average amount of values recorded for the data on each variable; the standard deviation (Std. Dev.) measures the level of variability of the dataset. Also, FS is seen to record a minimum value of 14.02392 and a maximum value of 22.5868. With regards to the independent variables, (Table 1) further reveals that measures of financial performance (ROA, BOD & BS), recorded means and standard deviations of 0.021966, 13.8, 13.8, and 0.0136177, 2.988868, 2.988868 respectively. The low standard deviation recorded by each of the measures of financial performance suggests that the return on assets of the respective sampled banks, members of their board of directors, and board size have proximity with their respective average values. The respective minimum values recorded for ROA, BOD, and BS are 0.0025847, 2, and 2; whereas the maximum values were 0.0561668, 19, and 19 respectively. This implies that the minimum of all the measures is not below 0.0561668 and the maximum did not exceed 19.

Correlation analysis

The results obtained from correlation analysis present the coefficients for each pair of variables in a study. These coefficients are usually in the form of numbers with designated signs that researchers use to describe the direction of the relationship between pairs of variables under a given study (Table 3). Table 3 presents the correlation results for the entire variable set. As indicated above the correlation coefficients between the dependent variable (FS) and all the other measures of financial performance (BOD&BS) were negative except ROA which has a positive value. Additionally, it could be observed that the correlation coefficient between pairs of independent variables has a positive relationship. A

Table 1: presents a summary of all the variables in the study and their measurements.

Variable Acronym	Variable Name	Variable Type	Measurement
FS	Firm size	Dependent	The natural logarithm of the total assets
ROA	Return of Assets	Independent	Net earnings divided by the total assets
BOD	Board of Directors	Independent	
BS	Board Size	independent	Total number of directors on the board

Table 2: Summary of descriptive statistics of the variables of the study.

Variable	Obs	Mean	Std. dev.	Min	Max
FS	40	16.70001	2.789636	14.02392	22.5868
ROA	40	0.021966	0.0136177	0.0025847	0.0561668
BOD	40	13.8	2.988868	2	19
BS	40	13.8	2.988868	2	19

Source: Researcher's Computation, 2023.

Table 3: Result of correlation analysis

	FS	ROA	BOD	BS
FS	1.0000			
ROA	0.7782	1.0000		
BOD	-0.2380	0.0495	1.0000	
BS	-0.2380	0.0495	1.0000	1.0000

Source: Researcher's Computation, 2023.

Table 4: Variance inflator factor results for independent variable

Variable	VIF	1/VIF
_cons	24.83	0.040266
BOD	22.92	0.043629
ROA	3.68	0.271913
Mean VIF	17.14	

closer gaze into (Table 4) indicated that there is the existence of multicollinearity between two independent variables (BOD & BS). This is evident in the Pearson Correlation (Pearson R) between pairs of independent variables that was found to have ranged from -0.2380 to 1.0000. The lowest Pearson R of -0.2380 was found between the dependent variable (FS) and the correlated independent variables (BOD & BS). While the highest Pearson R of 1.0000 was found between BOD and BS. Since there is the existence of Pearson R higher than 0.80 which is 1.0000, we thus opine that there is multicollinearity between the two independent variables sharing a 1.0000 coefficient.

Other diagnostic tests

To ascertain the fitness of the models specified in this study, the data obtained for the entire variables were further subjected to select diagnostic tests which included tests for multicollinearity, heteroskedasticity, test for random effect, and test for autocorrelation in panel data. The results of the necessary diagnostic tests carried out in this study are displayed in the following sections and tables.

Result of multicollinearity test using variance inflation factor (VIF)

The results of the multicollinearity test for the independent variables were presented. To test for multicollinearity, the Variance Inflation Factor (VIF) test was conducted, and the result is hereunder presented. From Table 4, the range of VIF for the independent variables (BOD & BS) exceeds the standardized VIF level given that (22.92:24.83 > 10.00) except for the VIF of ROA which results in (3.68 > 10) i.e., it is below the acceptable threshold and can therefore be isolated to predict its effect on the dependent variable. Overall, the Mean VIF obtained is 17.14 which suggests the presence of multicollinearity among the independent variables (BOD & BS), which results in the omission of one of the variables thereby making it a constant as shown in the Table 4 that showed Variance inflator factor results for independent variable.

Hausman test

The data employed in this study were further subjected to

Table 5: Hausman specification test acceptance/rejection rule.

Hypothesis	HO: Random-Effects model is most appropriate HA: Fixed Effects model is most appropriate
Decision rule	If the p-value is statistically significant, the study rejects the null hypothesis and accepts the alternative hypothesis as the most appropriate model.
Result	chi2(2) = -1.75; Prob > chi2 = 0
Decision	The p-value of the test is insignificant; the study cannot reject the null hypothesis: the random effect is appropriate.

