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IMPACT OF AUDIT COMMITTEE ATTRIBUTES ON FINANCIAL REPORTING QUALITY IN NIGERIAN QUOTED COMPANIES

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ABSTRACT

The objective of this study is to evaluate the impact of Audit Committee on financial reporting quality in Nigerian quoted companies. Data for the study were derived from annual reports of one hundred and thirty- one (131) companies quoted on the Nigerian Stock Exchange for the periods, 2006 to 2012. The data were analyzed using descriptive statistics as well as correlation and Ordinary Least Squares (OLS) regression. The multivariate regression technique was utilized to estimate the model. Using the panel regression estimation results, we found that each of the identified audit committee attributes, such as: frequency of meetings, financial literacy, independence, size and attendance at meetings had a positive significant effect on financial reporting quality. Based on these findings, the paper recommends the need for training and seminars to be organized for members of audit committee with a view to enabling them keep abreast of up to date information as regards their roles and responsibilities, to make them more effective and efficient in their assignments. In addition, the Securities and Exchange Commission of Nigeria should put in place a regulation, which ensures that audit committee members maintain at least, an attendance level of 85%, for them to be retained in the audit committee for the following financial year.

Keywords: Financial reporting quality, Financial literacy, Frequency of meetings.

INTRODUCTION

The quality of financial reporting of quoted companies in Nigeria has become a cause for concern, as a result of major publicized cases of corporate financial frauds, accounting improprieties, scandals and failures in companies such as Cadbury Nigeria Plc in 2006, Afribank Nigeria Plc in 2009 and Intercontinental Bank Plc in 2009 (Adeyemi, Okpala & Dabor,2012). Besides, issues of corporate insolvency in the financial sector soon after the publication of unqualified financial statements by directors have recently attracted a lot of concern as to the real duties of directors and auditors. These developments have focused attention on the quality of financial reporting and encouraged regulators and researchers to seek ways of improving the integrity and quality of the financial reporting process.

The Audit Committee (AC) is a central element of one of such reforms that can enhance the quality of financial reporting through an open and candid communication and a good working relationship with a company's board of directors, internal auditors and external auditors (Mustafa, 2012). Undeniably, the existence of an appropriately constituted audit committee is now a necessity for all listed companies in the United Kingdom and United States of America (Sarbanes-Oxley Act, 2002; The UK Corporate Governance Code, 2010) with corporate governance regulation placing significant importance on the role of AC. In Nigeria, the Securities and Exchange Commission (1999) issued a Code of Best Practices of Corporate Governance (2011), which provides for the establishment of an audit committee in public companies in Nigeria. Therefore, there is a profound need to explore the features of an audit committee in the Nigerian context, the changing nature of its attributes and association of these attributes with the financial reporting process.

In Nigeria, the creation and establishment of an audit committee is made mandatory by the Companies and Allied Matters Act (CAMA) of 2004. Section 359 (3) states that "The auditor shall in the case of a public company also make a report to an audit committee which shall be established by the public company". According to CAMA, Section 359 (4), the makeup of the audit committee "shall consist of an equal number of directors and representatives of the shareholders of the company (subject to a maximum number of six members)". Section 359 (4) is silent as to whether the directors should be executive or non-executive.

Besides the make-up of an audit committee, five attributes were adopted in this study to assess the impact of audit committee on financial reporting. They are: independence, size, financial literacy, frequency of meetings and attendance at meetings. As a result of mixed results associated with prior studies in developed countries such as in United States, England and Singapore, the aforementioned attributes were adopted with a view to finding out what the results would be if this study is carried out in Nigeria. Previous studies by us in 2015 adopted only two attributes, which we considered necessary but not enough in the determination of the impact of audit committee on financial reporting quality.

A small number of studies existing in this area of research are output of developed countries which have different regulatory framework and government mechanisms to those of Nigeria. A few of them are the studies of Abbot and Parker(2000), Xie, Davidson and Dadalt (2003), Defond, Hann and Hu (2005), Lin, Li and Yang (2006) and Yang and Krishnan(2005) whose results were mixed. For example, Abbot and Parker(2000) reported that audit committees that are both independent and active are positively associated with financial reporting quality while Xie, Davidson and Dadalt (2003) observed no relationship between an independent audit committee and the level of financial reporting quality. Defond, Hann and Hu (2005) found a positive relationship between financial literacy and financial reporting quality while Lin, Li and Yang (2006) and Yang and Krishnan (2005) did not find any significant association between financial literacy and financial reporting quality. Besides, these studies documented inconclusive evidence which call for an investigation to the Nigerian scenario. This provides the justification and impetus for this study. In light of the above and with an understanding of the importance of the issues in developing countries and apparent limitations of previous studies, the current study attempts to close the gap through an extensive study of critical audit committee attributes that impact on financial reporting quality in Nigeria. The remaining part of this paper is structured as follows: Section 2 is literature

review and hypotheses development, Section 3 considers the methodology, Section 4 is the analysis and presentation of results while Section 5 is the conclusions and makes recommendations.

Objectives of the Study

The broad objective of the study is to determine the impact of audit committee attributes on financial reporting quality. The specific objectives are to:

i. Determine the influence of frequency of audit committee meetings on financial reporting quality in Nigerian companies;
ii. Ascertain the effect of financial literacy of audit committee members on financial reporting quality in Nigerian companies;
iii. Evaluate the effect of independence of an audit committee on financial reporting quality in Nigerian companies;
iv. Determine whether audit committee size affects financial reporting quality in Nigerian companies; and
v. Analyze the impact of level of attendance at audit committee meetings on financial reporting quality in Nigerian companies.

Research Hypotheses

The following hypotheses are formulated:

H_1: Frequency of audit committee meetings does not have significant influence on financial reporting quality.
H_2: Financial literacy of audit committee members has no significant effect on financial reporting quality.
H_3: There is no significant relationship between independence of audit committee members and financial reporting quality.
H_4: There is no significant relationship between audit committee size and financial reporting quality.
H_5: The level of attendance at audit committee meetings has no significant relationship with financial reporting quality.

Literature Review

This chapter examines the theoretical framework and relevant literature on developments of the audit committee and financial reporting quality.

Concept of Financial Reporting Quality

S.334 (2) of CAMA 2004 as amended in 2004, spelt out among others two basic financial statements, namely: the balance sheet (now Statement of Financial Position) and the profit and loss account (now the Statement of Comprehensive Income). Also relevant are; Statement of Changes in Equity and Statement of Cash Flows. It is on the basis of the aforementioned statements that stakeholders are expected to make informed economic decisions. Financial statements can be adequately relied upon by their users where a structure of review and authorization are put in place to enhance the integrity of such a report (Okpala, 2012). The Institute of Chartered Accountants of Nigeria (ICAN) stated that the structure should include a process that

ensures the independence and competence of the external auditors and the audit committee that reviews and considers the financial statements, so as to instil confidence, assures reduction in uncertainty and risk and add value. The reliability and credibility of financial reports lie squarely on the shoulders of the board of directors and its audit committee whose duty it is to ensure that internal control measures, accounting policies, and external auditors are in place in order to assure that financial statements are free from fraud and material misstatement. This becomes necessary, given the increasing concern that the quality of financial reports may have diminished over time (Lev & Zarowin, 1999).

In order to ensure high quality financial reporting, the International Accounting Standards Board (IASB) identified in its framework for the preparation and presentation of financial statements, four principal qualitative characteristics, namely: understandability, relevance, reliability and comparability. Users of financial statements include creditors, suppliers, customers, shareholders, lenders, employees, government agencies to mention a few. These users have varying information needs The quality of financial statements is of relevance to their needs for making reliable and informed decisions. Financial reporting embodies two types of information, namely: quantitative and qualitative information. Both types of information are of immense importance to users of financial statements for decision making.

Financial Reporting Quality

Several definitions have been given to the term, financial reporting quality. For instance, financial reporting quality is defined as the exact manner by which it shows information as regards a business activity as it relates to its anticipated cash flows, with the aim of informing shareholders about a company's operations (Verdi, 2006). Tang, Chen and Zhijun (2008) defined financial reporting quality as the degree to which financial statements provide us with information that is fair and authentic about the financial position and performance of an enterprise. However, a commonly accepted definition is provided by Jonas and Blaurchet (2000), who asserted that quality of financial reporting is complete and unambiguous information that is not designed to misinform users. IASB (2006,2008) opined that "the objective of financial reporting is to provide financial information about the reporting entity that is useful to present to potential equity investors, lenders and other creditors in making decisions in their capacity as capital providers"(p.5).

Compliance with the objectives and qualitative attributes of financial reporting information as stated by the International Accounting Standard Board (IASB, 2006), will no doubt enhance financial reporting quality. The basic qualitative attributes of financial information are relevance and faithful representation (IASB, 2008). This study measured financial reporting quality using discretionary accruals derived from modified-Jones 1991 model bearing in mind that financial reporting comprises both financial and non-financial information. Previous research revealed that Jones Model is frequently used to measure discretionary accruals as a proxy for financial reporting quality (Khurana & Reynolds, 2002; Balsam, Krishnan & Yang, 2003; Chung & Kallapur, 2003; Myers & Omer, 2003; Jackson, Moldrich & Roeback, 2008; Chen & Lin, 2008 Johnson,). This model is shown in Section three, Methodology. In a situation where managers use judgment in financial reporting to alter financial reports to mislead stakeholders, thereby negatively affecting the quality of financial reporting, discretionary accruals model as a measurement tool for financial reporting quality becomes desirable (Healy & Wahlem, 1999).

Audit Committee Meetings and Financial Reporting Quality

Regulators and others have expressed a strong preference for an audit committee that meets frequently. Audit committee meetings imply the number of times audit committee members meet. This is quite different from attendance at meetings. Frequent audit committee meetings allow for better communication between audit committee members and auditors (both external and internal) and enable the audit committee to be more effective [The Public Oversight Board,1993, the Securities and Exchange Commission Chairman, Levitt ,1999 & the Blue Ribbon Committee, 1999].