Table 6: Pesaran's test result

Pesaran's Test for Cross-sectional Independence	7.627
Pr	0.0000

Table 7: Modified Wald Test

H0: $\sigma(i)^2 = \sigma^2$ for all i	
Chi2 (5)	12.46
Prob>chi2	0.0289

Table 8: Wooldridge Test

H0: no first-order autocorrelation	
F(1, 4)	41.993
Prob>F	0.0029

the Hausman test as a way of identifying the exact models to adopt between the fixed effects model and the random effect model. The result of the Hausman test conducted is shown in (Table 4). Table 5 indicates that Hausman's test indicates an indifferent choice between the random effect model and the fixed effect model because the result obtained showed that the difference in coefficient between the fixed effect and random effect is not systematic.

Pesaran Test

The Pesaran's test was conducted to test for cross-sectional independence amongst the variables employed in this study (Table 6).

The result revealed that there is a challenge of cross-sectional dependence in the panel data.

Modified Wald Test for Heteroskedasticity

This section presents the result of the Modified Wald Test for group-wise heteroskedasticity in a fixed effect regression model (Table 7).

Wooldridge Test

The Wooldridge test was conducted to check for autocorrelation in panel data. The result of the Wooldridge test is presented in (Table 8). Since the

Prob>F obtained is lower than 0.05 we reject the null hypothesis, therefore it is revealed that there is first-order autocorrelation in the panel data.

Ramsey test

This section presents the result of the Ramsey test conducted to ascertain if the model specified and adopted in the study has omitted variables or not (Table 9). The result revealed that the Prob>F obtained which is 0.0038 appears to be lower than 0.05 and significant at a 5% level of significance. So, therefore, the null hypothesis is rejected revealing that there is an omitted variable in the panel data (Table 9).

Table 9: Ramsey Test

Ho: the model has no omitted variables	
F(3, 34)	5.39
Prob>F	0.0038

Test of Hypotheses

Table 10 presents the regression results; the study adopted the Driscoll and Kraay (1998) standard errors for linear models while analyzing the objective of the study after the diagnosis tests and post-estimation checks, because of the challenges of cross-sectional dependence and heteroskedasticity.

Table 10: Regression result.

Dependent Variable Firm Size (FS)					
Variables	Symbols	Coefficient	Std. errs.	t	P>t
Return on Asset	ROA	162.2276	19.00747	8.53	0.000
Board of Directors	BOD	-.2587437	.0866008	-2.99	0.005
Board Size	BS	0	(omitted)		
Constant	_cons	16.70719	1.272122	13.13	0.000

Decision rule

Reject the null hypothesis (H0) and accept the alternate hypothesis (HA) where the p-value obtained is lesser than the level of significance (0.05), the result is deemed to be significant. Additionally, where the p-value obtained is greater than the level of significance (0.05), the result is deemed to be insignificant, and we retain the null hypothesis (H0).

From Table 10 shows that the Board of Directors (BOD) has a negative relationship with FS. The result shows that among the measures of financial performance examined in this study, Return on Asset (ROA) appears to have a significant association with financial performance.

Hypothesis 1

Return on asset

Table 10 shows that Return on Asset has a positive correlation with the financial performance of sampled banks and also revealed a significant influence on Financial Performance. The result of the study is opposed to our hypothesis which says that there is no significant effect of return on assets on the financial performance of parastatals in Nigeria. Therefore, the null hypothesis is rejected while the alternate hypothesis is accepted. Board of Directors (BOD) and Board Size (BS) has a coefficient of -0.2587437 and 0 respectively while BOD has no significant effect at a 5 percent level ($p = 0.005$). The result implies that a unit increase in total number of board members will not affect the financial performance of firms.

Hypothesis 2

Board of Directors

Table 10 revealed that board of directors and board size have a negative relationship with financial performance and also maintain an insignificant impact on the financial performance of firms in Nigeria. The Board of Directors (BOD) recorded a coefficient and a t-statistics value of -0.2587437 and -2.99 respectively. The result implies that a unit increase in the total number of the board of

directors in the board will result in over 0.2587437 decreases in financial performance if other variables are held constant and vice-versa. The Board of Directors (BOD) obtained a p-value of 0.005 which has no significant effect at a 5% level of significance. This result supports our hypothesis which hypothesized that there is no significant effect of corporate governance on the Financial Performance of parastatals in Nigeria.

Hypothesis 3

Board size

Table 10 revealed that Board size is omitted and has no statistical effect or significance to the financial performance of parastatals in Nigeria because it has multicollinearity with the Board of Directors. Therefore, the same decision made concerning hypothesis 2 is also considered in this regard. We thereby assert based on this finding that board size has no significant effect on the financial performance of parastatals in Nigeria.