The number of audit committee meetings is considered to be an important attribute for monitoring effectiveness (Lin, Li & Yang, 2006). As a result, the audit committee that meets more frequently with the internal auditors is considered better informed about auditing and accounting issues. An audit committee that meets frequently can reduce the possibility of financial fraud (Abbott, Parker & Peters, 2004; Raghunadan, Rama & Scarbrough, 1998). Bryan, Liu and Tiras (2004) posited that audit committees that meet regularly are often expected to be able to perform monitoring tasks more effectively than others that do not meet regularly. Zhang and Zhou (2007) used the number of meetings to measure whether the frequency influences quality of financial reporting and they found a positive correlation. Beasley, Carcello, Hermanson and Lapides (2000) found that fraudulent firms with earnings misstatements have fewer audit committee meetings than non-fraud firms. Hsu (2007) found that there is a positive relationship between audit committee meetings and a firm's financial performance. When audit committees meet often, discretionary accruals are less and there is the possibility of a firm reporting more earnings, which shows a better financial reporting quality (Xie, et al, 2003 & Vafeas, 2005).

However, empirical evidence on the impact of frequency of audit committee meeting on financial reporting quality differs. Bedard, Chtourou and Courtteay (2004) and Lin et al. (2006) did not find any positive association between the frequency of audit committee meetings and financial reporting quality. It follows therefore, that an active audit committee with more meetings has more time to oversee the financial reporting process, identify management risk and monitor internal controls. Consequently, the quality of financial reporting tends to increase with an audit committee activity.

Audit Committee Financial Literacy and Financial Reporting Quality

Financial Literacy is typically demonstrated by employment, experience or certification in accounting or finance (Price Water House Coopers/11A, 2000). (PriceWaterhouseCoopers The experience and knowledge in accounting and auditing related issues are considered as an important dimension for an audit committee. This advantage can help the audit committee members to be more conversant with financial and operational reports that will enable them to execute their oversight duties effectively (Matlain & Mazlina, 2005).

It is generally accepted that the key duty of the audit committee is to review the financial reporting process to ensure the best quality. Thus, the availability of accounting and auditing expertise in the audit committee increases the efficiency of the audit committee's performance. Regulators from various countries realize the importance of financial literacy in improving the audit committee's effectiveness. They believe that the relevant experience or technical knowledge is crucial to

effective accounting oversight (Kalbers & Fogarty, 1993). For instance, the Sarbanes-Oxley Act (2002) mandates that at least one member of the audit committee must be a financial expert.

In the United Kingdom, the South Report (2003) echoed the views of the Sarbanes-Oxley Act and specified that at least one audit committee member must have significant, recent and relevant financial expertise. In Nigeria, the Companies & Allied Matters Acts as amended of 2004 is silent as regards financial expertise. A number of studies have documented a negative association between the financial accounting literacy in the audit committee and earnings management (Bedard, Chtourou & Courtteau, 2004).Yang and Krishnan (2005) and Lin, Li, and Yang (2006) did not find any significant relationship between financial literacy and financial reporting quality.

Defond, Hann and Hu (2005) found a positive relationship between financial literacy/financial expertise and financial reporting quality. Carcello, Hollingsworth, Klein and Neal (2006) asserted that there is a correlation between financial literacy and financial reporting quality. Dhahival, Naiker and Navissi (2010) also observed a positive association between the financial literacy of audit committees and financial reporting quality. Xie et al (2003) found that audit committee members with accounting and financial knowledge are associated with companies that have smaller discretionary current accruals for financial reporting quality.

Audit committees that have financial literacy have greater interaction with their internal auditors (Raghunadam, Read & Rama, 2004). Emeni (2009) evaluated the impact of audit committee characteristics on financial reporting quality and found that there is a positive relationship between the financial reporting quality and financial literacy. In a nutshell, financially knowledgeable audit committee members who possess accounting qualifications are more likely to prevent and detect financial frauds.

Audit Committee Independence and Financial Reporting Quality

Audit committee independence implies that its members do not have any relationship with the management of a company and that there is no influence from any of the majority shareholders, officers and executive directors of the company on the audit committee. It is generally believed that an independent audit committee ensures an effective monitoring of management as it relates to financial matters thereby ensuring reliability on the financial statements by users. Much of the blame and criticism for accounting irregularities is aimed at audit committee for not fulfilling their financial reporting oversight duties due to independence issues (Pergola, 2005).

Xie, Davidson and Dadalt (2003) stated that a more independent audit committee is argued to provide better governance compared to a less independent audit committee. Saleh, Iskander and Rahmat (2007) were of the view that the fully independent audit committee is a very active mechanism against low financial reporting quality. As a result, it is logical to expect that the independence of an audit committee is negatively associated with the earnings management practice. Other studies results differ. Lin and Yang (2006) showed that there is no relationship between an audit committees independence members and financial reporting quality. Xie, Davidson and Dadalt (2003) likewise observed no relationship between the level of financial reporting quality and an independent audit committee. One possible interpretation of some of the findings is that the more independent the audit committee is, the less likely will there be financial statement fraud, thus resulting to high financial reporting quality.

Audit Committee Size and Financial Reporting Quality

The audit committee size is the number of directors and shareholders that make up the audit committees. The Blue Ribbon Committee (BRC)'s Report of 1999 espoused the usefulness of having an audit committee and recommended that an effective audit committee of listed companies should consist of at least three directors. S. 359(4) of Companies and Allied Matters Act, 2004 (as amended) asserted that an audit committee shall consist of an equal number of directors (it does not state whether these should be executive or non-executive directors) and representatives of the shareholders of the company subject to a maximum number of six members.

Yermack (1996) found that a small board size enhances a firm's value. Jensen (1993) asserted that a small number of board members improve the efficiency of audit committee monitoring and control. A larger audit committee may not necessarily cause more effective functioning but may lead to unnecessary debates and delay decisions (Lin, Xiano & Tang, 2008).Goodstein, Gautam and Boeker (1994) posited that a large board size is associated with delays and administrative bottlenecks.

However, according to Abdellatif (2009), the larger audit committee may play a vital role in constraining the occurrence of earnings management. Yang and Krishnan (2005) observed a negative significant relationship between the size of an audit committee and earnings management practice. Thus, this implies a positive effect of large audit committees on financial reporting quality.

Despite the conflict in previous studies' results, this study hypothesizes that a larger audit committee is likely to be more effective compared with the smaller audit committee. The intuition behind it is that with a larger audit committee, the responsibilities, skills, background and power would be increased to enhance their oversight roles thereby having a positive effect on financial reporting quality.

Audit Committee Attendance at Meetings and Financial Reporting Quality

Apart from the frequency of meetings, the level of attendance of audit committee members can also be used to measure how active audit committee members are. The level **of attendance of audit committee members** implies the number of times each member of an audit committee attends audit committee meetings. This is quite different from the frequency of audit committee meetings which means the number of meetings held by audit committee members. If the frequency of an audit committee meeting is high and the attendance level is low, this may impede the efficiency of the audit committee members (Nordin &Marini, 2009). It therefore follows that the more active and participative the audit committee members are, the better is the financial reporting quality.

Theoretical Framework

The theoretical basis for this study is the agency theory which emanates from the relationship between the principal (owners) and the agent (managers). Audit committees primarily align the interests of owners with the management's interest. The establishment of audit committees is regarded as a reaction to information asymmetries between the owners of a company and its management (Herzig & Watrin, 1995). Demsetz and Lehn (1985) asserted that the primary objective of an audit committee is to resolve agency problems by monitoring management's

behaviour and inspecting the quality of financial reporting. Consequently, enhancing audit committees will lead to an improved financial reporting quality. Emanating from this agency theory, independent variables were considered with a view to examining the impact of these explanatory variables (**audit committee independence, audit committee size, audit committee financial literacy, audit committee frequency of meetings and audit committee attendance at meetings**) on financial reporting quality.

Methodology

This section discusses the method and the procedures adopted in carrying out the study. It includes the research design, the population and sample of the study, the method of data collection and the model specification. They are discussed as follows:

Research Design and Source of data

The study used the panel data research design which is a combination of cross- sectional and time series design properties of companies. Secondary data were obtained from annual reports of one hundred and thirty- one companies on the Nigerian Stock Exchange.

A total of one hundred and ninety-four (194) quoted companies constitute the population The sample size consists of one hundred and thirty one (131) companies derived by using Taro Yamane formula (Yamane, 1996).The choice of companies was based on availability of data for companies in operation for seven consecutive years.

Model Specification

Emanating from the extant literature, audit committee frequency of meetings, financial literacy, independence, size and attendance at meetings are observed to have effect on financial reporting quality. Hence, the relationship between these aforementioned audit committee attributes and financial reporting quality is expressed as:

FRQ= *f*(ACFM,ACFL,ACIND,ACSIZ,ACMA) ---------- (1)

In econometric form:

$DACC_{it} = \partial_0 + \partial_1 ACFM_{it} + \partial_2 ACFL_{it} + \partial_3 ACIND_{it} + \partial_4 ACSIZ_{it} + \partial_5 ACMA_{it} + \partial_6 BDSIZ_{it} \quad \partial_7 BDDILI_{it} + \partial_8 BDIND_{it} + \partial_9 ROE_{it} + \mu_{it}$ ----------(2)

Where:

DACC ---------- Discretionary Accruals(proxy for Financial Reporting Quality)
ACFM ---------- Audit Committee Frequency of Meetings
ACFL ---------- Audit Committee Financial Literacy
ACIND---------- Audit Committee Independence
ACSIZ---------- Audit Committee Size
ACMA---------- Audit Committee Meeting Attendance
BDSIZE ---------- Board Size
BDDILI ---------- Board Diligence
BDIND ---------- Board Independence
ROE---------- Return on Equity
μit ---------- Error term
$\partial 1$---$\partial 9$ ---------- Unknown coefficients of the variables. It is expected as

$$\partial 1 \text{-------} \partial 9 < 0$$

DACC was adopted from modified-Jones (1991) model. It is determined as the residual (difference) between TAC(Total Accruals) and NDAC(Non-Discretionary Accruals).