DISCUSSION

This study was conducted to evaluate the effect of return on assets and corporate governance on the financial performance of Nigerian parastatals, and to achieve this, research questions and hypotheses were formulated. The data obtained to test and validate the hypotheses were from secondary sources concerning the variables of interest. However, the data generated are as follows; 2015 – 2022 (8 years) financial statements of five sampled banks which provided information about the variables tested and discussed. Additionally, the statistical test was made with the STATA 17.0 version. The results obtained showed that there is multicollinearity present between the board of Directors and Board Size) following the results from the various statistical tests in the above data analysis and presentation. Furthermore, the result also showed that Board composition which entails a Board of Directors and Board Size has no significant effect on the financial performance of firms. While return on assets has a significant effect on firms' size and financial performance. This analysis has been thoroughly discussed in the above presentation and presentation of statistical results.

Conclusion

This study investigated the corporate governance and financial performance of parastatals in Nigeria. Corporate Governance has become an acceptable international practice, which every country is embracing. The financial performance analysis identifies the financial strengths and weaknesses of the firm by establishing a relationship between the items of the balance sheet and the profit and loss account. Financial performance can be measured at a single moment in time or across time. It can also be compared to similar enterprises in the same industry, or it can be used to aggregate industries or sectors. From the foregoing, financial performance is a measure of an organization's earnings, profits, and appreciation in its value which are reflected by the rise in share price and the degree to which financial objectives are being met or have been accomplished. Among the measures of financial performance examined in this study, Return on Asset (ROA) appears to have a significant association with financial performance. Board composition which entails the Board of Directors and Board Size has no significant effect on the financial performance of firms, while return on asset has a significant effect on firms' size and financial performance.

Recommendations

1. Bank managers should know that there are lots of benefits in corporate governance if given the right attention in the firm.
2. Banks should adopt the habit of regular evaluation of their financial performance
3. Banks' return on assets should be properly checked and recorded for adequate financial performance
4. Efforts to improve corporate governance should focus on the value of the stock ownership of board members since it is positively related to both future operating performance and the probability of disciplinary management turnover in poorly performing banks.
5. Steps should also be taken for mandatory compliance with the code of corporate governance. Also, an effective legal framework should be developed that specifies the rights and obligations of a bank, its directors, shareholders, and specific disclosure requirements and provides for effective enforcement of the law.

This study presently covered a period of five years (2015-2022) and the selected samples consist of firms from the banking sector in Nigeria. Thus, the study suggested that further validation should be expanded to longer periods and more samples.

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Data from selected banking firms

BANK	YEAR	ROA	FSIZE	BOD	BS
FIDELITY	2015	0.012678997	14.02392375	14	14
FIDELITY	2016	0.005022567	14.0764438	14	14
FIDELITY	2017	0.015927188	14.13702433	14	14
FIDELITY	2018	0.012047331	14.35776682	12	12
FIDELITY	2019	0.020245625	14.56410995	14	14
FIDELITY	2020	0.016422614	14.83007	15	15
FIDELITY	2021	0.005527589	15.00349239	13	13
FIDELITY	2022	0.010552997	15.19905339	13	13
GTCO	2015	0.039387281	21.64934598	14	14
GTCO	2016	0.046413923	21.85994222	14	14
GTCO	2017	0.050106778	21.93255349	14	14
GTCO	2018	0.056166824	21.91334537	14	14
GTCO	2019	0.052368591	22.04740	14	14
GTCO	2020	0.040738941	22.32157269	13	13
GTCO	2021	0.032163054	22.41632	15	15
GTCO	2022	0.026242857	22.58680	2	2
FBN	2015	0.003636	15.24251	12	12
FBN	2016	0.002584654	15.37087342	12	12
FBN	2017	0.007200942	15.47117096	10	10
FBN	2018	0.010715448	15.53260	10	10
FBN	2019	0.011874698	15.6406284	13	13
FBN	2020	0.011670	15.85530	13	13
FBN	2021	0.016913647	16.00519265	11	11
FBN	2022	0.01287358	16.17425951	11	11
ZEN	2015	0.026370643	15.20351396	13	13
ZEN	2016	0.027353753	15.37151077	13	13
ZEN	2017	0.031060	15.53742912	13	13
ZEN	2018	0.032477068	15.59986098	13	13
ZEN	2019	0.032904834	15.66347375	13	13
ZEN	2020	0.027185191	15.953371	13	13
ZEN	2021	0.025885062	16.06130	17	17
ZEN	2022	0.01822544	16.32394076	17	17
UBA	2015	0.021671701	15.06954985	19	19
UBA	2016	0.020620522	14.82806447	19	19
UBA	2017	0.019056025	15.21902431	19	19
UBA	2018	0.016141936	15.39855069	19	19
UBA	2019	0.015850	15.54200	16	16
UBA	2020	0.014778552	15.85646851	16	16
UBA	2021	0.013894577	15.96042589	16	16
UBA	2022	0.015682789	16.20037318	15	15

Source: Central Banks of Nigeria, 2022