The bases of measurement of variables in the model are shown in Table 1 as follows:

Table 1: Operationalization of Variables

S/N	Variables	Definition	Type	Measurement	Authors
1.	FRQ	Financial Reporting Quality	Dependent	Discretionary Accruals	Modified Jones, 1991 model
2.	ACFM	Audit Committee Frequency of Meetings	Independent	No. of times the audit committee meets in a year	Zhang and Zhou, 2007
3.	ACFL	Audit Committee Financial Literacy	Independent	No. of audit committee members having experience, knowledge in Accounting	Kalbers & Forgartry, 1993
4.	ACIND	Audit Committee Independence	Independent	No. of non-executive directors (outside directors) in the audit committee	Choi, Jeon & Park, 2004
5.	ACS1Z	Audit Committee Size	Independent	No. of individuals on the audit committee	Yang & Krishnan, 2005
6.	ACMA	Audit Committee Meeting Attendance	Independent	No. of audit committee members in attendance	Nordin & Marini, 2009
7.	BDS1Z	Board Size	Independent (control)	No. of directors on the board	Thinggard&Kiertzer, 2008
8.	BDIND	Board Independence	Independent (control)	No. of non-executive directors(i.e.outside directors).	Uwuigbe, 2011
9.	BDDILI	Board Diligence	Independent (control)	No. of meetings held by the board	Xie, Davidson & Dadalt, 2003.
10.	ROE	Return on Equity	Independent (control)	Ratio of Profit after tax to total equity	Damin,Janasson,Tov,Naomi& Maria, 2003.

For one hundred and thirty one companies (131) observed, the variables were measured in relation to each company(**see appendix 3 for a list of sampled companies**) covering a period of seven years (2006 to 2012).

Analysis and Presentation of Results

This section presents in detail, descriptive statistics, pearson correlation, test of hypotheses and ordinary least square regression.

Table 2 presents the descriptive statistics of the variables:

Table 2: Descriptive Statistics

	DACC	ACFL	ACFM	ACIND	ACMA	ACSIZ
Mean	2.64E-07	1.4	3.4971	2.926	4.0294	5.8471
Median	-3.19E-05	1	4	3	4	6
Max	0.004968	4	12	3	6	6
Min	-0.00026	0	1	2	2	4
Std. Dev.	0.000304	1.149	1.0348	0.261	1.2688	0.5267
Jarque-Bera	660154.2	27.58	2483	1672	24.484	1535.4
Prob	0.00	0.00	0	0	0.00	0

Source: Author's Compilation (2015)

Where; DACC= Discretionary accruals, ACFL= Audit committee financial literacy, ACFM= Audit committee frequency of meetings, ACIND=Audit committee independence, ACMA=Audit committee meeting attendance, BDDIL=Board Diligence, BDIND=Board Independence, BDSIZ=Board size and ROE= Return on equity.

As observed in Table 2, DACC had a mean value of 2.64E-07 which suggested minimal **DACC** value for sample with maximum and minimum values of 0.00496 and -0.003 respectively. The standard deviation suggested that the DACC values across the companies exhibited considerable clustering around the mean. The Jacque-Bera statistic of 660154.2 alongside its p-value ($p=0.00<0.05$) indicated that the data satisfied normality and as well as the unlikelihood of outliers in the series. **ACFL** was observed to have a mean value of 1.4 with maximum and minimum values of 4 and 0 respectively. The standard deviation of 1.149 suggested a considerable clustering around the average for the sample. The Jacque-Bera statistic of 27.58 alongside its p-value ($p=0.00<0.05$) indicated that the data satisfied normality and as well as the unlikelihood of outliers in the series. The mean for **ACFM** is 3.497 with maximum and minimum values of 12 and 1 respectively. The standard deviation of 1.035 suggested a considerable cluster around the average. The Jacque-Bera statistic of 2483 alongside its p-value ($p=0.00<0.05$) indicated that the data satisfies normality. The statistics is higher than that of Saudi quoted firms (mean=2.9 min=2, max=7). **ACIND** had a mean value of 2.963 with maximum and minimum values of 3 and 2 respectively. The spread of the data around the mean is 0.261 which suggested a considerable clustering around the average. The Jacque-Bera statistic of 1672 alongside its p-value ($p=0.00<0.05$) indicates that the data satisfied normality. The mean for **ACMA** is approximately 4.0294 with maximum and minimum values of 6 and 2 respectively. The standard deviation of 1.2688 suggested a considerable clustering around the average. The Jacque-Bera statistic of

24.484 alongside its p-value (p=0.00<0.05) indicated that the data satisfied normality.

ACSIZE was observed with a mean value of approximately 6 with maximum and minimum values of 6 and 4 respectively. The standard deviation of 0.527 suggested a considerable cluster around the average. The Jacque-Bera statistic of 1535.4 alongside its p-value (p=0.00<0.05) indicated that the data satisfied normality.

Correlation Analyses

Of particular interest to this study, is the correlation between DACC and the Audit committee attributes (see Appendix 1). As observed in Appendix 1, a negative correlation existed between DACC and ACFL(r= -0.03). Though the coefficient is weak, the direction of association suggested that audit committee financial literacy could tend to decrease the DACC and hence improve financial reporting quality. A positive correlation was also observed between DACC and ACFM (r=0.017). Though weak, the correlation suggested that ACFM might not be associated with a decline in DACC. A positive association was observed between DACC and ACIND (r = 0.032).Though weak, the correlation suggested that ACIND might not be associated with a decline in DACC. ACMA was observed to correlate negatively with DACC (r = -0.06). Though weak, the correlation suggested that ACMA was associated with a decline in DACC. ACSIZE was positively correlated with DACC (r=0.031).

Regression Diagnostic and Specification Tests

As observed in Appendix 2, the variance inflation factor (VIF) shows how much of the variance of a coefficient estimate of a regressor has been inflated due to collinearity with the other regressors. Basically, VIFs above 10 is seen as a cause of concern (Landau & Everitt, 2003). As observed, none of the variables has VIF's values exceeding 10 and hence none gave serious indication of multicollinearity.

The ARCH test for heteroscedasticity in Appendix 2 was performed on the residuals as a precaution. The results showed probabilities in excess of 0.05, which led one to reject the presence of heteroscedasticity in the residuals.

The Lagrange Multiplier (LM) test in Appendix 2 for higher order autocorrelation revealed that the hypotheses of zero autocorrelation in the residuals were not rejected. This was because the probabilities (Prob. F, Prob. Chi-Square) were greater than 0.05.The LM test did not therefore reveal serial correlation problems for the model. The performance of the Ramsey RESET test showed high probability values that were greater than 0.05, meaning that there was no significant evidence of miss-specification.

Test of Hypotheses

Multiple regression analyses were used to conduct a full test of the model using panel data estimation technique. We present the regression results in Table 3.

Panel A (in Table 3) results stand **for the hypothesis which states that there is no significant relationship between audit committee size and financial reporting quality.** The outcome of

the regression result as regards this hypothesis shows that in Panel A, R2 = 48.6 %, indicated systematic changes in financial reporting quality. The coefficient was negative (- 2.025) in line with the predicted sign and also insignificant (p=O.065) at 5% level. The F-stat (5.605) and p-value (0.00) indicated that the null hypothesis which states that there is no significant linear relationship between audit committee size and financial reporting quality was rejected at 5% level. This led to the acceptance of the alternative hypothesis that there is a significant relationship between audit committee size and financial reporting quality, while the D. W statistics of 2.07 indicated the absence of a serial correlation of the residuals in the model. The negative coefficient of -2.025 implies that there was an increase in audit committee size which resulted in a decline in discretionary accruals and thus improved (i.e. increase) financial reporting quality.

Panel B (in Table 3) results stand for ***the hypothesis which states that there is no significant relationship between independence of audit committee members and financial reporting quality***. In Panel B, R^2 = 55%, explained systematic changes in financial reporting quality. The coefficient was negative (-6.577) and significant (p=0.00) at 5% level. The F-stat (7.55) and p-value (0.00) did not support the null hypothesis of no significant linear relationship between the ACIND and financial reporting quality hence the rejection of the null hypothesis and acceptance of the alternative hypothesis that there is a significant relationship between independence of audit committee members and financial reporting quality, while the D. W statistics of 2.08 indicated the absence of a serial correlation of the residuals in the model.

Panel C (in Table 3) results stand for the hypothesis which states that ***financial literacy of audit committee members has no significant relationship with financial reporting quality.*** In Panel C, R^2 = 51%, accounted for systematic changes in financial reporting quality. The coefficient was negative (-1.326) in line with the predicted sign and significant (p=0.00) at 5% level. The F-stat (4.156) and p-value (0.04) did not support the null hypothesis of no significant linear relationship between Audit Committee Financial Literacy and financial reporting quality at 5% level hence its rejection and acceptance of the alternative hypothesis that there is a significant relationship between financial literacy of audit committee members and financial reporting quality, while the D. W statistics of 2.05 indicated the absence of a serial correlation of the residuals in the model.

Panel D (in Table 3) results stand *for* ***the hypothesis which states that frequency of audit committee meetings does not have significant relationship with financial reporting quality.*** In Panel D, R^2 = 50%, explained systematic changes in financial reporting quality. The coefficient was negative (-1.340) in line with the predicted sign and significant (p=0.00) at 5% level. The F-stat (2.34) and p-value (0.00) did not support the null hypothesis of no significant linear relationship at 5% level hence the rejection of the null hypothesis and acceptance of the alternative hypothesis that there is a significant relationship between frequency of audit committee meetings and financial reporting quality, while the D. W statistics of 2.00 indicated the absence of a serial correlation of the residuals in the model.

Panel E (in Table 3) results stand for ***the hypothesis which states that the level of attendance at audit committee meetings has no significant relationship with financial reporting quality.*** In Panel E, R^2 = 52%, indicated systematic changes in financial reporting quality. The coefficient was negative (-1.696) in line with the predicted sign and significant (p=0.00) at 5% level. The F-stat

Table 3: Panel Regression Results (Fixed effects)

Variable	Pred. sign	Panel A	Panel B	Panel C	Panel D	Panel E	Panel F
C		-6.215*	-6.365*	6.205*	5.550*	-6.696*	6.565*
		(9.197)	(8.227)	(6.457)	(1.316)	(4.447)	(5.340)
		{0.000}	{0.000}	{0.000}	{0.00}	{0.002}	{0.000}
AUDS	-	-2.025*					2.796*
		(1.587)					(1.646)
		{0.065}					(0.100)
ACIND	-		-6.577*				-7.110*
			(2.827)				(3.616)
			{0.000}				{0.045}
ACFL	-			-1.326*			-1.276*
				(4.590)			(6.117)
				{0.000}			{0.039}
ACFM	-				- 1.340		-1.940*
					(3.777)		(6.847)
					{0.000}		{0.005}
ACMA	-					-1.696*	-1.016**
						(4.440)	(5.720)
						{0.000}	{0.078}
R^2		0.486	0.55	0.51	0.50	0.52	0.53
F-Stat		5.605	7.55	4.156	2.34	3.652	2.62
P(f-stat)		0.000	0.00	0.04	0.00	0.000	0.036
D.W		2.07	2.08	2.05	2.00	2.01	2.012
Hausman test:	0.046						

Source: Author's Compilation (2015) * at 5%, **sig at 10%, note: ( ) stands for standard error and { } represents p-values.

CONCLUSION

The main objective of this study is to examine the impact of audit committee attributes on financial reporting quality. Using the agency theory as theoretical framework, the study postulates, in line with prior studies, as stated in the literature review, that audit committees can impact significantly, constrain accrual-based distortion of financial reporting credibility and thus improve the quality of financial reporting. To buttress this postulation, audit committee attributes were regressed on discretionary accruals used as proxy for financial reporting quality while board size, board diligence, board independence and return on equity as control variables.

Research Findings

Using the panel regression estimation results, the study found that audit committee independence had a positive statistical significant effect on financial reporting quality consistent with Saleh, Iskander and Ramat, 2007.The study also found that audit committee meeting frequency and audit committee meeting attendance had a positive significant influence on financial reporting quality in tandem with Abbot, Parker and Peters, 2004. Moreover, it was found that audit

...nancial literacy and audit committee size had a positive and significant effect on financial reporting quality in agreement with Defond, Hann and Hu (2005) and Abdellatif, 2009 respectively.

RECOMMENDATIONS

Arising from the findings, are the following recommendations:

The Securities and Exchange Commission and the Central Bank of Nigeria should put in place a regulation which ensures that audit committee members maintain at least an attendance rate of 85% for them to be retained in the audit committee for the following financial year. The practice where audit committee members are simply there just to complete the audit committee size without active attendance and participation at meetings should be curtailed.

Importantly also , there is the need for training and seminars to be organized for members of audit committee by regulatory authorities such as Central Bank of Nigeria (CBN), Securities and Exchange Commission (SEC) and Nigeria Deposit Insurance Corporation (NDIC) as obtainable in other developed countries where audit committee institutions are established to train members of audit committee. This will enable members keep abreast of up to date information as regards their roles and responsibilities. This will make them more effective and efficient in their assignments.

In addition to, it is suggested that in order to strengthen the impact of financial literacy on financial reporting quality, regulatory authorities such as SEC, CBN and NDIC should give specific directives in the corporate governance code as regards audit committee members with personal attributes such as integrity, objectivity, authority, influence, perseverance and diligence in the inclusion of members into the audit committee with a view to making it mandatory for all companies to comply with it, bearing in mind that while financial literacy provides the knowledge necessary to improve quality of financial reporting, it may not be sufficient by itself to effectively reduce accounting irregularities.

Lastly, the category of directors that should be members of the Audit Committee should be specified in terms of executive and non-executive directors as Section 359(4) of CAMA is silent on it.

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APPENDIXES

APPENDIX 1: Pearson Correlation Statistics

	DACC	ACFL	ACFM	ACIND	ACMA	ACSIZE
DACC	1					
ACFL	-0.03	1				
ACFM	0.017	-0.108	1			
ACIND	0.0322	0.0491	0.1791	1		
ACMTA	-0.06	-0.099	0.0832	0.176	1	
ACSIZE	0.031	0.0331	0.1724	0.547	0.1789	1
BDDIL	-0.053	-0.189	0.1263	-0.05	0.0391	-0.025
BDIND	-0.041	-0.192	0.0237	-0.09	0.0366	-0.065
BDSIZE	0.001	-0.126	0.1287	0.072	0.0726	0.0692
ROE	-0.122	-0.091	0.0698	-0.326	0.0068	-0.003

Source: Author's Compilation (2015)

APPENDIX 2- Regression Diagnostic Test

Multicollinearity test: Variance Inflation factor		
Variable	**Coefficient Variance**	**Centered VIF**
C	473.1977	NA
ACFL	3.78785	1.279933
ACMTA	1.94653	1.259792
AUDFM	3.771958	1.319219
AUDIND	178.1095	6.29663
AUDS	37.4391	6.205383
Heteroskedasticity Test: ARCH		
F-statistic = 0.12504	Prob. F(1,45)	0.7253
Obs*R-squared = 1302	Prob. Chi-Square(1)	0.7182
Breusch-Godfrey Serial Correlation LM Test:		
F-statistic = 0.12504	Prob. F(2,34)	0.3939
Obs*R-squared=2.559647	Prob. Chi-Square(2)	0.2781
Ramsey Reset Test		
t- statistics=1.2948	Df= 92	0.1986
f-statistics =1.676	Prob. F(1,92)	0.1986

Source: Researchers Compilation (2015)

APPENDIX 3:
NAMES OF COMPANIES SELECTED AS RESEARCH SAMPLE SIZE

S/N	NAME OF COMPANY
A	NATURAL RESOURCES:
1.	BOC Gases Plc
2.	Alumanco Plc
3.	Aluminum Extension
4.	HALLMARK Papers Prod.
5.	Thomas Wyatt
B	CONSUMER GOODS:
6.	Union Dicon Salt Plc
7.	DN Tyre & Rubber Plc
8.	Champion Breweries Plc
9.	Golden Guinea Breweries
10.	Guinness Nig. Plc
11.	International Breweries Plc
12.	Jos International Breweries Plc
13.	Nigerian Breweries Plc
14.	Premier Breweries Plc
15.	7-up Bottling Company Plc
16.	Dangote Flour Mills Plc
17.	Dangote Sugar Refinery Plc
18.	Flour Mills of Nig. Plc
19.	Northern Nig. Mills Plc
20.	National Salt of Nig.
21.	PS Mandrids Plc
22.	UTC Nig. Plc
23.	Cadbury Nig. Plc
24.	Nestle Nig. Plc
25.	Beta Glass Plc
26.	Nigerian Enamelware Plc
27.	Vital Foam Nig. Plc
28.	Vono Products Plc
29.	PZ Cussons Nig. Plc
30.	Unilever Nig. Plc
C	FINANCIAL SERVICES:
31.	Access Bank Plc
32.	Diamond Bank Plc
33.	Eco Bank Nig. Plc
34.	Fidelity Bank of Nig. Plc
35.	First Bank of Nig. Plc
36.	FCMB Plc
37.	GTB Plc
38.	Skye Bank Plc
39.	Stanbic IBTC Bank Plc
40.	Union Bank of Nig. Plc
41.	UBA Plc
42.	Wapic Insurance Plc
43.	Union Homes Savings and Loans Plc
44.	Standard Trust Assurance Plc
45.	Wema Bank Plc
46.	Zenith Bank Plc
47.	Custodian and Allied Insurance
48.	Egurity Assurance Plc
49.	Golden Link Insurance Plc
50.	Guinea Insurance Plc

51.	Intercontinental Wapic Insurance
52.	Confidence Insurance Plc
53.	AIICO Insurance Plc
54.	International Energy Insurance
55.	LASACO Assurance Plc
56.	Law Union & Rock Insurance Plc
57.	Linkage Assurance Plc
58.	NEM Assurance Comp. Plc
59.	Niger Insurance Plc
60.	Oasis Insurance
61.	Prestige Assurance Plc
D	**CONGLOMERATES:**
62.	A.G Leventis NG. Plc
63.	Chellarams Plc
64.	JohnHolt Plc
65.	Scoa Nig. Plc
66.	Transaction Corp. of Nig. Plc
67.	UAC of Nig. Plc
E	**AGRICULTURE:**
68.	The Okomu Oil Palm Plc
69.	Presco Plc
70.	Ellah Lakes Plc
71.	Livestock Feeds Plc
F	**OIL AND GAS:**
72.	JAPAUL Oil and Maint.
73.	OANDO Plc
74.	Afroil Plc
75.	Conoil Plc
76.	Eternal Oil and Gas Plc
77.	Forte Oil Plc
78.	Mobil Oil Nigeria Plc
79.	Mrs. Oil Nig. Plc
80.	Total Nig. Plc
G	**INFORMATION/COMMUNICATION:**
81.	Omatek Venture Plc
82.	NCR (Nigeria) Plc
83.	Triple Gee & Company Plc
H	**INDUSTRIAL GOODS:**
84.	African Paints (Nig) Plc
85.	Ashaka Cement Nig. Plc
86.	Berger Paints Nig. Plc
87.	Chemical and Allied Plc
88.	Cement Company of Northern
89.	DN Meyer Plc
90.	Stokvis Nig. Plc
91.	First Aluminum Nig. Plc
92.	IPWA Plc
93.	Lafarge Cement WAPCO
94.	Cutix Plc
95.	Avon Crowncaps Plc
96.	Nigerian Wire and Cable
97.	Nigerian Wire Industry
98.	Poly Products Nig. Plc
99.	Waglass Plc

I	**CONSTRUCTION/REAL ESTATE:**
100.	Cappa & D'Alberto Plc
101.	Costain (West Africa) Plc
102.	G. Cappa Plc
103.	Julius Berger Nig. Plc
104.	Roads Nig. Plc
105.	UACN Prop Dev. Co. Plc
J	**SERVICES:**
106.	Lennards Nig. Plc
107.	Capital Hotel Plc
107.	Caverton Offshore Support GRP Plc
109.	Interlinked Technologies Plc
110.	Nigerian Aviation Handling Company Plc
111.	Secure Electronic Technology Plc
112.	Studio Press (Nig) Plc
113.	Tourist Company of Nigeria Plc
114.	University Press Plc
115.	RT Briscoe (Nig) Plc
116.	Red Star Exppress Plc
117.	Trans-Nationwide Express
118.	C&1 Leasing Plc
119.	Tantalizers
120.	Rokana Industry Plc
121.	West African Aluminum Product
122.	Amino International Plc
123.	Capital Oil Plc
124.	Rak Unity Petrol
125.	Union Ventures & Petrol
126.	Juli Plc
127.	Adswitch Plc
K	**HEALTHCARE**
128.	Ekocorp Plc
129.	Morison Industries Plc
130.	Evans Medical Plc
131.	Fidson Healthcare Plc